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June 26, 2007

**Statement by Mr. Kiekens and Mr. Abel on United Republic of Tanzania  
(Preliminary)  
Executive Board Meeting 07/55  
June 27, 2007**

We thank staff for a well written Report and Messrs. Gakunu and Masawe for an informative Buff statement. The relatively stable economic growth and satisfactory performance under the Policy Support Instrument (PSI) is a result of adequate macroeconomic policies. Tanzania also consistently outperforms other members of the East African Community in FDI attractiveness. It has the highest FDI to GDP ratio among other oil-importing African countries. The World Bank Doing Business Report 2006 – 07 placed Tanzania among the top ten reformers in the world. We commend the authorities for their policies which focus on increasing foreign direct investment. We support the completion of the first review under the PSI.

The ballooning wage bill, which has increased from 4.3 in 2005/06 percent of GDP to 5.9 percent in 2006/07, is a concern. Staff comments are welcome about the causes and consequences of the increase in this expenditure item of the central government.

Capital inflows must be managed carefully. Given the large foreign capital inflows and a relatively underdeveloped financial system in Tanzania, the staff has rightly identified that liquidity management poses a major challenge in implementing monetary policy. The authorities must strike a good balance between the costs of sterilization and the need for absorbing excess liquidity. Sterilization through sales of government paper can lead to a rise in interest rates, which can hurt the private sector and the government's interest payments. Sterilization through foreign exchange sales can also lead to an appreciation of the exchange rate, with a possible loss of competitiveness. Staff has provided a good analysis of these challenges in Box 2 of the Staff Report. We agree with the staff recommendations which include a proposal to use repo operations and a proposal to spread the supply of T-bills across each quarter, to transfer the government deposit from a commercial bank to the central bank for reducing the pressure on liquidity, and other rationalization of the instruments. We encourage the authorities to maintain the focus of monetary policy on inflation reduction while maintaining a balance between the conflicting challenges of liquidity management and exchange rate management. Like other Directors, we also consider that this conflict and the

cost of sterilization can be mitigated by deepening financial markets and developing adequate financial instruments. In this effort, Tanzania can rely on the sound advice provided by staff and technical assistance offered by the Fund as well as by other donors.

Like most other oil-importing countries in Africa, the energy supply in Tanzania is unstable, insufficient and too expensive. In Tanzania hydropower is the main source of energy which is crippled by periodic droughts. The recent drought was clearly one such case which led to a further hike in the price of the already expensive electricity generated by using imported oil. There is an urgent need to develop alternative sources of energy. The authorities should press ahead vigorously with the implementation of the financial recovery program of the electricity utility TANESCO. We agree with staff that sufficient revenues and sound financing of TANESCO are necessary for maintaining and expanding the electricity network and supplies, as shortcomings in these areas seriously hurt business development.

Food consumption accounts for more than half of the total consumption in Tanzania. Developing the agricultural sector will be fundamental for reducing poverty effectively. We would appreciate the staff's assessment on ongoing reforms in the agricultural sector.

We wish success for the authorities.