FOR AGENDA

EBS/88/227

CONFIDENTIAL

November 9, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Tanzania - Staff Report for the 1988 Article IV Consultation and Request for Arrangement Under the Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1988 Article IV consultation with Tanzania and its request for a second annual arrangement under the structural adjustment facility. Draft decisions appear on pages 30 and 31.

It is understood that the Executive Director elected by Tanzania will be requesting the Board for a waiver of the circulation period to enable this subject, together with the policy framework paper for Tanzania (EBD/88/318, 11/8/88), to be brought to the agenda for discussion on Wednesday, November 30, 1988.

Mr. Artus (ext. 7676) or Mr. J. D. Simpson (ext. 6516) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

TANZANIA

Staff Report for the 1988 Article IV Consultation and Request for the Second Annual Arrangement Under the Structural Adjustment Facility

Prepared by the African Department and the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs Legal, and Treasurer's Departments)

Approved by G.E. Gondwe and J.T. Boorman

November 8, 1988

I. Introduction

Article IV consultation discussions and negotiations on an economic program that could be supported by a second annual arrangement under the structural adjustment facility (SAF) were held in Dar es Salaam during the period May 13-31, 1988; in Paris (on the occasion of the Consultative Group meeting for Tanzania) during July 8-14, 1988; and in Washington during September 6-13, 1988. 1/ The Tanzanian representatives included the Minister of Finance, Planning, and Economic Affairs, Mr. C.D. Msuya; the Governor of the Bank of Tanzania, Mr. C.M. Nyirabu; the Principal Secretary of the Ministry of Finance, Mr. G. Rutihinda; and other senior officials of ministries and agencies concerned with economic and financial matters. Mr. A. Faria, Advisor to the Executive Director for Tanzania, attended a number of the policy discussions in Dar es Salaam.

When the Executive Board concluded the 1987 Article IV consultations with Tanzania on May 20, 1987, a number of Directors pointed out that, despite the encouraging recent economic performance of the

---

1/ The staff representatives on the first occasion were Mr. J. Artus (head-AFR), R. Basanti (FAD), T. Rumbaugh (EP-AFR), R. Sharer (AFR), J. Simpson (AFR), S. Tiwari (ETR), and Ms. M. Duane (secretary-AFR). The staff representatives on the second occasion were Mr. Artus, Ms. Bierman (FAD), and Messrs. Rumbaugh, Sharer, Simpson, and Tiwari; and on the third, Mr. Artus, Ms. Bierman, and Messrs. Rumbaugh, Sharer, and Tiwari. Further discussions with the Tanzanian authorities were held during the Annual Meetings in Berlin. Subsequently, Mr. Ouattara (AFR) visited Tanzania during October 1-6, 1988. His visit partially overlapped with a staff visit of Messrs. Sharer and Rumbaugh during September 30-October 11.

Tanzanian economy, the medium-term balance of payments outlook remained bleak, and that the exchange rate remained substantially overvalued. These Directors wondered whether the present pace of depreciation would be too slow to produce an equilibrium rate within the time frame of one year as envisaged. Several other Directors noted that there was a need to emphasize the removal of supply bottlenecks. Directors observed that the underlying fiscal deficit and bank financing of the budget should be reduced to more sustainable levels. Directors noted that the problems faced by the marketing boards were largely due to inadequate pricing and marketing policies. They emphasized that, to avoid the large financial losses incurred by the export marketing boards, a realistic exchange rate and producer prices were essential.

On October 30, 1987, the Executive Board concluded the second review under the stand-by arrangement for an amount equivalent to SDR 64.2 million (60 percent of quota), which had been approved on August 28, 1986 (EBS/86/183, 8/8/86). After the review, Tanzania made the third purchase under the stand-by arrangement, with the total purchases under the arrangement reaching SDR 45.47 million. Subsequently, however, Tanzania was unable to make the remaining three purchases because the arrangement became inoperative following the nonobservance of performance criteria. On October 30, 1987, the Board also approved Tanzania's request for arrangements under the SAF (EBS/87/213, 10/8/87) in an amount equivalent to SDR 21.4 million (20 percent of quota), which was drawn on the same date.

A policy framework paper (PFP) for the period 1988/89-1990/91, which updates and extends the PFP transmitted to the Fund on October 6, 1987, has been distributed separately as EBD/88/318, 11/8/88. In the attached letter dated November 4, 1988, the Tanzanian authorities request support from the Fund under the Structural Adjustment Facility in an amount equivalent to SDR 32.1 million (30 percent of quota) (Attachment I). The objectives and policies that the authorities intend to pursue in the three-year program period that began on July 1, 1988, as well as the targets and ceilings for 1988/89, are described in the memorandum of economic and financial policies of Tanzania, annexed to the letter. A summary of the 1988/89 financial program is shown in Appendix VI (Table I). As of end-September 1988, Tanzania's total use of Fund credit, including the SAF, amounted to SDR 66.87 million (62.5 percent of quota). Total use of Fund credit would reach SDR 98.97 million, or 92.5 percent of quota, at the end of the second-year SAF program, at end-June 1989 (Table 1). Tanzania's relations with the Fund are summarized in Appendix II.

The World Bank group is active in Tanzania, mainly through the International Development Association (IDA). Total World Bank group lending to Tanzania amounted to US$1,466.63 million as of end-August 1988, of which US$1,207.98 million had been disbursed. In November 1986 the Executive Board of the Bank approved a program to be supported by a US$130 million multisector rehabilitation credit (MRC). A supplementary credit to the MRC in the amount of US$30 million was

Table 1. Tanzania: Schedule of Proposed Purchases and Repurchases, September 1988-June 1989

	Position at September 30, 1988	1988 Oct.-Dec.	1989 Jan.-June
		(In millions of SDRs)	
Transactions under tranche policies (net)	—	—	—
Purchases			
Repurchases	—	—	—
Ordinary resources	—	—	—
Borrowed resources	—	—	—
Transactions under structural adjustment facility	—	32.10	—
Outstanding use of Fund credit at end of period	66.87	98.97	98.97
Under tranche policies	45.47	45.47	45.47
Under structural adjustment facility	21.40	53.50	53.50
		(In percent of quota)	
Outstanding use of Fund credit at end of period	62.50	92.50	92.50
Under tranche policies	42.50	42.50	42.50
Under structural adjustment facility	20.00	50.00	50.00

Source: IMF Treasurer's Department.

approved on January 19, 1988. Total MRC disbursements (excluding cofinancing) amounted to US$118.5 million at end-June 1988. An Industrial Rehabilitation and Trade Adjustment Credit (IRTAC) in the amount of US$135 million should be presented shortly to the Executive Board of the Bank. Tanzania's relations with the World Bank Group are described in Appendix III. Tanzania continues to avail itself of the transitional arrangements under Article XIV, Section 2.

II. Recent Economic Developments and Performance Under the Stand-By Arrangement and the SAF

1. Developments through 1986/87

During the late 1970s and early 1980s, the Tanzanian economy deteriorated markedly, with real gross domestic product (GDP) increasing by less than 1 percent per year on average, and real per capita income declining by more than 2 percent per year on average. In the agricultural sector, the production of basic food commodities tended to expand in parallel with the population, with severe food shortages appearing only during sustained droughts; however, the production of export crops was cut by one half over the period largely as a result of an overvalued exchange rate and low relative producer prices. In the industrial sector, production rose markedly during the 1970s and then collapsed in the early 1980s, as most firms, inefficient and import-intensive, were unable to obtain foreign exchange to purchase imported inputs. By 1983/84, Tanzania had a huge foreign debt, in excess of US$2.6 billion, but little to show for it. The entire economic infrastructure, in particular its transportation system, was seriously run down owing to years of neglect, and most economic activities outside the subsistence sector had come to a halt. In the face of limited domestic supplies, expansionary financial policies fueled domestic demand, which, in turn, contributed to rising inflation.

Faced with economic disaster, the Government began reversing policies in mid-1984 with the adoption of less expansionary fiscal policies and the introduction of the "own-foreign exchange scheme," which allowed Tanzanian nationals with foreign exchange overseas to import a wide choice of goods without being questioned as to the source of the foreign exchange. However, the basic policy framework--including the extreme overvaluation of the exchange rate, restrictions on domestic trade, and price controls--remained unchanged, and the economy failed to rebound. This led the Government to introduce a much more comprehensive three-year program, the Economic Recovery Program (ERP), in 1986. The program contained measures to improve resource allocation and expand production incentives, along with enhanced price policies and improvements in marketing arrangements. These measures were set within the context of a cautious financial framework in support of which the Fund approved the 18-month stand-by arrangement on August 28, 1986, and the World Bank, the multisector rehabilitation credit.

Tanzania experienced serious difficulties with the credit program owing to the rapid increase in bank credit to the agricultural marketing boards to cover their operating deficits, which resulted from the persistence of the currency overvaluation in the case of the export-oriented boards, particularly the Tanzanian Cotton Marketing Board (TCMB), and from price rigidities and poor marketing procedures in the case of the National Milling Corporation (NMC). Accordingly, ceilings on total bank credit for end-December 1986 and end-June 1987, and on credit to specified marketing boards for end-March and end-June 1987 were not observed. However, more success was recorded in the implementation of other areas of the program. The economic growth target was met, largely owing to a return of good rainfalls after several years of drought, while the rate of inflation was contained at a level slightly below that of the previous year. For the year as a whole, quantitative targets for the fiscal deficit were met, and ceilings on bank credit to Government were observed. There were substantial adjustments to the exchange rate and producer prices, and the target for the external current account deficit was also met.

2. The adjustment program for 1987/88 (July/June)

Economic adjustment was further pursued through a program spanning the period 1987/88-1989/90, aimed at increasing longer-term growth and progressing toward external equilibrium. In support of this program, Tanzania requested access to resources under the SAF. As part of the second review under the stand-by arrangement, and as the basis for the first annual arrangement under the SAF, understandings were reached with the Government of Tanzania on an economic and financial program for 1987/88. The Government's objectives in this economic program were to increase the rate of economic growth to 4 percent, corresponding to a positive growth in real per capita income of close to 1 percent; to reduce the average rate of domestic inflation from more than 30 percent during 1986/87 to 20 percent during 1987/88; and to reduce the external current account deficit from 176 percent of merchandise exports in 1986/87 to 165 percent in 1987/88 (Appendix V, Table I).

The program for 1987/88 embodied a set of economic policies designed to restore incentives for the production of export goods and ease constraints on production and distribution in general, within a cautious financial framework. The Government's strategy was five-pronged: (i) to provide the economy with appropriate price signals through changes in the exchange rate, interest rates, and producer prices, combined with fewer price controls and reduced trade restrictions; (ii) to attain self-sufficiency in food supplies and to maximize the value of export crops by enhancing the role of cooperatives and licensed traders and limiting the role of marketing boards; (iii) to constrain the size of the overall fiscal deficit in order to allow for net repayment of domestic bank credit by the Government, and an expansion of credit to the productive sectors of the economy, while sharply reducing monetary growth and the rate of inflation; (iv) to give priority to the rehabilitation and maintenance of existing capital stock

and to the completion of viable ongoing projects; and (v) to improve financial resource mobilization by making the financial system more flexible and efficient.

3. Performance in 1987/88

During the 1987/88 crop season, the problems encountered in the past by the agricultural marketing boards continued to worsen, causing the entire financial program to go off track (Appendix V, Table VIII). The problems of the NMC were particularly severe, as food crops remained abundant but no adaptations were made in the marketing system, which had been designed for a time of shortages. Moreover, export crop processing and transportation difficulties resulted in a shortfall in the volume of exports, while the slowing down of the exchange rate adjustment after January 1988 caused a further weakening in the finances of the marketing boards. Although the target for the budgetary deficit was attained, a larger-than-anticipated reduction in the check float (which is the accumulated amount of checks issued that have not yet been cashed), and a shortfall in external financing forced the Central Government to resort to a very high level of bank credit. As a result of these developments, benchmarks and ceilings on net domestic assets and on credit to the Government and the marketing boards were exceeded throughout the period, causing money to expand by three times the targeted rate. The rapid growth in money fueled domestic inflation, which in turn contributed to a further misadjustment of the real effective exchange rate and made interest rates more negative in real terms. Reflecting these developments, Tanzania's external position weakened further, and a large amount of external payments arrears were accumulated.

During the early to mid-1980s, drought conditions and the maintenance of official panterritorial prices (i.e., the same producer's and into-store price everywhere in Tanzania regardless of transportation costs) that were lower than prices prevailing in most regional markets 1/ led to a marked decline in the volume of maize and other basic food commodities marketed through the NMC. Under these conditions, the NMC had no difficulty selling at a profit all that it could procure. In recent years, however, several factors--including the return of favorable weather conditions, the spread of hybrid maize, and the relaxation of restrictions on private trading and interregional transportation of grains--have contributed to an increase in production and a decline in prices prevailing in most regional markets. Moreover, official procurement prices increased substantially in the meantime, and accordingly, the NMC, which was mandated to procure at these prices whatever amounts of grain and beans were offered to it, experienced a

---

1/ Despite official prohibition, a significant share of the production is sold directly from farmers to private traders at market prices that vary among districts owing mainly to differences in costs of transportation to major consuming markets.

sharp increase in the volume of its procurement. When it came to selling this procured commodities, however, the NMC had to compete with private traders who tended to purchase better-quality products in areas closer to consumer markets at prices that were the same as, or even lower than, those the NMC had to pay. The result was that the NMC was forced to accumulate substantial stocks of unsold maize and other foodstuffs and then export them at a fraction of their actual cost.

In an effort to limit the operating costs of the NMC, the Tanzanian authorities began to work on the restructuring of the domestic marketing system, which they intended to implement during 1987/88, within the framework of the first-year SAF program. In the event, however, the restructuring of the grain marketing system could not be implemented in time for the 1987/88 crop, given that the NMC had already started its procurement campaign for the year. Failure to implement the reform of the grain marketing system forced the NMC to procure at unrealistically high official producer prices a large share of the marketed maize crop. Unable to sell all of it domestically, the NMC was forced to export 100,000 tons at a fraction of their cost. For similar reasons, the NMC experienced large losses on its purchase of beans, while losses on wheat and rice occurred because price controls precluded any increase in its selling prices for these products. Total operating losses for the year are estimated to have been close to T Sh 4 billion or 8.6 percent of the initial money stock. As of end-June 1988, the NMC was left with an accumulated bank overdraft of T Sh 10 billion and unsold stocks with an estimated market value of less than T Sh 2 billion.

The increase in the output of export crops, which took place during the 1987/88 season, failed to translate into higher export volumes owing to processing and transportation constraints, which continued to adversely affect the operations and the financial situation of the marketing boards. Although cotton production at 85,000 tons was close to 20 percent higher than in 1986/87, limitations in ginning capacity resulted in the accumulation of 20,000 tons of unginned cotton, while an equally large amount of ginned cotton could not be exported owing to the poor state of the central railway system, which carries to port most of the crops exported. In addition, because of the slow pace of adjustment of the exchange rate, proceeds from cotton exports in domestic currency were not sufficient to cover the operating costs of the TCMB, resulting in an increase of T Sh 4 billion in its overdraft with the banking system. The Tanzanian Tobacco Processing and Marketing Board (TTPMB) was hindered by the obsolescence of the equipment used and the low quality of the tobacco processed, with the result that a substantial shortfall in tobacco exports occurred, and the consequent financial difficulties of the TTPMB led it to resort to T Sh 1.4 billion credit from the banking system.

Notwithstanding the problems encountered in the implementation of the program, the economic environment continued to improve during 1987/88. Real GDP increased by 4 percent during 1987 in line with the program target. The increase in GDP was closely related to the strong

performance of the agricultural sector, which recovered from its depressed levels of the early 1980s and grew in real terms by an annual average of 5 percent during the 1984-87 period. This increase in agricultural production was primarily due to good weather, higher producer prices, and improved availability of agricultural inputs. For the first time in many years, Tanzania had a surplus in grain production in 1987/88 with the output of maize reaching a record level and that of rice nearing its peak production of a decade earlier. With the exception of coffee, which was adversely affected by some drought in coffee growing areas and the international marketing arrangements, the output of export crops recovered somewhat in 1987/88, with cotton production almost matching the record levels of the early 1970s and some gains occurring in all other crops. The development of the own-funded import scheme led to greater availability of consumer goods and an increase in activity by small-scale industries, private construction, and retail trade. After years of decline in both relative and absolute terms, the manufacturing sector contributed to overall GDP growth by increasing by 4 percent in 1987.

