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October 25, 1996

To: Members of the Executive Board

From: The Associate Secretary

Subject: Tanzania - Staff Report for the 1996 Article IV Consultation and Request for a Three-Year Arrangement Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1996 Article IV consultation with Tanzania and its request for a three-year arrangement under the enhanced structural adjustment facility. A draft decision appears on page 25.

This subject, together with the policy framework paper for Tanzania (EBD/96/140, 10/25/96), is tentatively scheduled for discussion on Friday, November 8, 1996.

Mr. Gondwe (ext. 36957), Mr. R. Hicks (ext. 36520), or Mr. Brender (ext. 34910) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the African Development Bank (AfDB), the European Commission (EC), and the WTO Secretariat, following its consideration by the Executive Board.

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TANZANIA

Staff Report for the 1996 Article IV Consultation and Request for a Three-Year Arrangement Under the Enhanced Structural Adjustment Facility

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, Research, Statistics, and Treasurer's Departments)

Approved by G.E. Gondwe and Chanpen Puckahtikom

October 25, 1996

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- Tanzania has made substantial progress with structural reforms over recent years, although macroeconomic stabilization has remained elusive over much of the period. The external trade and payments system, monetary management, agricultural marketing arrangements, and, more recently, the parastatal sector, have been extensively liberalized. While competition in the financial sector has been increased recently by the expanding market share of the private banks, progress in restructuring the state-owned banks has been slow, partly because financial, rather than operational, restructuring has been emphasized.

- The quantitative and structural benchmarks under the Fund staff-monitored program for January-June 1996 were generally observed, reflecting a marked improvement in economic performance by the new government. The program was aimed principally at a pronounced strengthening of the fiscal position, including revenue-enhancing and expenditure-cutting measures, and structural features eliminating the main impediments to sound budgetary management. Critical components were the establishment of the Tanzania Revenue Authority (TRA) and the implementation of the pay reform in the civil service. Other structural components of the program included steps to increase the momentum of the reform of the state-owned banks, particularly the dominant National Bank of Commerce (NBC). The improved economic performance during the period was reflected in marked declines in the rate of broad money growth and in inflation, and a pronounced reduction in the government's dissaving.

- The program of macroeconomic stabilization and structural reform for 1996/97-1998/99 (July-June) incorporates policies to consolidate and extend the recently improved economic and financial performance, particularly in the fiscal area. The key structural components of the program are reforms in the civil service, financial, and parastatal sectors; improvements in the budgetary management arrangements; and a strengthening of the economic database.

- The program provides for a switch from government dissaving to saving from 1996/97. Government revenue is expected to increase, reflecting the impact of the measures taken in January 1996 and in the 1996/97 budget, and tax administration is to be boosted by improved institutional arrangements, particularly the establishment of the TRA and the elimination, or severe scaling back, of the earlier sources of revenue loss. Most importantly, import tax rates between mainland Tanzania and Zanzibar are to be harmonized, owner-operated bonded warehouses curtailed, and tax exemptions strictly controlled. The value-added tax (VAT) is to be introduced in January 1998, and the scope for widening the tax base to include agriculture and mining will be studied, with related measures taken by June 1997.

- Expenditure controls will be improved by strengthened monitoring of government commitments, while the new budget procedures aimed at providing adequate resources for priority activities and scaling down or eliminating lower-priority activities will help avoid the expenditure overruns of the past. Control of the wage bill will be enhanced by the pay reform, which consolidated the previous wide array of allowances into the basic pay. The reduction in the size of the government will include a substantial phasing down of the regional administrations, while army personnel will be rationalized.

- The program provides for the early completion of the restructuring of the state-owned banks, facilitating monetary management and greater efficiency in the financial system. The governance of the National Bank of Commerce (NBC) will be transformed over the program period. In the meantime, the Bank of Tanzania, in its supervisory capacity, will ensure that the NBC's credit operations are managed in a prudent way. Monetary policy will be aimed at securing a tight liquidity position for the commercial banks and positive real interest rates, with continued reliance on market-based instruments of monetary management.

- Parastatal reform is to be intensified and, by including the large public utilities, will broaden the macroeconomic impact of the structural reforms. Petroleum product imports and prices will be liberalized as an important feature of the energy sector reform, completing the liberalization of Tanzania's external trade regime. Improvements in the economic database, particularly a strengthening of the national accounts and balance of payments statistics, are an important component of the program.

- The liberalization of the exchange system was completed with the acceptance by Tanzania on July 15, 1996 of the obligations of Article VIII, Sections 2, 3, and 4, of the Fund's Articles of Agreement. Tanzania's external debt indicators are relatively favorable, with the external debt burden forecast to decline substantially and reach a manageable level within the next few years. However, with the outlook vulnerable to developments in the terms of trade and other exogenous shocks, the implementation of appropriate adjustment policies and prudent debt management will be critical.

I. Introduction

The 1996 Article IV consultation discussions with Tanzania and the negotiations on a three-year program that could be supported by arrangements under the enhanced structural adjustment facility (ESAF) were held in Dar es Salaam during August 6-23, 1996. 1/ The ESAF-related negotiations were undertaken following the generally successful implementation of the Fund staff-monitored program for January-June 1996; that program was aimed essentially at improving the fiscal situation, and eliminating the structural impediments to sound financial management. While important and sustained progress had been made with economic liberalization, significant macroeconomic imbalances had persisted since 1992/93 (July/June), owing particularly to major inadequacies in fiscal policies. Against this background, and with a marked deterioration in the economic situation in the first half of 1995/96, the staff-monitored program was formulated with the new government that took office in November 1995--following the first multiparty elections in Tanzania--which has had the restoration of macroeconomic stability as its principal policy priority.

In the attached letter, dated October 18, 1996 (Appendix I), the Minister of Finance of Tanzania requests a three-year arrangement from the Fund under the ESAF, in an amount equivalent to SDR 161.59 million (110 percent of quota), and the first annual arrangement thereunder, in an amount equivalent to SDR 51.415 million (35 percent of quota); loans under the second and third annual arrangements would amount to 35 percent and 40 percent of quota, respectively. As of September 30, 1996, Tanzania's outstanding use of Fund resources amounted to the equivalent of SDR 123.05 million, or 83.8 percent of quota (Table 1). A full disbursement under the proposed ESAF arrangements would increase Tanzania's outstanding Fund credit to SDR 220.5 million (150.1 percent of quota) by the end of the period covered by the arrangement. The requested ESAF arrangements are in support

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1/ The Tanzanian representatives included the Hon. S. Mbilinyi, Minister of Finance; the Hon. D. Yona, Minister of State for Planning; Mr. P. Ngumbullu, Principal Secretary to the Treasury; Dr. I. Rashidi, Governor of the Bank of Tanzania; and other senior officials concerned with economic and financial matters. The head of the mission was received on several occasions by the Head of State, President B. Mkapa; the Vice President, Dr. O. Juma; and the Prime Minister, Mr. F. Sumaye. The mission also held meetings with the President of Zanzibar, Dr. Salmin Amour; the Zanzibar Minister of Finance, Ms. Amina Salum Ali; and the Zanzibar Minister of State Planning and Investment, Mr. A.J. Shamuhuna. The mission consisted of Mr. Gondwe (head), Mr. Hicks, Mr. Brender, and Mr. Mukhopadhyay (all AFR), Mr.Begashaw (PDR), Mr. Mered (FAD), and Mr. Ryan (MAE), and was assisted by Mr. Osunsade, the Fund's senior resident representative in Tanzania. A number of World Bank staff participated with the mission in assisting the authorities to prepare the policy framework paper for 1996/97-1998/99.

of the policies and measures presented in the memorandum on economic and financial policies for 1996/97 annexed to the letter, and in Tanzania's policy framework paper (PFP) for 1996/97-1998/99 (EBD/96/140, 10/25/96).

The 1995 Article IV consultation was concluded by the Fund's Executive Board on November 27, 1995 (SUR/95/145). At that time, Executive Directors noted that the new government would need to move quickly and decisively to implement a broad range of measures to strengthen the public finances. They also stressed the need to improve the performance of the National Bank of Commerce (NBC), whose operations had impeded effective monetary management, and highlighted the need for a prompt and comprehensive restructuring of the bank. Several Directors indicated that Tanzania should establish a solid track record of effective policy implementation under a Fund staff-monitored program in order to lay a strong basis for a program that the Fund could support under an ESAF arrangement.

In recent years Tanzania has made major progress with the liberalization of the external trade and payments system; trade restrictions remain on only a few goods that, in line with international practice, are restricted for health and security reasons. With the exchange system now completely liberalized for payments and transfers for current international transactions, Tanzania accepted on July 15, 1996 the obligations of Article VIII, Sections 2, 3, and 4, of the Fund's Articles of Agreement (EBS/96/98, 7/22/96).

Selected economic and financial indicators are provided in Table 2, and Tanzania's relations with the Fund and the World Bank Group are summarized in Appendices II and III, respectively. The Fund and World Bank staffs have continued their close cooperation on Tanzania. The achievement of a stable macroeconomic environment will be the main determining factor in the World Bank's decision on proceeding with a Structural Adjustment Credit--focused on the financial, energy, and social sectors--tentatively set at US$100 million, and scheduled for presentation to the Bank's Executive Board in April/May 1997. An external debt sustainability analysis is outlined in Appendix IV, statistical issues for Tanzania are discussed in Appendix V, and social and demographic indicators are provided in Appendix VI.

II. Background and Performance Under the Fund Staff-Monitored Program for January-June 1996

Tanzania has made substantial progress with structural reforms over recent years, although macroeconomic stabilization has remained elusive over much of the period. 1/ The external trade and payments system, monetary management, agricultural marketing arrangements, and, more recently, the

1/ Details of the progress with structural reforms are provided in the policy framework paper for 1996/97-1998/99 and, more specifically, the financial reforms in the Recent Economic Developments paper.

parastatal sector, have been extensively liberalized. Parastatal reform, through the imposition of a broad budget constraint on public enterprises and the privatization of about one third of the estimated 382 public enterprises (including some of the largest), has generated important improvements in economic efficiency. More recently, private sector competition has also been introduced into the utilities sector, and increased momentum in parastatal reform, including with the major public utilities, is envisaged for the period ahead. While competition in the financial sector has been increased recently by the expanding market share of the private banks, progress in restructuring the state-owned banks has been slow, partly because financial, rather than operational, restructuring has been emphasized; addressing the critically needed financial sector reforms is an important policy component of the ESAF-supported program.

The Fund staff-monitored program for January-June 1996 was formulated against the background of significant macroeconomic instability, which had persisted for most of the period since 1992/93, and which intensified in the first half of 1995/96. These macroeconomic difficulties were generated in part by persistent and intensifying problems in budgetary management and financial institutional arrangements, which were insufficiently addressed. The deficiencies in budgetary management and financial institutional arrangements contrasted markedly with the progress made with other structural reforms, as indicated above, aimed at liberalizing the economy.

On the revenue side, the deficiencies in budgetary management were reflected in particular in poor tax administration, which was exacerbated by widespread tax exemptions and tax evasions. While measures were taken--especially in the second half of 1994/95--to deal with malfeasances, eliminate virtually all discretionary exemptions, and reduce the number of bonded warehouses to help curtail tax evasion, the tax administration nonetheless has remained weak and the revenue collection below potential. A mistaken presumption that cuts in tax rates would increase tax revenue by improving tax compliance in the prevailing circumstances had also weakened revenue collections, most notably in 1992/93 and in the first half of 1995/96. The weaknesses in expenditure controls were a further key shortcoming in budgetary management. Notably, the dominance of a wide range of allowances in the government's wage bill, and the large number of wage scales, weakened control of the compensation package. Furthermore, the inability of the budgetary process to eliminate or defer lower-priority activities led to the underfunding of higher-priority activities, which ultimately generated expenditure overruns. In the financial sector, while important progress has been made with the development of indirect monetary policy instruments, their effectiveness in promoting greater efficiency in monetary management and in the provision of financial services has been significantly compromised by the institutional weaknesses in that sector, particularly the delays in restructuring the dominant state-owned NBC.

Against this background, taking the opportunity afforded by the installation of the new government, the Fund staff-monitored program for January-June 1996 included important structural features focused principally on eliminating the main impediments to sound budgetary management, which could not previously be tackled successfully, as well as providing the needed momentum to the reform of the NBC; important budgetary components included the establishment of the Tanzania Revenue Authority (TRA) and the implementation of the pay reform in the civil service, which streamlined the grading structure and consolidated the many previous allowances into the basic pay. The program also incorporated increases in various tax rates and governmental fees, and cuts in expenditure to improve the fiscal position significantly in the second half of 1995/96. Furthermore, the program included understandings on a suitable budgetary framework for 1996/97, which was aimed at maintaining the momentum of fiscal adjustment.

Tanzania's performance under the staff-monitored program was broadly satisfactory (Tables 3 and 4). The program's monthly quantitative benchmarks for government revenue, noninterest recurrent expenditure, and net bank credit to the government over the program period were observed. Government revenue picked up in response to the increases in various tax rates introduced by the new government, 1/ while noninterest recurrent expenditure was restrained by the initial improvements in budgetary discipline, and effective application of the temporary cash management arrangements. Net bank credit to the government declined significantly over the program period, instead of increasing as projected. With the improved fiscal position, the quantitative benchmarks on net domestic assets of the banking system for end-March 1996 and end-June 1996 were observed. However, the benchmarks for net international reserves of the Bank of Tanzania (BOT) for those dates were missed, owing largely to substantial net sales of foreign exchange by the BOT to help tighten domestic liquidity, and to initial steps by the BOT to clear the government's external payments arrears; net international reserves of the BOT have subsequently increased. The clearance of the government's domestic and external payments arrears, however, was considerably less than had been expected over the program period, but substantial progress in clearing these arrears has subsequently been made.

In the event, fiscal performance was better than envisaged in the program, with government saving (on a commitment basis) of 0.6 percent of GDP in the second half of 1995/96, compared with a programmed dissaving of 0.4 percent of GDP (Table 5); for 1995/96 as a whole, the government's overall deficit (on a checks-cleared and after-grants basis), amounted to 3.3 percent of GDP, compared with 6.1 percent of GDP in the absence of the program measures, and with 5.8 percent of GDP in 1994/95 (Table 6).

1/ These increases covered a wide range of excise taxes on consumer goods, a reversal of customs tariff cuts effected in June 1995, the introduction of a new tax on the insurance industry, and rises in the customs duty and sales tax on capital goods and raw materials.

The fiscal improvement in the second half of 1995/96 was a critical factor contributing to the marked decline in the rate of broad money growth to 15 percent in the year ended June 1996, compared with 38 percent a year earlier (Table 7); the deceleration of monetary expansion would have been lower, however, if the government's domestic payments arrears had been cleared to the extent programmed. Additional factors contributing to the slower pace of monetary expansion were (i) the credit ceiling imposed by the BOT on the state-owned banks during the period of their restructuring, reflected in a stagnation in bank credit to the private sector over the year (when adjusted for the write-off of nonperforming loans), and (ii) net sales of foreign exchange by the BOT. However, a partially offsetting influence was the strong increase in the net foreign assets of the commercial banks, reflecting, inter alia, the pronounced upturn in export receipts over the year.

The structural benchmarks established under the staff-monitored program were also generally observed (Table 4). Of critical importance, progress was made with the pay reform in the civil service and the operational establishment of the TRA, with both becoming fully effective from July 1, 1996, while the announced budget for 1996/97 was in line with the framework specified in the program. Owing to accounting difficulties, it is not clear whether the programmed objective of a break-even position for the NBC by end-June 1996--a precondition set by the BOT for the resumption of the bank's normal lending operations--was realized. 1/ Nonetheless, because of concerns about the potentially adverse impact on economic activity of the continuation of the ceiling imposed by the BOT on the bank's credit operations, and the probability that the NBC had achieved the break-even point, the BOT lifted this ceiling, permitting lending by the NBC to those customers that have no overdue loans.

The overall decline in the rate of monetary expansion, together with improved production of domestic food crops, was reflected in a fall in the inflation rate on a year-end basis to 22.7 percent by June 1996 and to 18 percent by August 1996, from a peak of 38 percent for the year ended February 1995 (Table 2). The increased confidence in the economy following the November 1995 elections--coupled with the government's reduced recourse to new treasury bill offerings, which was due to the improved fiscal performance--led to a sharp decline in the weighted average yield in the treasury bill market (the benchmark interest rate in the Tanzanian monetary system) from 41 percent per annum in October 1995 to about 17 percent by end-August 1996. 2/

1/ The bank was apparently very close to a break-even position by end-June 1996, but the final determination will be made when a detailed audit is completed in October 1996.

2/ The annualized rate of inflation between December 1995 and August 1996 was 11.6 percent.

According to the official national accounts data (which, despite some recent improvements, particularly in extending coverage, continue to have major deficiencies), real GDP growth increased to an estimated 4.5 percent in 1995/96, compared with an average of about 3.7 percent in the three preceding years. Strong growth in agricultural output was an important contributing factor, reflecting in part the continuing positive impact on farmers of the liberalization of the crop marketing arrangements, which permitted them to benefit from the higher commodity prices and favorable weather conditions. However, manufacturing activity continued to decline, owing, in particular, to the inefficiencies in the parastatal sector, and various infrastructural problems, including shortages in power supplies; nonetheless, output in a number of the newly privatized enterprises expanded strongly, suggesting promising growth potential in a restructured industrial and financial environment.

Despite a modest deterioration in the terms of trade after the marked improvement in 1994/95, the external position strengthened in 1995/96 in response to a strong export performance stemming from the favorable crop situation. 1/ At the same time, import volume declined, principally for capital goods, owing in part to the tighter implementation of the customs regulations and the business uncertainties in an election year; the suspension of disbursements by some donors beginning in the second half of 1994/95 has also restrained imports. In these circumstances, the external current account deficit (excluding grants) declined further to 16.2 percent of GDP in 1995/96, compared with 20.6 percent of GDP in 1994/95 (Table 8). With the net capital account position remaining virtually unchanged in 1995/96, and with arrears accumulated on external debt service payments (partly on debts to Paris Club creditors on which rescheduling arrangements had not been made), the banking system increased its net foreign assets position by US$82 million in 1995/96, and the Tanzania shilling appreciated substantially in real effective terms. This appreciation was encouraged further by the sales of foreign exchange by the BOT in the latter part of 1995/96, which were also reflected in a decline in gross official reserves from the equivalent of 8.8 weeks of imports at end-June 1995 to 8.1 weeks of imports at end-June 1996; however, these reserves recovered to the equivalent of 10.0 weeks at end-August 1996, as the BOT purchased foreign exchange in the interbank market during the traditional export season.

1/ The unrecorded export component of private transfer receipts is now estimated to be considerably less than previously envisaged; such exports are, on a preliminary basis, estimated at US$213 million in 1995/96, very similar to the levels for the preceding two years (Table 8).

III. Report on the Discussions and on the Medium-Term Adjustment Strategy and the Program for 1996/97

The discussions took place against the background of a new government, which had taken office in November 1995, committed to macroeconomic stabilization as the centerpiece of its economic policy strategy. After the government's broadly satisfactory record in observing the financial and structural benchmarks established under the Fund staff-monitored program had been ascertained, the discussions focused on the formulation of a program of macroeconomic stabilization and structural reform for 1996/97-1998/99 that could be supported by an ESAF arrangement. Within this medium-term framework, the discussions on the program for 1996/97 were aimed at establishing policies to consolidate and extend the recently improved economic and financial performance, particularly in the fiscal area. The key structural measures, identified as important ingredients for the program, were the reforms in the civil service, financial, and parastatal sectors; improvements in the budgetary management arrangements; and a strengthening of the economic data base.

1. Medium-term program for 1996/97-1998/99

a. Overall objectives and strategy

During the discussions, the authorities recognized that their medium-term objective of accelerating the economic growth rate to achieve higher per capita incomes and poverty reduction could be attained only with macroeconomic stability and improved efficiency, underscoring the importance of the structural reforms designed to develop a more competitive environment. 1/ The private sector is expected to lead this economic expansion as it responds to the continuing economic reforms, particularly the ongoing restructuring of the parastatal and financial sectors. Conversely, the government will continue to withdraw from its direct involvement in production activities, allowing public expenditure to be oriented increasingly toward the strengthening of the basic physical and social infrastructure, especially in the high priority areas of health care, education, and adequate water supply. Of special importance for macroeconomic stability, further steps will be taken to remove the structural impediments to budgetary management. In particular, the initiatives designed to improve revenue collections will be consolidated and accelerated, while improved expenditure control arrangements and further progress with civil service reform, aimed at rationalizing the structure and improving the efficiency of the civil service, will be central to the strategy. Institutional reform in the financial sector will be given special emphasis to improve monetary management, facilitate the mobilization of savings, and encourage the efficient allocation of resources, particularly through private sector investment. The ongoing civil service, parastatal, and NBC reform programs, which entail

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1/ The medium-term framework is described in detail in the policy framework paper for 1996/97-1998/99 (EBD/96/140, 10/25/96).

substantial retrenchments of the labor force, incorporate compensation packages and retraining programs for those affected as a social safety net during the transitional phase, with donors contributing significantly to help meet the costs involved. As an important component of the program, substantial improvements in the quality and timeliness of the economic data base are aimed at strengthening macroeconomic management.

Against this background, the overall macroeconomic objectives for 1996/97-1998/99 are as follows: (i) a real GDP growth rate of 5 percent in 1996/97, rising to 6 percent in 1997/98-1998/99; (ii) a reduction in the average rate of inflation to 15 percent in 1996/97, 7.5 percent in 1997/98, and 5 percent in 1998/99; (iii) central government savings of 1.1 percent of GDP in 1996/97, 1.5 percent of GDP in 1997/98, and 2.5 percent of GDP in 1998/99, permitting sizable net repayments of bank credit by the government, and a greater share of the government's development expenditure to be financed from domestic rather than external resources; and (iv) a reduction in the external current account deficit (excluding grants) to 13.3 percent of GDP by 1998/99 (compared with 20.6 percent of GDP in 1994/95), allowing a reduction in the country's dependence on foreign assistance, while increasing gross official reserves to the equivalent of three months of imports by end-June 1999. The accelerated economic growth rate is expected to be achieved with a relatively modest increase in the investment/GDP ratio (Table 2), thanks to an improvement in the efficiency of capital stemming from the parastatal reforms, greater efficiency in resource use as the financial sector reforms enhance the allocation of credit, and improvements in infrastructure, especially in the energy and telecommunications areas. Domestic savings are projected to rise from 17.3 percent of GDP in 1995/96 to 21.0 percent of GDP in 1998/99, reflecting the fiscal consolidation, improved profitability stemming from the enterprise sector reforms, and the financial sector reforms.

Extensive and wide-ranging technical assistance has been provided to Tanzania over recent years from the Fund, the World Bank, UN agencies, and other multilateral and bilateral donors. This assistance has been focused to a large extent on facilitating Tanzania's transition to a liberalized and market-oriented environment. 1/ The mission emphasized the critical importance of an adequate and timely follow-up to this technical assistance, especially in view of some important shortcomings in this respect in the past, notably as regards the economic data base. The authorities acknowledged this point, and key statistical areas--relating to improvements in the national accounts and foreign trade data--are covered by respective benchmarks under the program, as indicated below. Further technical assistance is being sought from the Fund, particularly in the critically important areas of fiscal and monetary reform; specifically, Fund technical assistance will be provided in November 1996 relating to the harmonization of tax rates between mainland Tanzania and Zanzibar, while further

1/ Recent technical assistance provided by the Fund is indicated in Appendix II.

assistance--in collaboration with donors--will be provided, inter alia, with respect to the introduction of the value-added tax (VAT). Technical assistance will also be needed for developing the secondary market for government securities, strengthening bank supervision, and improving the payments system, with particular attention to the implementation of recommendations arising from earlier assistance.

b. Fiscal policy and budgetary management

The strengthening of the government's fiscal position forms the core of the program. The improvement in the fiscal position is to be achieved by an increase in the revenue/GDP ratio from 15.0 percent in 1995/96 to 17.2 percent in 1998/99, and a decline in the recurrent expenditure/GDP ratio from 15.8 percent to 14.7 percent.

The revenue gains are to be facilitated by realizing the full-year effect of the revenue measures adopted in January 1996, and the additional tax increases introduced with the 1996/97 budget. These gains will be supported importantly by the institutional reforms, notably the recent establishment of the Tanzania Revenue Authority (TRA), whose chief objective will be the maximization of revenue collections within the prevailing tax structure. Critical in this respect--and of particular concern to donors--will be the elimination, or severe scaling back, of the earlier sources of revenue loss and tax evasion in the past, especially the different import tax rates between mainland Tanzania and Zanzibar on key import items, the presence of owner-operated bonded warehouses, and tax exemptions. Arising from the extensive discussions with both the Union and Zanzibar governments, the mission reached understandings that the TRA's operation would be extended to Zanzibar as a prior action under the program, and that the import tax rates between mainland Tanzania and Zanzibar would be harmonized by end-December 1996 as an important structural benchmark. Discretionary exemptions, in the limited cases where granted, will be authorized by the Minister of Finance only on the basis of recommendations from the TRA, while owner-operated bonded warehouses not used for the storage of petroleum, motor vehicles, and production inputs are to be closed down as a prior action under the program. The prosecution of proven tax evaders, facilitated by the recent legislative changes, the severely increased penalties for tax offenders, and the envisaged introduction of commercial courts, would be rigorously enforced to help deal with tax evasion. The authorities stressed that, with the implementation of these policies, the transparency of tax policy would be improved.

