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December 26, 2007

The Acting Chair's Summing Up
United Republic of Tanzania—Second Review Under the Policy Support Instrument
Executive Board Meeting 07/112
December 21, 2007

Executive Directors commended the authorities for Tanzania's sound macroeconomic policies and progress on structural reforms that have sustained a strong overall economic performance—with broad-based growth, an improved fiscal position, and ample international reserves.

Directors noted that inflationary pressures call for continued efforts to strengthen monetary control. They welcomed the increased reliance on foreign exchange sales in recent months, which have reined in the growth of monetary aggregates and have been successful in reducing yields on government securities. Looking ahead, Directors supported the Bank of Tanzania's strategy aimed at addressing the challenges stemming from large and potentially volatile capital inflows, including donors' budget support. This will need to include strengthened liquidity forecasting and reliance on foreign exchange sales as the primary tool for mopping up liquidity, as well as further development of the money market and a strengthened communications policy. They welcomed the indication that the Bank of Tanzania intends to request a safeguards assessment in 2008, which could play a useful role in strengthening its systems and processes.

Directors commended Tanzania's strong fiscal performance, with the zero net domestic financing target continuing to provide an appropriate anchor to macroeconomic stability. They welcomed the buoyant revenue performance which reflects in particular a further improvement in tax administration, and supported ongoing efforts to broaden the tax base. Directors appreciated the envisaged increase in public spending to meet pressing social and infrastructural needs, but called for careful planning to ensure that spending will be delivered effectively and can be adjusted if domestic revenue falls short of the ambitious target set out in the budget. Directors emphasized the need for vigilance with regard to government guarantees and other contingent liabilities. Public-private partnerships in infrastructure should be carefully evaluated on their economic merits, and underpinned by an adequate legal and regulatory framework and the ability to assess fiscal risks. Directors also underscored the importance of a tariff increase for the state-owned electricity company that would adequately contain fiscal risks and encourage private investment in the electricity sector.

Directors welcomed the rapid growth and diversification of Tanzania's financial system. They looked forward to further reforms aimed at improving access to financial services, strengthening prudential supervision, addressing legal bottlenecks related to land ownership, and enhancing the capacity of the judicial system. Directors also called for reinforcing the regulatory framework for nonbank financial institutions, especially the fast-growing pension funds.

Directors emphasized that private sector development and continued productivity growth will be key to further accelerating economic growth. They welcomed ongoing reforms to strengthen the business environment, notably by improving public infrastructure, and the steps taken to improve governance and public accountability. While welcoming the progress made in recent years in developing sound public financial management systems, Directors encouraged the authorities to step up their efforts, in particular in the areas of cash management and expenditure tracking. Subscribing to the Extractive Industries Transparency Initiative would further enhance governance and the business environment. Directors welcomed the authorities' commitment to follow up on the special audit of the external payments arrears (EPA) account managed by the Bank of Tanzania by addressing expeditiously any shortcomings identified in the audit.