In support of the inflation and external targets, the program for 1987/88 targeted an overall central government deficit of T Sh 24.7 billion on a checks-issued basis, equivalent to 13 percent of GDP (9.4 percent of revised GDP). 1/ On the basis of an anticipated small increase in the check float, the equivalent programmed overall deficit on a checks-cashed basis was targeted at T Sh 22.8 billion (8.7 percent of revised GDP). 2/ Given the anticipated level of foreign financing, the program deficit was consistent with an improvement in the Government's net domestic indebtedness, through a net repayment of bank credit. While the deficit on checks-issued basis targeted for 1987/88 was larger than that registered in 1986/87 (8 percent of GDP), the budget represented a marked real adjustment because of the exchange rate adjustment. 3/

On the expenditure side, the program focused on reducing the real level of discretionary expenditure, with some increase in real mainte-

---

1/ Owing to revisions in the Tanzanian national accounts that occurred in May 1988, and to the fact that the program target for inflation was exceeded, the current estimates of GDP at market prices imply an upward revision from what had been estimated at the beginning of the 1987/88 program--14 percent for 1985/86, 24 percent for 1986/87 and 38 percent for 1987/88.

2/ While the deficit on a checks-issued basis for a given year refers to the excess of checks issued in the current budget year over revenue, the deficit on a checks-cashed basis refers to the excess of checks cashed (whether issued in the present or the past year) over revenue.

3/ It is estimated that the targeted adjustment of the exchange rate would be reflected in an increase in the deficit equivalent to approximately 5 percent of GDP and raise the domestic valuation of net external financing of the budget by over 6 percent of GDP.

nance expenditure in order to check the deterioration of the existing capital stock. The wage bill was to increase by 20 percent, as the freeze on civil service employment, with the exception of teachers and medical personnel, was to continue. Because of the need to concentrate all available resources on rehabilitating existing capital stock and completing ongoing projects, the program did not include any new major projects for 1987/88.

New revenue measures included increases in various fees and user charges for government services, drivers' licenses and motor vehicle registration and transfer fees, some local sales tax rates, entertainment and hotel levies, stamp duty charges, road tolls, and the introduction of a tax on meals in designated hotels and restaurants. In addition, the fiscal program for 1987/88 incorporated the full-year impact of the measures taken in April 1987 (as detailed in EBS/87/213, page 14). Furthermore, efforts to improve tax administration included the provision of new equipment and training of tax administration officials.

The preliminary fiscal outturn for 1987/88 indicates that the target for the Central Government deficit on a checks-issued basis was achieved as a result of lower-than-programmed expenditure (both current and development), despite a disappointing revenue performance. The much lower than programmed exchange rate adjustment during 1987/88 was the main factor accounting for the lower than programmed level of both expenditure and revenue. However, there also appears to have been a further deterioration in the efficiency of the tax administration, particularly in the Customs and Sales Tax Department. Through December 1987, low collections of customs duties and sales taxes were offset by a larger than anticipated transfer of profits from the Bank of Tanzania (T Sh 2 billion), as well as high income tax payments from the National Bank of Commerce (T Sh 1.5 billion). In both cases, the sharp increase in interest rates in 1986/87, in conjunction with the absence of interest on demand deposits, was the main causal factor. However, as revenue continued to lag behind program levels in the second half of the fiscal year, a T Sh 3 billion shortfall in total revenue (equivalent to 1.1 percent of GDP) is estimated for the entire year. Thus, while the program had envisaged a 60 percent increase in revenue, to 19.1 percent of GDP in 1987/88 (from 16.2 percent of GDP the previous year), actual collections are now estimated to have risen by 51 percent, to 18 percent of GDP.

The benchmarks for total as well as current expenditure were exceeded as of October 1987, but expenditure was significantly below the benchmark levels for the remainder of the fiscal year. Total expenditure rose by 39 percent (compared with a programmed rate of 60 percent) and current expenditure by 40 percent (compared with a programmed rate of 57 percent). The benchmarks on the overall deficit on a checks issued basis were observed through the end of June 1988. However, expenditure on a checks-cashed basis was significantly above the targeted level, owing to the unanticipated sharp reduction in the

check float. This development, combined with unexpectedly lower levels of external financing of the budget, led to a larger than programmed amount of domestic bank financing throughout 1987/88. 1/

The program sought to constrain the expansion of the net domestic assets of the banking system within an aggregate monetary policy designed to reduce the rate of inflation and to make more credit available to productive activities in support of the growth objectives. However, the monetary and credit targets were generally not achieved, as credit to specified marketing boards rose by about T Sh 13.2 billion, or 28 percent of the initial money stock, as against a decline of T Sh 1.4 billion, or 3 percent of the initial money stock, targeted in the program. Credit to cooperative unions also rose substantially, by T Sh 4.8 billion, or 10 percent of the initial money stock, reflecting mainly the processing difficulties in the cotton sector. Credit to Government rose by T Sh 4.7 billion, or 10 percent of the initial money stock, compared with the program target of a decline of T Sh 2 billion, or 4 percent of the initial money stock. Consequently, the programmed credit targets were exceeded by a wide margin, with net domestic assets of the banking system increasing by T Sh 27.9 billion, or 60 percent of initial money stock (against the target of 32 percent). Despite a large increase in medium-term liabilities of the banking system, which more than offset an increase in net foreign reserves of US$10.7 million (compared with an anticipated increase of US$20 million), the excess domestic credit expansion was reflected in a broad money growth of 36 percent--more than triple the rate anticipated in the program--thus maintaining inflationary pressures in the economy.

Partly as a result of the overall financial performance, the rate of inflation, on a 12-month basis, as measured by the consumer price index, decelerated only marginally from 32 percent at end-June 1987 to an estimated 31 percent at end-June 1988. Despite the lack of progress in bringing down inflation, the Government continued its program of price decontrol and deconfinement. The number of controlled items was reduced from over 400 categories in the early 1980s to only 12 categories, constituting 15 percent of the consumer price index (CPI), in July 1988.

In connection with the 1987/88 program, the authorities undertook to attain positive real interest rates, in relation to the ongoing rate of inflation, by mid-1988. To that end, interest rates were raised in July 1987 to levels equivalent to 80 percent of the inflation rate. 2/

1/ It should be noted that development expenditure for 1987/88 includes a rough estimate of directly financed development expenditure, as actual data on this component of expenditure are extremely poor.

2/ The rate on one-year time deposits was raised to 24 percent, about 80 percent of the rate of inflation for what was then the latest 12-month period.

The authorities anticipated that, given the targeted decline in the inflation rate, these nominal interest rates would soon correspond to positive real rates. However, the inflation rate did not decline as targeted, and nominal interest rates were not adjusted further, thereby leading to negative real interest rates throughout the year. The study of the financial system that was to have been undertaken during the first-year SAF program was not initiated. However, the authorities have requested a technical assistance mission from the Fund to aid in the preparation of this study during 1988/89.

On balance, Tanzania's external performance fell short of the program target. Total exports, estimated at US$365 million, were far below the program target of US$422 million, owing to an export volume increase of about 2 percent as opposed to an anticipated increase of 17 percent. This shortfall was entirely accounted for by a decline in the volume of traditional exports of 15 percent. Inadequate ginning capacity for cotton, obsolete processing equipment for tobacco, and the poor state of the central railway used for the transportation of export crops were factors responsible for Tanzania's inability to translate the increased production of traditional export crops into higher export volumes.

Total imports of US$1,195 million were marginally above the program estimates, mainly because own-exchange imports (financed through private transfers and the export retention scheme) are estimated to have reached US$296 million as opposed to the programmed level of US$185 million. In February 1988, the trade system was liberalized in the context of the World Bank MRC program when the Government made available about US$5 million per month for selected eligible import categories (mainly raw materials and spare parts) on a nonadministrative basis through an open general license (OGL) system.

As a consequence of these factors, the trade balance deteriorated by about US$70 million more than the program projection. The services account showed a deficit about US$55 million larger than anticipated owing to lower receipts, while unexpectedly higher private transfers, reportedly corresponding to exports of goods and services outside official channels, moderated the above two influences. The current account deficit, excluding official transfers, was about US$85 million higher than the program target.

Disbursements of official grants occurred as anticipated. However, partly as a reflection of debt-servicing difficulties, capital inflows were lower by US$42 million, but because scheduled program amortizations had been overestimated by some US$27 million, the net balance on the medium- and long-term loans was virtually even. The overall deficit (US$317 billion) showed a US$104 million deterioration over the anticipated level, corresponding in large part to a worsened current account position.

The overall deficit was financed by purchases from the Fund, debt relief obtained through the Paris Club, and the accumulation of external payments arrears amounting to US$260 million, including arrears to multilateral development institutions. Gross reserves increased by only US$23 million as opposed to a programmed increase of US$68 million, reaching the equivalent of about three weeks of merchandise imports. The accumulation of external payments arrears and the shortfall in the increase in reserves led to the nonobservance of indicative program targets.

A major element of the adjustment strategy for 1987/88 was the gradual adjustment of the exchange value of the Tanzania shilling so as to reach a competitive level by end-June 1988. During the first half of the program, the authorities adjusted the exchange rate as programmed and the exchange value of the Tanzania shilling depreciated from the end-June 1987 level of T Sh 63.5 per U.S. dollar to T Sh 91.5 per U.S. dollar at end-January 1988. In real effective terms, this depreciation amounted to approximately 26 percent. However, the rate of nominal depreciation slowed down noticeably from January 1988, with the exchange rate reaching T Sh 97 per U.S. dollar at end-June 1988 and T Sh 98 per U.S. dollar at end-September 1988. 1/ It is estimated that between January 1988 and September 1988 the real effective exchange rate of the Tanzania shilling appreciated by about 13 percent, partially offsetting the earlier depreciation. 2/

1/ The recent evolution of the real effective exchange rate for the Tanzania shilling, as measured by the standard index developed in connection with the Information Notice System, is set out in Chart 1. Based on this index, as of August 1988 (the last date for which Information Notice System calculations are available) the shilling had appreciated in real effective terms by 11.6 percent since the last occasion on which Tanzania's exchange rate developments were brought to the attention of the Board, in an information notice issued on April 28, 1988. Since exchange rate developments are discussed in this paper, no separate information notice is being issued at this time.

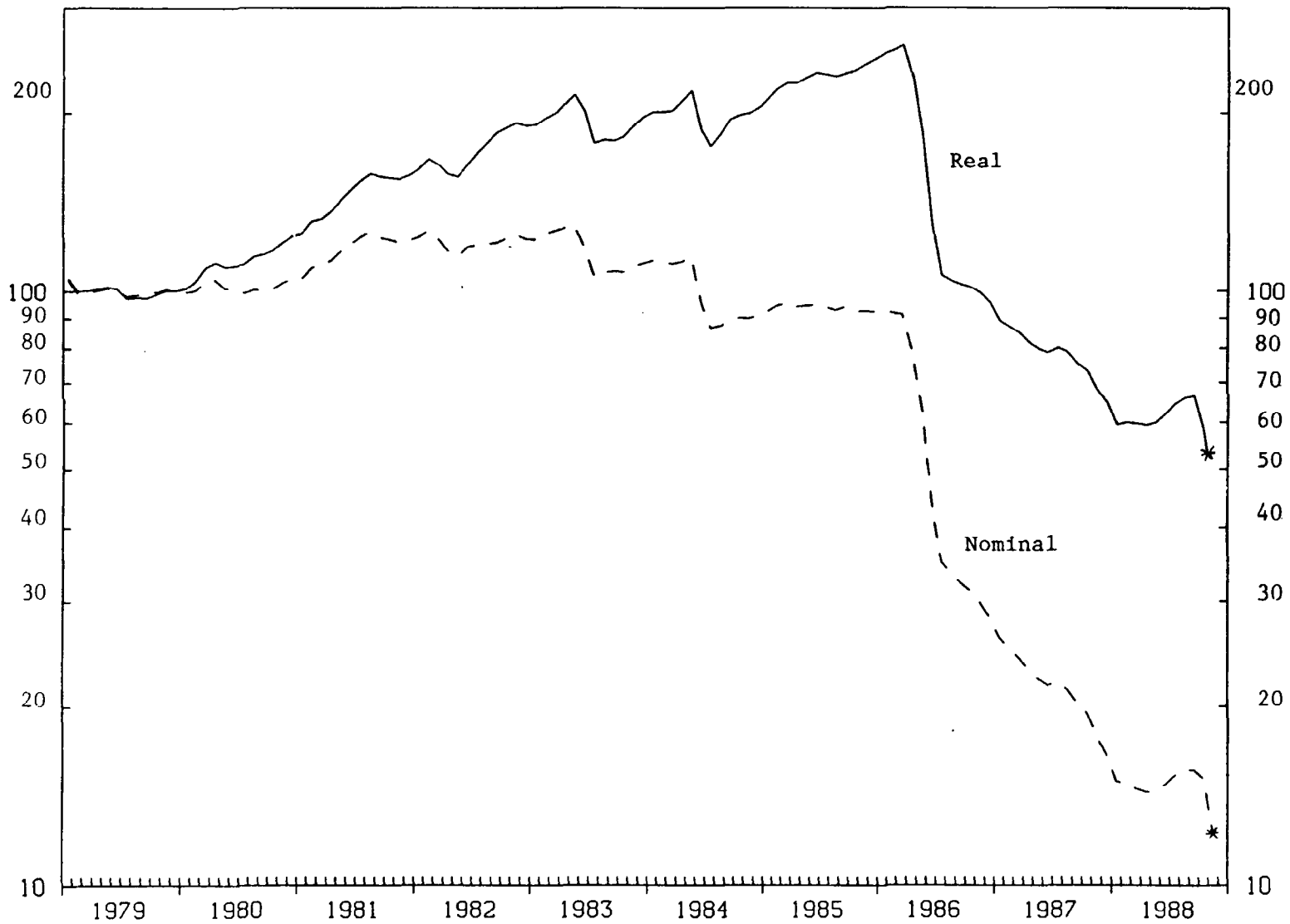
2/ At the end of FY1987/88, the Tanzanian authorities fixed the exchange value of the Tanzanian shilling against the U.S. dollar, and other currencies quoted by the Bank of Tanzania, which resulted in broken cross-rates that inadvertently resulted in a multiple currency practice. However, on November 4, 1988, all cross-rates were realigned, and therefore no multiple currency practice is currently in effect. The Tanzanian authorities will continue to adjust the exchange rate quotations of the Tanzanian shilling for currencies other than the US dollar at frequent intervals on the basis of the cross exchange rates between the U.S. dollar and the currencies concerned.

CHART 1

TANZANIA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES
JANUARY 1979-NOVEMBER 1988

(PERIOD AVERAGE;1979-100)



SOURCES:DATA PROVIDED BY TANZANIAN AUTHORITIES;AND STAFF ESTIMATES
* ESTIMATED POSITION AT NOVEMBER 1988,AS AGREERD IN THE PROGRAM

III. Report on the Discussions and Financial Program for 1988/89

The discussions were focused on the program for 1988/89, which aims at a real GDP growth of at least 4 percent, with a sharp reduction in the rate of inflation and an improvement in the external position (Appendix VI, Table I).

1. Production, marketing, and pricing policies

The authorities stressed that their policy stance with regard to production, marketing, and pricing was primarily dictated by the aim of attaining domestic food security. Despite the good crops of recent years, it was too early to consider that this aim had been reached, so that the reform of the marketing and pricing of basic food commodities should be designed not only to eliminate the financial problems of the NMC but also to stimulate the production of these commodities. This view was fully endorsed by the staff.

In conformity with this view, and after carrying out a number of studies with technical support of the World Bank, the Government decided to liberalize the domestic marketing of grains and beans. Beginning with the 1988/89 crop season, cooperative unions, and in some cases primary societies, will be free to sell their products to private traders. The NMC itself will become a commercial operator, free to procure only when it can do so at a profit, rather than a public monopoly obligated to purchase the products procured by the cooperative unions. The Government will continue to announce minimum producer prices; however, wholesale and retail prices will be decontrolled.

To help avoid food shortages during droughts and excessive fluctuations in producer and consumer prices, the Government will be responsible for the maintenance of the recently established Strategic Grain Reserve/Buffer Stock (SGR), which will be composed only of maize and used largely as a buffer stock. The SGR will be required to purchase whatever amount of maize is offered at the support price. (This commitment may at times be in conflict with the role of maintaining an appropriate level of grain reserves as a buffer stock.) A Board of Trustees will be appointed and will have responsibility for all management decisions related to the SGR. Separate accounts will be maintained and payments to the Government's agent will be limited to the direct costs of handling, storing, and transporting the SGR maize. In 1988/89, the NMC will manage the SGR as an agent of the Government. Procurement prices for the SGR will be relatively low to ensure that sales of maize to the SGR are viewed as a last alternative in periods of bumper crops, while the selling price will be set within a range that would cover the full cost of maintaining the SGR over the medium term. Initially, however, it is unavoidable that the SGR will have an operating deficit and the authorities have made provisions of T Sh 1 billion in the 1988/89 program for covering this deficit. Additions to the SGR/Buffer Stock will be limited to a level that can be

financed from the budget, if necessary through additional revenues, budgetary savings elsewhere, or through sales of maize at a price exceeding the purchase cost.