Steps are being taken to ensure that the VAT is introduced by January 1, 1998, albeit considerably later than originally expected. The authorities explained that the VAT would be broad based and set at a rate sufficiently high, and with a threshold sufficiently low, to help strengthen revenue performance. The authorities will also review the possible scope for simplifying tax rates, and will explore ways in which the tax base could be widened and directed at specific sectors, notably agriculture and mining, which presently contribute relatively little to government revenues.

Additionally, the TRA will liaise closely with the business community, aiming especially at helping to ensure effective tax compliance, and explaining tax objectives and policies to a typically active lobbying group.

Given the major deficiencies in expenditure control in the past, the program will aim at consolidating the steps implemented during the staff-monitored program. The new mechanisms to monitor expenditure at the commitment level will be strictly enforced, and special emphasis is to be placed on further improving the budget process to ensure that expenditure objectives are achieved. In particular, close collaboration between the various ministries and the Treasury in identifying and reaching agreement on spending priorities will ensure that adequate funding is available for these activities; correspondingly, spending on lower priority activities, an important factor behind expenditure overruns in the past, will be either scaled down or eliminated. The marked cut in spending on other charges, relative to GDP, in 1995/96 reflects the progress already made in reducing expenditure on nonessential activities. With the new budget management procedures firmly in place, moderate increases in spending on other charges are programmed, focused on priority activities.

The pay reform in the civil service, although more costly than envisaged in the 1996/97 budget framework, provides a sounder foundation to improve control of the government's wage bill in the future by streamlining the grading structure and consolidating the many previous allowances into the basic pay. The higher-than-expected rise in the 1996/97 wage bill reflects delays in implementing the retrenchment program and difficulties in introducing certain elements of these comprehensive reforms, especially with respect to the grading of staff at the district level. By establishing this stronger foundation for future management of the wage bill, the persistent expenditure overruns in the past, where ministries frequently increased individual allowances independent of the Treasury, will be avoided. Building on this stronger foundation, the government is committed to maintaining the real wage bill unchanged in 1997/98, and to limiting its increase to less than real GDP in 1998/99, resulting in a reduction in the wage bill/GDP ratio from 1997/98. The momentum of the civil service reforms will be accelerated, with a further net decline in the number of civil servants, which has already been reduced from a peak of 360,000 in 1992/93 to 300,000 at end-June 1996. These reforms, aimed at limiting the role of the civil service to priority areas and improving the efficiency of government administration, will be accelerated with additional retrenchments, redeployments, and strengthened personnel control. Several donors have indicated their willingness to support these programs.

Consistent with the policy of markedly reducing the size of government, and making durable cuts in unproductive current expenditures that are no longer needed in the new market-based environment, 1/ the regional administration will be substantially phased down, principally during 1996/97, as its intermediary functions between the central and local governments can no longer be justified in the new liberalized environment. The remaining government transfer payments to the commercial parastatals will be virtually eliminated. A rationalization of the army personnel will also be undertaken during the program period. These various steps, together with reduced interest payments with the improvement in the overall fiscal position, will significantly increase the availability of resources for the priority activities of the government.

These strengthened expenditure control arrangements are expected to help avoid the recent problems with the government's payments arrears on utility bills, domestic interest payments, and debt obligations to Paris Club creditors on post-cutoff-date debts. Consistent with the policy of regularizing the outstanding arrears during the program period, total arrears, estimated at the beginning of 1996/97 at T Sh 57.6 billion, are to be cleared during 1996/97-1997/98, with T Sh 43.2 billion (1.2 percent of GDP) to be cleared in 1996/97. 2/

Development expenditure is projected in the program to remain at a little less than 4 percent of GDP during the program period, although the domestic component of such expenditure is expected to be higher than in the past, reflecting the official policy of mobilizing domestic resources for public investment and reducing dependence on foreign aid; expenditures will be targeted only to the high-priority projects as identified in the development expenditure program constructed with the assistance of the World Bank. The government's development expenditure, however, is in fact much higher than recorded in the central government's accounts, because a substantial part of the project-related imports identified in the balance of payments data, which relates to the government, is only partially recorded as development spending in the budgetary accounts. Although the central government's deficit is therefore correspondingly understated, its net domestic repayment projection is unaffected because of the externally financed nature of this unrecorded development expenditure.

In these circumstances, the central government's overall balance (on a checks-cleared and after-grants basis) is projected to improve from an estimated deficit of 3.3 percent of GDP in 1995/96 to a surplus of 0.7 percent of GDP in 1996/97, rising to 1.6 percent of GDP in 1998/99 (Table 6). This surplus will, after providing for the programmed clearance of arrears,

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1/ Such activities were identified in the World Bank's Public Expenditure Review (PER) and the Organization and Efficiency (O&E) reviews conducted by the authorities.

2/ The arrears to be cleared by the government in 1997/98 are domestic arrears to the BOT and the NBC.

permit increases in net repayments to the banking system over the program period. More substantial repayments may be possible if permitted by proceeds from the privatization program, but the program targets take into account such receipts only to the extent that contracts for privatization have been finalized. As explained in paragraph 32 of the memorandum on economic and financial policies (Appendix I), certain performance criteria under the program will be adjusted to reflect deviations of donor support from the program projections.

c. Financial sector reform and monetary policy

The program provides for the early completion of the restructuring of the state-owned banks, essential for the establishment of a more competitive and efficient financial environment. Indeed, the cost of restructuring the NBC and the People's Bank of Zanzibar (PBZ) has increased because of the substantial delays in the process, and Tanzania has been denied effective financial intermediation for an extended period. 1/ The authorities acknowledged the need for speedy progress in this area. They also noted that the potential benefits for improved economic efficiency and growth from the reforms in monetary management already implemented--particularly the introduction of the treasury bill auctions and the interbank market for foreign exchange--could not be fully realized until the institutional restructuring of the financial sector was complete. When the monetary reforms had been initially formulated, the monetary management and institutional elements were to have moved ahead simultaneously, allowing the benefits of improved monetary management and strengthened competition in the financial sector to be realized without delay. However, for various reasons, institutional banking reforms have lagged far behind the development of indirect instruments of monetary management. The authorities observed, though, that the growing market share of the private banks, and direct crop financing from abroad--facilitated by the foreign exchange liberalization--have improved financial services for some parts of the economy.

Against this background, the program provides for a significant transformation in the governance of the NBC to facilitate monetary management and to ensure that financial services are provided in a more efficient and prudent manner. Accordingly, the government is committed to a major change in the structure of the bank during the program period, placing it on a more efficient basis. In the meantime, the BOT, in its supervisory function, will ensure that the NBC's credit operations are aimed at improving the quality of its loan portfolio. This should ease the pressure on the NBC to maintain large interest rate margins to strengthen its profitability. A restructuring plan for the PBZ is also being developed and implemented to

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1/ The privatization of the Cooperative and Rural Development Bank (CRDB) --the third state-owned bank--was completed by July 1, 1996, following the approval of the required legislative changes by Parliament in April 1996. With the completion of this privatization process, the government had cleared all of its arrears to the CRDB by September 1996.

restore the bank's profitability. The authorities indicated that, to strengthen further the move toward a more competitive financial environment, the government would expedite its efforts to strengthen the legal and judicial system, and the financial infrastructure so as to encourage the newly established private banks--which have so far adopted a rather cautious approach to the development of their domestic operations, particularly lending activity--to expand their domestic business, including the opening of branches outside of Dar es Salaam. At the same time, however, the BOT would closely monitor their credit operations and other activities to ensure their consistency with the development of an efficient financial sector.

Consistent with the growth and balance of payments objectives, monetary policy during the program period will be aimed, in close coordination with fiscal policy, at achieving a further decline in the inflation rate. The restrictive policy stance of the BOT will be reflected in the maintenance of a tight liquidity position for the commercial banks and positive real interest rates, and limited access to its rediscount and repurchase facilities. Continuing reliance will be placed on market-based instruments of monetary management. Consistent with this policy, the BOT will make greater use, as necessary, of the sale of its recently introduced 91-day securities to help achieve its liquidity objectives; these sales will be closely coordinated with the government's treasury bill auctions. During the discussions, the authorities indicated that, contrary to the situation in the latter part of 1995/96, the BOT's transactions in the foreign exchange market would not be undertaken with domestic liquidity objectives in mind; rather, open market operations would be the principal instrument of liquidity management. To encourage the transmission of changes in treasury bill yields to deposit and lending rates, a secondary market for treasury bills is to be established, enabling small investors to choose between bank deposits and financial securities.

d. Other structural reforms

Tanzania's structural policies, as described in detail in the PFP, are aimed at reinforcing the role of the private sector in the economy and promoting the diversification of economic activity, including the development of nontraditional exports. Apart from the reforms with respect to budgetary management, the civil service, and the financial institutions as mentioned above, key structural elements relate to the parastatal and energy sector reforms, and to improvements in the economic data base.

With respect to the parastatal reform, the program builds on the important progress already made in this area, with more than 100 enterprises divested during 1992-95, about one third of the number of such enterprises existing when the reform program was introduced. The disposal of assets managed by the Parastatal Sector Reform Commission (PSRC) will be accelerated, while the hard budget constraint for the parastatals will be rigorously maintained. The program provides for the removal of at least 50 enterprises annually during 1996-98 from government control through sale, lease, liquidation, or divestiture. This next, and more politically challenging, phase of the program will also focus on the restructuring, privatization, and exposure to competition of the large public utilities. This process can be expected to intensify considerably the macroeconomic impact of the parastatal reform program through efficiency gains, as is already evidenced by the results of the initial reforms in the telecommunications sector. In this respect, partial divestiture schemes have already been formulated, with the assistance of the World Bank, for the Tanzania Railways Corporation (TRC), the Tanzania Postal Corporation (TPC), the Tanzania Harbors Authority (THA), and the Air Tanzania Corporation (ATC).

The energy sector reform provides for complete liberalization by June 1998 of petroleum product imports and prices (including the removal of all differential taxes on imports), taking into account the time needed to improve the related infrastructure, including port capacity. A study of the policy options in this reformed environment with respect to the oil refinery --whose operations have generated major losses for the economy--will be completed by June 1997.

Improvements in the economic data base are an important component of the structural reforms under the program. Major progress has been made in strengthening the monetary data, while the fiscal and price statistics have also been improved considerably. The serious deficiencies in two key statistical areas--the national accounts, as indicated above, and the balance of payments--are to be addressed specifically in the program, while further improvements will also be made in the consumer price data. The recent household expenditure surveys will provide the basis for the preparation and publication of a revised set of national accounts on both the production and expenditure sides (by December 1996 and March 1997, respectively), as well as for further improvements in the price data. Revised foreign trade statistics, utilizing customs rather than financial data as the principal source, will begin to be published by end-March 1997. The mission emphasized that an effective follow-up by the authorities to the technical assistance being provided to improve the data base would be essential to ensure that the maximum benefits were realized, especially in view of significant shortcomings in this respect in the past.

e. External sector policies

The external sector policies will be focused on maintaining external competitiveness to encourage a strong export performance, including expansion of nontraditional exports and of tourism which--with appropriate infrastructural development--are seen by the authorities as having important potential for strong growth. The exchange rate will continue to be based on developments in the interbank market for foreign exchange, 1/ with the BOT's participation in the market limited to smoothing operations and to achieving the foreign reserves targets, and not to securing domestic

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1/ Beginning May 1996, the foreign exchange market was transformed from a daily meeting on the floor of the BOT to a continuous telephone market.

liquidity objectives. The authorities indicated to the mission their full commitment to the newly liberalized exchange and trade regime. The exchange rate is expected to remain stable in real effective terms during the program period, with the moderate decline in the terms of trade countered by improvements in productivity and the resumption of donor support.

While the liberalized environment is expected to encourage foreign investment, the mission emphasized the need to remove the remaining bureaucratic impediments discouraging foreign investors. Consistent with the moves toward a common external tariff under the Cross-Border Initiative, the tariff structure will be simplified by June 1998 to consist of no more than three non-zero rates, with an average trade-weighted tariff of about 15 percent and a maximum of 20-25 percent; internal PTA tariffs will be reduced to zero over the same period. 1/ Consistent with the PTA objectives, the maximum import tariff is to be reduced by June 1997, as an intermediate step to achieve the CBI objectives. With the clearance of its external payments arrears as indicated above, the government will remain current on its external payments obligations, while seeking relief from Paris Club creditors, and on comparable terms from non-Paris Club creditors and debt buy-back arrangements with private creditors. It will avoid contracting or guaranteeing any loans on nonconcessional terms (that is, with a grant element of below 35 percent).

2. Balance of payments outlook and debt sustainability analysis 2/

With the implementation of the macroeconomic and structural measures established under the program, Tanzania's balance of payments position is forecast to improve substantially over the medium term. The external current account deficit (excluding official grants) is projected to decline from about 16 percent of GDP in 1995/96 to about 13 percent in 1998/99, and gross official reserves are forecast to increase from the equivalent of 8.1 weeks of imports at end-June 1996 to the equivalent of 14.3 weeks of imports at end-June 1999 (Table 8). This outlook largely reflects a continued better performance of exports, moderate increases in import payments stemming from a more stabilized macroeconomic environment, and expected donor support, including debt relief.

The favorable export outlook partly reflects the strong growth expected for both traditional and nontraditional export volumes. With the liberalization of the exchange and trade system, and particularly with the exchange rate determined by market forces, commodity export volume growth is projected to average 7.4 percent a year during 1996/97-1998/99, with the production of the traditional commodities forecast to recover substantially

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1/ Any revenue shortfall from these adjustments will be covered by changes to the nondiscriminating sales and excise tax rates.

2/ The Tanzanian authorities and the World Bank staff share the assessment of the debt sustainability analysis presented in this Section. The long-term projections are presented in Appendix IV.

from the sharp declines experienced during the 1994/95 drought. As tourism receipts are expected to register strong growth, the volume of exports of goods and services is projected to rise by an annual average of 8.5 percent during the three-year period. Consistent with the projected real GDP growth rate, and in view of the programmed tight fiscal and monetary policies, imports of goods and nonfactor services are projected to increase by an annual average of 4.5 percent a year during 1996/97-1998/99. According to the IMF's latest World Economic Outlook (WEO), Tanzania's terms of trade are projected to decline by an annual average of about 2 percent a year during the three-year period. With the implementation of sound adjustment policies leading to resumed donor support, and with Tanzania intending to reduce its dependence on foreign aid, disbursements of official transfers and loans are assumed to decline as a percentage of GDP, but will remain basically unchanged in real terms during 1996/97-1998/99.

Given these assumptions, the medium-term balance of payments projection indicates that the external current account deficit (excluding official grants) would decline steadily from an estimated 16.2 percent of GDP in 1995/96 to 13.3 percent in 1998/99, and to 12.4 percent by 2000/01 (Table 8). In order to maintain adequate official reserves and to regularize the substantial amount of external debt arrears accumulated by the end of 1995/96, Tanzania will need exceptional financial assistance during 1996/97-1998/99 amounting to US$3.1 billion. The authorities intend to: (i) approach Paris Club creditors to obtain debt relief on most favorable terms (Naples terms involving a 67 percent reduction in NPV terms); (ii) reach agreements on comparable terms with other bilateral creditors; 1/ and (iii) effect a debt buy-back operation with commercial creditors. If granted, debt relief could cover a major portion of this financing need, while the remaining portion could be filled by ESAF disbursements. 2/

For 1996/97, the financing gap is projected to be US$2.6 billion, of which about US$2.3 billion is needed to clear arrears accumulated as of end-June 1996. Debt relief 3/ expected from both Paris Club and non-Paris

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1/ Debts owed by Tanzania to the Russian Federation (see Appendix IV, Table 1) are treated below in similar fashion as those of other non-Paris Club bilateral creditors, that is, such debts are treated on a comparable basis for projecting debt service and potential debt relief. The Tanzanian authorities have commenced discussions with the Russian authorities and hope to finalize debt relief agreements in the immediate future.

2/ Future disbursements under the proposed World Bank's Structural Adjustment Credit, as well as from other donors, are included as capital inflows and official grants.

3/ The consolidated amount for Paris Club debt relief is assumed to include arrears and current maturities of the following categories of pre-cutoff-date debts: debts not previously rescheduled (NPRD); debts previously rescheduled on nonconcessional terms (PRD); and a topping up of debts previously rescheduled, on Toronto terms.

Club creditors, as well as ESAF disbursements by the Fund, could fully finance this gap. Beyond 1998/99, after the completion of the proposed three-year ESAF arrangement, some financing gaps, albeit at reduced levels, would remain if gross official reserves are to be maintained at a level equivalent to at least 3 months of imports. These gaps could be fully covered if Tanzania is granted a stock-of-debt operation (involving a 67 percent reduction in NPV terms) at the end of 1998/99 (Table 8).

Assuming that Tanzania obtains debt relief--as noted above to fill the financing gaps during 1996/97-1998/99--and a stock-of-debt operation at the end of 1998/99 to cover the remaining gaps, and that the country borrows only on highly concessional terms, its external debt service (including obligations to the Fund) is projected to decline from the equivalent of 40.5 percent of exports of goods and services 1/ in 1995/96 2/ to 24.0 percent by 1998/99, and further to 16.3 percent by 2000/01 (Table 9). The projected declines in the debt service ratio partly reflect the completion (by 1996/97) of the debt service from the 1986 Paris Club rescheduling, which was not on a concessional basis. Similarly, debt service, relative to government revenue, is projected to decline from 48 percent in 1995/96 to 18 percent in 2000/01. In terms of GDP, the debt stock is forecast to decline from 144 percent at end-1995/96 to about 100 percent at end-1998/99, and to 83 percent by end-2000/01; in net present value (NPV) terms, the debt stock would decline from the estimated 482 percent of exports of goods and services at end-June 1996 to 215 percent by end-June 1999 and further to 184 percent at end-June 2001.

Tanzania's stock of debt (including obligations to the Fund) is estimated at US$7.4 billion at end-June 1996 (Table 9), of which about 45 percent is owed to multilateral creditors. The debt service on multilateral debt (excluding the Fund), which is estimated at about US$115 million or the equivalent of 9.6 percent of exports of goods and services in 1995/96, is projected to decline to the equivalent of 5.8 percent of exports of goods and services by 1998/99, and increase slightly (to 5.9 percent) by 2000/01. Debt service to the Fund is projected to rise gradually from the equivalent of 2.1 percent of exports of goods and services in 1995/96 to 3.1 percent in 1997/98, when debt service from previous SAF and ESAF disbursements peaks, before declining to the equivalent of 1.6 percent of exports of goods and services in 2000/01. In view of the projected comfortable level of reserves by the end of the proposed ESAF period and beyond, Tanzania's good record in settling its financial obligations to multilateral institutions (including the Fund), and the expected financial

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1/ In calculating Tanzania's debt service burden, the part of private transfers estimated to reflect unrecorded exports is excluded, since such estimates are not verifiable.

2/ As arrears were accumulated on most of the debts, actual debt service in 1995/96 is estimated to be only about 17 percent of exports of goods and services.

support (including debt relief) from the donor community, Tanzania should be able to regularize its relationship with its creditors and remain current in its future financial obligations to its creditors, including the Fund.

In sum, the projections presented above indicate that, if Tanzania continues to implement sound macroeconomic and structural adjustment policies, adopts prudent borrowing policies, and obtains debt relief during 1996/97-1998/99 and a stock-of-debt operation at the end of 1998/99 (all of which are assumed to be on Naples terms involving a 67 percent reduction in NPV terms), its external debt would be manageable in the medium term. This assessment assumes that Tanzania will continue to receive donor support (baseline scenario).

The medium-term balance of payments projections and the sustainability of Tanzania's external debt are also analyzed by reducing the assumptions on export volume growth (alternative Scenario A) and reducing the concessionality of future borrowings (alternative Scenario B) (Appendix IV, Table 3). Under Scenario A, in which the volume of exports of goods and services is reduced by 2 percentage points during 1997/98-1998/99 and by 1 percentage point each year beginning in 1999/2000 from those assumed under the baseline scenario, higher external current account deficits and higher external debt service would emerge; additional financing gaps would also emerge if reserves are to be maintained at the level achieved under the baseline scenario beginning in 1997/98. However, if the resulting financing gaps are financed on the concessional terms of new borrowings assumed under the baseline scenario, the resulting debt service ratio would increase on average by only 1½ percent of exports of goods and services during 1997/98-2000/01, and the NPV of the debt would still be substantially below the 200 percent of exports of goods and services by 2000/01. Under alternative Scenario B, the concessionality of loans assumed to finance the financing gaps that emerged under Scenario A above is reduced by increasing the interest rate on these new borrowings by 2 percentage points beginning in 1997/98. Projected external current deficits, debt service ratios, financing gaps, and NPV of debt in percent of exports of goods and services are higher than under Scenario A. However, under these two alternative scenarios, the sustainability of Tanzania's external debt position in the medium term would not be significantly different from the result achieved under the baseline scenario in that its debt service and the NPV of debt would still be under 20 percent and 200 percent, respectively, of exports of goods and services by 2000/01.

3. Program for 1996/97

Consistent with the medium-term framework, the main macroeconomic objectives for 1996/97 (the first-year program under the ESAF arrangement), as outlined in the memorandum on economic and financial policies (Appendix I), are to accelerate real GDP growth to 5 percent; to lower the average inflation rate to 15 percent; and to reduce the external current account deficit (excluding grants) to 15.1 percent of GDP, with gross official reserves amounting to the equivalent of almost 10 weeks of imports by end-June 1997. The accelerated economic growth rate in 1996/97 is expected to reflect in part a favorable export performance as several key commodities continue to recover strongly from the drought. The more stable macroeconomic environment, the expanding impact of the liberalization and privatization programs, and the developing business confidence are further important factors expected to stimulate economic growth. Consistent with the front-loaded nature of the medium-term program, the main policy priorities for 1996/97 are the implementation of strong fiscal and monetary adjustment measures to consolidate and extend the recent macroeconomic improvements, and give momentum to the budgetary management and financial institution reforms.

Fiscal policy for the year provides for a continuation of the revenue-enhancing and expenditure control measures adopted under the Fund staff-monitored program to help achieve a targeted government saving of 1.1 percent of GDP in 1996/97, compared with the earlier dissaving (Table 6). Government revenue is projected to rise to 15.7 percent of GDP, reflecting the full-year impact of the measures (indicated in Section II) taken soon after the new government took office, the net effect of adjustments to various tax rates and government fees introduced in the 1996/97 budget, 1/ and the strengthening and rigorous enforcement of revenue collection arrangements, facilitated by the recently established TRA. As a critical component of the effort to curtail tax evasion sharply, import taxes between mainland Tanzania and Zanzibar are, as indicated in Section III.1.b, to be harmonized by end-December 1996. The effort to collect tax arrears will be intensified, facilitated by the introduction of commercial courts, but additional revenues have not been assumed in the program from these collections. Consistent with this policy, the jurisdiction of the TRA has now been extended to include Zanzibar. As a further step to avoid tax evasion, all owner-operated bonded warehouses not used for the storage of petroleum, motor vehicles, and inputs for domestic production are to be closed by end-October 1996 as a prior action under the program. Preparatory arrangements will be made during 1996/97 consistent with the introduction of the VAT by January 1, 1998, including the passing of the enabling Parliamentary legislation by end-January 1997. The program provides for a study on the scope for widening the tax base to be completed by end-March 1997, and for the adoption of related revenue measures by end-June 1997, although substantial revenue gains from this source cannot be expected.

Recurrent expenditure is projected to decline further to 14.6 percent of GDP in 1996/97 (Table 6). However, spending on the priority areas, namely health, education, and water supply, and on essential operational activities, will be protected, thereby avoiding the overspending problems of the past. The improvements in the budgeting process in 1996/97, with

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1/ The major adjustments included a substantial hike in many government fees, an increase of 20 percent in the stamp duty, a 2 percent tax on traditional exports, the extension of the sales tax to eight additional services, and a rise in several excise taxes.

appropriate allocations for key operational activities--facilitated by the increased allocation for other charges 1/ in 1996/97--and tight control over spending allocations for less essential activities, should substantially assist fiscal management during the year. The marked reduction in the size of the regional administrations envisaged for 1996/97 is an important part of this strategy. The program provides for a lower expenditure level than incorporated in the original 1996/97 budget to allow for the larger-than-envisaged clearance of arrears. 2/ Interest payments will decline significantly, relative to GDP, over 1996/97 as the reduced domestic borrowing requirement will enable the government to redeem bonds from the BOT bearing high interest rates, and as the lower interest rates prevailing since early 1996 reduce interest payments on the maturing treasury bills. As indicated in Section III.1.b, the temporary rise in 1996/97 in the government's wage bill relative to GDP reflects certain problems in implementing the pay reform. The program provides for the retrenchment of 21,000 civil servants in net terms in the first half of 1996/97, of which 11,000 were retrenched on July 1, 1996; the remaining 10,000 retrenchments are to be effected by end-December 1996, as a structural performance criterion under the program. Apart from the programmed downsizing of the regional administration in 1996/97, expenditure on the national service will be cut substantially during the year by eliminating the training allowances. While the present cash management arrangements will be maintained on a temporary basis to reinforce the necessary budgetary discipline on expenditures, the modalities for phasing them out as the new budgetary management procedures take firm hold will be a central issue for discussion at the time of the midterm review.

