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IMF Mission Calls for Fiscal Stimulus in Tanzania

An International Monetary Fund (IMF) mission led by Mr. Roger Nord visited Tanzania March 17-31, 2009 to conduct the 2009 Article IV Consultation and the fifth review under the Policy Support Instrument (PSI). The mission met with Minister of Finance and Economic Affairs, Hon. Mustafa Mkulo; Governor of the Bank of Tanzania, Prof. Benno Ndulu; Chairman of the Finance and Economic Affairs Committee of Parliament, Hon. Abdallah Kigoda; Chairman of the Public Accounts Committee of Parliament, Hon. John Cheyo; other senior government officials; private sector representatives; and members of civil society.

At the end of the mission, Mr. Roger Nord, Mission Chief for Tanzania, issued the following statement in Dar es Salaam today:

“After a decade of strong performance, the global financial crisis will pose a severe challenge for sub-Saharan Africa. Economic growth is expected to reach about 2 percent in 2009, down from 5 percent last year, and the recovery is likely to be gradual in 2010, contingent on decisive measures in advanced economies to stabilize financial systems and bolster demand.

“Tanzania will also be affected. The mission estimates that economic growth could reach 4-5 percent in 2009, compared with 7½ percent last year. Export sectors, including tourism, will be affected by lower global demand and, in some cases, sharply lower commodity prices. Foreign direct investment, which has played an increasingly important role in Tanzania, is also likely to decline as international investors scale back or postpone their investment plans.

“In the short term, the mission sees some scope for some economic stimulus. Prudent fiscal policies in recent years provide scope to allow the budget deficit for 2008/09 to widen by about 3 percent of GDP. Some further fiscal stimulus can be envisaged in the 2009/10 budget currently under preparation. While inflation remains above comfort levels, the mission expects price pressures to subside as food price inflation begins to decline in the coming months. It therefore also sees some room for easing monetary policy in the period ahead.

“Short-term economic stimulus must, however, not jeopardize medium-term economic stability, which remains critical for Tanzania to resume robust economic growth and make

decisive progress in poverty reduction. Over the medium-term, fiscal policy must be guided by a firm commitment to maintain a sustainable level of public debt and reinforce public financial management to ensure the efficiency of public spending. In particular, it will be important to ensure that the planned increase in infrastructure spending is financed on a sustainable basis and contributes to lifting Tanzania's long-term growth potential. Monetary policy will need to continue to be guided by the Bank of Tanzania's objective of medium-term price stability. And a sound and diversified financial system will be needed to ensure that the private sector can invest and create employment opportunities. Strengthening the framework for prudential supervision, including over the fast-growing pension funds, will be important.

"It is expected that the IMF's Executive Board will discuss the 2009 Article IV Consultation and the fifth review under the PSI in late May 2009."