In addition to the commercial marketing of maize, the NMC will be the Government's sole agent for the importation of rice and wheat. These imported grains will be sold domestically by the NMC at prices that reflect full production and import costs, including a reasonable profit margin. Consistent with this policy, the NMC's selling prices for rice and wheat were raised by 93 percent and 53 percent, respectively, in August 1988.

While warmly welcoming this reform, the staff argued that it would have to be complemented and broadened over the next few years in several respects. In particular, the Government should allow primary societies to sell their products to private traders without any restriction so as to oblige cooperative unions to strengthen their management in order to compete. Primary societies could choose to become autonomous for the marketing of their products, as well as the procurement of their inputs. The authorities were not receptive to this point and indicated that they thought that the primary societies were not yet sufficiently equipped to deal directly with private traders. The staff also argued that the Government should ensure that the maize procured for the SGR is of adequate quality. The measures already taken--for example, a discount of 15 percent for maize of substandard quality and refusal of maize with a significant content of foreign matter--are useful but insufficient. The authorities agreed with this point and indicated that they were committed to introducing a more comprehensive grading system for maize grain, which will be announced by end-January 1989, and will become effective with the 1989/90 crop season and be strictly enforced by government inspectors for procurements for the SGR.

A key point advocated by the staff was a move away from the current panterritorial price system, in which minimum producer prices for maize and other grains are identical in all regions regardless of transportation costs to markets. The staff stressed that this system implied huge economic inefficiencies as it led to a geographical pattern of production that maximized rather than minimized transportation costs. Indeed, for certain remote districts, the foreign exchange cost of transporting the grain was larger than the c.i.f. price of imported grain. The staff also stressed that a more flexible pricing system would not reduce overall production, but only change its geographical distribution. It would also reduce the cost of the SGR because, under the current system, cooperative unions in remote districts may elect to sell maize to the SGR even when the overall maize crop is not particularly large. Thus, the SGR could become a very costly scheme through which the Government would subsidize production in the most remote districts. Nevertheless, the authorities remained unconvinced on this point and agreed only to begin to move to a flexible pricing system in 1989/90 "subject to the achievement of food security."

For export crops, the Tanzanian authorities explained that the Government's approach to increasing production and exports is based both on a reduction of distribution costs and marketing margins, and on an improvement of the processing and distribution infrastructure. In an effort to improve the efficiency of the marketing system of the main export crops, as contemplated in the first-year SAF program, phased action programs were prepared for coffee, cotton, and tobacco during 1987 (action programs for the other crops are in preparation). As part of these action programs, the Government has introduced several measures aimed at increasing the flexibility of export crop marketing in general. Thus, the role of marketing boards will be reduced to that of nonmonopolistic agents of the cooperatives and government instruments for the provision of quality control and market intelligence. In turn, the cooperative unions are allowed to retain ownership of their crops until they are sold, rather than transfer it to the marketing boards. A two-tier price system, similar to the ones currently in operation for tea and coffee, will be implemented for cashewnuts in October 1988, and, subject to improved market conditions, in mid-1989 for cotton and tobacco. In the new system, producer prices will serve as a minimum or floor price, with final payments based on the actual export price made independently by each cooperative union to its members.

The Government is also endeavoring to alleviate structural constraints to the processing and marketing of export crops. To address the dilapidation of the national ports and the rapid deterioration of old equipment of the railways, the Government has introduced an emergency program for the Tanzania Railway Corporation (TRC), a port modernization project for Dar es Salaam, and a ten-year development program for the Tanzania-Zambia Railway (TAZARA). In addition, a five-year (1988-92) rehabilitation program for trunk roads, and a core rural roads rehabilitation and maintenance program have been identified, while there will be a strengthening of support services, and crop-specific actions. The Government is taking measures to focus the existing resources of the TRC on the transportation of export crops during 1988/89, and to improve the efficiency of the trucking industry by liberalizing tariffs and selling some public sector vehicles to the private sector. In addition, cotton ginning capacity will rise from 300,000 bales to 500,000 bales by the early 1990s through the installation of new ginneries and the rehabilitation of existing ones, while a specific development program will enhance the management of the TTPMB and the modernization of its equipment with a view to improving the quality of processed tobacco.

The staff welcomed this major program to enhance export of agricultural products. However, it underlined the need for substantial increases in the real producer prices for export crops, in line with the ERP objective of an average increase of at least 15 percent from 1985/86 to 1988/89. It also underlined the relation between this element and the need for a much more active exchange rate policy. Moreover, the staff stressed that the major problem currently was the delays experienced in the transport of cotton and tobacco to Dar es Salaam on

the central railway line and that this problem appeared to be at least partly due to management weaknesses at the TRC.

The Government's current industrial strategy aims at enhancing the access of industrial firms to foreign exchange through retention accounts, the own-exchange scheme, and the OGL system. In addition, the Government is eliminating most price controls and channeling external assistance toward the rehabilitation and recurrent needs of firms that are domestic resource based and labor intensive. These measures, in addition to the macroeconomic adjustments that have been made thus far in the context of the ERP, have led to retrenchment in some of the more inefficient enterprises, and some reallocation of resources toward more efficient segments of the economy. However, significant improvements in manufacturing have yet to materialize.

Starting with fiscal year 1988/89, the Government will begin a comprehensive rationalization of the industrial sector. To that effect, and in the context of the World Bank's IRTAC, the Government will develop action programs by the end of 1988 for the textiles, leather, and agroprocessing subsectors. These subsectors, which are based on domestic resources, constitute more than one third of industrial production, and are deemed to have considerable potential for improving productive efficiency and capacity utilization through restructuring and rehabilitation. The action programs to be developed by the Government will consist of subsector-wide measures designed to alleviate constraints to efficient economic activities, as well as enterprise-specific interventions that would include, when appropriate, the phasing out of inefficient activities. Consistent with the industrial strategy and the measures mentioned above, the Government intends to continue its present policies of minimizing expenditures in new industrial investments in order to devote resources to industrial restructuring and rehabilitation.

While endorsing the initiatives recently taken to resuscitate the industrial sector, the staff noted that they did not address directly some of the major causes of the deterioration of this sector, including the artificial survival of many loss-making enterprises and the management and incentive problems of the parastatals. Furthermore, without a much more active exchange rate policy the staff stressed that it would be impossible to do much to enhance the access of industrial firms to foreign exchange and to effect the needed restructuring away from import-oriented activities.

2. Fiscal policies

The fiscal program is based on the budget for 1988/89, adjusted for the agreed devaluation of the Tanzania shilling, as well as on other specific areas as indicated below. The authorities emphasized that the aim of the budget in 1988/89 is to improve the ability of the Government to provide a minimum of services in an environment of declining pressure on domestic prices and the external current account. Budget measures to

achieve this end have been retained in the program. Thus, the fiscal program for 1988/89 contains measures to correct structural deficiencies in the tax system and its administration as well as in the composition of public expenditure; to raise the share of revenue to GDP in order to provide room for an expansion of government services; and to achieve a deficit that can be financed without net recourse to the domestic financial system. On a checks-issued basis, the deficit of the Central Government for 1988/89 is targeted at 10.4 percent of GDP (Appendix V, Table III). On a checks-cashed basis, the deficit is targeted at 10.6 percent of GDP, reflecting a projected small decline in the check float (T Sh 0.5 billion). 1/ Given the large projected net inflow of external resources, equivalent to 9.9 percent of GDP, the Central Government's residual domestic financing requirement can be absorbed by domestic nonbank sources.

Major structural deficiencies in the tax area include a weak tax administration, poor tax compliance, extensive use of exemptions, complicated rate structures for sales taxes and import duties, and unusually high nominal tax rates, with some of these deficiencies reinforcing others. This has resulted in less-than-equitable taxation and relatively low elasticity. Additionally, revenue performance has reflected a poor rate of cost recovery on services performed by the Government. The measures incorporated in the budget and the fiscal part of the program for 1988/89 address several of these areas of weakness, with further measures expected to be implemented in the budget for 1989/90. First, the budget incorporates the first phase of the reform of the customs tariffs and sales taxes agreed with the World Bank in the context of the IRTAC program. This phase includes reduced exemptions, simplification of the rate structure, and measures to strengthen tax administration. Thus, with the budget for 1988/89, the number of customs duty rates has been reduced from 20 to 7, the remaining specific duties have been converted to ad valorem, the maximum rate has been reduced to 100 percent, and the number of exemptions has been reduced. In the area of sales taxes, some distortive provisions have been eliminated, and there has been some reduction in the number of rates. During 1988/89 the authorities expect to formulate a detailed action program, to be completed by end-January 1989, for the next phase of the reform of customs and sales taxes, to be implemented with the budget for 1989/90. Second, reform in the area of income taxation has also been pursued in the budget for 1988/89, which incorporated a further reduction in marginal income tax rates from 20-75 percent to 15-55 percent, while the minimum taxable income was also raised. Third, a number of license fees, and road tolls have been increased, and fourth, other revenue measures in the budget have been designed to improve cost recovery through increases in various fees and charges for government services. Fifth, some existing sales taxes have been raised, and some minor new taxes introduced.

1/ Excluding the Government's assumption of T Sh 13.64 billion of bank overdrafts of marketing boards effective July 1, 1988.

The above increases in taxes, fees and service charges are estimated to yield T Sh 1.8 billion in 1988/89 (equivalent to 0.5 percent of GDP) while the customs tariff reform, in combination with the expansion of the OGL system and the devaluation of the currency, is estimated to yield T Sh 9 billion. Furthermore, the budget contained provisions for strengthening the tax administration by recruiting more employees and providing more equipment and facilities for the Customs and Sales Tax as well as the Income Tax Departments, and by increasing penalties for noncompliance. The authorities explained that these improvements--together with other measures taken, such as an expansion of the tax net to include more taxpayers, improved audits and inspection, and collection of arrears on income taxes--would be reflected in significant additional revenue collections in 1988/89. In total these administrative measures were budgeted to yield T Sh 5.75 billion (equivalent to 1.7 percent of GDP). While the staff commended these improvements, it noted that a significant revenue yield from them should only be expected in the medium term, and that this was reflected in the program for 1988/89 which incorporated only a small improvement in revenue yields from administrative measures. Targeted revenue for 1988/89 was also boosted by a projected increase to T Sh 4.5 billion of the dividend payments from the Bank of Tanzania, which are based on profits realized in 1987/88. In total, revenue is programmed to rise by 53 percent to 21.5 percent of GDP in 1988/89, compared with 18 percent of GDP in 1987/88.

The authorities indicated that, given the need to contain the overall fiscal deficit in 1988/89, the budgeted sharp increase in revenue relative to GDP had been necessary to meet the rising expenditure levels, notwithstanding their efforts to rationalize expenditure and improve efficiency. The budget reflects the Government's efforts to concentrate recurrent expenditure on key programs such as maintenance of physical infrastructure; improvement of staffing, equipment and incentives for revenue departments, and improving the average level as well as the structure of public service pay, while eliminating overstaffing in the civil service and tightening recruitment consistent with containment of the overall wage bill. The authorities noted that the emphasis in the development budget is on directly productive expenditure, particularly in the agricultural and livestock development sectors, and on economic and social infrastructure. Furthermore, public sector policies would be further strengthened by adjusting prices and tariffs of noncommercial public enterprises to improve their operating results. Specifically, while the budget contained provisions for transfers to TRC and the Dar es Salaam Water Authority to cover accumulated losses in the context of a rehabilitation of these enterprises, the authorities noted that the tariffs of the Dar es Salaam Water Authority had been sharply increased in mid-1988 to improve its current operations. The budget also provides a small amount for the maintenance of the SGR/Buffer Stock (equivalent to T Sh 0.45 billion) and for interest payments of T Sh 1.1 billion on the overdraft of the marketing boards assumed by the Government. In addition to the above appropriations the program reflects the impact on the budget of the

agreed devaluation, as well as provision for the potential additional cost of operating the SGR on account of the Government's role as buyer of last resort.

The 25 percent increase in the wage bill in the program for 1988/89 incorporates a 10-20 percent increase in civil service salaries, plus the introduction of rent assistance and transportation allowances, while the size of the civil service will be contained by the Government's continuation of the policy of freezing staffing levels, except in education and health, and reallocating positions to priority services such as tax administration. The budget also includes a 10 percent increase in real terms in appropriations for maintenance expenditure, most of which will provide for an improvement in road maintenance. Expenditure is programmed to rise by 64 percent from 26 percent of GDP in 1987/88 to 32 percent of GDP in 1988/89, excluding the Government's assumption of the accumulated overdraft of the marketing boards.

While noting the progress made in implementing the reform of the customs tariffs and import sales tax system as well as income taxation, the staff representatives stressed the need to continue these reforms and indicated that a comprehensive review of the tax system recently carried out by the Fund staff should be helpful in this respect, in particular for the development of a program by end-March 1989 to reinforce income tax administration with the 1989/90 budget. On the expenditure side, the staff emphasized that both monitoring and control would benefit from the re-establishment of a system of reporting expenditure on a commitment basis in addition to reporting on a checks-issued basis. Furthermore, the staff noted that difficulties had been encountered in monitoring the benchmarks on expenditure and the overall deficit, in part because monitoring information on development expenditure was incomplete, as it did not include development expenditure that was financed directly from abroad. It was agreed that a monitoring system would be set up so that total development expenditure would be monitored throughout the fiscal year. Finally, with regard to the movements in the check float, the staff inquired why it did not grow in proportion to the increase in the level of checks issued. The authorities responded that they considered excessive the float increase of recent years and that, therefore, they were seeking improvement in administrative procedures in order to speed up the encashment of checks issued. This had led to a major reduction in the float in 1987/88 and should lead to a further small reduction in 1988/89.

3. Monetary and credit policies

The authorities felt that the monetary and credit policies of the program were consistent with its objectives for economic growth, the balance of payments, and the rate of inflation. Monetary policy for fiscal year 1988/89 will be tight, with the monetary expansion limited to 10 percent, compared with the target for real GDP growth of at least 4 percent, and a rate of inflation of 18 percent. Although net domestic assets of the banking system are projected to grow by 30 percent, most

of the increase will be offset by an increase in the banking system's medium- and long-term foreign liabilities, which reflect the increase in deposits for foreign debt repayment. Credit policy will focus on an improvement in credit distribution in the economy, to provide adequate resources for the productive sectors within the overall monetary target, and thereby support the program's growth objective. To monitor credit and monetary developments during 1988/89, quarterly quantitative benchmarks have been established on net domestic assets of the banking system, net bank credit to the Government, and credit to specified marketing boards. Net domestic assets will increase by T Sh 27.5 billion, or 44 percent of the initial money stock, with net bank credit to the Government programmed to remain unchanged, and bank credit to the specified major marketing boards increasing by T Sh 2.0 billion, or 3 percent of the initial money stock (Appendix V, Table IV). The limited increase in credit to marketing boards represents a sharp reversal from the 1987/88 outturn, reflecting the adjustment policies for domestic and export crop marketing and the exchange rate adjustment. Credit to the rest of the economy is targeted to increase by T Sh 19 billion, or 30 percent of the initial money stock. This increase is necessary in view of the large increase in the domestic price of imported inputs, and in the local currency cost of foreign debt service resulting from the devaluation of the Tanzania shilling.

The authorities indicated that the Government remained committed to improve financial resource mobilization in Tanzania and accordingly, an action program for the existing financial institutions would be ready by end-1988 and implemented during 1989. This program will aim at improving the efficiency of existing financial institutions and at diversifying their financial services. On December 1, 1988, deposit rates will be increased by up to 5 percentage points and lending rates will be raised by up to 2 percentage points. While deposit rates will still remain somewhat below the ongoing inflation rate, they will be reviewed, and if necessary, adjusted further so as to become positive in real terms by end-1988, by comparison with the inflation rate for the last 12 months for which data are available. Interest rates on government stock were kept unchanged in line with the current inflation rate, a level which could put undue pressure on the budget in years to come if inflation is reduced as planned. Therefore, the mission urged the authorities to refrain as much as possible from long-term borrowing in this period of adjustment. Other government borrowing rates will be increased by 2 percentage points on December 1, 1988, and later on they will be kept in line with the general structure of interest rates.