Development expenditure is projected to amount to 3.5 percent of GDP although, as indicated in Section III.1.b, the effective level will be considerably higher because a substantial amount of such spending is not recorded in the budgetary accounts. All together, the government is projected to register an overall surplus (on a checks-cleared basis, after grants) of 0.7 percent of GDP in 1996/97, compared with a deficit of 3.3 percent of GDP in 1995/96. With the net repayment of arrears projected at 1.2 percent of GDP and net foreign borrowing forecast at 0.5 percent of GDP, the government is programmed to reduce its net domestic borrowing by 0.5 percent in 1996/97.

1/ Expenditure on other charges (net of election costs) is programmed to increase from 5.8 percent of GDP in 1995/96 to 6.2 percent of GDP in 1996/97.

2/ It should be noted that the budget allocations for expenditure on "other goods and services" included about T Sh 25 billion for the clearance of arrears; this amount is reclassified accordingly in the program projections (Table 6).

The authorities have indicated in the attached memorandum that if, in the course of the year, revenue is not collected as targeted and the expenditure targets are not achieved, further revenue measures will be taken, including higher taxes on petroleum.

As regards monetary and financial sector reforms, the program provides for the rate of monetary growth to decline further to 13 percent by the end of 1996/97, with the targeted net repayment of bank credit to the government of 0.5 percent of GDP contributing importantly in this respect (Table 7). Bank credit to the private sector is projected to expand significantly following the removal of the credit ceiling that was imposed by the BOT on the NBC during 1995/96, with continued expansion in the operations of the private banks, and with the decline in real interest rates facilitated by lower government borrowing. The program places particular emphasis on accelerating financial sector restructuring during 1996/97 which, inter alia, will contribute to a reduction in bank margins. In accordance with the structural performance criterion under the arrangement, Tanzania will approve by end-December 1996 the terms of reference for a reputable international consulting firm to review the continuing process of restructuring the NBC, and will also by that date provide an approved short list of these firms with the terms of reference. To encourage financial reforms further, a structural benchmark under the program provides for the determination of a restructuring plan for the PBZ by end-December 1996.

With respect to structural reforms, the program includes important elements in addition to the budgetary management, civil service, and financial sector reforms, as indicated earlier. To maintain the momentum of parastatal reform, the program provides for at least 25 additional enterprises to be removed from government control by end-December 1996, as a structural performance criterion, through sale, lease, liquidation, or other form of divestiture. Reflecting the priority to be given to restructuring and privatizing the large public utilities, a timetable of intermediate steps has been determined for 1996/97 to facilitate the privatization of these large enterprises. In particular, an action plan for complete or partial sale of one of these large parastatals will be determined by end-December 1996 as a structural benchmark under the program.

Consistent with the policy of completely liberalizing petroleum product imports and prices by June 1998, the authorities will announce in October 1996, as a prior action under the program, that all companies will be able to import refined petroleum products; taking into account the normal shipment and contracting delays, this step will end the long-standing monopoly in this area of the Tanzania Petroleum Development Corporation (TPDC) by January 1997. With improvements in the coverage, reliability, and currentness of the economic data base included as an important structural reform component of the program, important steps to improve the national accounts and foreign trade data will be taken during 1996/97, as indicated in Section III.1.d, as structural benchmarks under the program.

To monitor progress in policy implementation, the program for 1996/97 includes a number of quantitative and structural performance criteria and benchmarks, as indicated in paragraph 32 and Tables 1, 2, and 3 of the memorandum on economic and financial policies.

IV. Staff Appraisal

After an extended period of macroeconomic instability, Tanzania's performance improved substantially under the Fund staff-monitored program for January-June 1996 formulated with the new government. The program was aimed principally at placing the budgetary situation on a much sounder footing, as a seriously inadequate fiscal stance had been the factor principally responsible for the expanding macroeconomic imbalances, reflected in the continuing high rates of inflation. Key factors accounting for the fiscal difficulties were the failure to exercise discipline in budgetary management, with respect to both revenue collections and expenditure control, and some inappropriate policy judgments, particularly a mistaken assumption that cuts in tax rates would strengthen revenues by improving compliance irrespective of the prevailing ineffective tax administration. Seriously deficient institutional arrangements in the financial sector, especially with respect to the state-owned banks, had also contributed to the macroeconomic imbalances. Despite the important progress made with other structural reforms aimed at developing a substantially liberalized economic environment, the underlying macroeconomic instability has severely limited their scope to generate higher growth rates and improved efficiency.

Performance under the staff-monitored program was broadly satisfactory, as reflected in a substantial cut in the dissavings of the government and markedly slower rates of monetary expansion and inflation. Revenue was boosted by the various measures taken early in the term of the new government, and expenditure control procedures were strengthened. The potential for improved budgetary management has been improved substantially with the establishment of the Tanzania Revenue Authority (TRA) and the pay reform in the civil service, which significantly strengthened control over the government's wage bill; these steps (fully effective from July 1, 1996) provide an important foundation for firmer fiscal management in the future. While most other structural components of the program were observed, including some improvements in the economic data base, the restructuring of the National Bank of Commerce (NBC) did not proceed with the momentum envisaged, and the government cleared its payments arrears to a lesser extent than projected.

The medium-term program for which Tanzania is requesting support under an ESAF arrangement is aimed at consolidating and extending the improvement achieved during the period of the staff-monitored program. The recently established TRA is expected to continue to play an important role in strengthening revenue collections, and minimizing tax evasion. The staff believes that the programmed harmonization of import taxes between mainland Tanzania and Zanzibar, and the tightened procedures with respect to the bonded warehouses, will play a critical role in this regard. New procedures stipulate that discretionary exemptions are to be granted only when based on the recommendations of the TRA, a practice that must be rigorously followed to avoid the previous tax evasions from this source. Further revenue-related reforms include, in particular, the introduction of the VAT which, although already significantly delayed, is to be in place by January 1, 1998; the staff would emphasize the importance of avoiding any further slippage in this timing. The scope for widening the tax base to include sectors--especially agriculture and mining--which presently contribute little to budget revenues, needs to be studied, as programmed, as a priority issue to ensure that the government's revenue potential is fully realized. The staff believes that the dependence on trade taxes should be gradually reduced, with greater emphasis on direct and indirect taxes, facilitated by the improvement in tax administration, the widening of the tax base, and the introduction of the VAT.

The staff considers that the strengthening of expenditure control mechanisms at the commitment level, and the improved budgetary procedures ensuring that government resources are properly focused on high priority activities, are essential elements of the program to ensure the realization of the expenditure targets. These procedures are to be fully operational as soon as possible, allowing the temporary, and considerably less efficient, cash management arrangements to be phased out, and effectively restoring the Financial Orders of Tanzania as the basis for budgetary management. These improved expenditure control arrangements will help to ensure that payments arrears by the government, reflecting the lack of budgetary discipline in the past, are avoided in the future. The staff attaches particular importance to the authorities' commitment that if, in the course of the year, revenue is not collected as targeted and the expenditure targets are not achieved, further revenue measures will be taken, including higher taxes on petroleum.

A further critical feature of the program is the accelerated momentum envisaged for the restructuring of the state-owned banks, most notably the dominant NBC. The staff considers that a transformation in the governance of the NBC will be a central step in strengthening monetary management and developing a more efficient financial environment, as the effectiveness of the recently developed market-based monetary instruments requires the speedy establishment of commercially viable financial institutions. The staff believes that increased competition from the private banks should be encouraged to promote efficiency in the financial sector.

As an important component of the reform program, the restructuring of the public enterprises is to be intensified, particularly with the inclusion of the larger public utilities whose divestiture would have a wider impact on macroeconomic efficiency. The staff considers these steps important in widening further the role of the private sector as the principal vehicle of growth.

Tanzania's external debt indicators are relatively favorable, with the external debt burden forecast to decline substantially and reach a manageable level within the next five years. However, the outlook remains highly vulnerable to developments in the terms of trade and other exogenous shocks. In these circumstances, the authorities need to be firm in implementing their adjustment policies and especially prudent in their debt management strategy, while continuing to rely on grants and highly concessional loans to finance investment projects, which should be selected carefully and implemented effectively. It is important that Tanzania's relations with external creditors be regularized through the expected clearance of arrears on payments obligations, including those to Paris Club creditors through a rescheduling agreement.

The staff welcomes the acceptance by Tanzania on July 15, 1996 of the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement. The staff strongly urges the authorities to give a high priority to improvements in the statistical base, particularly the national accounts and balance of payments data.

In view of Tanzania's improved performance under the Fund staff-monitored program, and the comprehensiveness of the proposed adjustment program, the staff recommends approval by the Executive Board of the requested arrangements under the enhanced structural adjustment facility.

It is proposed that the next Article IV consultation with Tanzania be held on the standard 12-month cycle.

V. Proposed Decision

In view of the foregoing, the following draft decision is proposed for adoption by the Executive Board:

Request for ESAF Arrangements

1. The government of Tanzania has requested a three-year arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder.

2. The Fund notes the policy framework paper set forth in EBD/96/140.

3. The Fund approves the arrangement set forth in EBS/96/165.

Table 1. Tanzania: Fund Position During the Period of the ESAF Arrangement, October 1996-December 1999 1/

	Position on	1996	1997		1998		1999	
	Sept. 30, 1996	Oct.-Dec.	Jan.-June	July-Dec.	Jan.-June	July-Dec.	Jan.-June	July-Dec.
				(In millions of SDRs)				
Transactions under the structural adjustment facility								
Disbursements	...	--	--	--	--	--	--	--
Repayments	...	5.350	7.490	7.490	5.350	5.350	2.140	2.140
Transactions under the enhanced structural adjustment facility								
Disbursements	...	25.7075	25.7075	25.7075	25.7075	29.38	29.38	--
Repayments	..	--	2.140	5.380	8.560	8.560	8.560	8.560
Outstanding use of Fund credit at end of period	123.050	143.4075	159.485	172.3225	184.120	199.620	218.300	207.600
Under tranche policies	--	--	--	--	--	--	--	--
Under structural adjustment facility	37.450	32.100	24.610	17.12	11.770	6.450	4.310	2.170
Under enhanced structural adjustment facility	85.600	111.3075	134.875	155.2025	172.350	193.170	213.990	205.430
				(In percent of quota)				
Outstanding use of Fund credit at end of period	83.76	97.62	108.56	117.31	125.34	135.89	148.60	141.32
Under tranche policies	--	--	--	--	--	--	--	--
Under structural adjustment facility	25.49	21.85	16.75	11.65	8.01	4.37	2.93	1.48
Under enhanced structural adjustment facility	58.27	75.27	91.81	105.65	117.33	131.50	145.67	139.84

Source: IMF, Treasurer's Department.

1/ Assuming that disbursements under the ESAF are made on schedule.

Table 2. Tanzania: Selected Economic and Financial Indicators, 1993/94-1998/99

	1993/94	1994/95	1995/96	1996/97	1997/98 Projections	1998/99
	(Changes in percent, unless otherwise stated)					
GDP and prices						
Real GDP	3.5	3.8	4.5	5.0	6.0	6.0
Consumer prices						
End of period	30.3	27.6	22.7	10.0	5.0	5.0
Average	30.2	30.3	25.7	15.0	7.5	5.0
Government budget						
Revenue excluding grants	47.7	36.6	35.4	27.2	19.4	16.0
Recurrent expenditure	18.2	41.5	18.1	11.6	16.7	9.2
Money and credit						
Domestic credit 1/ 2/	46.0	14.3	10.4	4.2	...	...
Of which: government (net) 1/	(8.0)	(13.7)	(13.9)	(-2.2)	(...)	(...)
Money plus quasi-money	35.0	37.7	15.0	13.0	...	...
Velocity 3/	3.5	3.5	4.0	4.3	...	...
External sector (on a nominal U.S. dollar basis)						
Exports, f.o.b.	18.1	22.0	11.2	7.3	9.5	10.1
Imports, c.i.f.	-2.4	-5.1	1.9	6.4	7.8	8.3
Nominal effective exchange rate 4/	-9.2	-20.1	2.7	...	...	...
Real effective exchange rate 4/	-3.5	-3.8	22.2	...	...	...
	(In percent of GDP)					
Central government operations						
Overall government budget balance						
Checks-issued basis (before grants)	-7.9	-6.9	-4.9	-2.4	-2.0	-1.3
Checks-cleared basis (after grants)	-6.1	-5.8	-3.3	0.7	1.1	1.6
Foreign financing (net, including grants)	7.6	3.4	1.1	3.6	3.9	4.2
Domestic financing	2.5	3.8	3.7	-0.5	-1.6	-2.9
Bank	0.9	2.5	3.1	-0.5	-1.2	-2.5
Nonbank	1.6	1.4	0.6	--	-0.5	-0.4
Domestic savings 5/	6.2	13.2	17.3	18.2	19.3	21.0
Gross domestic investment 5/	29.4	26.6	27.7	28.0	28.5	29.5
External current account deficit						
Excluding grants	30.5	20.6	16.3	15.1	14.2	13.3
Including grants	12.5	8.0	6.3	5.7	4.9	4.4
	(In percent of exports of goods and services)					
Scheduled external debt service (before rescheduling)						
Including IMF	61.5	43.3	40.5	34.7	29.5	24.0
Excluding IMF	59.9	41.6	38.4	32.5	26.4	21.6
	(In millions of U.S. dollars)					
External current account balance (excluding grants; deficit -)	-1,075.8	-861.7	-835.9	-840.4	-835.5	-847.7
Overall balance (deficit -)	-185.7	-222.8	-206.7	-232.5	-122.6	-66.1

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

1/ Change as percent of initial period broad money stock.
2/ The 1995/96 figure is adjusted to reflect the loan write-off by the National Bank of Commerce and the Cooperative and Rural Development Bank.
3/ End-year broad money divided by annual GDP.
4/ End of period.
5/ Based on national accounts data, which are substantially different from the balance of payments data.

Table 3. Tanzania: Quantitative Benchmarks Under the Staff-Monitored Program for the Second Half of 1995/96

	1995	1996							
	End-Dec.	March Bench-mark	March Act.	April Bench-mark	April Act.	May Bench-mark	May Act.	June Bench-mark	June Act.
	(In billions of Tanzania shillings)								
Total revenue 1/ 2/	...	38.0	46.1	82.5	84.4	120.0	123.9	166.5	168.5
Noninterest recurrent expenditure 1/	...	35.0	30.6	76.5	59.7	102.9	81.3	133.2	103.1
Of which: wages and salaries	(...)	(15.0)	(13.7)	(30.0)	(27.5)	(45.0)	(41.3)	(60.0)	(55.4)
Net credit to the government from the banking system 3/ 4/	279.3	291.7	257.2	302.7	264.5	312.3	265.7	317.3	261.4
Net domestic assets of the banking system 3/	639.5	619.1	565.6	...	571.0	...	568.4	677.2	592.8
	(In millions of U.S. dollars)								
Net international reserves of the Bank of Tanzania 3/	22.8	18.0	16.8	...	14.2	...	-13.3	-5.5	-7.2

1/ Cumulative from end-February 1996.

2/ Excludes dividend payments from the Bank of Tanzania.

3/ Stock at end of period. The end-March and end-April benchmarks were adjusted by US$4.4 million (T Sh 2.4 billion) to reflect the shortfall in foreign financing (US$1.9 million in March 1996, and a lower baseline of US$2.5 million at end-February owing to delays in disbursements by Norway). The end-May benchmark was adjusted by US$15.4 million (T Sh 9 billion), reflecting an additional shortfall of US$11 million (T Sh 6.6 billion) in foreign financing in May 1996, and the June benchmark was adjusted by US$16.8 million (T Sh 9.8 billion), reflecting a further shortfall during that month of US$1.4 million (T Sh 0.8 billion). The program provided that targets would be adjusted to reflect excess or shortfall in nonproject grants and loans; the program assumes cumulative external financing from March 1996 as follows: US$3.0 million by March 1996; US$9.5 million by April 1996; US$20.5 million by May 1996; and US$33.0 million by June 1996. The benchmarks were not adjusted to reflect the lower-than-projected external debt service payments and clearance of arrears during the program period.

4/ Excluding T Sh 44.5 billion in Government bonds to the CRDB, and NBC which were recorded in the banks' balance sheets for the first time on February 1996 and March 1996, respectively. These bonds reflect government commitments from January 1993.

Table 4. Tanzania: Structural Benchmarks Under the Staff-Monitored Program for the Second Half of 1995/96

Measures	Program timing	Outcome
Tanzania Revenue Authority (TRA)		
- Appointment of three tax commissioners.	End-March 1996	March 1996
- Submission to Parliament of amendment to TRA Act.	April 1996	April 1996
- TRA to be staffed and fully operational.	End-June 1996	June 28, 1996
Civil Service Reform		
- Decision by government to introduce new salary scales.	End-March 1996	March 1996
- Treasury instruction to ministries to use these salary scales as a basis for their budget estimates.	Mid-April 1996	April 1996
- Introduction of the new salary scales.	July 1, 1996	July 1, 1996
Regional Administration		
- Decision by the government to review size of regional administrations.	End-June 1996	June 1996
Expenditure Control		
- Formalization of procedures aimed at avoiding commitments in excess of budgetary allocations (described in paragraph 17 of the policy memorandum).	End-March 1996	Mid-March 1996
Reform of the NBC		
- Achievement of break-even point allowing the bank to resume normal lending operations.	June 1996	Apparently close to break even point, but to be determined by detailed audit in October 1996
Privatization		
- Completion of divestiture of 25 state-owned enterprises.	End-June 1996	Accomplished by end-June 1996
External Payments Arrears		
- Clearance of all nonreschedulable overdue external obligations to Paris Club creditors on post-cutoff-date debts and on debts previously rescheduled on concessional terms.	End-June 1996	Cleared all identified arrears by end-July 1996
Economic Data		
- Publication of the consumer price index with a lag not exceeding 30 days.	April 1996	April 1996

Table 5. Tanzania: Central Government Operations on a Commitment Basis, 1995/96

(In billions of Tanzania shillings)

	1995 July-Dec. Est.	1996 Jan.-June Pre-program proj.	1996 Jan.-June Program proj.	1996 Jan.-June Est.	1995/96 July-June Est.
Total revenue	196,285	217,973	242,973	252,088	448,373
Tax revenue	174,373	187,973	212,473	209,371	383,744
Taxes on imports	55,324	53,518	62,518	65,919	121,243
Sales and excise taxes on local goods	43,000	49,363	60,363	51,712	94,712
Income taxes	45,807	50,092	52,292	58,064	103,871
Other taxes	30,242	35,000	37,300	33,676	63,918
Nontax revenue	21,912	30,000	30,500	42,717	64,629
Total expenditure and net lending 1/	279,908	338,737	310,550	316,028	595,935
Recurrent expenditure	239,684	284,369	256,182	234,882	474,565
Wages and salaries	73,693	82,400	80,400	82,393	156,086
Interest payments	57,655	60,088	53,901	54,902	112,556
Domestic	38,517	43,007	36,819	39,179	77,696
Foreign	19,138	17,082	17,082	15,722	34,860
Other goods and services and transfers	108,336	141,881	121,881	97,587	205,923
Development expenditure and net lending	40,224	54,368	54,368	81,146	121,370
Of which: development expenditure	(19,424)	(54,368)	(54,368)	(36,615)	(56,039)
net lending 2/	(20,800)	(--)	(--)	(44,531)	(65,331)
Overall balance before grants	-83,623	-120,764	-67,576	-63,939	-147,562
Grants	32,132	52,241	52,241	42,442	74,574
Program	20,869	21,535	21,535	11,736	32,604
Project	11,264	30,706	30,706	30,706	41,970
Overall balance after grants	-51,491	-68,523	-15,335	-21,497	-72,988
Adjustment to cash and other items (net) 3/	-40,141	14,507	14,507	12,942	-27,199
Overall balance (checks cleared)	-91,632	-54,016	-828	-8,556	-100,187
Financing	91,632	54,016	828	8,556	100,187
Foreign (net)	-20,907	-6,399	-6,399	-19,932	-40,839
Foreign loans	3,454	15,507	15,507	2,049	5,503
Program loans	1,614	--	--	--	1,614
Development project loans	1,840	15,507	15,507	2,049	3,889
Amortization	-24,361	-21,905	-21,905	-21,981	-46,342
Domestic (net)	72,311	128,774	75,587	55,952	128,263
Bank	63,563	119,694	38,627	27,887	91,450
Nonbank 4/	8,748	9,080	36,960	28,065	36,813
Accumulation of arrears 5/	40,227	-68,360	-68,360	-27,464	12,763
Government recurrent savings (commitment) 1/	-43,399	-66,396	-13,209	17,207	-26,192
(in percent of GDP)	-1.4	-2.2	-0.4	0.6	-0.9

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

1/ Expenditures on "other goods and services," except utility bills, and domestic development expenditure are reported on a checks-issued basis.

2/ Reflects government support for the NBC and CRDB. The amounts shown for January-June 1996 reflect bonds issued to cover government obligations assumed in January 1993.

3/ Reflecting the difference between the budget deficit and total financing. A negative figure indicates unrecorded expenditure or a net cash float from previous years.

4/ Reflects privatization proceeds, T Sh 11 billion from the issue of special government bonds to nonbank financial institutions to finance government support for the NBC, net issue of treasury bills to the nonbank sector, and the use of parastatal arrears to the government to offset payments of government utility bills.

5/ The July-December column reflects the accumulation of the following arrears: domestic interest T Sh 21.2 billion, foreign interest T Sh 4.5 billion, utility bills T Sh 10.5 billion, and foreign amortization T Sh 4 billion. The program provided for the clearance of all these arrears (domestic interest arrears were estimated at T Sh 30 billion at the time the program was negotiated) and of US$33.3 million in external debt service arrears from previous years.

Table 6. Tanzania: Central Government Operations, 1993/94-1998/99

(In billions of Tanzania shillings)

	1993/94	1994/95	1995/96	1996/97		1997/98	1998/99
	Act.	Act.	Est.	Budget	Prog.	Prog.	Prog.
Total revenue	242.4	331.2	448.3	563.8	570.1	680.6	789.7
Tax revenue	220.4	299.9	383.8	508.7	511.8	610.7	707.3
Nontax revenue	22.1	31.3	64.6	55.1	58.3	69.9	82.4
Total expenditure and net lending 1/	370.9	487.8	595.9	673.1	657.4	761.1	847.8
Recurrent expenditure	284.0	401.9	474.6	546.1	529.7	618.2	674.9
Wages and salaries	77.9	111.5	156.1	185.4	196.5	211.3	228.5
Interest payments	51.5	89.7	112.6	99.9	107.2	110.8	105.3
Domestic	31.7	57.7	77.7	68.7	72.6	58.7	50.0
Foreign	19.8	32.0	34.9	31.2	34.6	52.2	55.3
Other goods and services and transfers	154.6	200.7	205.9	260.8	226.0	296.1	341.1
Of which: election cost	(--)	(--)	(32.0)	(--)	(--)	(--)	(--)
Development expenditure and net lending	74.7	86.0	121.4	127.0	127.7	142.9	172.9
Of which: net lending 2/	(--)	(--)	(65.3)	(--)	(--)	(--)	(--)
Overall balance before grants (checks issued)	-128.5	-156.6	-147.6	-109.3	-87.3	-80.5	-58.1
Grants	76.9	53.7	74.6	109.3	113.5	124.9	131.1
Program	43.8	21.2	32.6	77.1	64.6	54.7	56.2
Project	33.1	32.5	42.0	32.2	49.0	70.2	75.0
Overall balance after grants (checks issued)	-51.6	-102.9	-73.0	--	26.2	44.5	73.0
Adjustment to cash and other items (net) 3/	-47.8	-29.3	-27.2	--	--	--	--
Overall balance (checks cleared)	-99.3	-132.2	-100.2	--	26.2	44.5	73.0
Financing	99.3	132.2	100.2	--	-26.2	-44.5	-73.0
Foreign (net)	47.8	23.0	-40.8	16.7	18.6	36.5	58.3
Foreign loans	87.4	64.3	5.5	78.2	60.9	74.9	78.5
Program loans	64.4	30.9	1.6	62.3	43.6	44.2	45.4
Development project loans	22.9	33.4	3.9	15.9	17.3	30.7	33.1
Amortization 4/	-39.6	-41.4	-46.3	-61.5	-42.3	-38.4	-20.2
Domestic (net)	40.6	87.9	110.6	-16.7	-16.5	-66.6	-131.3
Bank	14.0	57.0	91.5	-16.7	-16.7	-47.5	-114.8
Nonbank	26.6	30.9	19.1	--	0.2	-19.1	-16.5
Privatization 5/	--	--	17.7	--	14.8	--	--
Change in arrears 6/	11.0	21.3	12.8	--	-43.2	-14.4	--
Government recurrent savings (checks issued)	-41.6	-70.6	-26.2	17.7	40.4	62.4	114.8

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

1/ Expenditure and net lending are on a checks-issued basis except for interest payments and utility bills, which are reported on a commitment basis.
2/ In 1995/96, includes T Sh 65.3 billion in government bonds issued to support the NBC and CRDB.
3/ Difference between the overall deficit on a checks-issued basis and the total financing, which reflects expenditure based on checks cleared by the Bank of Tanzania. This difference is due to the change in the check float at the end of the fiscal year and unrecorded expenditure.
4/ For 1993/4, includes only actual payments. For the other years, data are on a commitment basis.
5/ In 1996/97, includes a final payment of US$10 million for Tanzania Cigarette Company, and payments related to the privatization of Tanga Cement. Both transactions were concluded in 1995/96.
6/ Includes arrears on external debt service, domestic interest payments, and utility bills.

