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May 29, 2009

The Acting Chair's Summing Up
United Republic of Tanzania—2009 Article IV Consultation, Fifth Review Under the
Policy Support Instrument, Request for a Twelve-Month Arrangement Under the
Exogenous Shocks Facility, and Request for an Extension of the Policy Support
Instrument
Executive Board Meeting 09/52
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Executive Directors agreed with the thrust of the staff appraisal. They commended the Tanzanian authorities for a good track record of sound macroeconomic policies and structural reforms. This strong performance has helped to sustain high rates of economic growth with generally low inflation for several years, as well as create sufficient fiscal space to allow for policy actions to help counter the impact of the current global economic crisis. A broadening in the domestic revenue base, together with substantial donor assistance, allowed for a strong increase in government spending over the past decade, particularly on programs to reduce poverty. Directors were concerned, however, that despite some important gains, progress in poverty reduction has been mixed.

Directors noted that the global financial crisis is having a serious impact on Tanzania. Real GDP growth is expected to fall significantly in 2009, as key sectors of the economy, including exported cash crops and tourism, face a severe downturn. Cutbacks in foreign direct investment and other financing will also weaken aggregate demand. Directors agreed that the authorities' expansionary fiscal and monetary policies in the current situation are appropriate to cushion the effects of the crisis on Tanzania. At the same time, they emphasized that short-term policies must not jeopardize Tanzania's hard-won economic stability. Fiscal stimulus should remain consistent with long-term fiscal and debt sustainability, monetary easing should not put at risk medium-term price stability, and international reserve losses should be contained, consistent with external stability. In this context, Directors encouraged the authorities to make progress in strengthening their medium-term fiscal policy framework.

Directors observed that the banking sector is sound but vulnerabilities remain in some areas. Banks are well capitalized and non-performing loans remain at a low level. Nonetheless, the economic slowdown will raise banks' credit risks, notably through their exposure to export crop financing and personal loans, which have been growing rapidly in recent years. Welcome steps have already been taken to raise supervisory standards, but more can be done to broaden monitoring to all financial institutions, and reinforce cross-border coordination between host country and home country supervisors. Directors stressed

the crucial importance of having an effective system in place for financial supervision of the rapidly growing pension funds, and encouraged the authorities to accelerate progress in this area.

Directors stressed the importance of raising Tanzania's medium-term growth potential, underpinned by continued implementation of structural reforms. They welcomed the ongoing preparations for the update of the national poverty reduction strategy (MKUKUTA), and agreed with the authorities' key priorities to raise agricultural productivity and improve Tanzania's ailing infrastructure. This will require further improvements in the revenue base as well as significant financing, including from the public sector. Concessional financing remains the preferred funding source, consistent with medium-term debt sustainability.

Directors emphasized that strong public financial management is critical to ensuring that public spending is as effective as possible and to avoiding the re-accumulation of unsustainable public debt. Important steps have already been taken, for example to strengthen budgeting and public procurement practices, but further scope remains to raise value for money.

It is expected that the next Article IV consultation with Tanzania will be held in accordance with the Executive Board decision on the consultation cycle for members with Fund arrangements.