4. External sector policies

The main thrust of the program for 1988/89 is to continue to lay the foundation for an improvement in the external position, partly through exchange rate adjustment. The improvements on the external account targeted for 1988/89 include an increase of US$20 million in the net international reserves of the Bank of Tanzania; the elimination of external payments arrears through cash payments of US$25 million to

multilateral institutions and the rescheduling of the rest; and an increase of about 9 percent in the volume of exports, apart from coffee, which is subject to an export quota. The current account deficit (excluding government transfers) would decline from an estimated 214 percent of merchandise exports in 1987/88 to below 194 percent in 1988/89 (Appendix V, Table V). These developments, if strengthened subsequently by decisive actions--especially in the exchange rate area--would pave the way toward the restoration of a substantially sustainable balance of payments position in the second half of the 1990s.

The staff stressed throughout the discussions that the real effective exchange rate had not been at an equilibrium level in mid-1988, which was a major aim of the last stand-by agreement and the first-year SAF program. It was noted that several indicators pointed toward a large overvaluation of the domestic currency. First, a major element of the SAF program was the Government's commitment to ensure at least a real annual increase of 5 percent for producer prices of export crops during the period 1986/87-1988/89. However, real producer prices for the major export crops actually declined in 1987/88 and the prices announced for 1988/89 are likely to correspond to a further decline. Furthermore, staff calculations of the cash-flow position of marketing boards of major export crops indicated that, notwithstanding the Government's assumption of unbacked overdrafts, the marketing boards could not break even on their operations despite the low producer prices announced for 1988/89. Second, the import system remained highly restrictive and there was no chance that the Government would be able to implement its program of import liberalization, in particular the broadening of the OGL system discussed below, without a major change in the exchange rate. Third, the foreign exchange cash-flow position of the Bank of Tanzania is precarious and continues to be negatively affected by the significant proportion of exports that occur outside official channels because of the premium on foreign exchange in the parallel market, where the rate has remained in the range of T Sh 160 and T Sh 180 per U.S. dollar. Finally, and most importantly, Tanzania faces a critical balance of payments position over the medium term even on the most optimistic assumption, which necessitates that correct relative price signals be given support.

After difficult discussions, the Tanzanian authorities agreed to an initial adjustment in the value of the Tanzania shilling from T Sh 98 per U.S. dollar to T Sh 120 per U.S. dollar--a change which was effected on November 4, 1988--and to effect a further small depreciation of the exchange rate in real effective terms through monthly adjustments during the rest of the program. In addition, it was agreed that any slippages in the variables used to monitor the external adjustment in the short run (i.e., the targeted increase of US$20 million in the Bank of Tanzania's net international reserves, cash reduction of arrears and the nonaccumulation of new arrears, relative profitability of activities oriented toward exports, and assessments of the operation of the OGL system) would call for a review of the adequacy of the programmed adjustment in the real effective exchange rate.

The staff considers that the Government's exchange policy should support the envisaged substantial broadening of the OGL system in February/March 1989, when it is estimated that no less than three fourths of all imported recurrent inputs and spare parts, and selected consumer and capital goods, will be funded through the OGL facility. These imports are estimated to exceed US$200 million for FY 1988/89, equivalent to about 15 percent of the total import bill. During 1989, the OGL facility will be further expanded, with the aim that eventually only a limited list of ineligible import categories will remain. Ceilings on importers' applications will be increased to US$0.5 million by end-January 1989, and phased out completely during the year. Imports under the OGL system will be deconfined. During the discussions, the staff stressed that the OGL system should not be viewed solely as a medium for external disbursements, and that the process of restoration of external balance should progressively enable Tanzania to use its own foreign exchange resources for the OGL system. This is why the existence of excess demand in the OGL system should be an important factor in the assessment of the need for exchange rate change.

The Tanzanian authorities indicated that to complement the OGL facility, the Government is implementing a tariff reform. As described earlier, the existing structure of tariffs and sales taxes will be further simplified by a compression of the range of rates and the number of exemptions granted. In addition, consistent with the need to restore a unified foreign exchange market within the context of an appropriate exchange rate, the maximum foreign exchange retention rate will be reduced from 50 percent to 35 percent by end-January 1989 (with limited temporary exemptions), and retention privileges for traditional exporters will be abolished. The maximum retention rate will be further reduced to 25 percent by mid-1989, and the scheme will be terminated by end-1990, excepting nontraditional and nonmanufactured exports, and certain existing contractual obligations with some bilateral donors. In addition, with the restoration of an adequate exchange rate, the own-funded import scheme will be gradually phased out.

The authorities recognize that a successful resolution of debt obligations is critical to the medium-term viability of the program; they will call for debt rescheduling under the auspices of the Paris Club in December 1988, and for rescheduling with creditors other than multilateral creditors soon thereafter on terms comparable to those obtained from the Paris Club. In addition, the Government will continue to refrain from the guaranteeing as well as the contracting of any nonconcessional loans with a maturity between 1 and 15 years. Furthermore, except for normal import-related credits, there will be no increase in the net amount of short-term borrowing, and for public enterprises involved in the production process, aggregate non-concessional borrowing, contracted on their own creditworthiness, with a maturity of between 1 to 15 years will remain limited to US$50 million per year.

IV. Medium-Term Outlook

Over the medium term, Tanzania will continue to face an extremely difficult balance of payments situation, which will require the Government's commitment to put the appropriate measures into place. Success in attaining external viability will depend upon prolonged and vigorous implementation of adjustment policies, and active support from the international community in the form of debt relief and exceptional financing.

The medium-term scenario presented here assumes a further marked adjustment in the real exchange rate in 1989/90, together with the implementation of the new system for marketing export crops, and the successful resolution of the transportation and processing bottlenecks that have plagued cotton and tobacco in particular. Under these assumptions, it is projected that traditional exports will grow from an estimated US$204 million in 1987/88 to US$354 million in 1993/94 (Appendix V, Table VI). This corresponds to an average increase of about 10 percent per annum in value terms and 5 percent per annum in volume terms; at the same time, nontraditional exports are expected to show strong growth from an estimated US$161 million in 1987/88 to US$475 million in 1993/94, reflecting both larger production and higher exports through official channels in response to a better incentive structure. This large increase corresponds to an average annual increase of about 20 percent in nontraditional export value and about 15 percent in nontraditional export volume. On the basis of the above projections, between 1987/88 and 1993/94, total exports are expected to increase at an annual average of 15 percent in value, and about 10 percent in volume. During 1988/89 and beyond, the implementation of the World Bank's IRTAC should lead to large import savings through the development of import-substituting activities, and through more efficient use of imported inputs. This will allow the targeted rate of economic growth of 4-5 percent per annum to be achieved with a modest increase in import volumes. Merchandise imports are expected to increase, on average, by 5.5 percent annually in value during 1988/89-1993/94, corresponding to an average volume increase of about 3 percent per annum. Despite the increase in exports, Tanzania's continued heavy dependence on imports will lead to only a moderate improvement in the trade account through 1993/94.

Service receipts will continue to benefit from higher transportation revenues, stemming mainly from the rehabilitation of ports, and the larger revenues from tourism, which is expected to benefit from the implementation of the new foreign investment code in early 1989. Service payments continue to be dominated by large and rising interest payments. After remaining virtually unchanged through 1991/92, the services account shows a deterioration thereafter, owing to higher interest payments associated with the rescheduling of previously rescheduled debt. Private transfers, reportedly reflecting exports outside official channels, are projected to decline with the maintenance of an appropriate exchange rate, with a larger proportion of these

transfers taking the form of cash transfers as opposed to imports of goods. As a result, the current account deficit (excluding official transfers) is expected to increase from US$782 million in 1987/88 to US$853 million in 1993/94; however, as a percentage of merchandise exports the current account deficit is projected to decline by more than one half, from 214 percent in 1987/88 to 103 percent in 1993/94. Given the considerable adjustment effort, and on the basis of pledges during the July 1988 Consultative Group meeting in Paris, it is projected that over the medium term, donor support in the form of inflows of official grants--including cofinancing under the World Bank lending programs, and assistance through the World Bank Special Program for Sub-Saharan Debt-Distressed Countries--will be maintained in real terms, reflecting the decision of many bilateral creditors to switch their aid from loans to grants. The current account deficit, inclusive of official transfers, is projected to decline from an estimated US$293 million in 1987/88 to US$239 million in 1993/94.

The success of this adjustment strategy over the medium term depends on a temporary boost in external support. The inflow of concessional loans is projected to increase from an estimated US$190 million in 1987/88 to more than US$270 million per year in the period 1988/89-1991/92. It is assumed that the high level of financing will return to the lower historical levels thereafter. A large part of the external disbursements would be provided by the World Bank, whose lending program over the next few years is expected to disburse about US$200 million annually. As arrears are cleared with other multilateral and bilateral institutions, regular disbursements are expected to materialize through the medium term; all borrowings are assumed to be on concessional terms with no principal repayments during the medium term. However, scheduled amortization payments, after gradually declining from an estimated US$190 million during 1987/88 to US$150 million in 1991/92, are projected to increase by more than US$265 million thereafter, as repayments under the 1986 Paris Club rescheduling framework fall due beginning in October 1992 (Appendix V, Table VII).

On the basis of the above projections, the deficit in the overall balance will decline from an estimated US$319 million in 1987/88 to about US$128 million in 1991/92, to increase again in 1992/93 to US$417 million, entirely reflecting the scheduled repayment of previously rescheduled debt. Over the medium term, reserve accumulation is programmed to increase the Bank of Tanzania's gross reserves from their 1987/88 low level of an equivalent of three weeks of merchandise imports to about three months, and to be maintained at that level thereafter. The financing gaps, including disbursements under the Fund's structural adjustment facility, and before any exceptional financing, are expected to remain large over the medium term; from an estimated US$966 million in 1988/89, they are projected to decline moderately to US$455 million in 1993/94. 1/ However, net of arrears reduction in 1988/89, there is no tendency for the financing gaps to shrink over the medium term. Assuming that outstanding arrears to other creditors are rescheduled, these gaps can be fully covered through consolidation of 100 percent of

all reschedulable pre-cutoff date obligations, including the moratorium interest payments and other payments falling due under the 1986 rescheduling arrangement. 1/ Apart from the above, Tanzania is expected to be able to meet its current obligations, including interest payments for all future reschedulings, and it is envisaged that no new external arrears will be accumulated over the medium term.

The balance of payments projections are mainly dependent upon the rapid achievement of a competitive exchange rate and the easing of structural bottlenecks. Without these policies, lower export receipts will be reflected partly in higher private transfers, lower imports, and, possibly, a deterioration in the cash-flow position of the Bank of Tanzania with consequent effects on reserve accumulation. Any decrease in government transfers will be directly reflected in lower imports, and in a compromise of the GDP growth target, as will any decline in medium- and long-term capital inflows. Debt relief will be required over the medium term, including the rescheduling of previously rescheduled debt. The next Paris Club meeting for Tanzania could be an appropriate forum to discuss the modalities of the continued concessional financing that is an essential requirement. In Tanzania's special circumstances, debt service forgiveness, concessional interest rates, and longer grace and maturity period would ease the payments stream over the entire medium-term. Similar results could also be achieved through debt forgiveness, and comprehensive debt restructuring.

Tanzania has moderate obligations to the Fund in the next few years. From a total of US$14.3 million (or the equivalent of 4 percent of total debt service) in 1988/89 when no repurchases are due, these obligations peak in 1990/91 at US$35.8 million (equivalent to 9 percent of total debt service) and then decline to US$12.8 million (equivalent

---

1/ At the time of the 1986 Paris Club meeting, total debt service eligible for debt relief was estimated at US$1,331.8 million comprising: (i) pre-September 30, 1986 arrears of US$1,068.6 million, and (ii) eligible maturities falling due between October 1, 1986 and September 30, 1987 of US$263.2 million. Although all Paris Club bilateral agreements have been signed, the authorities have not yet reached agreement with other creditors, except the People's Republic of China, in concluding rescheduling agreements on comparable terms. At end-June 1988, total debt relief totalled US$857 million comprising: (i) debt relief on pre-September 30, 1986 arrears of US$659.8 million, and (ii) debt relief on eligible maturities of US$197.2 million. Pending the outcome of negotiations with other creditors, the balance of payments projections have treated US$474.8 million of debt service eligible for rescheduling under the 1986 Paris Club framework but not yet rescheduled as accumulation of arrears in previous years, and eligible for rescheduling in 1988/89 under terms of the last Paris Club rescheduling.

1/ In each successive rescheduling, staff projections have assumed a grace period of 10 years, and an average moratorium interest of 5.5 percent.

to just under 2 percent of total debt service). In assessing Tanzania's ability to meet these payments, it needs to be pointed out that import support is not a substitute for Tanzania's free foreign exchange resources from which normally these payments are made. Therefore, over the medium term, Tanzania's ability to meet its critical external payments, including all nonreschedulable debt service payments, is projected on the basis of the anticipated improvement in the cash-flow position of the Bank of Tanzania that will ensue from a firm implementation of the envisaged adjustment policies including an active exchange rate policy leading to a change in the structure of relative prices large enough to make export-oriented activities more profitable than import-intensive activities. This improvement is anticipated, in spite of conservative estimates of capital inflows which, in staff projections, are dropped in 1992/93 back to lower historical levels. On the basis of these projections, it is anticipated that Tanzania will be able to fully discharge its obligations to the Fund.

V. Staff Appraisal

Tanzania encountered serious difficulties in the implementation of the financial program for 1987/88. Although the rate of economic growth accelerated to 4 percent (from 1.5 percent on average during the previous five years), stemming principally from favorable rainfall and large agricultural crops, the supply response was hampered by processing and transportation bottlenecks, and by the Government's inability to implement its decision to reform the marketing system for foodstuffs during the second half of 1987. Moreover, the fiscal performance of the Government was weakened by unexpectedly lower revenue collections, reflecting both the slower-than-agreed pace of exchange rate devaluation and a deterioration in the tax administration. While expenditure and the deficit, both on a checks-issued basis, were well within the program targets, the much-higher-than-programmed expenditure on a checks-cashed basis resulted in a higher cash deficit which, combined with a shortfall in foreign financing, forced the Government to increase its debt with the banking system significantly, rather than improving its position as anticipated in the program. These developments resulted in an export shortfall and in excessive credit to marketing boards and cooperative unions, which led to the nonobservance of the credit ceilings of the stand-by arrangement for June, October, and December 1987, and of practically all the SAF benchmarks for 1987/88. Net domestic assets of the banking system rose by T Sh 27.8 billion during 1987/88, as opposed to T Sh 14.4 billion in the program, which caused money to grow by 36 percent during 1987/88, more than triple the rate anticipated in the program. Tanzania's external position deteriorated considerably, with the increase in gross reserves of the Bank of Tanzania for the year falling short of the program target by US$44 million, and arrears on account of external payments accumulating to approximately US$260 million.

Weaknesses in the implementation of exchange rate and interest rate policies were particularly noticeable. After the exchange rate reached T Sh 90 per U.S. dollar in January 1988, the Tanzanian authorities slowed down and then stopped completely the pace of adjustment that would have led to the attainment of an equilibrium exchange rate by midyear, with the result that in real terms the Tanzania shilling actually appreciated by 13 percent between end-January and end-September 1988. Following the adjustment on July 1, 1987, bank interest rates remained unchanged throughout the year even though the rate of inflation remained around 30 percent instead of declining to 20 percent as anticipated in the program.

Despite the widening of the external and internal imbalances, progress was made in several areas in 1987/88. There was renewed growth in the agricultural sector, in part the result of good weather, but also in reflection of the Government's incentives to agriculture. Meanwhile, the outlook for manufacturing improved, mainly because of the availability of inputs through the export retention and own-foreign exchange scheme and the introduction of an OGL system in February 1988. In the fiscal field, efforts to rationalize the tax system and to improve the tax administration continued, with the preparation of the reform of income tax, as well as that of customs and sales taxation, announced with the budget for 1988/89, and the addition of new staff, equipment, and other facilities to tax departments, scheduled to be fully operational in 1988/89.

The Tanzanian authorities are aware, however, that to ensure the continued recovery of output and exports, it is necessary to make a vigorous and speedy effort to eradicate the structural problems that hampered economic performance under the first-year SAF program, and such measures have been incorporated in the second-year SAF program. The Government's priorities for the period 1988/89 to 1990/91 are the attainment of a rate of economic growth of 4-5 percent per annum, which corresponds to a positive growth in per capita income of 1-2 percent; a reduction in the inflation rate from 30 percent at end-1987/88 to 18 percent by end-1988/89 and to less than 10 percent by end-1990/91; and a major improvement in the external position.