Table 6 (concluded). Tanzania: Central Government Operations, 1993/94-1998/99

(In percent of GDP)

	1993/94 Act.	1994/95 Act.	1995/96 Est.	1996/97 Budget	1996/97 Prog.	1997/98 Prog.	1998/99 Prog.
Total revenue	14.8	14.5	15.0	15.6	15.7	16.5	17.2
Tax revenue	13.5	13.1	12.8	14.1	14.1	14.8	15.4
Nontax revenue	1.4	1.4	2.2	1.5	1.6	1.7	1.8
Total expenditure and net lending	22.7	21.4	19.9	18.6	18.2	18.4	18.5
Recurrent expenditure	17.4	17.6	15.8	15.1	14.6	15.0	14.7
Wages and salaries	4.8	4.9	5.2	5.1	5.4	5.1	5.0
Interest payments	3.2	3.9	3.8	2.8	3.0	2.7	2.3
Domestic	1.9	2.5	2.6	1.9	2.0	1.4	1.1
Foreign	1.2	1.4	1.2	0.9	1.0	1.3	1.2
Other goods and services and transfers	9.5	8.8	6.9	7.2	6.2	7.2	7.4
Of which: election cost	(--)	(--)	(1.1)	(--)	(--)	(--)	(--)
Development expenditure and net lending	4.6	3.8	4.0	3.5	3.5	3.5	3.8
Of which: net lending	(--)	(--)	(2.2)	(--)	(--)	(--)	(--)
Overall balance before grants (checks issued)	-7.9	-6.9	-4.9	-3.0	-2.4	-2.0	-1.3
Grants	4.7	2.4	2.5	3.0	3.1	3.0	2.9
Program	2.7	0.9	1.1	2.1	1.8	1.3	1.2
Project	2.0	1.4	1.4	0.9	1.4	1.7	1.6
Overall balance after grants (checks issued)	-3.2	-4.5	-2.4	--	0.7	1.1	1.6
Adjustment to cash and other items (net)	-2.9	-1.3	-0.9	--	--	--	--
Overall balance (checks cleared)	-6.1	-5.8	-3.3	--	0.7	1.1	1.6
Financing	6.1	5.8	3.3	--	-0.7	-1.1	-1.6
Foreign (net)	2.9	1.0	-1.4	0.5	0.5	0.9	1.3
Foreign loans	5.3	2.8	0.2	2.2	1.7	1.8	1.7
Program loans	3.9	1.4	0.1	1.7	1.2	1.1	1.0
Development project loans	1.4	1.5	0.1	0.4	0.5	0.7	0.7
Amortization	-2.4	-1.8	-1.5	-1.7	-1.2	-0.9	-0.4
Domestic (net)	2.5	3.8	3.7	-0.5	-0.5	-1.6	-2.9
Of which: bank financing	(0.9)	(2.5)	(3.1)	(-0.5)	(-0.5)	(-1.2)	(-2.5)
Nonbank	1.6	1.4	0.6	--	--	-0.5	-0.4
Privatization	--	--	0.6	--	0.4	--	--
Change in arrears	...	0.9	0.4	--	-1.2	-0.3	--
Memorandum items:							
Primary deficit (before grants; checks issued)	-4.7	-2.9	-1.2	-0.3	0.5	0.7	1.0
Government recurrent savings (checks issued)	-2.5	-3.1	-0.9	0.5	1.1	1.5	2.5
GDP (in T Sh billions)	1,635.5	2,284.3	2,998.3	3,620.4	3,620.4	4,125.5	4,591.6

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

1/ Expenditure and net lending are on a checks-issued basis except for interest payments and utility bills, which are reported on a commitment basis.

2/ In 1995/96, includes T Sh 65.3 billion in government bonds issued to support the NBC and CRDB.

3/ Difference between the overall deficit on a checks-issued basis and the total financing, which reflects expenditure based on checks cleared by the Bank of Tanzania. This difference is due to the change in the check float at the end of the fiscal year and unrecorded expenditure.

4/ For 1993/4, includes only actual payments. For the other years, data are on a commitment basis.

5/ In 1996/97, includes a final payment of US$10 million for Tanzania Cigarette Company, and payments related to the privatization of Tanga Cement. Both transactions were concluded in 1995/96.

6/ Includes arrears on external debt service, domestic interest payments, and utility bills.

Table 7. Tanzania: Monetary Survey, June 1994-June 1997

(In billions of Tanzania shillings)

	1994		1995		1996	1997
	June	Dec.	June	Dec.	June	June Prog.
Foreign assets (net)	110.6	150.3	149.5	166.6	204.1	283.9
Bank of Tanzania (BOT)	26.6	41.8	10.5	12.6	-4.5	...
Commercial banks	84.0	108.6	139.1	154.0	208.6	...
Domestic assets (net)	411.4	472.6	544.5	638.7	592.8	617.2
Domestic credit (net)	410.5	461.0	477.8	527.1	434.9	466.1
Claims on government (net)	151.4	181.1	215.7	279.3	305.9	289.2
Claims on other public sector	88.3	102.2	90.5	84.3	25.5	28.0
Claims on private sector	170.8	177.7	171.6	163.5	103.5	148.9
Other items (net)	1.0	11.6	66.7	111.6	157.9	151.1
Medium-term foreign liabilities	43.2	43.1	40.0	43.8	44.2	44.2
Broad money	470.1	570.2	647.2	752.9	744.2	840.9
Of which: foreign currency deposits	(72.5)	(83.3)	(113.7)	(139.2)	(142.0)	(160.5)
Valuation account	8.7	9.5	6.9	8.6	8.6	16.0
Memorandum items:						
BOT net reserves (US$ millions)	51.1	79.8	17.4	22.8	-7.2	66.0
BOT gross reserves (US$ million)	306.3	331.3	255.1	270.9	240.1	313.3
In months of imports	2.4	2.6	2.0	2.0	1.8	2.3
Growth of M2 (year-to-year, in percent)	24.9	33.1	34.2	26.0	12.9	13.0
Growth of M3 (year-to-year, in percent)	35.0	36.3	37.7	32.0	15.0	13.0

Sources: Data provided by the authorities; and staff projections.

Table 8. Tanzania: Medium-Term Balance of Payments, 1993/94-2006/07

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000
	Estimates			Projections			
	(In millions of U.S. dollars)						
Trade account	-1,104.6	-916.8	-879.8	-929.7	-990.6	-1,059.2	-1,147.5
Exports, f.o.b.	485.9	592.9	659.1	707.4	774.7	852.6	922.8
Imports, c.i.f.	-1,590.5	-1,509.7	-1,538.9	-1,637.1	-1,765.3	-1,911.8	-2,070.4
Services (net)	-436.2	-309.9	-299.7	-262.3	-204.8	-157.0	-121.3
Receipts	368.8	511.2	546.3	615.1	692.5	784.3	870.5
Payments	-805.0	-821.1	-846.0	-877.4	-897.3	-941.3	-991.8
Of which: interest	(-153.8)	(-139.4)	(-125.5)	(-139.6)	(-165.4)	(-163.0)	(-166.0)
Private transfers (net)	465.0	365.0	343.6	351.7	359.9	368.2	376.7
Of which: "unrecorded" exports	(192.0)	(261.8)	(212.9)	(217.7)	(222.8)	(227.9)	(233.1)
Current account (excluding government transfers)	-1,075.8	-861.7	-835.9	-840.4	-835.5	-848.0	-892.1
Government transfers (net)	633.5	525.0	510.4	522.4	544.6	567.4	580.7
Current account (including government transfers)	-442.3	-336.7	-325.5	-318.0	-290.9	-280.6	-311.4
Capital account	256.6	113.9	118.8	85.5	168.3	214.3	238.4
Loan inflow	210.6	271.6	299.2	303.1	311.3	316.8	325.8
Amortization	-361.3	-322.3	-340.7	-293.5	-225.3	-193.2	-196.2
Direct investment 1/	63.0	67.3	105.6	75.9	82.4	90.6	108.8
Other capital and errors and omissions	344.3	97.3	54.7	--	--	--	--
Overall balance	-185.7	-222.8	-206.7	-232.5	-122.6	-66.4	-73.0
Financing	185.7	222.8	206.7	232.5	122.6	66.4	73.0
Change in net foreign assets (increase -)	-107.0	-46.3	-81.9	-97.9	-131.0	-161.7	1.9
Bank of Tanzania (increase -)	9.7	32.6	24.6	-97.9	-131.0	-161.7	1.9
Gross reserves	-11.7	51.2	15.0	-72.8	-88.7	-125.6	33.3
Use of Fund credit	-10.2	-15.9	-22.3	-25.1	-42.4	-36.1	-31.4
Disbursements	--	--	...	...	...	...	...
Repayments	-10.2	-15.9	-22.3	-25.1	-42.4	-36.1	-31.4
Other (net)	31.6	-2.7	31.9	...	...	...	...
Commercial banks (increase -)	-116.7	-78.9	-106.5	--	--	--	--
Arrears (increase +)	292.7	269.1	288.6	-2,305.5	--	--	--
Debt relief	...	...	...	...	...	...	...
Financing gap	--	--	--	2,636.0	253.6	228.1	71.2
Memorandum items:							
Reserve stock (Bank of Tanzania)	306.3	255.1	240.1	312.9	401.6	527.2	493.9
(weeks of imports)	10.0	8.8	8.1	9.9	11.8	14.3	12.4
	(In percent)						
Current account deficit 2/							
(Excluding government transfers)	-30.5	-20.6	-16.2	-15.2	-14.2	-13.3	-12.9
(Including government transfers)	-12.5	-8.0	-6.3	-5.7	-4.9	-4.4	-4.5
Debt service (including IMF) 3/	61.5	43.3	40.5	34.7	29.5	24.0	22.0
Debt service to IMF 3/	1.6	1.7	2.1	2.2	3.1	2.4	1.9
Debt service after rescheduling 3/	27.2	...	...	...	...	...	...

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

1/ US$32 million of privatization proceeds is included in 1995/96.
2/ In percent of GDP.
3/ In percent of exports of goods and services.

Table 8 (concluded). Tanzania: Medium-Term Balance of Payments, 1993/94-2006/07

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
				Projections			
			(In millions of U.S. dollars)				
Trade account	-1,242.7	-1,348.2	-1,465.2	-1,592.0	-1,729.7	-1,886.1	-2,057.2
Exports, f.o.b.	999.5	1,083.2	1,171.4	1,267.0	1,370.6	1,475.8	1,588.4
Imports, c.i.f.	-2,242.2	-2,431.4	-2,636.6	-2,859.0	-3,100.3	-3,361.9	-3,645.5
Services (net)	-76.2	-25.3	21.1	72.9	130.6	190.0	258.0
Receipts	966.2	1,072.4	1,179.4	1,297.0	1,426.4	1,561.3	1,709.0
Payments	-1,042.4	-1,097.8	-1,158.3	-1,224.1	-1,295.7	-1,371.3	-1,451.0
Of which: interest	(-166.0)	(-167.3)	(-170.0)	(-174.0)	(-179.6)	(-184.8)	(-189.1)
Private transfers (net)	385.3	394.2	403.3	412.5	422.0	431.7	441.7
Of which: "unrecorded" exports	(238.5)	(244.0)	(249.6)	(255.3)	(261.2)	(267.2)	(273.3)
Current account (excluding government transfers)	-933.6	-979.4	-1,040.9	-1,106.6	-1,177.0	-1,264.4	-1,357.5
Government transfers (net)	594.3	608.3	622.5	637.1	652.0	667.3	683.0
Current account (including government transfers)	-339.3	-371.1	-418.3	-469.5	-525.0	-597.1	-674.6
Capital account	312.7	379.6	458.4	535.4	612.2	697.2	794.9
Loan inflow	386.3	422.3	456.5	485.3	515.9	548.4	582.9
Amortization	-204.1	-199.3	-186.1	-175.5	-174.3	-175.9	-177.8
Direct investment 1/	130.5	156.6	188.0	225.5	270.6	324.8	389.7
Other capital and errors and omissions	--	--	--	--	--	--	--
Overall balance	-26.6	8.5	40.0	65.9	87.2	100.1	120.3
Financing	26.6	-8.5	-40.0	-65.9	-87.2	-100.1	-120.3
Change in net foreign assets (increase -)	-52.4	-82.8	-107.2	-125.6	-129.9	-104.6	-120.4
Bank of Tanzania (increase -)	-52.4	-82.8	-84.9	-95.6	-99.9	-104.6	-92.5
Gross reserves	-23.7	-43.0	-47.9	-51.3	-55.7	-60.4	-62.4
Use of Fund credit	-28.7	-39.7	-37.0	-44.2	-44.2	-44.2	-30.1
Disbursements	...	...	...	...	...	...	...
Repayments	-28.7	-39.7	-37.0	-44.2	-44.2	-44.2	-30.1
Other (net)	...	...	...	...	...	...	...
Commercial banks (increase -)	--	--	-22.3	-30.0	-30.0	--	-27.9
Arrears (increase +)	--	--	--	--	--	--	--
Debt relief	...	...	...	...	...	...	...
Financing gap	79.0	74.3	67.2	59.7	42.7	4.5	--
Memorandum items:							
Reserve stock (Bank of Tanzania)	517.6	560.6	608.4	659.8	715.4	775.8	838.2
(weeks of imports)	12.0	12.0	12.0	12.0	12.0	12.0	12.0
				(In percent)			
Current account deficit 2/							
(Excluding government transfers)	-12.4	-12.0	-11.7	-11.5	-11.3	-11.2	-11.0
(Including government transfers)	-4.5	-4.5	-4.7	-4.9	-5.0	-5.3	-5.5
Debt service (including IMF) 3/	20.3	18.8	16.7	15.4	14.2	13.3	12.0
Debt service to IMF 3/	1.6	2.0	1.7	1.8	1.7	1.5	0.9
Debt service after rescheduling 3/	...	...	...	...	...	...	...

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

1/ US$32 million of privatization proceeds is included in 1995/96.
2/ In percent of GDP.
3/ In percent of exports of goods and services.

Table 9. Tanzania: External Debt Service and External Debt, 1993/94-2000/01

(In millions of U.S. dollars, unless otherwise stated)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01
		Estimates				Projections		
1. Debt service on outstanding debt at end-1995 1/ 2/	515.1	461.7	466.2	399.0	318.4	279.0	274.9	275.4
Principal	361.3	322.3	340.7	293.5	225.3	193.2	196.2	204.1
Interest	153.8	139.4	125.5	105.5	93.0	85.8	78.8	71.3
2. Debt service on additional disbursements (1997/98-) 3/	--	--	--	--	--	1.6	5.8	11.9
Principal	--	--	--	--	--	--	--	--
Interest	--	--	--	--	--	1.6	5.8	11.9
3. Debt service on gap fill (1996/97-1998/99) 4/	--	--	--	34.2	73.2	77.0	64.9	69.8
Principal	--	--	--	--	--	--	--	--
Interest	--	--	--	34.2	73.2	77.0	64.9	69.8
4. Total debt service (excluding IMF)	515.1	461.7	466.2	433.2	391.6	357.6	345.6	357.0
Principal	361.3	322.3	340.7	293.5	225.3	193.2	196.2	204.1
Interest	153.8	139.4	125.5	139.7	166.2	164.4	149.5	152.9
5. Debt service to IMF	13.5	18.8	25.7	28.5	45.7	39.2	34.4	31.5
Principal	10.5	15.9	22.3	25.1	42.4	36.1	31.4	28.7
Interest	3.0	2.9	3.3	3.4	3.4	3.1	2.9	2.8
6. Total debt service (including IMF)	528.6	480.4	491.9	461.7	437.3	396.8	380.0	388.5
Principal	371.8	338.2	363.1	318.6	267.7	229.3	227.6	232.8
Interest	156.8	142.2	128.9	143.1	169.6	167.5	152.4	155.7
7. Total debt service ratio 5/								
Before rescheduling	61.5	43.3	40.5	34.7	29.5	24.0	18.0	16.3
After rescheduling	22.2	...	...	...	...	...	...	...
Memorandum items:								
Exports of goods and services 6/	854.7	1,104.1	1,205.5	1,322.4	1,467.2	1,636.8	1,793.3	1,965.7
Debts service to multilateral creditors								
Amount	91.0	113.5	115.2	96.5	94.2	95.7	103.5	115.9
Debt service ratio	10.6	10.3	9.6	7.3	6.4	5.8	5.8	5.9
External debt outstanding 7/	6,868.2	7,201.6	7,409.5	6,012.0	6,193.4	6,414.7	6,197.1	6,420.9
IMF	218.6	219.9	180.7	233.7	270.0	320.4	289.4	260.9
Other	6,649.7	6,981.7	7,228.8	5,778.3	5,923.5	6,094.3	5,907.8	6,159.9
Net present value of external debt In percent of exports of goods and services	...	...	482.3	285.6	246.4	214.7	195.4	184.0
Debt service to IMF 5/	1.6	1.7	2.1	2.2	3.1	2.4	1.9	1.6

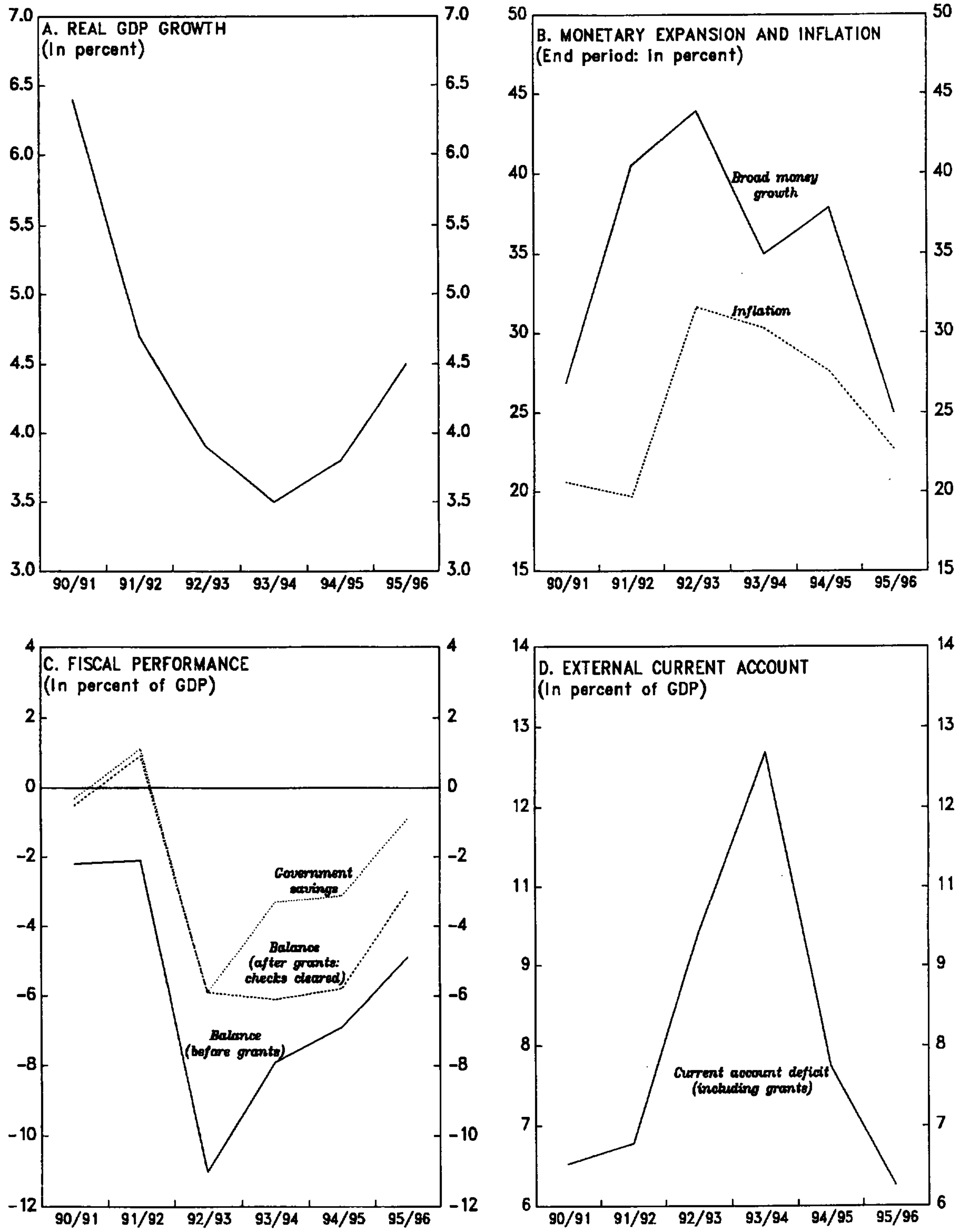
Sources: The World Bank's Debt Reporting System; International Financial Statistics; and staff estimates and projections.

1/ Excluding obligations to the Fund.
2/ Includes debt service on future disbursements during 1996/97-1998/99 from the pipeline.
3/ Debt service on disbursements from new commitments.
4/ Debt service on debt relief (including impact of a stock-of-debt operation at end-1998/99), and additional disbursements that may be necessary to fill gaps given reserve targets.
5/ In percent of exports of goods and services.
6/ Exports do not include part of "private transfers" that are estimates for unrecorded exports.
7/ The decline in the stock-of-debt at end-June 1997 reflects the assumed debt relief on Naples terms involving a 67 percent reduction in net present value terms on arrears of US$2.3 billion outstanding at end-June 1996; these arrears were in the stock-of-debt at end-June 1996.

CHART 1

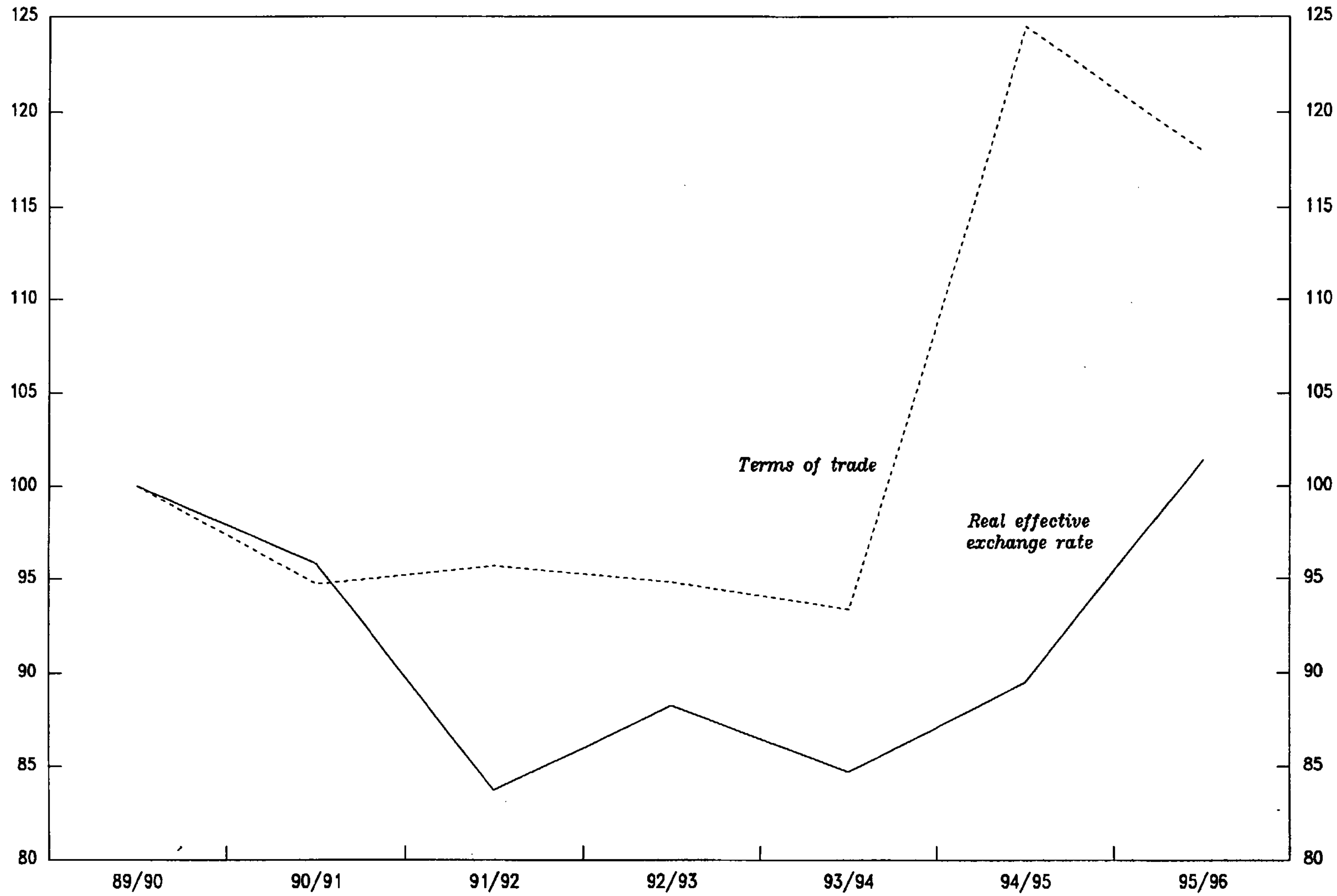
TANZANIA

ECONOMIC AND FINANCIAL INDICATORS, 1990/91-1995/96



Sources: Tanzanian authorities; and staff estimates.

