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December 23, 2008

The Acting Chair's Summing Up
United Republic of Tanzania—Fourth Review of the Policy Support Instrument
Executive Board Meeting 08/112
December 19, 2008

Executive Directors commended the Tanzanian authorities for adhering to sound macroeconomic policies, which has contributed to sustained robust economic growth and to a strengthening of economic fundamentals. Although the current global economic downturn and volatile commodity prices pose significant downside risks to the economy, Directors considered Tanzania well-positioned to face these challenges.

Directors welcomed the substantial narrowing of the fiscal deficit in 2007/08, which was made possible by a further impressive revenue increase and spending discipline. They supported the budget stance for 2008/09, which provides a modest stimulus while retaining the transparent fiscal anchor of zero net domestic financing. They endorsed the authorities' plans to curb expenditure if revenues fall short of their ambitious target, and advised early formulation of contingency measures.

Directors noted that the recent decline in commodity prices will help to ease inflationary pressures. Nevertheless, they encouraged the authorities to strengthen liquidity forecasting and management in order to achieve their inflation target. In this regard, they welcomed the Memorandum of Understanding signed recently between the Ministry of Finance and Economic Affairs and the Bank of Tanzania to improve the coordination of fiscal and monetary policies.

Directors observed that the banking sector has fared well, but recommended that prudential regulation and supervision be strengthened in light of global uncertainties and recent rapid credit growth. In particular, Directors urged the authorities to strengthen oversight over the rapidly-growing pension sector. In this context, while Directors welcomed the intention to gradually liberalize capital account transactions, they called for careful timing of, and preparation for, the move to ensure its success. They encouraged the Bank of Tanzania to continue to implement the recommendations of the IMF's safeguards assessment report, and to re-focus its attention on its core tasks of monetary policy and financial supervision.

Directors commended the ongoing improvements in governance and public accountability, and the authorities' decision to join the Extractive Industries Transparency Initiative. In particular, they welcomed the decisive action taken in investigating and prosecuting wrong-doers in the external payments arrears fraud case, and encouraged the authorities to continue these efforts.

Recognizing Tanzania's considerable infrastructure needs, Directors welcomed the authorities' intention to undertake careful investment planning and pursue prudent debt management policies to avoid a re-accumulation of unsustainable public debt. They supported the rapid implementation of the Public Finance Management Reform Program, including a mechanism to monitor and control contingent liabilities arising from public-private partnerships. They also encouraged faster progress in improving the business climate.