The economic and financial program for the period 1988/89-1990/91 presented by the authorities in support of their request for a second annual arrangement under the SAF represents a considerable reinforcement of the economic policies that began in 1987/88. In the structural area, it aims at removing the processing, transportation, and marketing constraints that hampered production and exports of agricultural products in 1987/88. The main feature of the program is the restructuring of the marketing system for basic food commodities, including the full decontrol of grain marketing at the cooperative union level, and a clear mandate for the NMC to trade on strictly commercial terms. In particular, the staff welcomes the Government's assumption of direct responsibility in the management of the SGR/Buffer Stock for maize, including the coverage of any eventual losses. However, the staff believes that

further measures will be needed to strengthen this marketing reform. The establishment of a comprehensive grading system for maize, as agreed with the authorities, will be essential. Even more importantly, there cannot be an efficient, well-functioning system without full decontrol of domestic trade at the primary society level and a progressive move away from panterritorial producer prices.

The three-year program calls for tight financial policies with a reduction of the overall fiscal deficit in relation to GDP and monetary growth that will be consistent with the program objectives for the rate of inflation and the balance of payments. The program for 1988/89, which constrains the size of the Central Government's overall deficit (excluding the assumed overdraft) to 10.4 percent of GDP on a checks-issued basis, provides for a significant improvement in the level as well as the composition of both revenue and expenditure. The staff endorses the reforms undertaken in the area of the customs and sales taxes, as well as in income taxation, but notes that a continuation of this reform effort and particularly in tax administration is urgently needed. On the expenditure side, the program aims at improving the efficiency of central government expenditure, concentrating increases in current expenditure on key areas, while the development budget concentrates on the rehabilitation and completion of ongoing projects. The program also incorporates transfers to some public enterprises, notably the Dar es Salaam Water Authority and the TRC, in the context of their rehabilitation in 1988/89. These transfers will cover losses accumulated during previous years, while rate and tariff increases in the rehabilitated enterprises have been significantly increased. The program also makes sufficient allowance for the servicing of the debt, including the part of the overdrafts of the marketing boards assumed by the Government early in the year.

Monetary policy in the program aims at improving financial resource mobilization through an increase in the efficiency of the existing financial institutions and a diversification of their services. Interest rates, which are expected to become positive during the program period, will be raised by 5 percentage points for deposit rates and 2 percentage points for lending rates on December 1, 1988, and will be reviewed periodically and adjusted, if necessary, on a quarterly basis. Credit policy will be oriented toward satisfying the credit demand of productive sectors, while the expansion in credit will make allowance for growth and inflation, and for the increased costs of imported inputs and the servicing of foreign debt in domestic currency. The program's benchmark of containing credit to specified marketing boards are attainable. However, a number of financial pressures and policy uncertainties exist and management and financial control remains weak. Thus, attainment of program's objectives will require close monitoring and follow-up measures and actions where necessary to ensure that the major marketing boards operate within their credit ceilings and that the financial pressures do not spill over into either excessive credit to the cooperatives or the Government budget, particularly through the operation of the SGR/Buffer Stock facility. If

the NMC were to purchase more paddy than it can process, or significantly delay raising its ex-store prices or feel obliged to buy maize at prices exceeding the average cost per ton included in the projections, its credit requirements could soon become excessive. Without close monitoring and control to ensure that the program's policies are rigorously implemented, the targeted credit increase could be exceeded by a wide margin.

The staff welcomes the recent adjustment of the exchange rate and the commitment to make a further small adjustment in real terms over the balance of 1988/89. However, it would stress that this can only be viewed as a minimum and that further adjustments will be needed if a competitive rate is finally to be established. Therefore, the staff would urge the Tanzanian authorities to monitor the external adjustment closely and to act promptly and decisively if unfavorable deviations were to develop during the program period.

The staff is of the view that the policies in the 1988/89 program warrant continued support from the Fund.

Tanzania maintains restrictions on payments and transfers for current international transactions subject to approval under Article VIII, Section 2(a) evidenced by external payments arrears. In view of the authorities' intentions to eliminate outstanding external payments arrears by the end of June 1989, the staff recommends the temporary approval of the exchange restrictions evidenced by those arrears.

It is recommended that the next Article IV consultation with Tanzania be held on the standard 12-month cycle.

VI. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

A. 1988 Consultation

1. The Fund takes this decision relating to Tanzania's exchange measures subject to Article VIII, Sections 2(a), and in concluding the 1988 Article XIV consultation with Tanzania, in the light of the 1988 Article IV consultation with Tanzania conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Tanzania maintains restrictions on payments and transfers for current international transactions (described in SM/88/--) in accordance with Article XIV, Section 2, except that the exchange restrictions evidenced by external payments arrears are subject to approval under Article VIII, Sections 2(a). The Fund notes the intention of Tanzania to eliminate these restrictions and encourages the authorities to remove them as soon as possible. In the meantime, the Fund grants approval for the retention of these restrictions until the completion of the next Article IV consultation with Tanzania, or December 31, 1989, whichever is earlier.

B. Structural Adjustment Arrangement

1. The Government of Tanzania has requested the second annual arrangement under the structural adjustment facility.

2. The Fund has appraised the progress of Tanzania in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, and notes the updated policy framework paper contained in EBD/88/318.

3. The Fund approves the arrangement set forth in EBS/88/227.

Tanzania: Structural Adjustment Facility:
Second Annual Arrangement

Attached hereto is a letter, with an annexed Memorandum of Economic and Financial policies, dated November 4, 1988, from the Minister of State for Finance and Economic Affairs of Tanzania, requesting from the Fund the second annual arrangement under the three-year structural adjustment arrangement, and setting forth the objectives and policies of the program to be supported by the second annual arrangement.

To support these objectives and policies, the International Monetary Fund grants the requested arrangement in accordance with the following provisions and subject to the Regulations for the Administration of the Structural Adjustment Facility:

1. The second loan in the amount equivalent to SDR 32.1 million is available for disbursement at the request of Tanzania.

2. Before approving the third annual arrangement, the Fund will appraise the progress of Tanzania in implementing the policies and reached the objectives of the program supported by the second annual arrangement, taking into account primarily:

(a) the indicators specified in the Table attached to the Memorandum of economic and Financial policies annexed to the letter dated November 4, 1988,

(b) imposition of restrictions on payments and transfers for current international transactions,

(c) introduction of multiple currency practices,

(d) conclusion of bilateral payments agreements which are inconsistent with Article VIII,

(e) imposition or intensification of import restrictions for balance of payment reasons.

3. In accordance with paragraph 3 of the attached letter, Tanzania will provide the Fund with such information as the Fund required in connection with the progress of Tanzania in implementing the policies and reaching the objectives supported by the second annual arrangement.

4. In accordance with the attached letter, Tanzania will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing

Director requests consultation because of deviations from any of the indicators under paragraph 2 above or because he considers that consultations on the programs is desirable. These consultations may include correspondence and visits of officials of the Fund to Tanzania or of representatives of Tanzania to the Fund.

ATTACHMENT 1

Dar es Salaam, November 4, 1988

Mr. Michel Camdessus
The Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

1. On behalf of the Government of the Republic of Tanzania, we are pleased to transmit herewith a policy framework paper prepared in close collaboration with the staffs of the International Monetary Fund and the World Bank setting forth the Government's basic economic and financial objectives for the period 1988/89 (July-June)-1990/91 and the macroeconomic and structural adjustment measures designed to achieve them. We are forwarding today the same paper to the President of the World Bank. The Government of the Republic of Tanzania will remain in close contact with the staffs of the Fund and the World Bank on development and progress in implementing these policies, and the policy framework paper will be updated in connection with the third annual arrangement.

2. The memorandum on economic and financial policies also accompanying this letter, which is consistent with the attached policy framework paper, describes the structural adjustment program that the Government intends to pursue during the period from July 1, 1988 to June 30, 1991. It also describes in detail the objectives, policies, and measures for the first year of this period for which balance of payments assistance is needed. In support of this program, Tanzania hereby requests the second annual arrangement from the International Monetary Fund under the structural adjustment facility, in the amount that will be available to Tanzania under that facility.

3. The Republic of Tanzania will provide the Fund with such information as the Fund requests in connection with the progress in implementing the policies and reaching the objectives of the program.

4. The Government believes that the measures described in the attached memorandum on economic and financial policies are adequate to achieve the objectives of the program, but it will take any further measures

that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of any measures that may be appropriate, in accordance with the policies of the Fund on such consultations.

Yours sincerely,

D.K. Mbogoro
Minister of State for Finance
and Economic Affairs
Ministry of Finance,
Economic Affairs and Planning

Attachments

Memorandum on Economic and Financial
Policies of the Government of Tanzania
for the Period July 1, 1988-June 30, 1991

1. During the three-year period July 1, 1988-June 30, 1991, the Government of Tanzania will continue to implement economic and financial policies aimed at facilitating economic growth and adjustment. These policies, described in the present memorandum, are intended as a continuation of the reform efforts initiated in 1986 and consolidated in the first-year program supported by the first annual arrangement under the structural adjustment facility (SAF) approved by the Fund's Executive Board on October 30, 1987. The principal economic and structural difficulties facing Tanzania, the major objectives of the three-year SAF program, and the key policies and measures being adopted to achieve them are described in the policy framework paper (PFP). This memorandum provides a detailed description of the program's macroeconomic and structural adjustment policies, with emphasis on the first year of the period, together with the quantitative and structural benchmarks that will facilitate the monitoring of progress in key areas under the arrangement.

2. The program for the three fiscal years 1988/89-1990/91 is aimed at: (i) Sustaining an annual rate of economic growth of 4-5 percent, corresponding to growth in per capita incomes of 1-2 percent per annum; (ii) reducing the rate of inflation (as measured by the Consumer Price Index) to 18 percent by end-1988/89 and less than 10 percent by end-1990/91; and (iii) achieving a major strengthening of the external position. The external current account deficit (excluding government transfers) is programmed to decline from an estimated 214 percent of merchandise exports in 1987/88 to 193 percent for 1988/89, and to below 143 percent by 1990/91, owing mainly to an increase of about 11 percent per year in the volume of exports. At the same time, gross reserves will be increased, from a level equivalent to only about 3 weeks of merchandise imports at end-1987/88, to about 5 weeks of imports at end-1988/89 and 9 weeks of imports at end-1990/91. Gross reserve accumulation for 1988/89 will correspond to an increase in net international reserves of the Bank of Tanzania of US$20 million. External payments arrears will be eliminated during 1988/89 through cash payments to multilateral organizations and rescheduling of the remainder. These developments would result in substantial progress toward restoration of a sustainable balance of payments position in the second half of the 1990s.

3. In order to achieve the overall objectives of the program, the policy direction and structural reform efforts outlined in the program supported by the first annual arrangement under the SAF will be continued, although modified and supplemented where necessary. In summary these policies include: (i) providing the economy with appropriate price signals through continued flexibility in the exchange rate, interest rates, and producer prices, combined with fewer price

controls and reduced trade restrictions; (ii) improving the responsiveness of agricultural production and marketing through enhancement of the role of cooperatives and licensed traders; (iii) reducing the budget deficit (after adjustment for changes in interest rates and in the exchange rate) to facilitate the targeted reduction in monetary growth and in the rate of inflation; (iv) reordering public expenditures, both recurrent and capital, in favor of the rehabilitation and maintenance of physical infrastructure, and the provision of key social services; and (v) improving the flexibility and efficiency of the financial system to promote financial intermediation.

4. In accordance with the above objectives and policies, during 1987/88 the Government continued its active exchange rate policy. From end-June 1987 to end-January 1988, the Tanzania shilling was allowed to depreciate rapidly from T Sh 63.5 per U.S. dollar to T Sh 91.5 per U.S. dollar, i.e. a 25.7 percent depreciation in real effective terms. Subsequently, however, the authorities slowed the depreciation in nominal terms, and by end-June 1988, the exchange rate stood at T Sh 97.2 per U.S. dollar, 20.6 percent below the end-June 1987 level in real effective terms. During the second year SAF program, the Government will continue the adjustment of the exchange rate. To that aim, on November 4, the Government adjusted the exchange rate to T Sh 120 per U.S. dollar, or 15 percent below the end-June 1988 level in real effective terms. The Government also renewed its policy of exchange rate flexibility, with adjustments to be made on a monthly basis. The adequacy of the real rate will be reviewed periodically in light of external developments--particularly regarding the attainment of the program's external objectives listed in paragraph 2, including the increase of US$20 million in the Bank of Tanzania's net international reserves and the targeted reduction in arrears through cash payments by end-June 1989, as well as the relative profitability of efficient economic activities oriented toward export and import substitutes, developments in the terms of trade, and assessments of imbalances in the system of open general licensing (OGL). Consistent with the program's exchange rate policy, the maximum foreign exchange retention rate will be reduced from 50 percent to 35 percent by end-January 1989 (with limited temporary exemptions), and the retention for traditional exports will be abolished. Except for non-traditional and non-manufacturing exports, and certain existing contractual obligations with some bilateral donors, the maximum retention rate will be further reduced to 25 percent by mid-1989, and the scheme will be terminated by end-1990. In addition, Tanzania's exchange rate policy will support a substantial broadening of the OGL facility, as described in paragraph 22 of the PFP. Moreover, to bolster its ability to attain the program's external objectives, the Government will continue to pursue a prudent debt policy, as detailed in paragraph 20 below.

5. To complement the ongoing rationalization of the import system, the Government is implementing a reform of the customs tariffs and sales taxes. Under the IRTAC program recently agreed with the Bank, a major reform of the structure of tariffs and sales taxes is being implemented,

including reduced exemptions (all exemptions on commercial imports have been terminated), and simplification of the rate structure. Measures are also being implemented under a UNDP program to strengthen customs administration. In connection with the 1988/89 budget the number of customs duty rates has been reduced from 20 to 7, remaining specific duties have been converted to ad valorem, the maximum rate has been reduced from 150 to 100 percent, and the number of exemptions has been reduced. In the area of sales taxes the base has been broadened, some inconsistencies have been eliminated, and there has been a reduction in the number of rates. The reform of the customs duty and sales tax and the adjustment of the exchange rate is estimated to yield T Sh 6.8 billion of additional revenue in 1988/89. As specified in paragraph 28 of the policy framework paper, further reform of the tariff and sales tax will be implemented with the budget for 1989/90, following the preparation of a detailed action program for the next phase of the reform by end-January 1989.

6. During the fiscal years 1988/89-1990/91, fiscal policy will be geared toward containing the Government's annual budget deficit (before grants) to about 11 percent of GDP (on a checks-issued basis), a level that ensures a continued restraint on net domestic budget financing, and thus for bank financing as well, consistent with the program's monetary policy. For 1987/88 the deficit was T Sh 18.1 billion, or 6.9 percent of GDP, with an increase in the Government's stock of net domestic bank credit of T Sh 4.6 billion 1/, or 10 percent of the beginning period money stock. During 1988/89 a deficit of T Sh 35.2 billion, or 10.4 percent of GDP is targeted, 2/ with no increase in the Government's outstanding stock of net domestic bank credit. To attain these targets, the 1988/89 budget has introduced new tax measures. Revenue is targeted at T Sh 72.6 billion, or 21.5 percent of GDP, compared with 18 percent of GDP for 1987/88; while total expenditure (on a checks-issued basis) is limited to T Sh 107.8 billion, or 31.9 percent of GDP, compared with 25.9 percent of GDP for 1987/88. A large part of the increase in expenditure stems from the effect of exchange rate changes, as well as from service payments on the debts of the marketing boards assumed by Government effective July 1, 1988, as detailed below. To achieve the program's three-year fiscal objectives, the Government will strengthen its efforts to address existing structural weaknesses in the tax system and its administration, and in the composition, monitoring, and control of public expenditures. These structural reforms are described in detail in the policy framework paper.

1/ Out of this total, T Sh 2.1 billion correspond to the local counterpart of the first year SAF disbursement, which was passed to the Central Government, and is treated here as credit to Government from the Bank of Tanzania.

2/ The budget deficits for 1987/88 and 1988/89 are not directly comparable due to the disproportionate effect of exchange rate changes on revenue, expenditure, and financing.

7. To meet the 1988/89 revenue target, the following specific measures were introduced with the budget for 1988/89: (i) increases in the sales tax rates on beer (from 241 percent to 250 percent), soft drinks (from 115 percent to 130 percent), cigarettes (equivalent to an average 5 percent increase), wine (from 100 percent to 120 percent), and imposition of a sales tax on aluminum circles (at a rate of 25 percent); (ii) increases in a number of government fees and charges; (iii) increases in road tolls; (iv) introduction of a tax on video cassette rentals. Together these measures are estimated to yield T Sh 1.8 billion in 1988/89. In the area of income taxation, the budget for 1988/89 incorporated a restructuring from the previous marginal rates of 20-75 percent to 15-55 percent together with an increase in the minimum taxable income from T Sh 1,200 per month to T Sh 1,500 per month. Dividend payments to the Government from the Bank of Tanzania will continue to be limited strictly in accordance with the Statute governing the Bank's operations. The budget also incorporates measures to improve tax administration, with provisions for a strengthening of the Department of Customs and Sales Tax and the Department of Income Tax, by recruiting more employees, providing more equipment and facilities and raising penalties for noncompliance. The structural weaknesses in the revenue area are being addressed. A comprehensive review of the tax system has recently been carried out by the Fund staff and will be shortly discussed with the Government. Moreover, as noted above in paragraph 5, under the IRTAC program recently agreed with the Bank, a major reform of the structure of tariffs and sales taxes is being implemented, and further reform of personal income taxes and company taxes to broaden the base and enhance tax collection will be pursued with the budgets for 1989/90 and 1990/91. These reforms will improve efficiency, rationalize the structure of domestic protection, and improve revenue yields.