CHART 2
TANZANIA
INDICATORS OF COMPETITIVENESS, 1989/90-1995/96
(Index 1989/90=100)



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

Tanzania - Enhanced Structural Adjustment Facility
Three-Year and First Annual Arrangements

Attached hereto is a letter with annexed Memorandum on Economic and Financial Policies dated October 18, 1996, from the Minister of Finance of Tanzania, requesting from the International Monetary Fund a three year arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder, and setting forth:

(i) the objectives and policies of the program to be supported by the three-year arrangement; and

(ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangements in accordance with the following provisions, and subject to the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, as amended:

1. (a) For a period of three years from November [--], 1996, Tanzania will have the right to obtain loans from the Fund under the Enhanced Structural Adjustment Facility, in a total amount equivalent to SDR 161.59 million, subject to the availability of resources in the Enhanced Structural Adjustment Facility Trust.

(b) The amount of the first annual arrangement will be the equivalent of SDR 51.415 million; the amount of the second annual arrangement will be the equivalent of SDR 51.415 million; and the amount of the third annual arrangement will be the equivalent of SDR 58.76 million.

(c) Under the first annual arrangement:

(i) the first loan, in an amount equivalent to SDR 25.7075 million, will be available on November [--] 1996, at the request of Tanzania, and

(ii) the second loan, in an amount equivalent to SDR 25.7075 million, will be available on April 30, 1997, at the request of Tanzania subject to paragraph 2 below.

2. Tanzania will not request disbursement of the second loan specified in paragraph 1(c)(ii) above

(a) if the Managing Director finds that the data at the end of December 1996 indicate that

(i) the limit on net credit to the Government from the Bank of Tanzania, or

(ii) net domestic financing of the government, or

(iii) net domestic assets of the banking system, or

(iv) net international reserves of the Bank of Tanzania, or

(v) the accumulation of external payments arrears, or

(vi) the limit on the contracting or guaranteeing by the government of nonconcessional external debt with a grant element of less than 35 percent.

referred to in paragraph 32 of the memorandum annexed to the attached letter and specified in Table 1 attached thereto, was not observed; or

(b) if Tanzania has not carried out its intentions with respect to the structural performance criteria regarding:

(i) retrenchment of a further 10,000 civil servants by end-December 1996; or

(ii) approval and provision of terms of reference to a short list of firms for a review of the restructuring of the National Bank of Commerce (NBC) by end-December 1996; or

(iii) removal of twenty-five additional enterprises from government control by end-December 1996,

as described in paragraph 32 of the memorandum annexed to the attached letter and Table 3 attached thereto; or

(c) if Tanzania

(i) has imposed restrictions on payments and transfers for current international transactions, or

(ii) has introduced or modified multiple currency practices, or

(iii) has concluded bilateral payments agreements that are inconsistent with Article VIII, or

(iv) has imposed or intensified import restrictions for balance of payments reasons, or

(v) has accumulated any new external payments arrears; or

(d) until the Fund has determined that the midterm review of Tanzania's program referred to in paragraph 5 of the attached letter has been completed.

If the Managing Director finds that any of the performance clauses that have been established in or under this paragraph 2 have not been met, the second loan specified in paragraph 1(c)(ii) above may be made available only after consultations have taken place between the Fund and Tanzania, and understandings have been reached regarding the circumstances in which Tanzania may request that second loan.

3. Before approving the second annual arrangement, the Fund will appraise the progress of Tanzania in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily:

(a) the indicators referred to in paragraph 32 of the memorandum annexed to the attached letter and Tables 1, 2, and 3 attached thereto;

(b) imposition or intensification of restrictions on payments and transfers for current international transactions;

(c) introduction or modification of multiple currency practices;

(d) conclusion of bilateral payments agreements that are inconsistent with Article VIII; and

(e) imposition or intensification of import restrictions for balance of payments reasons.

4. In accordance with paragraph 4 of the attached letter, Tanzania will provide the Fund with such information as the Fund requests in connection with the progress of Tanzania in implementing the policies and reaching the objectives supported by these arrangements.

5. In accordance with paragraph 4 of the attached letter, during the period of the first annual arrangement, Tanzania will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests such a consultation. Moreover, after the period of the first annual arrangement and while Tanzania has outstanding financial obligations to the Fund arising from loans under that arrangement, Tanzania will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on Tanzania's economic and financial policies. These consultations may include correspondence and visits of officials of the Fund to Tanzania or of representatives of Tanzania to the Fund.

Dar es Salaam, October 18, 1996

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Camdessus:

1. On behalf of the Government of Tanzania, I have the honour to transmit herewith a memorandum on economic and financial policies, prepared in close collaboration with the Fund staff. The memorandum describes the objectives and policies that the Government intends to pursue in the framework of the medium-term strategy, and specifies the objectives and actions for the first year of the program, i.e., July 1, 1996 to June 30, 1997. This memorandum is based on the medium-term policy framework paper for the period 1996/97-1998/99 prepared with the assistance of the Fund and World Bank staffs, and which I am forwarding to you today under separate cover. The policy framework paper describes the main economic problems facing Tanzania, the general macroeconomic framework, and the objectives of the program for 1996/97-1998/99. It also outlines the policies adopted by the government and structural reforms planned to be implemented during the three-year program, as well as the projected external financing requirements, together with external resources that have been identified.

2. The memorandum on economic and financial policies sets out the program that the Government of Tanzania intends to pursue during the period 1996/97-1998/99, and more specifically, the objectives, policies, and measures for the period July 1, 1996 to June 30, 1997. In support of this program, the Government of Tanzania hereby requests a three-year annual arrangement under the enhanced structural adjustment facility (ESAF) in an amount equivalent to SDR 161.59 million, and the first annual arrangement thereunder in an amount equivalent to SDR 51.415 million.

3. The Government of Tanzania will provide the International Monetary Fund with any information as it may request in connection with monitoring the progress made in implementing the economic and financial policies in achieving the objectives of the program.

4. The Government believes that the policies and measures described in the attached memorandum are adequate to achieve the objectives of the program, but will take any other measures that may prove necessary for this purpose. During the period of the arrangement, the Government of Tanzania will consult with the Managing Director of the Fund either at its own initiative or whenever the Managing Director requests such consultation, on the

adoption of any additional measures that may be appropriate. Moreover, after the period of the arrangement, and while Tanzania has outstanding financial obligations to the Fund arising from loans under that arrangement, the Government will consult with the Fund from time to time, at Tanzania's initiative or whenever the Managing Director requests such consultation, on Tanzania's economic and financial policies.

5. The Fund will conduct with the Government a midterm review under the first annual arrangement, to be completed not later than April 30, 1997. The review will assess policy implementation and economic performance in light of the program objectives, with particular emphasis on fiscal developments.

Yours sincerely,

/s/

Prof. Simon Mbilinyi
Minister of Finance

Attachments

Memorandum on the Economic and Financial Policies of Tanzania
July 1, 1996-June 30, 1997

1. This memorandum outlines the principal objectives and policies envisaged by the government of Tanzania during the fiscal year 1996/97 (beginning July 1). The program set out in this memorandum aims at consolidating and extending the improved economic and financial performance, particularly in the fiscal area, achieved during the second half of 1995/96 in the context of the Fund staff-monitored program. It is consistent with the medium-term objectives outlined in the policy framework paper (PFP) for 1996/97-1997/98, namely, establishing a stable macroeconomic framework that will encourage accelerated economic growth, declining inflation, and balance of payments viability. It also incorporates structural reforms designed to strengthen the budgetary management and financial arrangements, and to improve economic efficiency, particularly through the privatization program. The medium-term policy framework is strongly front-loaded, with major actions to be taken in 1996/97, as outlined in this memorandum, with respect to macroeconomic stabilization and structural reform. The government believes that the program warrants strong donor support; indeed, the availability of adequate foreign financing will be critical for the sustainability of the program.

I. Recent Economic Developments

2. The macroeconomic situation continued to deteriorate in the first half of 1995/96, owing in particular to major inadequacies in fiscal policy. government revenue collections weakened markedly, partly because of the tax cuts incorporated in the 1995/96 budget. The absence of an effective system of expenditure controls also undermined the fiscal position; in particular, the inclusion of a wide range of allowances in the government's wage bill and the large number of wage scales continued to weaken the control of the compensation package. Furthermore, with inadequate discipline exercised during the budgetary process in eliminating lower-priority activities, under-funding of higher-priority activities continued to generate expenditure overruns. As a result, the government's overall deficit (on a commitments basis, after grants) amounted to 6.0 percent of GDP, on an annual basis, during the first half of 1995/96, compared with 5.8 percent of GDP in 1994/95.

3. Faced with major revenue losses and expenditure overruns, aggravated by the unexpectedly high cost to the budget of the first multi-party elections in Tanzania, the new government that took office in November 1995 introduced several revenue-enhancing measures, including increases in various tax rates, in a minibudget that was approved by Parliament in February 1996. It also undertook a policy, formulated with the assistance of the Fund staff, of cutting recurrent expenditures significantly, focused on low-priority areas. These measures, which formed the nucleus of the Fund staff-monitored

program for January-June 1996, provided for a reduction in the projected dissaving of the government from 2.2 percent of GDP in the second half of 1995/96 in the absence of these measures to 0.4 percent of GDP for the period.

4. In the event, fiscal performance was better than programmed in the second half of 1995/96, with government saving of 0.6 percent of GDP recorded for the period. Government revenue picked up in line with expectations, and the related benchmarks established under the staff-monitored program were observed. The monthly benchmarks for noninterest recurrent expenditure were also observed, reflecting the restraint imposed by the new cash management arrangements. The fiscal benchmarks under the program were also met, after allowing for the lower-than-projected clearance of arrears to the utility companies during the second half of 1995/96. For 1995/96 as a whole, the government's overall deficit (on a commitments basis, after grants) amounted to 3.3 percent of GDP, compared with 5.8 percent of GDP in 1994/95.

5. The fiscal improvement in the second half of 1995/96 contributed substantially to the decline in the rate of broad money growth to 15 percent in the year ended June 1996, as against 38 percent a year earlier. In fact, instead of an increase in the government's net borrowing from the banking system during January-June 1996 as projected in the program, net bank credit to the government declined significantly over the period. 1/ The benchmarks on such credit established under the program were therefore observed. These benchmarks were also met, after accounting for the lower-than-projected clearance of arrears during January-June 1996. A further critical factor behind the fall in the rate of monetary growth was the credit ceiling imposed on the NBC during the period of its restructuring, which resulted in a stagnation in bank credit to the private sector over the year (after adjusting for the write-offs of nonperforming loans). In these circumstances, the quantitative benchmarks established under the program for net domestic assets of the banking system for end-March 1996 and end-June 1996 were observed, even after accounting for uncleared arrears. The net international reserves of the Bank of Tanzania declined in 1995/96, particularly in the second half of the year, when the Bank began clearing the government's external payments arrears. Furthermore, during the second half of 1995/96, the Bank of Tanzania sold an unprogrammed US$20 million of foreign exchange on a net basis in lieu of open-market operations; as a result, the quantitative benchmarks established under the program for these reserves at end-March 1996 and end-June 1996 were missed. This decline in net official international reserves was considerably more than offset by an increase in

1/ Net credit to the Government from the banking system was calculated excluding government bonds issued to the National Bank of Commerce (NBC) and the Cooperative and Rural Development Bank (CRDB), which were related to government commitments from January 1993, and recorded in the banks' balance sheets in February-April 1996 for the first time.

the net foreign assets of the commercial banks, reflecting, inter alia, increased export receipts, lower import payments, and possibly private capital inflows, as indicated below.

6. The structural benchmarks established under the Fund staff-monitored program were also generally observed, apart from the benchmarks related to the clearance of external payments arrears and possibly the performance of the National Bank of Commerce (NBC). The outcomes relative to these benchmarks were as follows: (a) the pay reform in the civil service--of major importance for expenditure management and reflecting bold action by the government--became effective from July 1, 1996, streamlining the grading structure and consolidating the many previous allowances into the basic pay, although the resulting cost for the wage bill was higher than envisaged; this reform, which provides for the net retrenchment of 21,000 civil servants in the first half of 1996/97 (of which more than 11,000 were retrenched on July 1, 1996), will improve control over government expenditure on the wage bill that has been elusive thus far; (b) the Tanzania Revenue Authority (TRA) commenced operations as programmed, and is expected to improve tax administration significantly; (c) a treasury circular was issued in March 1996, requiring each ministry to designate a senior official to be responsible for approving commitments in line with budgetary allocations; (d) reflecting the efforts to improve the quality and currentness of the economic data base, the publication lag of the consumer price index was reduced significantly; (e) by end-June 1996, Tanzania had cleared most, but not all, of its arrears on previously rescheduled debt on concessional terms; these were cleared by early August 1996 (the arrears on post-cutoff-debt remain to be cleared); and (f) about 25 state-owned enterprises were divested during January-June 1996, essentially as programmed. Furthermore, the announced government budget for 1996/97 was broadly in line with the framework specified in the program as a structural benchmark, providing for government saving higher than the targeted 0.5 percent of GDP.

7. While key elements of the restructuring program of the NBC have now been implemented, it has not yet been determined whether the programmed objective of achieving a break-even point by end-June 1996, a structural benchmark under the program, was realized; this determination will be made after the audit is completed in October 1996. The resumption of the bank's normal lending operations was to have been conditional on the realization of this break-even point. However, in view of the potentially adverse impact on economic activity of a protracted freeze on bank credit, the Bank of Tanzania in June 1996 lifted the freeze on the NBC's lending operations to those customers that have no overdue loans.

8. Economic growth accelerated somewhat in 1995/96, with real GDP growth estimated to have increased by 4.5 percent over the year,implying a further rise in per capita income. A strong increase in agricultural output was a key contributing factor, reflecting the impact of the liberalized trading and financial environment that has allowed producers to benefit from the improved producer prices, and greater access to crop financing from external sources, together with the benefits from the favorable weather conditions

during the past year. Mineral output also expanded strongly, but manufacturing production was stagnant, owing to infrastructural constraints. The rate of inflation, after reaching a peak of 38 percent for the year ended February 1995, subsequently declined to 18 percent for the year ended August 1996. At first, this decline reflected the favorable weather conditions to an important extent, but later it reflected the reduced rate of monetary expansion associated with the improvement in the fiscal performance during the second half of 1995/96, and the related reduction in net credit to the government from the Bank of Tanzania; the ceiling on new lending to the private sector by the NBC during the period of its restructuring and the strong recovery effort were further contributing elements.

9. The balance of payments position, which had improved markedly in 1994/95 with higher export prices, continued to strengthen in 1995/96 in response to a stronger export performance in key traditional crops generated by the favorable weather conditions, and to a continuing lack of import growth that was due to the tighter implementation of the customs regulations and the decline in disbursements by donors. In these circumstances, the external current account deficit (excluding grants) declined further to 16.3 percent of GDP in 1995/96, compared with 20.6 percent of GDP in 1994/95. Reflecting the pronounced fall in donor support, and the substantial sales of foreign exchange by the Bank of Tanzania in the second half of 1995/96, gross official reserves declined to US$240 million (equivalent to 8.1 weeks of imports) at end-June 1996, compared with US$255 million (equivalent to 8.8 weeks of imports) at end-June 1995. However, net foreign assets of the commercial banks increased by US$107 million in 1995/96.

10. The exchange rate determined in the interbank market for foreign exchange continued to reflect developments in the balance of payments, apart from a short period in the second half of 1995/96 when the Bank of Tanzania's operations in the market were aimed at helping to achieve its liquidity objectives. Overall, the exchange rate of the Tanzania shilling depreciated by 3 percent--relative to the U.S. dollar--between end-June 1995 and end-June 1996; exchange rate developments in 1995/96 were influenced by the strong export earnings and the slack in import demand. Owing to the higher rate of inflation in Tanzania compared with its trading partners, the Tanzania shilling appreciated substantially in real effective terms in 1995/96. Reflecting the major progress made in recent years in liberalizing the external trade and payments system, and with the exchange system now completely liberalized for payments and transfers for current international transactions, Tanzania accepted on July 15, 1996 the obligations of Article VIII, Sections 2, 3, and 4, of the Fund's Articles of Agreement.

II. Policy Objectives for 1996/97

11. The basic macroeconomic objectives for 1996/97 are consistent with the medium-term objectives for 1996/97-1998/99 outlined in the PFP, namely: (a) a real GDP growth rate of 5 percent in 1996/97, rising to 6 percent in 1997/98-1998/99; (b) a reduction in the average rate of inflation to 15 percent in 1996/97, 7.5 percent in 1997/98, and 5 percent in 1998/99

(with the end-period inflation rate reaching 5 percent by end-June 1998); (c) government savings of 1.1 percent of GDP in 1996/97, 1.5 percent of GDP in 1997/98, and 2.5 percent of GDP in 1998/99; and (d) a reduction in the external current account deficit (excluding current grants) to 13.2 percent of GDP by 1998/99 (compared with 20.6 percent of GDP in 1994/95), while increasing gross official reserves to the equivalent of more than three months of imports by 1998/99. As indicated in the PFP, the medium-term program provides for domestic savings to rise with the improvement in the government's fiscal position and the increased mobilization of private savings as the financial sector reforms take hold, supplemented by increased profitability in the parastatal sector and privatized enterprises. Investment is projected to increase more moderately than savings, reflecting the greater efficiency in resource use stemming from the improved allocation of credit and the increased efficiency of capital generated by progress with the divestiture program. Accordingly, less reliance will be placed on foreign savings over the program period, in view of the projected decline in the current account deficit. The distributional aspects of the program are being given special emphasis to ensure the adequacy of government funding for priority activities, particularly education, health, and water supply, and a more equitable sharing by the entire population of the opportunities and benefits of an improved economic performance.

A. Fiscal policy and budgetary management

12. Fiscal policy for 1996/97 will be consistent with the medium-term strategy of improving the government's saving performance to permit a reduced budgetary dependence on foreign financing and allow a greater share of the government's development expenditures to be met from domestic resources. Government revenue performance will be strengthened through the elimination of the sources of revenue loss that have been important in the past, including various forms of tax evasion. Measures will be developed to broaden the tax base into sectors--particularly agriculture and mining--which presently contribute little to the government's revenue relative to their share in the economy. At the same time, expenditure control will be strengthened by improving the budgetary process to ensure that adequate funding is available for priority activities and that lower-priority or nonessential activities--which have been responsible for major expenditure overruns in the past--are eliminated. The expenditure framework and composition will be in line with the medium-term objectives outlined in the PFP, and with the recommendations of the World Bank's Public Expenditure Review. The fiscal strategy for 1996/97 also provides for major progress in the regularization of all the government's payments arrears on utility bills, domestic interest payments, and external debt service. To release resources for the priority sectors, further progress will be made during 1996/97 in civil service reform (including the retrenchment program), rationalization of ministries, and substantial downsizing of the regional administration and the army. The authorities will remain committed throughout the program period to the newly established procedure whereby any change in the government's payroll will be introduced only with a written instruction from the Paymaster General, and based only on written approval from the Civil Service Department.

13. Improvements in budgetary management will be a key feature of the program. The budgetary process will provide for extensive and timely analysis and discussion between the Treasury and the various ministries to establish spending priorities for the forthcoming year, and to determine areas of activity that can be eliminated from the budget. Of special importance for 1997/98, the various ministries will be advised of the budget ceilings at the latest by mid-February 1997 as a structural benchmark under the program. According to these procedures, each ministry will need to review carefully its functions that are either inefficient or not required in the new market-oriented environment. These procedures should ensure that the underfunding of priority activities will be avoided in the future, and that the resources available to the budget are allocated in the most efficient manner. Special attention will be given to the Financial Orders of Tanzania to ensure that they are fully understood by all ministries as the cornerstone of fiscal management, and are rigorously implemented.

14. The program for 1996/97 provides for government revenue to rise to 15.7 percent of GDP, compared with 15.0 percent of GDP in 1995/96. This target reflects the full-year impact of measures already taken in mid-1995/96, the net effect of adjustments to various tax rates and government fees introduced in the 1996/97 budget, and the strengthening and rigorous enforcement of revenue collection arrangements. If, in the course of the year, revenue is not collected as targeted and the expenditure targets are not achieved, further revenue measures will be taken, including higher taxes on petroleum.

15. The newly established Tanzania Revenue Authority (TRA) is expected to play an important role in strengthening tax collection arrangements and performance. Steps will be taken to halt the revenue leakages through tax evasion relating to the present differences in tax rates and administration between Zanzibar and the mainland of Tanzania. These steps will ensure that the revenue laws and the respective tax rates are harmonized between Zanzibar and the mainland for all commodities by end-December 1996, as a structural benchmark under the program. In this respect, the jurisdiction of the TRA, including the operations of the pre-shipment inspection companies, was extended to include Zanzibar in September 1996, as a prior action under the program. The coordination of economic policy at the Ministerial and Principal Secretary levels between the Union and Zanzibar governments will be formalized in regular meetings.

16. The stated policy of limiting the power to authorize discretionary exemptions to the Minister of Finance, and only on the basis of the recommendations of the TRA, will be rigorously enforced. As further steps to deal with potential sources of revenue loss, and as a prior action under the program, owner-operated bonded warehouses not used for the storage of petroleum, motor vehicles, and inputs for domestic production are to be closed. As a structural benchmark under the program, by end-December 1996 an audit of the bonded warehouses will be completed, and an effective monitoring system established; this system will be computerized by end-March 1997. The provision that goods can be held in the bonded warehouses for no longer than six months will be rigorously enforced.

17. Preparations will continue throughout 1996/97 to ensure that the value-added tax (VAT) is introduced by January 1, 1998, with technical support from the Fund and other sources. The VAT will be broad-based, and introduced at a rate sufficiently high, with a threshold sufficiently low, to contribute to a significant strengthening of the revenue effort. In line with this objective, parliamentary legislation for the VAT will be passed by end-January 1997 as a structural benchmark under the program. The government and the TRA will provide every support to the VAT project. This will include an adequate operational budget commensurate with the implementation program set to cater for the training and availability of departmental staff who will be urgently required to spearhead publicity, education, and registration of taxpayers immediately after the VAT legislation is in place. The departmental logistics on staffing, accommodation, equipment, and communication related to the introduction of the VAT will be fully determined by end-December 1996. The feasibility studies on the scope, requirements, and user specifications for VAT computerization have already been completed, and installation will be completed by end-March 1997 as a structural benchmark under the program.

18. A study will be completed by March 1997, which will explore ways of widening the tax base, directed mainly at the agriculture and mining sectors, including possible new measures and related timetables for their introduction, thereby permitting the temporary tax on traditional exports (introduced in the 1996/97 budget) to be replaced. As with the VAT, these new taxes will be introduced at rates that could contribute significantly to a strengthening of the revenue effort, particularly in view of the expected elimination of the export tax and the programmed cuts in tariff rates under the Cross Border Initiative (CBI).

19. Government recurrent expenditure in 1996/97 will be limited to 14.6 percent of GDP, compared with 15.8 percent of GDP in 1995/96 (or 14.7 percent of GDP excluding election-related expenditures from the 1995/96 base). Consistent with the policy of regularizing during 1996/97-1998/99 the arrears (on utility bills, domestic interest payments, and debt obligations to Paris Club creditors on post-cutoff-date debts) carried over from 1995/96, a total of T Sh 43.2 billion (1.2 percent of GDP) of the outstanding arrears, amounting to T Sh 57.6 billion, is targeted to be paid in 1996/97; the remainder will be paid in 1997/98.

20. Government spending on wages and salaries (including allowances) is targeted at 5.4 percent of GDP in 1996/97, compared with 5.2 percent of GDP in 1995/96, reflecting some difficulties in implementing the new wage scales at the district and city council levels, but will return in 1997/98 to the same ratio as in 1995/96; the reduction in the ratio in 1997/98 will be achieved by keeping the real wage bill in the civil service unchanged. This civil service reform aims at limiting the role of the civil service to priority areas, and markedly improving the efficiency of government administration. The wage bill for 1996/97 (which includes wages for defence and national service personnel) provides for the expected cost of incorporating the allowances into the unified wage scales in the context of the pay reform, as well as the wage crawl resulting from promotions. The

government's commitment to retrench an additional 10,000 civil servants by end-December 1996 as a structural performance criterion under the program is to be financed through the development, rather than the recurrent, budget.

