# IMF Executive Board Completes Fourth Review under the Policy Support Instrument for Tanzania and Approves a US$224.9 Million Precautionary Arrangement under the Standby Credit Facility

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The Executive Board of the International Monetary Fund (IMF) today completed the fourth review of Tanzania's performance under the Policy Support Instrument (PSI) and approved a precautionary 18-month arrangement under the Standby Credit Facility (SCF) for SDR 149.175 million (about US$224.9 million).

The precautionary SCF Arrangement is designed to provide Tanzania a financial cushion to withstand deterioration in external demand and access to global market financing. As the country is not facing any immediate balance of payment needs, the program will form part of an overall strategy to stave off any adverse effects that Tanzania could be facing as a result of the uncertainties in the global economy.

The PSI for Tanzania was approved by the Executive Board on June 4, 2010 (see Press Release No. 10/ 227). All December 2011 and March 2012 quantitative assessment criteria and indicative targets were met, other than the March 2012 indicative target on the floor on net international reserves. All five structural benchmarks for the period through end-June 2012 were implemented.

Following the Executive Board's decision on Tanzania, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, issued the following statement:

"The Tanzanian economy grew steadily in 2011 despite severe power shortages that were induced by regional droughts. At the same time, higher food and energy prices pushed inflation up to 20 percent. The authorities are to be commended for taking prudent policy measures to contain domestic demand

and inflationary pressures. To this end, the monetary stance was tightened to moderate credit and broad money growth, and the fiscal position was strengthened by improved revenue performance and tight expenditure controls. The construction of a new externally-financed gas pipeline is intended to address the vulnerabilities of the hydro dependant power sector and secure a durable supply of low-cost electricity in the medium term.

"The budget for 2012/13 is appropriately targeted at further reducing the deficit, which is essential for rebuilding fiscal buffers and strengthening debt sustainability. Although the growth outlook remains positive, the volatile global economy poses risks to revenue collection. To preserve the fiscal adjustment path and avoid a build-up of arrears, any revenue shortfalls would need to be offset by cutbacks in recurrent and non-priority capital expenditures, while safeguarding critical social and development spending.

"The sustained tightening of monetary policy in 2012/13 is aimed at supporting disinflation toward the authorities' single-digit objective. In order to better manage liquidity and strengthen its anti-inflationary capacity, the Bank of Tanzania intends to move to more active use of interest rates as a policy instrument. The flexible exchange rate regime will ease the burden on monetary policy and help maintain adequate international reserves.

"While Tanzania does not face an immediate balance of payments need, the newly approved Standby Credit Facility (SCF) provides a comfortable buffer against external shocks. The authorities intend to treat the SCF as precautionary and will only draw the Fund resources should external demand deteriorate or access to international financial markets become more limited," Mr. Shinohara added.

**Recent economic developments**

GDP growth in the first half of 2011/12 was 6.5 percent, unchanged from 2010/11. Although electricity production declined, growth benefitted from strong construction and services activity.

Headline inflation peaked at almost 20 percent in December 2011, led by food and energy prices (up 27 and 41 percent, respectively). With slowing food and energy price increases, inflation declined to 18.2 percent in May 2012. Core inflation has been in the 8.7 to 9 percent range, up from about 4 percent a year earlier.

Imports were up 37 percent in the first nine months of 2011/12, largely reflecting higher oil imports. Reflecting this trend, the current account deficit is projected at nearly 15 percent of GDP in 2011/12, up from the 9 percent of GDP range in recent years. The increased deficit is being financed through foreign direct investment and other private capital inflows.

Tanzania is on track to cut its overall cash basis fiscal deficit to 6.2 percent of

GDP in 2011/12. Tax revenues are over-performing. Collections are projected to exceed programmed levels, reflecting strengthened tax administration, steps taken to tackle obstacles to mining taxation, and stronger than expected economic activity.

**Summary of the SCF Arrangement**

The precautionary SCF Arrangement would provide support in the event of a deterioration in external demand and access to global market financing. As Tanzania strengthens its macroeconomic buffers, it remains vulnerable to a renewed global downturn. Its fiscal deficit, public debt, and inflation levels are higher than at the time of the 2008–09 global recession, while gross reserve cover is lower.

The objectives under the SCF Arrangement for Tanzania would match those under the PSI: enhancing fiscal and debt sustainability, reducing inflation, and resolving the power crisis to enhance growth prospects. In the event of an adverse shock, corrective measures to keep the program supported by the PSI and SCF Arrangement on track would likely be needed. These measures, as well as options for financing from non-Fund sources would be reviewed in light of the nature and scale of the shock.

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