8. Regarding expenditure, a number of structural reforms are being implemented to improve efficiency, as well as monitoring and control of public expenditure in both the annual recurrent and the development budgets. An expenditure reform program will be completed by end-1988 in cooperation with the World Bank, including in particular, efforts to strengthen the budget process and improve expenditure control. A Public Expenditure Review has been carried out with the assistance of the World bank, and the Bank is continuing to assist in our ongoing review and reform of the Public Investment Program. However, even in advance of completion of these efforts, expenditure policies incorporated in the 1988/89 program are geared toward a reordering of priorities combined with the constraint of overall outlays. The increase in the wage bill for 1988/89 is being limited to only 25 percent, despite the sharp decline in real public sector wages that has occurred during the last decade. The program includes a 10 to 20 percent increase in salaries, with introduction of housing allowances and responsibility allowances for senior civil servants and professionals; wage bill estimates reflect a continuation of the freeze on the staffing level of the civil service, except in education and health. The program also includes an increase of about 10 percent in the real volume of appropriations for maintenance

expenditures. As noted in paragraphs 14 to 18 below, the program includes continued efforts to reform the crop marketing systems. In connection with these reform efforts, effective July 1, 1988 the Government assumed the part of the bank overdrafts of the marketing boards that was not covered by the value of their stocks of commodities and other assets. These assumed overdrafts amounted to about T Sh 14 billion. Amortization and interest payments on this additional domestic debt are included in the 1988/89 budget and are incorporated in the program's aggregate fiscal policy. The program also provides about T Sh 1 billion for the operation and maintenance of the Strategic Grain Reserve/Buffer Stock (SGR). Additions to the SGR will be limited to a level that can be financed from the budget, if necessary through additional revenues, budgetary savings elsewhere, or through sales of maize at a price exceeding the purchase cost, as specified in paragraph 43 of the PFP.

9. To monitor budget developments during 1988/89, quarterly indicative targets have been established on the cumulative increase in revenue, current expenditure, total expenditure, and the overall deficit (on a checks-issued basis). These indicative targets are shown in the following table.

	July-Oct. 1988	July-Dec. 1988	July 1988-March 1989	July 1988-June 1989
Revenue	19,300	31,300	50,250	72,600
Total expenditure 1/	23,300	37,700	59,900	107,750
Recurrent	16,750	27,050	43,050	77,466
Development 2/	6,550	10,650	16,850	30,284
Overall deficit	-4,000	-6,400	-9,650	-35,150

1/ Checks-issued basis. Expenditures exclude the gross value of debts of the marketing boards assumed by the Government, but include interest payments on these debts.
2/ Include development expenditure financed directly from abroad (D-funds).

It is assumed that the check float will decline by about T Sh 0.5 billion. Hence the total amount of financing necessary for 1988/89 will be T Sh 35.7 billion. The foreign exchange value of foreign grants and net loan flows is expected to increase from US$217 million in 1987/88 to about US$275 million in 1988/89, leading to a sharp increase in the domestic currency value on account of the anticipated average level of the exchange rate. Domestic nonbank financing (net) is expected to be approximately unchanged at about T Sh 2.3 billion. Thus the above indicative targets are consistent with the Government keeping constant its stock of outstanding net debt to the domestic banking system, net of

its assumption of the marketing board's overdrafts. Any significant adverse deviation from these targets will lead the Government to adopt offsetting measures to ensure that the program's 1988/89 fiscal targets are attained.

10. The central objective of monetary and credit policies during the next three years will be to reduce sharply the rate of monetary growth in order to achieve the targeted reduction in inflation, while providing an adequate supply of credit to the productive sectors. This objective will be achieved through a freeze on net bank credit to the Government as noted above, and a reform of agricultural marketing that will eliminate the need for substantial recourse to the banking system by the marketing boards that occurred in 1987/88. For 1988/89, the increase in net bank credit to specified marketing boards will be limited to T Sh 2.0 billion, or 3.2 percent of the beginning period money stock. For 1987/88, these marketing boards used net bank credit of T Sh 13.2 billion, or 28.0 percent of the beginning period money stock. The expansion in net domestic assets of the banking system will be limited to T Sh 27.5 billion, or 43.6 percent of the beginning period money stock. This should allow an increase of T Sh 1.8 billion in "other items (net)" and an expansion of credit to the rest of the economy (that is, excluding Government and marketing boards) of T Sh 23.7 billion, or 69.1 percent, which is warranted in view of the expansion of the OGL facility and the depreciation in the nominal exchange rate, and also the need to finance the enhanced role of the cooperatives in the marketing of basic food commodities and the restructuring costs of potentially efficient industrial firms and other nontraditional activities. Taking account of the targeted improvement of US$20 million in the net international reserves of the Bank of Tanzania, and in particular the large deposits to be made by the Government (T Sh 19.1 billion) and by private firms and parastatals (T Sh 6.5 billion) in the blocked accounts established, respectively, at the Bank of Tanzania and the NBC, for the payments of scheduled foreign debt services, the program aims at an increase of 10 percent in broad money for 1988/89, compared with an outcome of 35 percent for 1987/88. This reduction represents a marked tightening of monetary policy to achieve the targeted decline in the inflation rate on a 12-month basis, from 30 percent at end-1987/88 to 18 percent at end-1988/89.

11. To ensure that the program's monetary targets are attained, in addition to improved monitoring of the implementation of fiscal policy, credit to the marketing boards and to the agricultural cooperative unions will be monitored closely by the National Bank of Commerce and the Bank of Tanzania to prevent sustained bank financing of any operating deficits of these bodies. Moreover, loan decisions of the National Bank of Commerce and other banks will be made strictly on their own accord; except under exceptional circumstances where the national interest is involved, the Government will desist from guaranteeing bank loans to marketing boards and other parastatals.

12. To encourage domestic financial savings and their efficient use and to reduce the large margin between deposit and lending rates, deposit rates will be increased on December 1, 1988 by up to five percentage points, while lending rates will be raised by up to two percentage points. The authorities will seek real interest rates that are positive in real terms during the program period; to that aim, nominal rates will be reviewed, and adjusted if necessary, quarterly on the basis of the latest 12-month increase in the consumer price index. In particular, starting January 1, 1989, interest rates on term deposits of twelve months and above will be set at least one percentage point above the latest 12-month inflation rate. Government borrowing rates, which will be increased by 2 percentage points on December 1, 1988 (except for stocks), will later on be kept in line with the general structure of interest rates. In addition, the authorities are now carrying out the envisaged study of the financial system. An action program will be developed by March 1989 to carry out institutional reforms with the aim of improving the efficiency and diversification of services in the financial system, in particular through the enhanced competition resulting from expanding the mandate of publicly owned banks, in conjunction with their rehabilitation.

13. Following the reduction in the categories of goods subject to price control from over 400 during the early 1980s to only 22 categories during 1987/88, with introduction of the 1988/89 budget, the number has been reduced to only 12 categories. These are considered to be essential consumer items and constitute less than 15 percent of the items in the consumer price index. For the products that remain under control, prices will be adjusted to fully pass through increases in costs to users, including those related to movements in the exchange rate, as well as to reflect market conditions and to encourage efficient production. Prices of petroleum products will be adjusted as necessary during the year in keeping with the above pricing policies. In addition, by end-January 1989, the Government will effect a complete liberalization of internal trade resulting in formal deconfinement of internal distribution and imports of goods for all firms, except for a few goods whose prices remain under control and some imports that are confined for health and security reasons.

14. A critical feature of the program for the agricultural sector is the continuation of restructuring of the marketing system for basic food commodities. These reform efforts are detailed in paragraphs 41-51 of the policy framework paper. The actions being adopted focus on reducing the economic and financial costs of food marketing, while continuing to ensure domestic food security. The authorities will achieve this dual objective mainly by deconfining the marketing of domestic foodcrops at the primary society/cooperative union levels, by establishing a price support system for maize with an SGR financed by the Government, and by limiting the NMC to commercial activities.

15. The new price support system for maize will be offered, starting with the 1988/89 crop, at the gates of the depots of the NMC (or other

agencies the Government may ask to support maize prices). For the 1988/89 crop year, the floor price for maize, effective at the gates of all regional depots, will be T Sh 13.9 per kilogram. Furthermore, also for the 1988/89 crop year, a discount of 15 percent for substandard quality and a policy of no purchase of deliveries with significant amounts of foreign matter have been introduced. Financial costs of the SGR will be fully covered by the budget as specified in paragraph 8 above. For the 1989/90 crop year, there will be a further reduction in the real value of the floor price in keeping with the transition toward a financially viable SGR system. Moreover, a comprehensive grading system will be announced by end-January 1989 and become effective with the 1989/90 crop season. In addition, the Government has decided that, subject to sustainable food security, starting with the 1989/90 crop, procurement prices for the SGR will be gradually differentiated by regions to eliminate the economic distortions in the present system of panterritorial official procurement prices. This policy change and the regional prices for the 1989/90 season will be announced by end-January 1989.

16. To reduce marketing costs and thus facilitate higher farmgate prices, the Government is now actively encouraging primary societies, cooperative unions, and licensed traders to buy and sell grain and beans on a commercial basis within and between regions. In particular, the marketing of cassava, maize, millet and sorghum has recently been deconfined at primary society/cooperative union level, while the marketing of beans, rice, and wheat has been deconfined at cooperative union level.

17. The role of the NMC will be limited to the marketing of domestic grain and beans on commercial terms and the handling of any imports of rice and wheat that the Government may deem necessary. To maintain financial viability, the NMC will be allowed to sell rice and wheat, imported or domestically procured, at prices reflecting full costs, including a reasonable profit margin. These prices, which were set in July 1988 at T Sh 53.1 per kilogram for rice (versus T Sh 27.5 per kilogram previously) and T Sh 40.1 per kilogram for wheat (versus T Sh 25.4 per kilogram previously), will be reviewed annually, as well as whenever there is a significant change in the import costs of rice and wheat or in the relative sizes of procurements from farmers, Nafco, and imports. Consistent with its new commercial orientation, the NMC will refrain from procuring any grain or beans unless it can gain profit by doing so. On the basis of implementation of the program's policies, the NMC's credit requirements for 1988/89 are estimated at T Sh 0.94 billion.

18. With respect to export crops, the Government intends to increase the flexibility of crop marketing and to put greater pressure on marketing margins, mainly by reducing the role of the marketing boards to that of acting as nonmonopolistic agents of the cooperative unions, and providing quality control and market intelligence. The cooperative unions will be given more autonomy in procurement, through the esta-

blishment of a two-tier pricing for cotton, tobacco, and cashewnuts, similar to the system already existing for coffee and tea, in which the official producer price acts as a minimum or floor price, and final payments are made independently by each cooperative union to its members. The new two-tier system will be effective with the beginning of the coming crop year (October 1988 for cashewnuts and, subject to improved world market conditions, in mid-1989 for cotton and tobacco). As indicated in paragraph 50 of the PFP, phased action programs for immediate implementation of marketing reforms have already been prepared for three major crops (coffee, cotton, and tobacco) and action programs for the others will be prepared during 1988/89. Other efforts to improve performance of exports will focus on alleviating constraints to efficient agricultural marketing, including increased cotton ginning capacity, efforts to improve the quality of processed tobacco, rehabilitation of rural and trunk roads, rehabilitation of agro-processing facilities, construction of storage facilities, and improved provision of agricultural support services.

19. The program's macroeconomic policies--particularly the program's exchange rate, trade and pricing policies--are intended to have a major impact on the efficiency and performance of the industrial sector. The Government intends to supplement these efforts by implementing a program of industrial restructuring, as set forth in paragraphs 52-55 of the policy framework paper. Action programs are being prepared in the subsectors that will be subject to restructuring in the first phase of industrial reform, with implementation to be initiated by January 1989. Under the programs, currently inefficient firms which are judged to be potentially viable will be restructured, while inefficient activities for which the restructuring effort is unable to restore viability will not have access to administratively allocated resources. These measures in the industrial sector will be supplemented by the continued implementation of the public investment program, which, as already noted, focuses on restructuring and rehabilitating existing capacity.

20. The Government recognizes that the response of the productive sectors to reform initiatives will be curtailed unless urgent improvements are made to the transport system. Further to the actions initiated during the first-year SAF program, preparation for the second phase of the emergency program for the Tanzania Railway Corporation (TRC), as well as the additional requirements for the port modernization, will be completed in 1988 with a view to commencing implementation by the second quarter of 1989. In addition, the Government, will take immediate measures to focus the existing resources of the TRC on the transportation of export crops for the 1988/89 season. Also, a five-year (1988-92) rehabilitation program for trunk roads, and a core rural roads rehabilitation and maintenance program have been identified. These programs will be prepared during 1988 and implementation will begin during the first half of 1989. In the meantime, the Government will adopt a series of measures to improve the operations of the trucking industry, including the liberalization of intra-regional

trucking tariffs, the sale of uneconomic public sector vehicles, and the seeking of donor support to meet the annual requirement for increased truck inputs and replacements.

21. The Government intends to take such actions as necessary to ensure that the objectives of the second-year SAF program are attained. To this end, actions dealing with the program's major policy measures have already been implemented, including: the depreciation of the Tanzanian shilling to T Sh 120 per U.S. dollar on November 4, 1988; the announcement of the increase in interest rates by up to five percentage points for deposit rates and two percentage points for lending rates effective December 1, 1988; the announcement of a price of T Sh 13.9 per kilogram for the maize purchased for the account of the Government during 1988/89, effective at the doors of regional depots, with a discount of 15 percent for substandard quality and no purchase of deliveries with significant amounts of foreign matter; the deconfinement of cassava, maize, millet, and sorghum at primary society/cooperative union level, and the deconfinement of beans, rice, and wheat at cooperative union level; the curtailment of the NMC's trading on its own account to commercial operations; the assumption by the Government of the overdrafts of the marketing boards; and the introduction of a two-tier pricing system for cashewnuts for the season starting October 1988. Furthermore, progress under the program will be monitored closely under the following quantitative benchmarks as set forth in the attached table.

a. To monitor credit and monetary developments, quarterly benchmarks have been established for net bank borrowing by the Government, total credit to the seven major marketing boards, and net domestic assets of the banking system, defined to include total domestic credit and other net monetary assets, but excluding valuation adjustment on external assets and liabilities, as indicated in the attached table. As another benchmark, from end-June 1988 net official foreign assets of the Bank of Tanzania (excluding medium-term foreign liabilities) should increase as indicated in the table.

b. As detailed in paragraph 9, quarterly benchmarks have also been established for the total revenue, total expenditure, recurrent and development expenditures and the overall budget deficit (on a checks issued basis) of the Central Government.

c. New nonconcessional foreign borrowing by the public sector will be limited as follows: the Government and the Bank of Tanzania will not contract or guarantee any external borrowing on nonconcessional terms with an initial maturity of more than one year, and up to and including 15 years. New nonconcessionary borrowing by public enterprises which borrow on their own creditworthiness, and without Government or Bank of Tanzania guarantees, will be limited to a maximum aggregate amount of US$50 million from end-June 1988 to end-June 1989. In addition, except for normal import-related credits, the Government will not allow any increase in the outstanding amount of short-term credits of an original

maturity of up to and including one year, over the end-June 1988 level. These limits will not apply to the restructuring of any loans that may be agreed within the framework of debt rescheduling arrangements. Also as a benchmark, the Government will effect cash reductions in the stock of nonreschedulable debt-related external payments arrears in the amount and according to the schedule indicated in the attached table.

22. Policy implementation during the second annual arrangement under the SAF will also be followed closely, pursuant to the following policy benchmarks: (i) the envisaged exchange and interest rate adjustments; (ii) the reform of the agricultural crop marketing system for domestic and export crops, including the change in the role of the NMC to a purely commercial entity, except for acting as an agent of the Government for SGR purposes; (iii) the reform of the trade and payments system (as described and according to the timetable indicated in paragraph 23 of the PFP); (iv) the preparation of a program by March 1989 to improve income tax administration, to be implemented in connection with the 1989/90 budget; (v) the preparation of an action program by mid-1989 to improve the efficiency and widen the services of the public financial system; and (vi) the implementation of the credit policy as defined in paragraph 11 above. During the whole program period, the removal over time of restrictions on the foreign exchange and payments system, exchange and interest rate adjustments, implementation of structural reforms in both revenue and expenditure aspects of the budget, the rehabilitation and restructuring of parastatals, reforms in the agricultural crop marketing system, and changes in financial institutions will be closely monitored.