21. Expenditure on "other charges," although targeted to rise by 29 percent in 1996/97 (excluding election-related expenditures from the 1995/96 base), will remain low relative to other categories of expenditure. Within this tight spending ceiling, the program ensures adequate funding for the priority activities, and the reduction or elimination of the lower-priority activities. To facilitate the freeing-up of resources for the priority areas, the separate central government budgets for the regional administrations will be eliminated during 1996/97, given that the rationale for these administrations no longer exists, with the transition from control-oriented to market-oriented mechanisms. Expenditure management will be improved during 1996/97 by focusing controls at the commitment level, in conformity with the Financial Orders of Tanzania. The expenditure cuts included in the program are focused on low-priority activities, with the related restructuring of functions designed to ensure that this downsizing of government activities is sustained. While these procedures (which guided the preparation of the 1996/97 budget) are being put in place to provide the foundation for effective expenditure management control in the future, the temporary cash management arrangements will be maintained to ensure that expenditure overruns are avoided. The modalities for replacing these temporary arrangements with the more permanent expenditure control procedures, particularly in the context of the preparation of the 1997/98 budget, will be a focal issue during the discussions with the Fund staff at the time of the midterm review of the program.

B. Monetary and credit policies

22. Monetary policy will be closely coordinated with fiscal policy to ensure that the basic macroeconomic objectives are achieved. Accordingly, the Bank of Tanzania will use open market operations, rather than transactions in the foreign exchange market, as its key policy instrument for liquidity management. The Bank of Tanzania will also develop the required institutional framework to ensure a more integrated, market-determined structure of interest rates.

23. Against this background, and consistent with the growth, inflation, and external sector objectives, the program for 1996/97 provides for monetary growth to decline further, to 13 percent by end-June 1997. The targeted net repayment of bank credit by the government during the year of 0.5 percent of GDP will contribute importantly to the programmed deceleration of monetary expansion. Given the NBC's continued efforts to improve the quality of its loan portfolio, it is difficult to predict precisely the increase in lending by the NBC in 1996/97. However, credit to the private sector from the banking system as a whole is projected to increase significantly in 1996/97. To restrain domestic liquidity expansion and to ensure that positive real interest rates in financial markets are maintained, the Bank of Tanzania will make greater use, as necessary, of the sale of its (91-day) financial securities. These operations will be coordinated with the government's

treasury bill operations to ensure consistent and effective monetary management. To help ensure that changes in interest rates on these securities are passed through to deposit and lending rates, the authorities will develop the secondary market for these securities, enabling small investors to choose between bank deposits and financial securities. Trade in financial assets will be facilitated by the stock exchange that will commence operations in October 1996, giving due consideration to the companies to be traded initially to ensure its sound development. In order to enhance monetary management further, and in the absence of pressures for the exchange rate to appreciate, the Bank of Tanzania will consider extending the statutory minimum requirement (SMR) to include foreign exchange deposits. Such an extension would not involve an increase in the overall requirement, because open market operations, as indicated above, will be the principal means of liquidity management.

24. Speedy progress will be made with financial sector reform, particularly the restructuring of the NBC, to ensure the effectiveness of market-related mechanisms for monetary management. Apart from securing further cost reductions, mainly in various administrative areas, the restructuring effort will involve a significant improvement in the governance of the bank, enabling it to operate in both a prudent and a profitable manner. The Bank of Tanzania, in exercising its supervisory functions, will continue monitoring closely the NBC's credit operations--as provided for in the memorandum of understanding with the government--to ensure their commercial viability. In particular, the Bank of Tanzania will insist upon an improvement in the quality of the NBC's portfolio, reflecting a high performance ratio for new loans, a slowdown in the deterioration in the quality of existing loans, and the recovery of presently nonperforming loans. These actions will help alleviate the pressure on the NBC to maintain large interest rate margins. Reflecting the authorities' intention to accelerate the momentum of the financial sector reform, as a structural performance criterion, the authorities will, by end-December 1996, approve the terms of reference for a firm to review the continuing process of restructuring the NBC, and will provide an approved short list of firms with these terms of reference. A restructuring plan for the People's Bank of Zanzibar (PBZ) will be determined by end-December 1996 as a structural benchmark under the program. The bank licensing requirements will be reviewed, without compromising present prudential standards, with a view to encouraging new banks to open branches outside Dar es Salaam.

C. External sector policies

25. Despite an anticipated pickup in the demand for imports, the external current account deficit is projected to improve further (to 15.2 percent of GDP) in 1996/97 as a result of a continued good performance of exports, as well as projected increases in service receipts. Even though disbursement of balance of payments support is expected to resume, a financing gap, amounting to US$2.6 billion, is projected in 1996/97, mainly on account of the need to regularize external debt arrears and to reconstitute reserves. This gap is expected to be covered by access to ESAF resources, by debt relief from Paris Club creditors and from other multilateral and bilateral

creditors on comparable terms, and by debt buy-back arrangements with private creditors. In view of this outlook, the external sector policies under the program will be focused on maintaining external competitiveness to encourage strong performance in the traded goods sector. The exchange rate will continue to be based on developments in the interbank market for foreign exchange. The Bank of Tanzania's participation in the market will be limited to smoothing operations and to achieving the foreign reserves targets, and not to securing liquidity objectives. In 1996/97, even though the demand for foreign exchange is expected to increase, owing to the pickup in imports, the clearance of external debt arrears, and the need to reconstitute reserves, its supply will be augmented by a continued good performance of exports and the resumption of disbursements by donors of balance of payments support. Accordingly, the bilateral exchange rate (vis-à-vis the U.S. dollar), if left to market forces, is expected to depreciate to maintain the level of competitiveness achieved in 1995/96.

26. Consistent with the objectives of the Cross Border Initiative (CBI), and the aim of simplifying the tariff structure by June 1998 to consist of no more than three non-zero rates (with an average trade weighted tariff of about 15 percent and a maximum of 20-25 percent), the maximum tariff will be reduced from 40 percent to at most 30 percent by July 1997. The revenue shortfall from these steps will be covered by adjustments to the non-discriminating sales and excise tax rates to the extent needed.

27. With the clearance of its external payments arrears, Tanzania will remain current on its external payments obligations, while seeking debt relief from Paris Club creditors, and on comparable terms from non-Paris Club creditors and debt buy-back arrangements with private creditors; it is expected that debt relief will be obtained from Paris Club creditors on Naples terms, involving a 67 percent net present value reduction in debt. At the same time, Tanzania will also avoid contracting or guaranteeing any loans on nonconcessional terms (i.e., with a grant element of below 35 percent). The government will avoid incurring arrears on a continuous basis; will not impose restrictions on payments and transfers for current international transactions; will not impose or intensify existing import restrictions for balance of payments reasons; and will not enter into any bilateral payments agreements with member countries of the Fund that are inconsistent with Article VIII of the Fund's Articles of Agreement. Furthermore, the government will not introduce any multiple currency practices.

D. Structural policies

28. Apart from the budgetary management, civil service, and financial sector reforms indicated above, other structural reform objectives will be pursued by the government, along the lines set out in the PFP. Certain key elements of these reforms, in the areas indicated below, will constitute structural benchmarks under the program.

a. Parastatal reform

29. Building on the progress already made with the divestiture of 98 enterprises in 1992-95, the privatization program will be expanded, with an acceleration in the disposal of assets managed by the Parastatal Sector Reform Commission (PSRC). As a structural performance criterion under the program, at least 25 additional enterprises will be removed from government control by end-December 1996 through sale, lease, liquidation, or other forms of divestiture. A hard budget constraint for the parastatals will continue to be implemented. The privatization program is expected to provide a significant source of financing for the budget during the program period. Of particular importance, the restructuring and privatization of the public utilities will be accorded the highest priority in the period ahead. Accordingly, a timetable of intermediate steps has been determined for 1996/97 to facilitate the privatization of certain of these large enterprises, in terms of assets, which have a major macroeconomic impact; as a structural benchmark under the program, an action plan for complete or partial sale of one of these large parastatals will be determined by end-December 1996. Technical assistance is being sought from the World Bank to assist in the various aspects of this privatization program.

b. Energy sector reform

30. As part of a work program for complete liberalization of petroleum product imports and prices by June 1998 (including the removal of all differential taxes on imports), the authorities will announce in October 1996, as a prior action under the program, that all companies, including the Tanzania Petroleum Development Corporation (TPDC), will be able to import refined petroleum products. Taking into account the normal shipment and contracting delays, this step will end the importing monopoly of the TPDC by January 1997. In view of the substantial losses to the economy from the operation of the oil refinery, a study of the policy options with respect to its future, including the possibilities of converting it into an import depot or closing it down, will be initiated during 1996/97, with complete recommendations to be presented to the government no later than June 1997.

c. Data improvements

31. Particular emphasis will be placed on improving the coverage, reliability, and currentness of the economic data base, especially in view of its importance for policy analysis and implementation. The consumer price index, for which the publication lag has recently been reduced significantly, will be further strengthened by incorporating the results of the recent household expenditure surveys. Revised foreign trade statistics, utilizing customs rather than financial data as the principal source, will begin to be published regularly, as of end-March 1997, with data for July-December 1996, as a structural benchmark under the program; publication of the historical data for 1995/96 will be completed by end-June 1997. A revised set of official national accounts on the production side will be finalized and announced by end-December 1996, and on the expenditure side by end-March 1997, utilizing the results of the household expenditure surveys;

both these targets are structural benchmarks under the program. The quality and currentness of statistical reporting to the Fund's International Financial Statistics publication will be significantly improved.

E. Prior actions, and performance criteria and benchmarks

32. Measures to be taken as prior actions before discussion by the Fund's Executive Board of Tanzania's request for arrangements under the Fund's enhanced structural adjustment facility (ESAF) are as follows: (a) extension of the jurisdiction of the TRA to include Zanzibar; (b) closure of all owner-operated bonded warehouses except those used for the storage of petroleum, motor vehicles, and production inputs; and (c) announcement of the removal of the ban allowing all companies, including the TPDC, to import refined petroleum products. Performance criteria and benchmarks have been established to monitor progress in the implementation of the program under the first annual ESAF arrangement. Performance criteria have been established for end-December 1996, and benchmarks for end-September 1996, end-March 1997, and end-June 1997, on net credit to the government from the Bank of Tanzania, net domestic financing of the government's budget (excluding privatization proceeds); net domestic assets of the banking system, net international reserves of the Bank of Tanzania, nonaccumulation of external payments arrears on a continuous basis, and the contracting or guaranteeing by the government of nonconcessional foreign debt with a grant element of less than 35 percent (Table 1). Privatization proceeds are to be used to reduce the indebtedness of the government. Adjustors have been established for the credit ceilings, namely, net credit to the government from the Bank of Tanzania, net domestic assets of the banking system, net domestic financing of the government's budget (excluding privatization proceeds), and on the net international reserves targets for higher- or lower-than-programmed balance of payments/budgetary support. To monitor fiscal developments, benchmarks have been established for end-September 1996, end-December 1996, end-March 1997, and end-June 1997 for total government revenue (excluding Bank of Tanzania dividends), noninterest recurrent expenditure, and the government's wage bill (Table 2). As noted in Table 1, some of the quantitative benchmarks and performance criteria are to be adjusted for any excess or shortfall in projected foreign program loans and grants. In the event of such an excess, a full adjustment in the relevant benchmarks and performance criteria will be made; in the case of a shortfall, a 60 percent adjustment will be made up to a maximum amount of T Sh 17 billion. Various structural benchmarks have been established as indicated in Table 3, of which those relating to civil service reform, the reform of the NBC, and the privatization program constitute performance criteria.

33. The Fund will complete a midterm review of the program supported under the first annual ESAF arrangement not later than end-April 1997. The review will assess policy implementation and economic performance in light of the program objectives, with particular emphasis on fiscal developments. The completion of the midterm review, together with observance of the end-December 1996 performance criteria, is a condition of the second loan disbursement under the first annual ESAF arrangement.

F. Additional issues

34. The government of Tanzania will provide the Fund with such information as the Fund requests in connection with Tanzania's progress in implementing the economic and financial policies and achieving the objectives of the program.

35. The government believes that the policies and measures set forth in this memorandum are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. During the period of the arrangement, Tanzania will consult with the Fund regarding the adoption of any appropriate measures, at the initiative of the government or whenever the Managing Director of the Fund requests such a consultation. Moreover, after the period of the arrangement, and while Tanzania has outstanding financial obligations to the Fund from loans under that arrangement, Tanzania will consult with the Fund from time to time, at the initiative of the government or whenever the Managing Director requests such consultation on Tanzania's economic and financial policies.

Table 1. Tanzania: Quantitative Benchmarks Under the ESAF Program for 1996/97

	1996			1997	
	June 1/	Sept.	Dec. 2/	March	June
	(In billions of Tanzania shillings)				
Net credit to the Government from the BOT 3/ 4/	91.4	17.1	9.1	-9.0	-16.7
Net domestic financing of the Government 3/ 4/ 5/	...	17.1	9.1	-9.0	-16.7
Net domestic assets of the banking system 3/ 4/	592.8	40.2	39.8	11.3	24.4
	(In millions of U.S. dollars)				
Net international reserves of the Bank of Tanzania 4/	-7.2	74.8	105.9	85.7	66.0
Accumulation of external payments arrears 6/	...	--	--	--	--
Contracting or guaranteeing debt on nonconcessional terms 7/	...	--	--	--	--

1/ Actual stock on June 30, 1996.
2/ Performance criteria.
3/ Cumulative change from July 1, 1996.
4/ These benchmarks and performance criteria will be adjusted to reflect deviations of nonproject foreign grants and loans from the program projections; the program assumes cumulative external financing from July 1, 1996 as follows: US$24.0 million by end-September 1996; US$61.0 million by end-December 1996; US$80 million by end-March 1997; and US$155 million by end-June 1997.
5/ Excluding privatization proceeds.
6/ Continuous. Excluding arrears arising from debt service payments pending the conclusion of debt rescheduling agreements.
7/ Defined as debt with concessionality level of less than 35 percent, calculated using the 10-year average of the OECD's "Commercial Interest Reference Rate" (CIRR)-based discount rate for loans of a maturity greater than 15 years, and the six-month average of CIRR-based discount rates for maturities below 15 years.

Table 2. Tanzania: Fiscal Quantitative Benchmarks Under the ESAF Program for 1996/97

(In billions of Tanzania shillings)

	1996		1997	
	Sept.	Dec.	March	June
Central government recurrent revenue 1/ 2/	120.0	245.0	394.0	553.6
Noninterest government recurrent expenditure 1/	92.1	193.5	302.6	422.5
Of which: wages and salaries 1/	(52.0)	(103.0)	(149.8)	(196.5)

1/ Cumulative from July 1, 1996.
2/ Excluding dividend payments from the Bank of Tanzania and privatization proceeds.

Table 3. Tanzania: Structural Benchmarks Under the ESAF Program for 1996/97

Measures	Timing
Tanzania Revenue Authority (TRA)	
- Harmonization of import taxes between the mainland of Tanzania and Zanzibar.	End-December 1996
Bonded Warehouses	
- An audit of the bonded warehouses to be completed.	End-December 1996
- Monitoring system to be established prior to computerization.	End-December 1996
Value-Added Tax (VAT)	
- VAT legislation to be passed by Parliament.	End-January 1997
- Departmental logistics on staffing, accommodation, equipment, and communication for the introduction of the VAT to be determined.	End-December 1996
- Installation of VAT computerization.	End-March 1997
Civil Service Reform	
- Retrenchment of further 10,000 civil servants 1/	End-December 1996
Budgetary Management	
- Budget ceilings to be issued to Ministries.	End-February 1997
Financial Sector Reform	
- Approve and provide terms of reference to a short list of firms for a review of the NBC restructuring. 1/	End-December 1996
- Restructuring plan for PBZ.	End-December 1996
Parastatal Reform	
- Twenty-five additional enterprises to be removed from government control from July 1-December 31, 1996. 1/	End-December 1996
- An action plan for complete or partial sale of one large public enterprise to be developed.	End-December 1996
Improvements in Economic Data	
- Revised set of national accounts on production side to be published.	End-December 1996
- Revised set of national accounts on expenditure side to be published.	End-March 1997
- Foreign trade statistics using customs data to be published.	End-March 1997

1/ A structural performance criterion.

TANZANIA - Relations with the Fund
(As of September 30, 1996)

I. Membership Status: Joined September 10, 1962 - Article VIII, effective July 15, 1996.

II. General Resources Account:

	SDR million	% Quota
Quota	146.90	100.0
Total Fund holdings of Tanzania shillings	136.93	93.2
Reserve position in Fund	9.98	6.8

III. SDR Department:

	SDR million	% Allocation
Net cumulative allocation	31.37	100.0
Holdings	0.40	1.3

IV. Outstanding Purchases and Loans:

	SDR million	% Quota
SAF Arrangements	37.45	25.5
ESAF Arrangement	85.60	58.3

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ESAF	7/29/91	7/28/94	181.90	85.60
SAF	10/30/87	10/29/90	74.90	74.90
Stand-by	8/28/86	2/27/88	64.20	45.47

VI. Projected Obligations to Fund (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	9/30/96	1996	1997	1998	1999	2000
Principal	--	5.3	22.5	27.8	21.4	19.3
Charges/interest	--	0.6	1.7	1.6	1.5	1.4
Total	--	5.9	24.2	29.4	22.9	20.7

VII. Exchange Rate Arrangement

The exchange rate is determined on the basis of the rate established in the interbank market for foreign exchange. The middle rate in terms of the U.S. dollar, the intervention currency, was T Sh 596.00 per U.S. dollar as of September 30, 1996.

VIII. Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on November 27, 1995 (SM/95/291).

TANZANIA - Relations with the Fund (concluded)

IX. Technical Assistance

A long-term expert from the MAE panel is currently in Tanzania serving as an advisor to the Governor of the Bank of Tanzania with a focus on monetary policy implementation, and a long-term MAE advisor on banking supervision has been at the BOT since October 1994; an MAE accounting expert recently completed his long-term advisory position at the BOT. Two fiscal advisors under the FAD technical assistance program--focusing on improved tax collections and strengthened expenditure control--completed consecutive six-month assignments at the Ministry of Finance during 1994/95.

Recent technical assistance missions from the Fund have covered:

(a) FAD: (i) a mission that reviewed public expenditure management (August 1992); (ii) two missions that assisted in the design of a value-added tax (December 1992 and April 1994); (iii) a follow-up seminar on public expenditure management; and (iv) a mission that advised on tax reforms for the 1995/96 budget (March/April 1995).

(b) INST: a regional seminar on financial programming;

(c) LEG: LEG and MAE staff visits dealt with Bank of Tanzania restructuring issues in March and April 1994;

(d) MAE: (i) a mission that assisted in the development of monetary policy instruments (May 1993); (ii) a mission that reviewed the operations of the foreign exchange and treasury bill auctions and of the various monetary instruments, bank supervision and payments system issues, the draft of the new Bank of Tanzania Act, and the organizational structure of the Bank of Tanzania (November 1993); (iii) a mission in October 1994, which was concerned principally with the development of a domestic government debt market, and follow-up to the mission in November 1993; (iv) three visits by an expert in 1994 to design the interbank foreign exchange market; (v) a four-week MAE expert in June 1995, which was focused on bank restructuring; and (vi) a mission, in the first half of February 1996, focused on money market developments and monetary operations, the foreign exchange market, the payments system, and bank supervision and rehabilitation issues.

(e) STA: (i) a multitopic mission that reviewed monetary, balance of payments, and price statistics (March 1992); (ii) a mission in August 1994 related to the national accounts; (iii) missions in July 1994 and July 1995 related to monetary statistics; (iv) missions in March 1995 and July 1996 related to price statistics; and (v) missions in July 1995 and July 1996 related to balance of payments statistics.

X. Resident Representative: Mr. Festus L. Osunsade assumed his position as Senior Resident Representative in August 1995.

TANZANIA - Relations with the World Bank Group
(As of September 30, 1996)

1. Relations

Tanzania joined the World Bank Group in 1962. Beginning with an IDA credit for education in 1963, a total of 100 IDA credits and 27 Bank loans, amounting to US$3,258.06 million (US$2,902.46 million from IDA and US$355.6 million from IBRD) has so far been approved for Tanzania (original principal less cancellations). Of the 27 loans, 8 loans amounting to US$42.5 million were extended to Tanzania through the East African Community. Total disbursements amounted to US$2,465.92 million as of September 30, 1996 (US$2,110.37 million from IDA and US$355.55 million from IBRD). IFC investments in Tanzania, totaling US$67.83 million (as of August 31, 1996), have been made for sugar, sisal, soap, metal products, agricultural products, tea, and tourism.

Consistent with the Government's strategy of greater reliance on the private sector for the production of goods and services, recent lending has emphasized infrastructure, social services, and capacity building, with the aim of enhancing growth and easing the process of market liberalization and with a distinct focus on poverty reduction. In infrastructure, along with projects in power, ports, railways, telecommunications and urban infrastructure, Integrated Roads Projects I and II are contributing to the process of reversing the deterioration of the road network. In the social sector, both the Health and Nutrition Project and the Education Planning and Rehabilitation Project are designed to improve service delivery at the primary level and have components targeted at poor districts and communities. In the agriculture and environment sector, Bank-funded projects are supporting the restructuring of the Ministry of Agriculture, agricultural research, and extension services. A Forest Resources Management Project is supporting improved management of woodlands and natural resources as well as assisting in the formulation of land tenure legislation and the strengthening of the Land Registry. A mining sector project is assisting small scale artisan miners while minimizing environmental hazards and degradation. The Financial and Legal Management Upgrading Project and Parastatal and Public Sector Reform Project are providing technical assistance to strengthen government management and to improve the enabling environment for private sector development. IDA has also provided substantial resources as quick-disbursing adjustment lending in support of the Government's reform program through a Multisector Rehabilitation Credit, an Industrial Rehabilitation and Trade Adjustment Credit, an Agricultural Adjustment operation, and a Financial Sector Adjustment Credit.

2. Future lending program

The lending program will follow a three-track approach, comprising (i) quick-disbursing policy-based lending operations in support of the policy and institutional reform program now under way; (ii) high priority specific investments, particularly those focused on rehabilitation of key sectors, including infrastructure and social services; and (iii) institutional development operations.

TANZANIA - STATUS OF WORLD BANK GROUP OPERATIONS (continued)

A. Statement of Bank Loans and IDA Credits
(As of September 30, 1996)

(Amounts, less cancellations; in millions of U.S. dollars)

Fiscal year	Purpose	World Bank	IDA	Undis-bursed
Twenty-seven loans and seventy five credits closed		355.55	1,703.01	21.89
Of which: SECALs, SALs, and Program Loans/Credits:			(795.42)	
1989	National Agricultural and Livestock Research		8.30	1.74
1989	Agricultural Extension		18.40	0.79
1990	Ports Modernization		37.00	16.04
1990	Health and Nutrition		47.60	29.91
1990	Education, Planning, and Rehabilitation		38.30	20.71
1990	Roads I		180.40	59.93
1991	Petroleum Rehabilitation		44.00	41.78
1991	Railways Restructuring		76.00	53.66
1992	Urban Sector Engineering		11.20	1.47
1992	Forest Resources Management		18.30	8.97
1993	Financial and Legal Management		20.00	11.18
1993	Telecom III		74.45	54.23
1993	Power VI		200.00	106.00
1993	Private and Public Sector Management		34.90	19.81
1994	Agricultural Sector Management Project		24.50	14.70
1994	Roads II		170.20	160.12
1995	Mineral Sector Development		12.50	10.22
1996	Financial Institutions Development		10.90	9.09
1996*	Urban Sector		105.00	104.34
1997*	National Ext. Project Phase II		31.10	31.03
1997*	River Basin Managment Small		26.30	26.27
1997*	Lake Victoria Env.		10.10	10.10
	Total	355.55	2,902.46	792.09
	Of which: repaid	(304.66)	(95.26)	
	Total held by Bank and IDA	50.89	2,807.20	
	Amount sold 6.29			
	Of which: repaid (6.29)			
	Total undisbursed			813.98

* Not yet signed.

