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**Statement by Mr. Rutayisire on United Republic of Tanzania
(Preliminary)
Executive Board Meeting 08/112
December 19, 2008**

We would like to thank staff for their well-written report and Mr. Itam for his informative Buff statement on recent macroeconomic developments in Tanzania under the PSI-supported program.

We are pleased to note the strong and sustained economic performance recorded by Tanzania, thanks to prudent policies and deepened reforms despite the turbulent external environment. Real GDP growth has exceeded 7 percent with strong outturns across most sectors. Gross international reserves at end June 2008 amounted to equivalent of 4.4 months of imports. Significant improvements in the delivery of education and health services have been also achieved. However, the surge in global food and fuel prices pushed up inflation to double digits. In this context, the implementation of the PSI program has been broadly on track. Indeed, all end-June 2008 quantitative assessment criteria for the fourth review were met with the exception of the ceiling on the average reserve money, which was narrowly missed and the signing with a delay of the memorandum of understanding between the Ministry of Finance and Bank of Tanzania delineating their respective tasks in liquidity management and financial operations.

Based on Tanzania's good track record and the authorities' sustained commitment to pursue implementing sound policies and far reaching reforms, we support the completion of the fourth review under the PSI program as well as the request for waivers for the nonobservance of two assessment criteria. We further encourage the authorities to strengthen macroeconomic stability and continue raising productivity through far-reaching structural reforms and adequate investment in public infrastructure.

In the fiscal area, we see merit in the authorities' efforts to further strengthen the budget execution which is key in achieving greater effectiveness of public spending. We welcome the zero net domestic financing targeted in the 2008/09 budget, as it remains a useful and transparent fiscal anchor. We concur with staff on the need to formulate contingency plans ahead of time, in order to meet necessary expenditures. We encourage the authorities to speed up the implementation of their comprehensive Public Financial Management Reform

Program, which will also help addressing capacity constraints in budget execution.

As regards monetary policy, efforts to bring down inflation to single digit as targeted by the Bank of Tanzania are to be intensified. In this respect, the current slump of oil prices is favorable opportunity to seize. We encourage the authorities to implement the newly signed memorandum of understanding delineating the respective responsibilities of the Central Bank and the Ministry of Finance in the areas of liquidity management and financial operations. We share the view that there is a need to strengthen the coordination between monetary and fiscal authorities to mop up excess liquidity as fiscal policy should be supportive of efforts aimed at fighting inflation. **Given the breakdowns in the control systems that the Bank experienced**, the voluntary safeguards assessment of the Bank of Tanzania is commendable and we encourage the fast implementation of the recommendations resulting from this exercise with a view to put in place a robust control model, improve oversight and restore transparency. The authorities' plan to adopt a strategy refocusing the Bank of Tanzania on its core activities of monetary policy and financial supervision is also welcome.

On the structural reforms front, we commend the ongoing actions to broaden access to financial services, boost the residential mortgage market and ensure stable institutions. In addition to the new and single regulator for the pension fund sector, we encourage the authorities to speed up the process of issuing the investment guidelines for pension funds. While we are of the view that gradually liberalizing the capital account aiming at attracting longer-term savings is a step in the right direction, we agree on the need to revise and strengthen the institutional and regulatory frameworks in order to allow the economy to fully enjoy all benefits accompanying this liberalization notably in these difficult times. We also encourage the authorities to draw lessons from other countries' experience.

We share the view on the need to improve and further extend infrastructure sector in order to, among other objectives, raise productivity and long-term growth potential. To finance the sector in a context of a need to preserve the debt sustainability attained after extensive debt relief under HIPC and MDRI, we encourage the authorities to put emphasis on seeking concessional financing sources and adopt appropriate policy and legal framework for Public-Private Partnerships to increase private sector participation in implementing infrastructure projects. We also concur with staff that projects financed on commercial terms when sufficient concessional financing is unavailable should yield high returns and ensure long-term debt sustainability. We see merit in the authorities' plan to seek a sovereign credit rating to lay foundation for a possible issue of sovereign bonds on the international capital market.

With these remarks, we wish Tanzanian authorities every success in their future endeavors.