Tanzania. Quantitative Benchmarks, 1988/89

	End-June 1988 Actual 1/	July-Oct. 1988	July-Dec. 1988	July 1988-March 1989	July 1988-June 1989
		Program			
		(In millions of U.S. dollars)			
Minimum improvement in net official foreign assets of Bank of Tanzania		—	5	12	20
Cumulative cash reduction in external arrears		3	8	16	25
New external payments arrears (gross)			—	—	—
Increase in public and publicly guaranteed short-term external debt 2/		—	—	—	—
Government's contracting and guaranteeing of nonconcessional loans of 1-15 years' maturity		—	—	—	—
New nonconcessional foreign borrowing contracted by public sector productive enterprises on their own creditworthiness in the maturity range of 1-15 years		50	50	50	50
		(In millions of Tanzania shillings)			
Maximum increase in net domestic assets 3/	90,436	22,700	26,450	25,150	27,500
Maximum increase in net central government domestic bank borrowing 3/ 4/	38,585	—	-4,000	-4,000	—
Maximum increase in bank credit to specified marketing board unions 4/	24,017	5,300	7,900	5,500	2,000
Indicative central government revenue		19,300	31,300	50,250	72,600
Indicative total central government expenditure 4/		23,300	37,700	59,900	107,750
Indicative central government recurrent expenditure 4/		16,750	27,050	43,050	77,466
Overall central government deficit 4/		4,000	6,400	9,650	35,150

1/ Data represent the actual stocks outstanding at the end of June 1988.

2/ Debt having an original maturity of up to and including one year, excluding import-related credits.

3/ The above benchmarks for changes in net domestic assets and net central government domestic bank borrowing are set upon the assumption that the World Bank program lending to the Central Government plus the external commodity assistance receipts (import support) to the Central Government totals T Sh 6,653 billion during July-September 1988, T Sh 13,692 billion during July-December 1988, T Sh 18,763 billion during July 1988-March 1989, and T Sh 32,751 million during 1988-June 1989. To the extent that these estimates are exceeded, the benchmarks on changes in net domestic assets and net credit to the Central Government will be reduced accordingly.

4/ The figures do not reflect the assumption of T Sh 13.6 billion of outstanding debt of specified marketing boards by the Central Government on July 1, 1988. However, the fiscal benchmarks for 1988/89 include the financial costs associated with the servicing of this additional stock of debt.

TANZANIA - Basic Data

Area and population

Area:		945,100 sq. km.
Population:	Total 1987	23.2 million
	Growth rate	3.3 percent

	1983	1984	1985	1986	1987 Est.
	(In millions of Tanzania shillings)				
Gross domestic product					
At factor cost (constant 1976 prices)	22,882	23,656	24,278	25,158	26,142
Of which:					
Agriculture	9,914	10,312	10,931	11,557	12,066
Manufacturing and mining	2,277	2,345	2,249	2,158	2,240
Gross domestic product at current market prices	69,955	87,094	120,584	161,155	225,117
National consumer price index (NCPI) (1970 = 100)					
(Average change)	27.1	36.1	33.3	32.4	29.9

	1983/84	1984/85	1985/86	1986/87	1987/88 Prel. est.
	(In millions of Tanzania shillings)				
Central government budget					
Total revenue	14,426	18,244	21,246	31,387	47,479
Tax revenue	13,655	17,352	20,036	29,527	42,557
Nontax revenue	771	892	1,210	1,860	4,923
Total expenditure and net lending	20,886	25,980	32,373	46,978	65,535
Recurrent expenditure	16,174	20,031	26,331	35,146	49,323
Development expenditure and net lending	4,712	5,949	6,042	11,832	16,212
Overall deficit (checks-issued basis)	-6,460	-7,736	-11,127	-15,416	-18,056
Adjustment to cash and other items (net)	-3	909	2,790	-1,356	-5,821
Overall deficit (checks-cashed basis)	-6,463	-6,827	-8,337	-16,772	-23,877

TANZANIA - Basic Data (continued)

	(In millions of Tanzania shillings; end of period)				
Grants	1,234	1,677	1,685	11,145	17,831
Net foreign borrowing	230	807	537	2,189	1,024
Domestic nonbank financing	507	1,231	872	1,714	2,355
Domestic bank financing	4,492	3,112	5,243	1,724	4,657
	1984 June	1985 June	1986 June	1987 June	1988 June
Money and credit					
Domestic credit	34,372	40,392	49,675	63,359	92,011
Of which: Government	23,916	27,028	32,271	33,928	37,011
Money plus quasi-money	27,646	32,885	38,735	46,566	56,052
	1983	1984	1985	1986	1987 Est.
	(In millions of U.S. dollars)				
Balance of payments					
Trade balance	-440	-504	-713	-702	-803
Exports, f.o.b.	(379)	(388)	(286)	(348)	(347)
Imports, c.i.f.	(-819)	(-893)	(-999)	(-1,050)	(-1,150)
Services (net)	-15	-43	-68	-85	-169
Private transfers (net)	19	63	233	250	230
Current account	-436	-484	-548	-537	-742
Government transfers	145	146	193	363	477
Medium- and long-term borrowing	150	-74	-19	17	-56
Inflows	(253)	(183)	(200)	(203)	(136)
Outflows	(-103)	(-257)	(-219)	(-186)	(-192)
Suppliers' credits (net)	102	110	-32	-55	-5
Other capital movements and errors and omissions	20	144	11	-84	-39
Overall balance	-19	-159	395	297	365
Financing	19	159	395	297	365
Arrears	64	183	399	112	161
Net foreign assets (increase -)	-45	-24	-4	-3	56
Debt rescheduling (current maturities)	--	--	--	188	148

TANZANIA - Basic Data (concluded)

	1983	1984	1985	1986	1987 Est.
	(In millions of U.S. dollars)				
Gross official foreign reserves					
In weeks of imports	4.0	1.6	0.8	2.4	1.4
External public debt					
Debt service obligation as percent of exports of goods, services, and private transfers					
Excluding the Fund	30.2	62.1	53.3	52.1	68.5
Including the Fund	35.3	66.4	55.7	55.5	70.0

Social and Demographic Indicators

Population characteristics (1984)	
Life expectancy at birth	
Male	50
Female	54
Infant mortality (aged under 1, percent)	11
Child death rate (aged 1-4, percent)	2

Income distribution (1986)	
Percent of national income received	
By highest 5 percent of households	24.7
By lowest 20 percent of households	5.2

Nutrition (1982)	
Calorie intake as percent of requirements	83.0
Per capita protein intake (grams per day)	46.0

Health	
Population per physician (1987):	7,180.0
Population per hospital bed (1987)	1,017.5

Education	
Adult literacy rate (percent) (1980)	79.0
Primary school enrollment (percent (1984)	87.0

Tanzania - Relations with the Fund
(As of September 30, 1988)

I. Membership Status

(a)	Date of membership:	September 10, 1962
(b)	Status:	Article XIV

A. Financial Relations

II. General Department

(a) Quota: SDR 107.00 million

		SDRs (millions)	Percent of quota
(b)	Total Fund holdings of Tanzania shilling:	152.48	142.50
(c)	Fund holdings subject to repurchase and charges	66.87	62.50
	Of which: Credit tranche	(45.47)	(42.50)
	supplementary financing facility	(--)	(--)
	compensatory financing facility	(--)	(--)
(d)	Structural adjustment facility loans	(21.40)	(20.00)
(e)	Reserve tranche position:	--	--

III. Current Stand-By or Extended Arrangements and Special Facilities

(a) Current stand-by arrangement: None

(b) Previous stand-by arrangements:

Arrangement	Duration	Amount	Utilization	Undrawn balance
			(In millions of SDRs)	
Stand-by	8/21/75-8/20/76	10.50	--	10.50
Stand-by	9/15/80-6/30/82	179.60	25.00	154.60
Stand-by	8/28/86-2/27/88	64.20	45.47	18.73

(c) Structural adjustment facility:

First annual arrangement:	Amount	Utilization (In millions of SDRs)
October 30, 1987	67.95	21.40

Tanzania - Relations with the Fund (continued)
(As of September 30, 1988)

(d) Special facilities:

Compensatory financing facility (CFF): Tanzania was granted access to the CFF in May 1979 for a purchase of SDR 20.3 million; in September 1980 for a purchase of SDR 15.0 million; and in June 1981 for a purchase of SDR 15.9 million.

IV. SDR Department

(a) Net cumulative allocation	SDR 31.37 million
(b) Holdings:	SDR 0.00 million

V. Administered Accounts

(a) Trust Fund loans:	
(i) Disbursed	SDR 41.05 million
(ii) Outstanding	SDR 6.92 million
(b) SFF Subsidy Account:	
(i) Payments by Fund	SDR 2.45 million

VI. Overdue Obligations to the Fund None

B. Nonfinancial Relations

VII. Exchange System

The Tanzania shilling is pegged to a basket of currencies; the middle rate in terms of the U.S. dollar, the intervention currency, was T Sh 97.19 per U.S. dollar as of end-September 1988.

VIII. Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on May 20, 1987 (EBM/87/76, 5/20/87). The following decision was adopted:

1. The Fund takes this decision relating to Tanzania's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1987 Article XIV consultation with Tanzania, in the light of the 1987 Article IV consultation with Tanzania conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Tanzania maintains restrictions on payments and transfers for current international transactions (described in SM/87/87) in accordance with Article XIV, Section 2, except that exchange restrictions evidenced by external payments arrears, are subject to approval under Article VIII,

Tanzania - Relations with the Fund (concluded)
(As of September 30, 1988)

Section 2(a) and 3. In the circumstances of Tanzania, the Fund grants approval for the retention of these restrictions until the next Article IV consultation with Tanzania, or the completion of the second review under the stand-by arrangement for Tanzania set forth in EBS/86/183, Supplements 1 and 2, whichever is earlier.

Tanzania is on the 12-month cycle for Article IV consultations.

IX. Technical Assistance

Technical assistance missions from the Bureau of Statistics were undertaken to review Tanzania's government finance statistics (March 1985 and February 1, 1988) external debt (January 19-February 2, 1987), money and banking statistics (November 30-December 11, 1987), and prices, production and national accounts (April 21-May 2, 1986). A technical assistance mission from the FAD was undertaken to review the tax system and its administration (April 16-May 6, 1988).

Tanzania: Relations with the World Bank Group

1. Relations

Tanzania joined the World Bank Group in 1962. Beginning with an IDA credit for education in 1963, 64 IDA credits and 19 Bank loans, two of these on third window terms, amounting to US$1,466.63 million have so far been approved for Tanzania. Total disbursements amounted to US$1,207.98 million as of August 31, 1988. In addition, Tanzania has been a beneficiary of 11 loans totaling US$244.8 million, which were extended for the development of the common services and development bank operated regionally by Tanzania, Kenya, and Uganda through their association in the East African Community. IFC investments in Tanzania, totaling US$11.4 million, were made to the Kilombero Sugar Company in 1960 and 1964; for soap manufacturing in Mbeya in 1978; for metal products manufacturing in 1979; and for the Amboni sisal rehabilitation project in 1984.

Bank group lending in Tanzania has been channeled primarily to (i) agriculture; (ii) transport and communications; (iii) industry; and (iv) education and manpower development. In recent years, new Bank group lending has been focused primarily on the rehabilitation of existing productive facilities and the introduction of infrastructure and services of long-term use to the economy. Recent projects have included support for the power, highways and telecommunications sectors. In addition to financing specific projects, the Bank group has provided nonproject assistance in support of government efforts to deal with its balance of payments difficulties.

2. Multisector Rehabilitation Credit

A Multisector Rehabilitation Credit of US$130 million was approved in November 1986, and this category of quick disbursing assistance in support of the Government's adjustment program is expected to increase in importance in the coming years. The Multisector Rehabilitation Credit, which includes co-financing under the Special Facility for Africa, is being disbursed in three tranches. It has been designed to support government policy actions in the areas of (i) trade regime and foreign exchange allocation; (ii) public expenditures; (iii) parastatals; (iv) agricultural marketing; (v) industrial restructuring; and (vi) transport sector efficiency.

3. Future lending program

Lending of IDA resources during fiscal years 1989-93 is currently projected at US$920 million. The thrust of the lending program will follow a two-track approach, comprising (i) a series of quick disbursing policy-based lending operations (at least one such operation every year)

Tanzania: Relations with the World Bank Group (continued)

in support of the policy and institutional reform now underway, and (2) high priority specific investments, particularly those focussed on rehabilitation of key sectors, including infrastructure. In addition, the program includes support for some long-term investments in human resources and institutional development. Cofinancing will be sought for each of the lending operations. Individual operations, as currently envisaged, are set out below.

Tanzania--Five-Year Lending Program
FY 1989-FY 1993

		Amount (US$ million) IDA
FY89		
	Agricultural Adjustment	150.0
	Roads I Project	100.0
	Industrial and Trade Adjustment	130.0
	Agricultural Research	10.0
		390.0
FY90		
	Industrial and Financial Restructuring	70.0
	Petroleum Rehabilitation	30.0
	Population and Health	20.0
	Agricultural Extension	30.0
		150.0
FY91		
	Tree Crops Project	35.0
	Ports Project II	20.0
	Forestry Project	15.0
	Education VIII	30.0
	Agricultural Credit	50.0
		150.0

Tanzania: Relations with the World Bank Group (concluded)

FY92

Agricultural Adjustment II	100.0
Urban/Water Project	30.0
Roads II Project	50.0
Energy/Power	30.0
	210.0

FY93

Telecommunications III	20.0

4. Economic assessment: performance under the MRC

A summary of the World Bank staff's current assessment of the Tanzanian economy is as follows:

The Government's Economic Recovery Program (ERP) is more comprehensive than earlier attempts at adjustment and represents a promising start to the process of recovery in Tanzania. It will be essential, however, that the momentum of policy reform be maintained throughout the subsequent years of the ERP. The tightness of the resource situation and the binding nature of the many constraints facing the Tanzanian economy dictate not only that the policies announced so far should be implemented vigorously, but also that they should be followed up by further policy and institutional reforms. The areas that the Bank regards as critical to the success of the recovery effort are external policies; public sector management; pricing and distribution policies; the improvements to agricultural marketing; higher capacity utilization and the restructuring of industry; and the rehabilitation of priority components of the country's transportation system.

Assuming the ERP policies are implemented and the required additional external finance is forthcoming, Tanzania has good prospects for reversing the deterioration in its economy and achieving a durable recovery of output. The immediate target under the ERP is the re-attainment in many sectors of earlier output levels, but because the capital stock of the economy has been eroding for at least a decade, it will take years of rehabilitation to restore such infrastructure as the country's transportation network and its schools, hospitals, and health centers to their former condition. However, the returns to rehabilitation programs, provided they are well focused, are likely to be quite high. The application of additional resources at bottlenecks and other critical points in the economy should result in a strong rebound of activity.

Tanzania - Statistical Issues

1. Outstanding Statistical Issues

a. Real sector

The Tanzania Bureau of Statistics is endeavoring to improve the national accounts data in accordance with recommendations included in a technical assistance report of August 28, 1986.

The industrial production index, whose compilation began in 1985, is limited to manufacturing industry and covers establishments which on average have a labor force of 50 persons or more. It is expected that the index will lead to improved estimates of the manufacturing sector's contribution to GDP.

b. Government finance

Government finance statistics are published in IFS on an annual basis. The 1988 GFS Yearbook (GFSY) will publish data through 1985. Data from 1982 to 1984 are provisional and incomplete, notably with respect to data on nontax revenue, expenditure and lending minus repayments by economic type, and financing. Furthermore, no data on debt or on the state government of Zanzibar are included. In recent years, two government finance statistics missions visited Tanzania, in March 1985 and in February 1988.

c. Monetary accounts

The authorities are in the process of implementing some of the recommendations made in the report on the 1987 technical assistance mission. These include the separate identification of nonfinancial public enterprises and cooperatives in the balance sheets, and the valuation of arrears of the Bank of Tanzania at current end-of-period exchange rates. The remaining recommendations that need to be implemented concern the resident/nonresident distinction in the accounts, the separation of central government accounts from those of nonfinancial public enterprises and the valuation of arrears of the commercial banks at current end-of-period exchange rates. The mission also recommended a review of the present definition of external accounts of the Bank of Tanzania and a reporting by deposit money banks of balances with nonresidents.

d. Balance of payments

Balance of payments data for Tanzania are still characterized by long delays in reporting, as well as significant gaps. Efforts are being made by the authorities to remedy deficiencies in this area.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published for Tanzania in the November 1988 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Tanzania which during the past year have been provided on an irregular basis.