TANZANIA - STATUS of WORLD BANK GROUP OPERATIONS (concluded)

B. Statement of IFC Investments
(As of August 31, 1996)

(In millions of U.S. dollars)

			Original gross commitments						
Fiscal Years	Obligor	Type of Business	IFC Loan	IFC Equity	Ptpnt.	Totals	Held by IFC	Held by Ptpnt.	Undisb. incl. Ptpnt.
1960	Kilombero Sugar Company Ltd. a/	Food and Agribusiness	4.66			4.66			
1978	Highland Soap and Allied Products a/	Manufacturing	1.38	0.37		1.75			
1979	Metal Products Ltd. a/	Manufacturing	1.33	0.18		1.51			
1985	Amboni Limited a/	Food and Agribusiness	4.38		0.99	5.37			
1990	Tanganyika Sisal Spinning Co.	Food and Agribusiness	2.00			2.00	0.88		
1991	Mufindi Tea Company Ltd.	Food and Agribusiness	2.80			2.80	1.30		
1994	Nomad Safaris (Tanzania) Ltd.	Hotels and Tourism	0.15			0.15	0.15		
1994	Tourism Promotion Ser. (Tanzania)	Hotels and Tourism	8.04	1.06		9.10	9.10		0.19
1994/96	Tanganyika Bus Services Company	Industrial & Consumer Ser	0.75			0.75	0.58		0.50
1995	Moshi Leather Industries Ltd.	Manufacturing		0.25		0.25	0.25		0.06
1995	Raffia Bags Tanzania Ltd.	Manufacturing	0.50			0.50	0.50		
1995	Tanzania Breeders and Feedmills Ltd.	Food and Agribusiness	1.00			1.00	1.00		
1995	Tanzania Breweries Ltd.	Food and Agribusiness	11.00	6.00	7.40	24.40	17.00	7.40	18.40
1995	Tanzania Leather Industries Ltd.	Manufacturing	1.00			1.00	1.00		1.00
1995	Tourism Promotion Ser. (Zanzibar)	Hotels and Tourism	1.25	0.16		1.41	1.41		0.86
1996	Abercrombie & Kent Tanzania	Hotels and Tourism	0.45			0.45	0.45		0.45
1996	Eurafrican Bank (Tanzania) Ltd.	Financial Services	3.00	0.73	5.00	8.73	3.73		3.00
1996	MIC Tanzania Ltd.	Infrastructure	1.00			1.00	1.00		
1996	Zainab Grain Millers Ltd.	Food and Agriculture	1.00			1.00	1.00		
	Total gross commitments b/		45.69	8.75	13.39	67.83			
	Less: Cancellations, terminations, repayments, and sales		14.54	0.55	5.99	21.08			
	Total commitments now held c/		31.15	8.20	7.40	46.75	39.35	7.40	24.46
	Pending commitments:								
	AEF Continental		0.40			0.40			
	AEF Milcafe		0.35			0.35			
	AEF-One Earth		0.70			0.70			
	AEF-Tradeco		0.93			0.93			
	Eurafrican Bank (Tanzania) Limit Financial Services				5.00	5.00			
	IHP		1.65	0.60		2.25			
	ULC Leasing		5.00	0.97		5.97			
	Total pending commitments		9.03	1.57	5.00	15.60			
	Total commitments field and pending commitments		40.18	9.77	12.40	62.35			
	Total undisbursed commitments		16.81	0.25	7.40	24.46			

Source. World Bank.

a/ Investments which have been fully canceled, terminated, written-off, sold, redeemed, or repaid.
b/ Gross commitments consist of approved and signed projects.
c/ Held commitments consist of disbursed and undisbursed investments.

TANZANIA - Sustainability of External Debt 1/

1. Introduction

This appendix extends the medium-term balance of payments analysis presented in Section III.2 by covering the longer-term period up to 2015/16, and discusses in greater detail Tanzania's external debt sustainability over the medium and long term. It also presents the sensitivity of the baseline analysis to changes in key variables, including external shocks. The longer-term projections provided in this appendix support the conclusion that, if Tanzania continues to borrow on highly concessional terms (see below), while implementing sound adjustment policies, its external debt burden would decline over the projection period to a manageable level conducive to the maintenance of high rates of growth. This assessment is shared by the World Bank staff.

2. External debt, debt service burden, and concessionality

At the end of 1995, Tanzania's medium- and long-term external debt (including obligations to the Fund) amounted to US$6.3 billion. 2/ About 50 percent of this debt was owed to bilateral official creditors, 40 percent to multilateral creditors, 3 percent to the Fund, and the remaining 7 percent to private financial institutions and suppliers (Table 1). The main multilateral creditor is the IDA, which was owed US$2.2 billion, about 35 percent of the total debt (or about 75 percent of Tanzania's total multilateral debt). Tanzania's total scheduled external debt service payments for 1995/96 as estimated to be US$490 million, or about 40 percent of exports of goods and services. 3/ As arrears were accumulated, actual debt service payments in 1995/96 are estimated to be about only 17 percent of exports of goods and services. Debt service to multilateral institutions amounted to US$115.2 million, or 9.6 percent of exports of goods and services, in 1995/96 (Table 2).

1/ The analysis presented in this appendix is based on external debt data provided by the World Bank's Debt Reporting System (DRS). The staffs of the Fund and the World Bank have been working closely with the Tanzanian authorities to improve the quality of Tanzania's external debt data, and substantial progress has been made in reconciling the differences in the data sets maintained by the World Bank's DRS and the External Debt Division of the Bank of Tanzania (BOT). While reconciliation of the two sets is still continuing, the differences between the two sets are small and are manageable; these differences arise from technical difficulties experienced by the Tanzanian authorities rather than from differences in the basic debt data.

2/ Including interest arrears on medium- and long-term debts, total external debt at end-1995 amounted to US$7.3 billion.

3/ The export figures used do not include estimates for "unrecorded exports" that are part of private transfers in the balance of payments.

In recent years, Tanzania has been borrowing on very concessional terms. During 1991-95, the terms on new commitments averaged as follows: interest rate of 1.3 percent per annum, repayment period of 36 years, grace period of 9 years, and a grant element of about 70 percent.

3. Long-term projections

The main assumptions for the baseline scenario of the balance of payments and the debt sustainability analysis are as follows:

(i) an annual real GDP growth rate of 5.7 percent for 1996/97-1998/99, and 6 percent for 1999/2000-2015/16;

(ii) an average real export growth rate of 7.4 percent for 1996/97-1998/99, and 4.6 percent for the period 1999/2000-2015/16 (the higher figure for the earlier period representing recovery from drought-induced sharp declines in the volume of traditional exports);

(iii) an import elasticity of 1.1 for oil imports and 1.0 for non-oil imports (higher than the average over recent years);

(iv) Tanzania's terms of trade--which have been projected to decline by an annual average of 1.7 percent a year during 1996/97-1998/99--are assumed to remain basically unchanged from 1999/2000 onward;

(v) disbursements of official grants and loans are assumed to remain unchanged in real terms over 1996/97-1998/99; this is consistent with projections of disbursements for project and program loans in the pipeline, while disbursements from 1999/2000 onward are assumed to increase by an average of 4.5 percent a year in nominal terms, resulting in declines in such disbursements from 15 percent of GDP in 1996/97 to 7 percent by 2015/16;

(vi) gross official international reserves are targeted to increase gradually to the equivalent of 14.3 weeks of imports by 1998/99, averaging the equivalent of 12.0 weeks of imports throughout the projection period; and

(vii) any new financing, either in the form of a residual gap after debt relief or disbursements from new commitments, is assumed to be on highly concessional terms as in recent years (interest rate of about 2 percent per annum, grace period of 9 years, and repayment period of 36 years).

Given these assumptions, following three flow reschedulings during 1996/97-1998/99 and the stock-of-debt operations at end-1998/99 (end of the ESAF period), all on Naples terms involving a 67 percent reduction in NPV terms, and assuming a continuation of appropriate policy reforms, the projections indicate that Tanzania's external current account deficit, which was about 21 percent in 1994/95, would decline to 13 percent by 1998/99. This would reflect the impact, inter alia, of continued good performance of exports, moderate growth in imports stemming from adjustment efforts during the ESAF period, and reduced interest payments that are due to the winding down of the 1986 rescheduling, which was on nonconcessional terms. During 1999/2000-2015/16, the external current account deficit would decline further from an annual average of 13.5 percent of GDP during 1996/97-2000/01 to an average of 10.6 percent of GDP during 2011/12-2015/16 (Table 3).

The projection shows that Tanzania will need exceptional financial assistance amounting to US$3.1 billion during 1996/97-1998/99, of which a major portion was assumed to be covered by debt relief from Paris Club creditors on Naples terms involving a 67 percent reduction in net present value (NPV) of the debt, debt relief on comparable terms from other official bilateral creditors, and by a debt buy-back operation involving commercial debt. Beyond 1998/99, some financing gaps, albeit at reduced levels, remain but could be fully covered by the stock-of-debt operation at end-1998/99. As a result, and since Tanzania is expected to meet its borrowing requirements on concessional terms throughout the projection period, Tanzania's external debt service ratio is projected to decline sharply from the equivalent of 40.5 percent of exports of goods and services in 1995/96 to 24.0 percent in 1998/99, and further to 16.3 percent in 2000/01. The external debt/GDP ratio is forecast to decline from 144 percent in 1995/96 to about 100 percent in 1998/99, and to 85 percent by 2000/01. In NPV terms, Tanzania's external debt, which was estimated to be equivalent to about 482 percent of exports of goods and services at the end of 1995/96, is projected to decline to 215 percent at the end of 1998/99, reflecting the application of Naples terms involving a 67 percent reduction in NPV terms for the three flow rescheduling during 1996/97-1998/99 and the stock-of-debt operations at the end of 1998/99, and to decline further to 184 percent at the end of 2000/01.

In the longer term, as Tanzania is expected to continue borrowing on highly concessional terms and to implement sound macroeconomic and structural measures, the projections indicate that the external debt service, which averaged the equivalent of 25 percent of exports of goods and services during 1996/97-2000/01, is forecast to decline to an average of about 11 percent during 2011/12-2015/16. The NPV of its external debt would also decline from an annual average of 225 percent of exports of goods and services during 1996/97-2000/01 to an annual average of about 103 percent during 2011/12-2015/16.

In sum, the baseline projections of the longer-term balance of payments and analysis of the external debt burden indicate that Tanzania would move steadily to a sustainable external debt position within five years following three flow reschedulings during 1996/97-1998/99 and a stock-of-debt operation at the end of 1998/99 on Naples terms involving a 67 percent reduction in NPV terms. This scenario is, however, predicated on the expectation that Tanzania would implement sound macroeconomic and structural measures to encourage domestic savings to support investment levels required for sustainable rates of growth, and on the premise that Tanzania would borrow only on highly concessional terms. The projected external debt position is also dependent on continued donor support, albeit at a reduced rate.

4. Sensitivity analysis

The sustainability of Tanzania's external debt as presented above in the baseline scenario depends, inter alia, on the performance of exports and the policy of borrowing in the future on highly concessional terms. To assess the sensitivity of Tanzania's external debt position to the assumptions of export volume growth and the terms of new borrowings in the baseline scenario, two alternative cases are considered.

The first alternative, Scenario A analyzes the impact of reducing export volume growth of both traditional and nontraditional exports of goods as well as export volume growth of services by 2 percentage points during 1997/98-1998/99 and by 1 percentage point during 1999/2000-2015/16. Under this scenario, since it is assumed that the gross reserves targets would remain as in the baseline scenario, financing gaps would result throughout the projection period. It is assumed that these additional financing needs are met with borrowings on terms as in the baseline scenario. As a result, Tanzania's external current account deficits would deteriorate as compared with those under the baseline scenario, and its external debt burden would be higher than that under the baseline scenario but would still decline significantly during the projection period. In particular, the external debt service ratio would decline from about 40.5 percent of exports of goods and services in 1995/96 to 17.4 percent in 2000/01, and average about 17 percent a year during 2011/12-2015/16. The stock of external debt would decline to 88 percent of GDP in 2000/01, and to an annual average of about 86 percent during 2011/12-2015/16. In NPV terms, the stock of external debt would decline to 198 percent by 2000/01, and to an annual average of 144 percent a year during 2011/12-2015/16.

The second alternative, Scenario B combines the effect of reducing projected export volumes (as in Scenario A), and of increasing the interest rate on new borrowings required to finance the additional gaps resulting from reduced export earnings from the level assumed in the baseline scenario. This scenario is consistent with the presumption that Tanzania may not be able to obtain the financing it needs on highly concessional terms as in the past in view of the limited availability of concessional resources and the intense competition among recipients for such financing. The conclusions of this scenario do not differ from those of the first alternative Scenario A. Higher external current account deficits and financing gaps than under the baseline and Scenario A would result throughout the projection period, but Tanzania's external debt burden would not deteriorate significantly from that under Scenario A. In particular, the external debt-service ratio would still decline to about 18 percent of exports of goods and services and the debt stock to 90 percent of GDP by 2000/01. These ratios would average about 20 percent and 90 percent, respectively, during 2011/12-2015/16. In NPV terms, the debt stock would decline to the equivalent of 198 percent of exports of goods and services by 2000/01, and to an annual average of about 150 percent by 2011/12-2015/16.

5. Conclusion

Tanzania's external debt burden is forecast to decline substantially and reach a manageable level within five years, ending in 2000/01. This outcome is supported by the conclusions reached in all the scenarios, including the two alternative scenarios, which were based on less favorable assumptions. In all the scenarios, the debt service ratio would decline to less than 20 percent of exports of goods and services and the NPV of the debt stock, to less than 200 percent of exports of goods and services before 2000/01. This outcome, however, assumes that Tanzania would implement sound macroeconomic and structural measures to encourage savings and investment to sustain real GDP growth rate of at least 5 percent during the projection period. It also depends on Tanzania following a prudent borrowing policy--that is, borrowing only on highly concessional terms, while loans previously contracted on commercial or less concessional terms are reduced significantly through concessional debt relief and debt buy-back operations--and continued donor support for Tanzania's macroeconomic and structural adjustment programs.

Table 1. Tanzania: Medium- and Long-Term External Debt Outstanding, 1990-95

(In millions of US dollars; end of period)

Creditors	1990	1991	1992	1993	1994	1995
Bilateral	3,145.2	3,009.2	2,977.4	2,847.5	2,915.0	2,849.4
(percent share)	50.1	47.1	45.9	42.9	41.2	39.1
Of which:						
Belgium	(138.5)	(150.9)	(128.4)	(148.3)	(160.3)	(170.8)
China	(186.7)	(181.0)	(171.1)	(163.1)	(131.3)	(133.3)
France	(205.0)	(206.9)	(201.2)	(155.3)	(158.8)	(173.2)
Italy	(310.0)	(330.4)	(207.2)	(198.8)	(213.1)	(133.1)
Japan	(330.3)	(347.5)	(470.7)	(529.1)	(587.9)	(566.6)
U.K.	(340.9)	(327.9)	(318.4)	(294.0)	(306.6)	(308.2)
Russian Federation 1/	(497.9)	(497.9)	(497.9)	(497.9)	(497.9)	(497.9)
Multilateral	1,995.7	2,172.3	2,310.7	2,433.7	2,666.7	2,867.6
(percent share)	31.8	34.0	35.6	36.6	37.6	39.3
Of which:						
African Development Fund	(253.5)	(280.8)	(269.4)	(282.1)	(297.2)	(337.9)
IBRD	(242.5)	(207.7)	(170.8)	(139.5)	(114.4)	(86.7)
IDA	(1,250.3)	(1,433.6)	(1,618.3)	(1,759.0)	(1,997.9)	(2,182.4)
Suppliers' credits	317.0	305.8	211.8	221.8	218.2	207.5
(percent share)	5.1	4.8	3.3	3.3	3.1	2.8
Financial institutions	67.8	59.9	46.4	47.6	62.8	66.8
(percent share)	1.1	1.0	0.7	0.8	1.0	1.1
Export credits	88.3	87.3	114.2	108.8	102.2	94.3
(percent share)	1.4	1.4	1.8	1.6	1.4	1.3
Sub-total	5,613.9	5,634.6	5,660.5	5,659.5	5,964.9	6,085.5
(percent share)	89.5	88.2	87.3	85.2	84.2	83.5
IMF	140.0	143.3	220.7	214.6	212.4	197.3
(percent share)	2.2	2.2	3.4	3.2	3.0	2.7
Other 2/	521.0	611.0	602.0	769.0	906.0	1,007.0
(percent share)	8.3	9.6	9.3	11.6	12.8	13.8
Total	6,274.9	6,388.9	6,483.2	6,643.1	7,083.3	7,289.8
Memorandum items:						
Average terms of commitments						
Interest rate (in percent)	1.2	1.4	1.1	1.9	1.1	1.0
Maturity (in years)	34.3	38.4	33.2	35.7	35.2	35.1
Grace period (in years)	9.3	10.7	6.9	8.7	9.4	8.7
Grant element 3/	71.5	74.1	64.3	68.0	74.0	73.8

Sources: The World Bank's Debt Reporting System (DRS); and data from the IMF's IFS.

1/ The old exchange rate of the ruble (0.6 ruble to a US$1) is used to estimate this debt.
2/ These are basically outstanding interest arrears at end-1995 on medium- and long-term debts.
3/ Calculated by the World Bank's DRS system.

Table 2. Tanzania: External Debt Service and External Debt, 1993/94-2015/16

(In millions of U.S. dollars, unless otherwise stated)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	1996/97-2000/01	2001/02-2005/06	2006/07-2010/11	2011/12-2015/16
		Estimates				Projections				Average		
1. Debt service on outstanding debt at end-1995 1/ 2/	515.1	461.7	466.2	399.0	318.4	279.0	274.9	275.4	309.3	228.6	194.3	176.7
Principal	361.3	322.3	340.7	293.5	225.3	193.2	196.2	204.1	222.5	175.8	159.5	155.6
Interest	153.8	139.4	125.5	105.5	93.0	85.8	78.8	71.3	86.9	52.8	34.7	21.0
2. Debt service on additional disbursements (1997/98-) 3/	--	--	--	--	--	1.6	5.8	11.9	3.9	37.0	96.7	344.2
Principal	--	--	--	--	--	--	--	--	--	--	10.9	215.6
Interest	--	--	--	--	--	1.6	5.8	11.9	3.9	37.0	85.8	128.6
3. Debt service on gap fill (1996/97-1998/99) 4/	--	--	--	34.2	73.2	77.0	64.9	69.8	63.8	39.8	83.3	148.6
Principal	--	--	--	--	--	--	--	--	--	-38.8	4.5	83.2
Interest	--	--	--	34.2	73.2	77.0	64.9	69.8	63.8	78.7	78.8	65.5
4. Total debt service (excluding IMF)	515.1	461.7	466.2	433.2	391.6	357.6	345.6	357.0	377.0	305.4	374.2	669.5
Principal	361.3	322.3	340.7	293.5	225.3	193.2	196.2	204.1	222.5	137.0	174.9	454.4
Interest	153.8	139.4	125.5	139.7	166.2	164.4	149.5	152.9	154.5	168.5	199.3	215.1
5. Debt service to IMF	13.5	18.8	25.7	28.5	45.7	39.2	34.4	31.5	35.8	44.0	6.0	--
Principal	10.5	15.9	22.3	25.1	42.4	36.1	31.4	28.7	32.7	41.9	6.0	--
Interest	3.0	2.9	3.3	3.4	3.4	3.1	2.9	2.8	3.1	2.1	--	--
7. Total debt service (including IMF)	528.6	480.4	491.9	461.7	437.3	396.8	380.0	388.5	412.9	349.4	380.3	669.5
Principal	371.8	338.2	363.1	318.6	267.7	229.3	227.6	232.8	255.2	178.8	180.9	454.4
Interest	156.8	142.2	128.9	143.1	169.6	167.5	152.4	155.7	157.6	170.5	199.3	215.1
9. Total debt service ratio 5/												
Before rescheduling	61.5	43.3	40.5	34.7	29.5	24.0	18.0	16.3	24.5	13.3	9.4	10.9
After rescheduling	22.2	...	...	...	...	...	...	...	...	...	...	...
Memorandum items:												
Exports of goods and services 6/	854.7	1,104.1	1,205.5	1,322.4	1,467.2	1,636.8	1,793.3	1,965.7	1,637.1	2,150.7	3,240.9	4,781.7
Debts service to multilaterals (excluding the Fund)												
Amount	91.0	113.5	115.2	96.5	94.2	95.7	103.5	115.9	101.1	158.6	196.2	364.8
Debt service ratio 5/	10.6	10.3	9.6	7.3	6.4	5.8	5.8	5.9	6.2	7.4	6.1	7.6
External debt outstanding 7/	6,868.2	7,201.6	7,409.5	6,012.0	6,193.4	6,414.7	6,197.1	6,420.9	6,247.6	7,287.3	9,324.9	11,816.7
IMF	218.6	219.9	180.7	233.7	270.0	320.4	289.4	260.9	274.9	138.5	4.9	--
Other	6,649.7	6,981.7	7,228.8	5,778.3	5,923.5	6,094.3	5,907.8	6,159.9	5,972.7	7,148.8	9,320.0	11,816.7
Net present value (NVP) of external debt												
In percent of exports of goods and services 6/ 8/	...	...	482.3	285.6	246.4	214.7	195.4	184.0	225.2	160.3	130.6	102.7
Debt service to IMF 5/	1.6	1.7	2.1	2.2	3.1	2.4	1.9	1.6	2.2	2.0	0.2	--

Sources: The World Bank's Debt Reporting System (DRS); International Financial Statistics; and staff estimates and projections.

1/ Excluding obligations to the Fund.
2/ Includes debt service on disbursements during 1996/97-1998/99 from the pipeline.
3/ Debt service on disbursements from new commitments.
4/ Debt service on debt relief (including impact of a stock-of-debt operation at end-1998/99), and additional disbursements that may be necessary to fill gaps given reserve targets.
5/ In percent of exports of goods and services.
6/ Exports do not include part of "private transfers" that are estimates for unrecorded exports.
7/ The decline in the stock of debt at end-June 1997 reflects the assumed debt relief on Naples terms involving a 67 percent reduction in NPV terms on arrears of US $ 2.3 billion outstanding at end-June, 1996; these arrears were in the stock of debt at end-June, 1996.
8/ The NPV of debt is calculated using a discount rate of 7.5 percent from external debt data obtained from the World Bank's DRS; the data are provided in U.S. dollar terms rather than in currencies in which the various loans are denominated.

Table 3. Tanzania: Summary of External Debt Indicators, 1993/94-2015/16

(In percent, unless otherwise stated)

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	1996/97-2000/01	2001/02-2005/06	2006/07-2010/11	2011/12-2015/16
		Estimates				Projections				Average		
Baseline Scenario 1/												
External debt (including IMF) service ratio 2/	61.5	43.3	40.5	34.7	29.5	24.0	18.0	16.3	24.5	13.3	9.4	10.9
External debt (including IMF)/GDP ratio	194.7	171.8	143.7	108.4	105.3	100.5	89.4	85.4	97.8	75.7	64.2	54.1
Ratio of net present value of external debt to current-year exports of goods and services ratio 2/ 3/	...	524.9	482.3	285.6	246.4	214.7	195.4	184.0	225.2	160.3	130.6	102.7
External current account (excluding government transfers)/GDP	-30.5	-20.6	-16.2	-15.2	-14.2	-13.3	-12.8	-12.3	-13.5	-11.4	-10.9	-10.6
Gross official international reserves (in weeks of imports)	10.0	8.8	8.1	9.9	11.8	14.3	12.4	12.0	12.1	12.0	12.0	12.0
Financing gaps (in millions of U.S. dollars)	--	--	--	2,636.0	253.6	228.1	--	--	623.5	--	--	--
Alternative Scenario A 1/												
External debt (including IMF) service ratio 2/	61.5	43.3	40.5	34.9	30.4	25.3	18.7	17.4	25.3	15.6	12.9	17.2
External debt (including IMF)/GDP ratio	194.7	171.8	143.7	108.4	105.9	102.1	90.9	88.2	99.1	84.0	83.7	86.3
Ratio of net present value of external debt to current-year exports of goods and services ratio 2/ 3/	...	524.9	482.3	285.6	251.0	223.6	206.9	198.3	233.1	170.5	152.4	144.3
External current account (excluding government transfers)/GDP	-30.5	-20.6	-16.2	-15.2	-14.7	-14.3	-13.9	-13.8	-14.4	-13.8	-14.6	-15.5
Gross official international reserves (in weeks of imports)	10.0	8.8	8.1	9.9	11.8	14.3	12.4	12.0	12.1	12.0	12.0	12.0
Financing gaps (in millions of U.S. dollars)	--	--	--	2,636.6	288.1	294.0	77.7	110.6	681.4	238.2	559.2	1,145.0
Alternative Scenario B 1/												
External debt (including IMF) service ratio 2/	61.5	43.3	40.5	34.9	30.5	25.4	18.9	17.8	25.5	16.4	14.9	20.5
External debt (including IMF)/GDP ratio	194.7	171.8	143.7	108.4	105.9	102.1	90.9	88.3	99.1	84.5	85.7	90.3
Ratio of net present value of external debt to current-year exports of goods and services ratio 2/ 3/	...	524.9	482.3	285.6	251.0	223.6	207.0	198.4	233.1	171.0	154.3	148.9
External current account (excluding government transfers)/GDP	-30.5	-20.6	-16.2	-15.2	-14.8	-14.3	-14.0	-13.9	-14.4	-14.0	-15.1	-16.2
Gross official international reserves (in weeks of imports)	10.0	8.8	8.1	9.9	11.8	14.3	12.4	12.0	12.1	12.0	12.0	12.0
Financing gaps (in millions of U.S. dollars)	--	--	--	2,636.0	288.8	296.2	81.5	116.9	684.0	258.9	628.1	1,306.7

Sources: Data provided by the Tanzanian authorities; the World Bank's Debt Reporting System (DRS); and staff estimates and projections.

