

BUFF/10/72

June 4, 2010

**The Acting Chair's Summing Up
United Republic of Tanzania—Seventh Review Under the Policy Support Instrument,
Second Review Under the Exogenous Shocks Facility, and Request for a New
Three-Year Policy Support Instrument
Executive Board Meeting 10/56
June 4, 2010**

Executive Directors commended the Tanzanian authorities for the continued strong performance under the PSI and the macroeconomic policy response to the global crisis. Monetary and fiscal easing, together with an economic rescue plan, helped mitigate the impact of the downturn. Directors welcomed the progress under the current poverty reduction and growth strategy, with about half of the MDGs expected to be achieved by 2015. Nonetheless, there are risks to the nascent economic recovery, requiring continued prudent macroeconomic policies, progress on structural reforms, and improvements in the business climate.

Directors supported the authorities' plan to continue the modest fiscal stimulus in the short term, which should be gradually reined in as the recovery becomes more established. There is also room to continue supportive monetary policy, but liquidity conditions should be carefully monitored to guard against potential inflation or exchange rate pressures.

Directors supported the authorities' macroeconomic policy and structural reform agenda as the basis for a new three-year PSI. The authorities aim to scale up infrastructure spending to help promote growth and reduce poverty while protecting priority social spending. The planned emphasis on agriculture and establishing an on-budget nationwide social safety net will help ensure stronger distribution of growth gains while addressing food security concerns. Directors looked forward to completion of the authorities' new poverty reduction and growth strategy.

Directors highlighted the importance of creating fiscal space through revenue measures and expenditure rationalization. They noted the authorities' plan to mobilize a limited amount of nonconcessional borrowing and to use public-private partnerships (PPPs) to help finance the increased infrastructure spending, consistent with a low risk of debt distress. Nonetheless, risks remain, and Directors stressed the need to choose projects carefully to ensure their feasibility and economic return. Directors looked forward to completion of the authorities' medium-term debt strategy, and welcomed their plan to include contingent liabilities in the debt strategy. A formal PPP framework will be important, as well as an improved business climate to stimulate a robust private sector response. Further

progress in governance reforms and public accountability would also be needed. Directors underscored the need to strengthen the link between strategic planning and budget execution.

Directors noted that the banking system is well capitalized. They welcomed the authorities' action plan to implement key recommendations of the FSAP. They called for strengthened social sector funds supervision, progress on compliance with provisioning requirements, and more reliable data collection.

Directors wished the authorities well with preparations for a common market and eventual monetary union. Strengthened institutions will be needed for Tanzania to reap fully the benefits of regional integration.