1/ Includes impact of three-flow reschedulings during 1996/97-1998/98 and a stock-of-debt operations at end-June, 1999 all involving a 67 percent reduction in net present value (NPV) terms.
2/ In percent of exports of goods and services; estimates for unrecorded exports embodied in "private transfers" are not included.
3/ The NPV of debt is calculated using a discount rate of 7.5 percent from the external debt data obtained from the World Bank's DRS; the data are provided in U.S. dollar terms rather than in the currencies in which the loans are denominated.

Table 4. Tanzania: Debt Indicators, 1994/95-2015/16

(In percent, unless otherwise indicated)

	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Debt and Debt Service Indicators 1/													
Debt service ratio 2/	43.3	40.5	34.7	29.5	24.0	18.0	16.3	15.4	13.9	13.1	12.5	11.8	10.7
before restructuring (scheduled)	43.3	40.5	46.4	37.5	30.9	28.0	25.7	33.6	29.2	26.0	23.2	20.8	18.3
Multilateral debt service ratio 2/	10.3	9.6	7.3	6.4	5.8	5.8	5.9	...	...	...	...	...	...
Public sector debt service ratio (scheduled)													
as percent of revenue (excluding grants)	59.8	48.4	39.7	32.2	25.9	19.6	18.0	17.7	16.9	15.7	15.0	14.1	12.7
as percent of expenditures	40.6	36.4	34.5	28.8	24.2	18.2	16.8	16.4	15.7	14.6	14.0	13.1	11.8
NPV debt-export ratio 3/ 4/	524.9	482.3	285.6	246.4	214.7	195.4	184.0	175.1	167.4	159.9	152.7	146.2	139.9
before restructuring (scheduled)	524.9	482.3	437.5	382.7	337.7	308.0	283.3	262.2	234.2	209.1	186.8	167.7	150.8
Debt-GDP ratio (after restructuring)	171.8	143.7	108.0	104.2	98.8	87.5	83.2	79.4	76.3	73.5	70.9	68.5	66.5
Multilateral debt-GDP ratio	66.0	56.9	56.5	56.8	54.2	...	...	...	...	...	...	...	...
Key Assumptions 1/													
Real GDP growth	3.8	4.5	5.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0
Export volume growth	12.2	4.0	9.5	8.1	7.8	6.3	6.4	6.4	6.0	6.0	6.0	5.6	5.7
Import volume growth	16.6	0.2	4.0	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
Terms of trade (percent change)	27.1	-5.5	-4.1	-0.7	-0.2	--	--	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Noninterest current account (percent of GDP) excluding official transfers	-17.2	-13.8	-12.6	-11.4	-10.7	-10.5	-10.2	-9.9	-9.8	-9.7	-9.6	-9.5	-9.5
Net official transfers (percent change in U.S. dollar terms)	-17.1	-2.8	2.3	4.3	4.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Gross official transfers (in weeks of imports)	8.8	8.1	9.9	11.8	14.3	12.4	12.0	12.0	12.4	12.9	13.4	14.0	14.8
Financing gaps (percent of GDP)	--	--	47.5	4.3	3.6	--	--	--	--	--	--	--	--
Sensitivity Analysis 1/													
Debt service ratio in the event of:													
Lower export growth 5/	43.3	40.5	34.9	30.4	25.3	18.7	17.4	17.0	15.8	15.5	15.1	14.6	13.6
Less favorable financing 6/	43.3	40.5	34.9	30.5	25.4	18.9	17.8	17.5	16.5	16.3	16.1	15.8	15.1

Sources: The World Bank's Debt Reporting System (DRS); and staff estimates and projections.

1/ Assumes flow reschedulings during 1996/97-98/99 and a stock-of-debt operation at end-1998/99 on Naples terms involving a 67 percent reduction in net present value (NPV) terms.
2/ Contractual.
3/ Exports of goods and services; exports do not include estimates for unrecorded exports.
4/ The NPV of debt is calculated using a 7.5 percent discount rate from the World Bank's DRS; the data are provided in U.S. dollar terms rather than in the currencies in which the loans are denominated.
5/ Export volume growth reduced by 2 percentage points during 1997/98-1998/99, and by 1 percentage point thereafter.
6/ Interest rate on new borrowings to close financing gaps are raised by 2 percentage points from the level in the baseline scenario.

Table 4 (concluded). Tanzania: Debt Indicators, 1994/95-2015/16

(In percent, unless otherwise indicated)

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	1996/97-2000/01	2001/02-2005/06	2006/07-2010/11	2011/12-2015/16
										Average			
Debt and Debt Service Indicators 1/													
Debt service ratio 2/	9.3	9.1	9.1	9.0	9.4	10.1	11.0	11.6	12.3	24.5	13.3	9.4	10.9
before restructuring (scheduled)	15.7	14.4	13.4	12.5	7.7	8.3	9.0	9.7	10.5	33.7	26.6	14.9	9.1
Multilateral debt service ratio 2/	...	...	...	...	...	...	...	...	...	6.2	7.4	6.1	7.6
Public sector debt service ratio (scheduled)													
as percent of revenue (excluding grants)	11.6	11.2	11.2	11.1	11.5	12.3	13.4	14.0	14.8	27.1	15.9	11.6	13.2
as percent of expenditures	10.8	10.5	10.4	10.3	10.7	11.4	12.4	13.0	13.8	24.5	14.8	10.8	12.3
NPV debt-export ratio 3/ 4/	134.3	130.4	126.4	122.2	117.6	112.0	105.8	94.8	83.4	225.2	160.3	130.6	102.7
before restructuring (scheduled)	136.4	125.0	114.9	105.7	97.2	93.6	89.6	81.1	72.1	349.9	212.0	126.6	86.7
Debt-GDP ratio (after restructuring)	64.8	63.2	61.6	60.0	58.2	56.3	54.2	51.8	49.3	96.3	73.7	63.2	54.0
Multilateral debt-GDP ratio	...	...	...	...	...	...	...	...	...	...	...	...	...
Key Assumptions 1/													
Real GDP growth	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.8	6.0	6.0	6.0
Export volume growth	5.7	5.2	5.3	5.3	5.3	5.3	5.4	5.6	5.7	7.6	6.0	5.4	5.5
Import volume growth	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.6	4.8	4.8	4.8
Terms of trade (percent change)	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-1.0	-0.1	-0.1	-0.1
Noninterest current account (percent of GDP) excluding official transfers	-9.5	-9.6	-9.6	-9.7	-9.8	-9.8	-9.9	-9.6	-9.1	-11.1	-9.7	-9.6	-9.7
Net official transfers (percent change in U.S. dollar terms)	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	3.1	2.3	2.3	2.3
Gross official transfers (in weeks of imports)	16.2	17.4	18.4	19.4	20.3	21.1	21.9	24.0	27.0	12.1	13.0	17.2	22.9
Financing gaps (percent of GDP)	--	--	--	--	--	--	--	--	--	11.1	--	--	--
Sensitivity Analysis 1/													
Debt service ratio in the event of:													
Lower export growth 5/	12.4	12.5	12.9	13.2	14.7	15.9	17.4	18.6	19.2	25.3	15.6	12.9	17.2
Less favorable financing 6/	14.2	14.6	15.3	15.5	17.4	18.9	20.8	22.5	22.8	25.5	16.4	14.9	20.5

Sources: The World Bank's Debt Reporting System (DRS); and staff estimates and projections.

1/ Assumes flow reschedulings during 1996/97-98/99 and a stock-of-debt operation at end-1998/99 on Naples terms involving a 67 percent reduction in net present value (NPV) terms.
2/ Contractual.
3/ Exports of goods and services; exports do not include estimates for unrecorded exports.
4/ The NPV of debt is calculated using a 7.5 percent discount rate from the World Bank's DRS; the data are provided in U.S. dollar terms rather than in the currencies in which the loans are denominated.
5/ Export volume growth reduced by 2 percentage points during 1997/98-1998/99, and by 1 percentage point thereafter.
6/ Interest rate on new borrowings to close financing gaps are raised by 2 percentage points from the level in the baseline scenario.

Table 5. Tanzania: Balance of Payments Financing, 1993/94-2015/2016 1/

	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/2000	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06
	(In millions of U.S. dollars)												
1. Current account balance, excluding official transfers	-1,075.8	-861.7	-835.9	-840.4	-835.5	-847.7	-885.2	-924.6	-968.3	-1,028.2	-1,092.6	-1,161.7	-1,248.9
2. Official transfers	633.5	525.0	510.4	522.4	544.6	567.4	580.7	594.3	608.3	622.5	637.1	652.0	667.3
3. Net official disbursements	-150.7	-50.7	-41.5	9.6	85.9	123.6	193.6	252.2	286.2	324.9	352.5	375.7	404.3
Of which: multilateral institutions													
a. Disbursements	(210.6)	(271.6)	(299.2)	(303.1)	(311.3)	(316.8)	(325.8)	(386.3)	(422.3)	(456.5)	(485.3)	(515.9)	(548.4)
Of which: multilateral institutions	(193.4)	(216.0)	(258.6)	(272.2)	(270.4)	(188.2)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
IDA	(164.5)	(171.5)	(189.2)	(222.2)	(192.0)	(129.0)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
IBRD	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
IMF	(--)	(--)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
other													
b. Amortization	(-371.5)	(-338.2)	(-363.1)	(-318.6)	(-267.7)	(-229.3)	(-163.7)	(-162.9)	(-175.9)	(-168.7)	(-177.0)	(-184.4)	(-188.2)
Of which: multilateral institutions	(-68.2)	(-83.9)	(-92.3)	(-89.1)	(-105.4)	(-99.1)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
IDA	(-10.0)	(-11.0)	(-13.5)	(-16.0)	(-18.0)	(-22.5)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
IBRD	(-33.0)	(-32.5)	(-30.0)	(-23.0)	(-15.0)	(-11.0)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
IMF	(-10.2)	(-15.9)	(-22.3)	(-25.1)	(-42.4)	(-36.1)	(-31.4)	(-28.7)	(-39.7)	(-37.0)	(-44.2)	(-44.2)	(-44.2)
other													
4. Net private capital inflows 2/	(407.3)	(164.6)	(160.3)	(75.9)	(82.4)	(90.6)	(108.8)	(130.5)	(156.6)	(188.0)	(225.5)	(270.6)	(324.8)
5. Change in net international reserves (increase-)	-96.8	-30.4	-59.6	-72.8	-88.7	-125.9	33.6	-23.7	-43.0	-70.2	-78.3	-92.5	-103.4
6. Exceptional financing	292.7	269.1	288.6	-2,305.5	--	--	--	--	--	--	--	--	--
Of which: change in arrears	(292.7)	(269.1)	(288.6)	(-2,305.5)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
assumed debt relief	(--)	(...)	(...)	(...)	(...)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
7. Financing gap 4/	--	--	--	2,636.0	253.6	228.1	--	--	--	--	--	--	--
Memorandum items:													
Total financing need (-1-3b-5) 5/	1,544.1	1,230.3	1,258.5	3,537.4	1,191.9	1,203.0	1,015.3	1,111.1	1,187.2	1,267.0	1,348.0	1,438.6	1,540.6
Exports of goods and services	854.7	1,104.1	1,205.5	1,322.4	1,467.2	1,636.8	1,793.3	1,965.7	2,155.6	2,350.8	2,564.0	2,796.9	3,037.1
Debt service paid	232.6	208.5	200.0	201.7	253.5	248.9	322.8	319.9	332.1	326.0	337.0	348.7	357.5
Total debt stock	6,868.2	7,201.6	7,409.5	6,012.0	6,193.4	6,414.7	6,197.1	6,420.9	6,667.3	6,955.2	7,263.5	7,595.1	7,955.3
Net present value of debt	...	524.9	482.3	285.6	246.4	214.7	195.4	184.0	175.1	167.4	159.9	152.7	146.2
	(In percent of total financing need)												
Official transfers	41.0	42.7	40.6	14.8	45.7	47.2	57.2	53.5	51.2	49.1	47.3	45.3	43.3
Disbursements	13.6	22.1	23.8	8.6	26.1	26.3	32.1	34.8	35.6	36.0	36.0	35.9	35.6
Of which: multilateral institutions	(12.5)	(17.6)	(20.5)	(7.7)	(22.7)	(15.6)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Net private capital inflows 2/	26.4	13.4	12.7	2.1	6.9	7.5	10.7	11.7	13.2	14.8	16.7	18.8	21.1
Exceptional financing	19.0	21.9	22.9	...	--	--	--	--	--	--	--	--	--
Of which: change in arrears	(19.0)	(21.9)	(22.9)	(...)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
assumed debt relief	(--)	(--)	(--)	(...)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Financing gap 4/	--	--	--	74.5	21.3	19.0	--	--	--	--	--	--	--

Sources: Data provided by the Tanzanian authorities; the World Bank's Debt Reporting System (DRS); and staff estimates and projections.

1/ Assumes flow reschedulings during 1996/97-1998/99 and a stock-of-debt operation at end-1998/99 involving a 67 percent reduction in net present value terms.
2/ Includes direct investment, and errors and omissions.
3/ Excludes net repayments to the IMF.
4/ Could be filled by debt relief and disbursements from the IMF.
5/ Defined as current account balance (excluding official transfers), amortization payments, buildup of international reserves, and clearance of arrears where appropriate.

Table 5 (concluded). Tanzania: Balance of Payments Financing, 1993/94-2015/2016 1/

	2006/07	2007/08	2008/09	2009/2010	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	1996/97-2000/01 (Average)	2001/02-2005/06 (Average)	2006/07-2010/11 (Average)	2011/12-2015/16 (Average)
	(In millions of U.S. dollars)													
1. Current account balance, excluding official transfers	-1,343.1	-1,443.4	-1,569.7	-1,706.1	-1,853.1	-2,011.9	-2,183.5	-2,369.1	-2,474.5	-2,538.3	-866.7	-1,100.0	-1,583.1	-2,315.5
2. Official transfers	683.0	699.0	715.4	732.2	749.3	766.9	784.9	803.3	822.1	841.4	561.9	637.4	715.8	803.7
3. Net official disbursements	435.8	466.6	493.6	511.9	530.7	531.3	512.0	471.7	435.6	380.8	133.0	348.7	487.7	466.3
Of which: multilateral institutions														
a. Disbursements	(582.9)	(619.6)	(658.7)	(700.2)	(744.3)	(791.2)	(841.0)	(894.0)	(950.3)	(1,010.2)	(328.7)	(485.7)	(661.1)	(897.3)
Of which: multilateral institutions	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
IDA	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
IBRD	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
IMF	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
other														
b. Amortization	(-177.1)	(-153.1)	(-165.0)	(-188.2)	(-213.6)	(-259.9)	(-329.0)	(-422.3)	(-514.7)	(-629.4)	(--)	(--)	(--)	(--)
Of which: multilateral institutions	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
IDA	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
IBRD	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
IMF	(-30.1)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)				
other														
4. Net private capital inflows 2/	(389.7)	(467.7)	(561.2)	(673.5)	(808.2)	(969.8)	(1,163.7)	(1,396.5)	(1,675.8)	(2,010.9)	(97.6)	(233.1)	(580.0)	(1,443.3)
5. Change in net international reserves (increase-)	-135.4	-189.9	-200.5	-211.4	-235.0	-256.1	-277.1	-302.3	-459.0	-694.9	-55.5	-77.5	-194.4	-397.9
6. Exceptional financing	--	--	--	--	--	--	--	--	--	--	-461.1	--	--	--
Of which: change in arrears	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(-461.1)	(--)	(--)	(--)
assumed debt relief	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
7. Financing gap 4/	--	--	--	--	--	--	--	--	--	--	623.5	--	--	--
Memorandum items:														
Total financing need (-1-3b-5) 5/	1,655.6	1,786.3	1,935.3	2,105.8	2,301.7	2,527.8	2,789.6	3,093.7	3,448.2	3,862.5	1,611.7	1,356.3	1,956.9	3,144.4
Exports of goods and services	3,297.4	3,580.4	3,868.9	4,180.8	4,518.0	4,882.7	5,277.0	5,703.3	6,164.4	6,663.0	1,637.1	2,580.9	3,889.1	5,738.1
Debt service paid	351.7	332.9	350.4	378.7	408.5	458.7	531.2	627.5	713.3	821.2	269.4	340.3	364.5	630.4
Total debt stock	8,361.1	8,809.3	9,299.8	9,811.8	10,342.4	10,873.7	11,385.7	11,857.4	12,293.0	12,673.8	6,247.6	7,287.3	9,324.9	11,816.7
Net present value of debt	139.9	134.3	130.4	126.4	122.2	117.6	112.0	105.8	94.8	83.4	225.2	160.3	130.6	102.7
	(In percent of total financing need)													
Official transfers	41.3	39.1	37.0	34.8	32.6	30.3	28.1	26.0	23.8	21.8	43.7	47.3	36.9	26.0
Disbursements	35.2	34.7	34.0	33.2	32.3	31.3	30.1	28.9	27.6	26.2	25.6	35.8	33.9	28.8
Of which: multilateral institutions	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)	(...)
Net private capital inflows 2/	23.5	26.2	29.0	32.0	35.1	38.4	41.7	45.1	48.6	52.1	7.8	16.9	29.2	45.2
Exceptional financing	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Of which: change in arrears	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
assumed debt relief	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Financing gap 4/	--	--	--	--	--	--	--	--	--	--	23.0	--	--	--

Sources: Data provided by the Tanzanian authorities; the World Bank's Debt Reporting System (DRS); and staff estimates and projections.

1/ Assumes flow reschedulings during 1996/97-1998/99 and a stock-of-debt operation at end-1998/99 involving a 67 percent reduction in net present value terms.
2/ Includes direct investment, and errors and omissions.
3/ Excludes net repayments to the IMF.
4/ Could be filled by debt relief and disbursements from the IMF.
5/ Defined as current account balance (excluding official transfers), amortization payments, buildup of international reserves, and clearance of arrears where appropriate.

TANZANIA - Statistical Issues

The economic database in Tanzania is generally weak, mainly because of the poor statistical infrastructure and difficulties in replacing the reporting mechanisms used in the central planning era with a more adequate system for a free market environment. Tanzania has received considerable technical assistance to alleviate these difficulties, but insufficient effort has been devoted by the authorities to implementing the recommendations made by the various Fund, World Bank, and donor missions. The authorities are fully cooperative in providing data to the Fund, mainly through the resident representative office, and available data are provided to the Fund in a timely manner between missions. Tanzania has very few statistical publications, and no fully articulated publication policy.

1. National accounts

Historical national accounts data (annual only) are prepared in the Bureau of Statistics (BOS) in the Planning Commission on the basis of data collected by the BOS regional offices and by other government agencies and public sector entities. Revised national accounts series for the period 1976-90 (and extrapolated through 1994), reflecting the results of recent surveys and censuses, were published in 1995; technical assistance by the Fund and other donors was instrumental in permitting completion of this revision. Fund staff missions typically make their own national accounts projections for future years in consultation with the authorities. The national accounts data provide a useful broad order of magnitude in assessing movements in output, although many weaknesses remain, particularly with respect to the sectoral breakdown by expenditure category, which is largely estimated by extrapolation and probably unreliable. External sector data suffer from major deficiencies, which impede the accurate estimation of the savings/investment relationship.

2. Prices

Monthly consumer price data are collated by the BOS and cover 20 cities and regional centers. Beginning May 1996, data are published within two weeks of the end of the month. Fund technical assistance missions have identified many deficiencies in price data collection and recording, as well as computational errors. To remedy the situation, the July 1996 STA mission calculated a corrected index for June 1996 that will serve as a basis for future index calculations, and recommended practical measures for further improvements. Projections of the GDP deflator are constructed by Fund missions based on the CPI.

3. Government finance statistics

The AFR staff is provided with current information on central government revenue, current spending, and its financing, with appropriate disaggregation, on a monthly basis, with a short lag. There are substantial gaps between government financing data recorded in the BOT and data reported by the Treasury. The staff is working with the authorities on reconciling these differences, which, following this work, registered a substantial decline in 1995/96. A significant amount of aid-financed capital spending is believed not to have been captured in the fiscal accounts, because projects are carried out directly by donors. No information is provided on the financial position of provincial governments and parastatals.

Major aggregates on central government operations are reported to STA on an annual basis for publication in *IFS* and are current through FY 1995. The accuracy of these aggregates is unclear. Comprehensive and detailed government finance statistics are no longer reported, and a country page for Tanzania was dropped from the *GFS Yearbook* in 1991.

4. Monetary statistics

The balance sheets of the BOT and the commercial banks, as well as the monetary survey, are provided monthly with a relatively short lag. The coverage of banks in the monetary survey is relatively comprehensive. However, accounting weaknesses in the dominant National Bank of Commerce result in uncertainty with respect to the estimates of foreign assets and in large monthly fluctuations in various items. The situation was partly improved by the new management team, including a new chief accountant, which has been in place since May 1995. While the coverage of the banking system is good, the assessment of monetary conditions is complicated because of the lack of information on several hundred credit cooperatives that operate mostly in the rural areas.

When requested by the staff, the BOT is able to provide daily information with a very short lag on key items from its balance sheet, such as net foreign assets and net bank credit to the Government. The BOT also provides detailed and timely data on treasury bill auctions and on transactions in the interbank market for foreign exchange.

Monetary data are reported separately to STA, also on a timely basis. The *IFS* form for reporting data on banks has been revised to incorporate the recommendations of previous money and banking statistics missions to Tanzania, and the data based on the new reporting form have been updated in the October 1996 issue of IFS.

5. Balance of payments statistics

Foreign trade data are prepared by staff missions on the basis of information from the BOT. There is believed to be a significant amount of unrecorded trade, not captured in these figures. Information on invisible transactions is sparse. Tourism revenue is estimated on the basis of foreign exchange transactions data, and government external interest payments are taken from the external debt directorate at the BOT.

Information on official grant and loan receipts is relatively good and is prepared by the staff on the basis of contact with official agencies. Data on private capital flows are very poor. Some information on private banking flows can be derived from the monetary survey. Other private capital flows are effectively captured only in errors and omissions.

Data on the gross and net official reserves of the Central Bank are provided monthly with a short lag and more frequently on request. Similarly, data on foreign assets and liabilities of the banking system are provided with relatively short lags.

Data on external debt are poor, and the staff use data provided by the World Bank. Data on private sector external debt are nonexistent. With regard to official external debt, no comprehensive debt-reporting system currently exists, although technical assistance to install such a system is under way. Debt contracted on concessional terms is monitored closely by Fund staff through contacts with the authorities and the various multilateral and bilateral agencies.

A technical assistance mission in July 1996 recommended, inter alia, that (a) customs data should be supplemented by information on partner country data, (b) a survey of direct investors should be introduced, and (c) service transactions should be covered in greater detail.

TANZANIA - Core Statistical Indicators

(As of September 30, 1996)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports 1/	Current Account Balance	Overall Government Balance 2/	GDP/GNP
Date of Latest Observation	9/27/96	8/30/96	9/20/96	9/20/96	8/30/96	9/20/96	August 1996	June 1996	1995	August 1996	1995
Date Received	9/30/96	9/13/96	9/27/96	9/27/96	9/10/96	9/27/96	9/13/96	9/27/96	9/27/96	9/10/96	May 1996
Frequency of Data 3/	D	M	W	W	M	W	M	M	A	M	A
Frequency of Reporting 3/	D	M	W	W	M	W	M	M	A	M	A
Source of Data 4/	A	A	A	A	A	A	A	A	A	A	A
Mode of Reporting 5/	C	C	C	C	C	C	C	C	C	C	M
Confidentiality 6/	C	D	D	D	C	C	C	C	C	D	C
Frequency of Publication 3/	D	M	M	M	M	M	M	M	A	M	A

1/ Based on Bank of Tanzania data which are regarded as incomplete.
2/ Contains only partial information on the development budget.
3/ Codes for frequency of data, frequency of reporting, and frequency of publication are: D-daily; W-weekly; M-monthly; Q-quarterly; A-annual; or O-other.
4/ Code for source of data is A-direct reporting by central bank, Ministry of Finance, or other official agency.
5/ Codes for mode of reporting are: C-cable or facsimile; and M-mail.
6/ Codes for confidentiality are: C-for unrestricted use; and D-embargoed for a specified period and are thereafter for unrestricted use.

TANZANIA - Social and Demographic Indicators 1/

Population characteristics	
Total population (in millions)	28.0
Of which: Zanzibar	(0.7)
Population under age 15 (in millions)	13.8
Birth rate (per 1,000)	43.0
Death rate (per 1,000)	14.0
Life expectancy (years)	51.9
Population growth (percent per annum)	3.1
Health, food, and nutrition	
Infant mortality (per 1,000)	84
Persons per physician	20,511
Persons per hospital bed	1,044
Education	
Literacy rate (percent)	80
Primary enrollment (percent)	68
Social investment (percent of GDP)	
Government expenditure in education 2/	3.1
Government expenditure in health 2/	1.9

Sources: World Development Report, 1994; and data provided by the Tanzanian authorities.

1/ Estimates for 1993.
2/ Includes central government expenditures only. Data are for fiscal year 1993/94.