Status of IFS Data

		Latest Data in Nov. 1988 IFS
Real Sector	- National Accounts	1986
	- Prices: CPI	Q4 1987
	- Production:	n.a.
	- Employment:	n.a.
	- Earnings:	n.a.
Government Finance	- Deficit/Surplus	1985
	- Financing	1985
	- Debt	n.a.
Monetary Accounts 1/	- Monetary Authorities	June 1988
	- Deposit Money Banks	October 1987
	- Other Financial Institutions	October 1987
Interest Rates	- Discount Rate	June 1988
	- Bank Lending/Deposit Rate	June 1988
	- Bond Yields	n.a.
External Sector	- Merchandise Trade: Values:	Q3 1987
	Prices:	n.a. 2/
	- Balance of Payments	1986 (partial)
	- International Reserves	August 1988
	- Exchange Rates	September 1988

1/ Will be reflected in the December issue.
2/ Unit values of coffee and cotton exports are shown through Q3 1987.

Table I. Tanzania: Selected Economic and Financial Indicators, 1984-1988/89

	1984	1985	1986	1987 Est.	1987/88 Prog.	1987/88 Est.	1988/89 Prog.
			(Changes in percent, unless otherwise stated)				
GDP and prices							
Real GDP	3.4	2.6	3.6	3.9	4.0	4.0	4.0
Consumer prices							
End of period	36.1	28.2	33.2	28.9	20.0	30.0	18.0
Average	36.2	33.3	32.4	29.9	25.0	29.7	22.6
Government budget 1/							
Revenue excluding grants	26.5	16.5	47.7	51.3	60.3	51.3	52.9
Total expenditure	24.4	24.6	45.1	39.5	59.6	39.5	64.4
Money and credit (end of period)							
Total credit	21.9	22.0	18.7	47.9	21.1	53.0	26.5
Of which: Government (net)	(21.9)	(28.0)	(9.3)	(9.2)	(-5.9)	(13.7)	(--)
Money plus quasi-money	22.4	27.5	17.0	28.8	10.2	35.5	10.0
Velocity (GDP relative to M2)	2.9	3.1	3.3	3.6	4.9	4.2	4.9
Interest rates (12-month time deposit rate at end of period)	9.0	10.0	12.5	24.0 2/	24.0	24.0	29.0
External sector (on the basis of U.S. dollars)							
Exports, f.o.b.	2.5	-26.4	22.1	-0.2	19.0	7.7	16.7
Imports, c.i.f.	9.0	11.9	5.1	9.5	7.7	8.7	6.1
Nominal effective exchange rate 3/	-19.2	-2.2	-61.5	-41.2	...	-31.9	...
Real effective exchange rate 3/	4.0	8.7	-61.3	-32.1	...	-21.3	...
			(In percent of GDP)				
Overall government budget deficit 1/							
Checks-issued basis	-7.3	-7.9	-8.0	-6.9	-9.4	-6.9	-10.4
Checks-cleared basis	-6.4	-5.9	-8.7	-9.1	-8.7	-9.1	-10.6
			(In percent of merchandise exports)				
External current account deficit							
Excluding grants	124.7	192.0	162.4	214.4	165.0	216.3	193.2
Including grants	87.3	124.3	58.1	76.5	49.2	81.4	71.0
Scheduled external debt service 4/							
Including IMF	66.4	55.7	55.5	70.0	52.1	67.9	59.3
Excluding IMF	62.1	53.3	52.1	68.5	51.2	66.8	58.3
			(In millions of U.S. dollars)				
External current account balance (excluding grants; deficit -)	-484.4	-548.4	-565.0	-742.3	-696.5	-781.6	-817.6
Overall balance (deficit -)	-158.7	-394.6	-280.0	-365.3	-214.8	-318.8	-221.2
Stock of payments arrears	438.5	843.3	434.4	595.6	--	724.8	--
			(In weeks of imports)				
Gross official reserves	1.6	0.8	2.4	1.4	5.1	2.8	5.3

Sources: Based on data provided by the Tanzanian authorities; and staff estimates.

1/ On a fiscal year basis, beginning on July 1 of each year.
2/ Effective April 1, 1987.
3/ Information Notice System.
4/ In percent of exports of goods and services and private transfers.

Table II. Tanzania: Quantitative Benchmarks, 1988/89

	End-June 1988 Actual 1/	July-Oct. 1988	July-Dec. 1988	July 1988-March 1989	July 1988-June 1989
		Program			
		(In millions of U.S. dollars)			
Minimum improvement in net official foreign assets of Bank of Tanzania		—	5	12	20
Cumulative cash reduction in external arrears		3	8	16	25
New external payments arrears (gross) 2/		81.5	—	—	—
Increase in public and publicly guaranteed short-term external debt 3/		—	—	—	—
Government's contracting and guaranteeing of nonconcessional loans of 1-15 years' maturity		—	—	—	—
New nonconcessional foreign borrowing contracted by public enterprises involved in the production process, on their own credit-worthiness in the maturity range of 1-15 years		50	50	50	50
		(In millions of Tanzania shillings)			
Maximum increase in net domestic assets 4/	90,436	22,700	26,450	25,150	27,500
Maximum increase in net central government domestic bank borrowing 4/ 5/	38,585	—	-4,000	-4,000	—
Maximum increase in bank credit to specified marketing boards 5/	24,017	5,300	7,900	5,500	2,000
Indicative central government revenue		19,300	31,300	50,250	72,600
Indicative total central government expenditure 5/		23,300	37,700	59,900	107,750
Indicative central government recurrent expenditure 5/		16,750	27,050	43,050	77,466
Overall central government deficit 5/		-4,000	6,400	9,650	35,150

Sources: Data provided by the Tanzanian authorities; and staff estimates.

1/ Data represent the actual stocks outstanding at the end of June 1988.

2/ For this period only, this represents the accumulation of new arrears considered eligible for rescheduling in the balance of payments projections. A Paris Club meeting for Tanzania is expected to take place in December 1988.

3/ Debt having an original maturity of up to and including one year, excluding import-related credits.

4/ The above benchmarks for changes in net domestic assets and net central government domestic bank borrowing are set upon the assumption that the World Bank program lending to the Central Government plus the external commodity assistance receipts (import support) to the Central Government totals T Sh 6,653 billion during July-October 1988, T Sh 13,692 billion during July-December 1988, T Sh 18,763 billion during July 1988-March 1989, and T Sh 32,751 million during July 1988-June 1989. To the extent that these estimates are exceeded, the benchmarks on changes in net domestic assets and net credit to the Central Government will be reduced accordingly.

5/ The figures do not reflect the assumption of T Sh 13.6 billion of outstanding debt of specified marketing boards by the Central Government on July 1, 1988. However, the fiscal benchmarks for 1988/89 include the financial costs associated with the servicing of this additional stock of debt.

Table III. Tanzania: Central Government Operations, 1985/86-1988/89

	1985/86	1986/87		1987/88		1988/89	
	Actual	Revised Program	Prov. Actual	Program 1/	Est. Outturn	Budget	Program 1/
			(In millions of Tanzania shillings)				
Total revenue	21,246	33,479	31,387	50,304	47,479	70,212	72,600
Tax revenue	20,036	31,629	29,527	48,660	42,557	66,137	66,525
Customs duty	1,550	4,145	4,067	7,746	5,586	10,044	11,106
Sales tax (imports)	1,524	3,665	3,671	6,650	5,325	8,776	10,616
Sales tax (local)	9,058	13,689	12,395	22,704	17,420	27,179	26,045
Income tax	6,588	7,900	7,357	8,849	10,898	15,627	13,910
Other taxes	1,316	2,230	2,037	2,711	3,328	4,511	4,848
Nontax revenue	1,210	1,850	1,860	1,644	4,923	4,075	6,075
Total expenditure and net lending 2/	32,373	50,379	46,978	74,969	65,535	103,116	107,750
Current expenditure	26,331	35,520	35,146	55,208	49,323	74,716	77,466
Development expenditure	6,042	14,859	11,832	19,761	16,212	28,400	30,284
Overall deficit (checks-issued basis)	-11,127	-16,900	-15,416	-24,665	-18,056	-32,904	-35,150
Adjustment to cash and other items (net)	2,790	-2,200	-1,356	1,872 3/	-5,821 3/	-500 3/	-500 3/
Overall deficit (checks-cleared basis)	-8,337	-19,100	-16,772	-22,793	-23,877	-33,404	-35,650
External grants and loans (net)	2,222	14,450	13,334	23,249	17,831	30,304	33,417
Domestic financing	6,115	4,650	3,438	-456	6,046	3,100	2,233
Bank financing (net)	5,243	3,400	1,724	-2,000	4,657	600	--
Nonbank financing (net)	872	1,250	1,714	1,544	1,389	2,500	2,233
			(In percent of GDP) 4/				
Total revenue	15.1	17.3	16.2	19.1	18.0	20.8	21.5
Total expenditure	23.0	26.1	24.3	28.4	25.9	30.5	31.9
Current expenditure	18.7	18.4	18.2	20.9	18.7	22.1	22.9
Development expenditure	4.3	7.7	6.1	7.5	6.2	8.4	9.0
Overall deficit (checks-issued basis)	7.9	8.8	8.0	9.4	6.9	9.7	10.4
Overall deficit (checks-cleared basis)	5.9	9.9	8.7	8.7	9.1	9.9	10.6
Bank financing	3.7	1.8	0.9	-0.8	1.8	0.2	--
			(In percent of total expenditure)				
Overall deficit (checks-issued basis)	34.4	33.5	32.8	32.9	27.5	31.9	32.6

Sources: Data provided by the Tanzanian authorities; and staff estimates.

1/ Program estimates incorporate the estimated impact of the exchange rate adjustment agreed with the Fund.
2/ It has not been possible to obtain complete separate data on net lending; there are elements of it in both current and development expenditure.
3/ Change in float only.
4/ The latest staff estimates of GDP are used.

Table IV. Tanzania: Monetary Survey, June 1987-June 1989

(In millions of Tanzania shillings)

	1987		1988				1989	Changes 1987/88		Changes 1988/89
	June Actual	Dec. Actual	March Actual	June Est.	June Prog.	June 1/ Est.-Rev.	June Prog.	June Prog.	June Actual	June Proj.
Foreign assets (net) 2/	-17,459	-21,573	-14,635	-15,480	-13,738	-15,480	-13,088	3,721	-1,979	2,448
Bank of Tanzania	-8,217	-11,835	-7,947	-8,204	-5,527	-8,204	-6,701	2,690	13	1,447
Net international reserves 3/	-2,631	-6,249	-2,360	-2,983	-2,544	-2,983	-1,480	-352	1,447	430
Other foreign liabilities 4/	-5,586	-5,586	-5,586	-5,221	-2,983	-5,221	-5,221	2,603	365	—
National Bank of Commerce	-9,242	-9,738	-6,689	-7,276	-8,211	-7,276	-6,387	1,031	1,966	1,001
Net foreign assets	-231	-727	2,322	2,099	800	2,099	2,988	1,031	2,331	1,001
Other foreign liabilities 5/	-9,011	-9,011	-9,011	-9,375	-9,011	-9,375	-9,375	—	365	—
Medium-term foreign liabilities	-4,645	-11,188	-15,159	-22,762	-18,849	-22,762	-48,372	-14,204	-18,117	-25,610
Bank of Tanzania 6/	-2,675	-8,205	-9,487	-16,262	-13,675	-16,262	-35,372	-11,000	-13,587	-19,110
National Bank of Commerce 7/	-1,970	-2,983	-5,672	-6,500	-5,174	-6,500	-13,000	-3,204	-4,530	-6,500
Domestic assets (net)	62,568	86,278	80,646	90,436	76,968	90,436	117,936	14,400	27,868	27,500
Domestic credit	63,359	84,600	89,135	96,934	76,759	96,934	122,602	13,400	33,575	25,668
Claims on Government (net) 8/	33,928	35,781	35,635	38,585	31,928	52,228	52,585	-2,000	4,657	—
Other domestic claims	29,432	48,819	53,501	58,350	44,832	44,107	70,017	15,400	28,918	11,668
Selected marketing boards	10,771	20,827	23,399	24,017	9,371	10,374	12,017	-1,400	13,246	2,000
Cooperative unions	6,150	12,475	11,084	11,004	...	11,004	15,500	...	4,854	4,496
Rest of the economy	12,510	15,518	19,019	23,328	35,461	23,328	42,500	16,801	10,818	19,172
Other items (net)	-792	1,678	-8,489	-6,498	208	-6,498	-4,666	1,000	-5,707	1,832
Money and quasi-money	46,566	62,778	61,491	63,094	51,295	63,094	69,398	4,729	16,528	6,304
Valuation account	-6,102	-9,261	-10,638	-10,900	-6,914	-10,900	-12,922	-812	-4,798	-2,022
Memorandum items:										
Net international reserves (US$)	-41.4	-74.6	-25.2	-30.7	-21.4	-30.7	-10.7	20.0	10.7	20.0
Credit to specified parastatals	10,771	20,827	23,340	24,017	9,371	10,374 9/	12,374 9/	-1,400	13,246	2,000
Tanzania coffee marketing board	122	909	1,649	1,291	...	1,291	...	...	1,169	...
Tanznaia cashewnut marketing board	—	287	254	—	...	...	...	...	...	...
Tanzania cotton marketing board	5,380	7,729	9,285	9,517	...	3,353	...	...	4,137	...
Tanzania sisal marketing board	60	78	110	106	...	106	...	...	47	...
Tanzania tea marketing authority	99	126	137	126	...	126	...	...	28	...
Tanzania tobacco marketing board	1,005	2,213	1,986	2,533	...	1,540	...	...	1,528	...
National milling corporation (NMC)	4,106	9,485	9,919	10,445	...	3,960	...	...	6,338	...
Total in blocked accounts	19,242	25,785	29,756	37,358	30,843	37,359	62,968	11,601	18,117	25610
Increase in money supply (percent)	...	34.8	32.0	35.5	10.2	35.5	10.0	10.2	35.5	10.0

Sources: Data provided by the Tanzanian authorities; and staff estimates.

1/ Revised to reflect crop marketing overdrafts taken over by Government.
2/ Net international reserves of the Bank of Tanzania and net foreign assets of the National Bank of Commerce are valued at end-of-period exchange rates. The other items are valued at the exchange rates in effect when the transactions occur.
3/ Corresponds to the concept of net international reserves used in the balance of payments.
4/ Corresponds to the deposits made by the Government for its foreign debt amortization that have not been externalized except those related to the debt amortization after end-June 1986.
5/ Corresponds to the deposits made by the private sector and parastatals for their foreign debt amortization that have not been externalized except those related to the debt amortization after end-June 1986.
6/ Corresponds to the deposits made by the Government for the amortization of its rescheduled foreign debt after end-June 1986.
7/ Corresponds to the deposits made by the private sector and parastatals for the amortization of their rescheduled foreign debt after end-June 1986.
8/ Net banking system credit to Government has been adjusted to reflect the fact that SAF drawings are not intended as domestic budget financing.
9/ Net of reduction owing to Government assumption of overdrafts, of T Sh 13,643 million.

Table V. Tanzania: Medium-Term Balance of Payments Estimates, 1987/88-1993/94

(In millions of U.S. dollars)

	1987/88 Prog.	1987/88 Est.	1988/89 Proj.	1989/90	1990/91	1991/92	1992/93	1993/94
				Projections				
Trade account	-762.9	-831.0	-845.4	-841.9	-814.5	-830.8	-807.0	-814.6
Exports, f.o.b.	422.1	364.9	423.2	484.4	565.4	654.3	741.9	828.6
Imports, c.i.f.	-1,185.0	-1,195.8	-1,268.6	-1,326.3	1,379.9	-1,485.1	-1,548.9	-1,643.2
Oil	-174.6	-155.2	-161.1	-175.0	-185.2	-198.8	-211.9	-225.9
Own exchange	-184.5	-296.4	-289.8	-260.6	-164.1	-150.6	-137.6	-125.1
Other	-825.9	-744.3	-817.7	-890.7	-1,030.6	-1,135.7	-1,199.4	-1,292.2
Services (net)	-116.0	-170.7	-172.2	-168.5	-165.4	-163.8	-170.8	-183.5
Receipts	148.0	108.4	121.2	133.2	144.7	156.5	169.3	183.0
Payments	-264.0	-279.0	-293.4	-301.7	-310.1	-320.3	-340.1	-366.5
Interest 1/	-171.3	-180.6	-191.9	-197.1	-202.1	-208.9	-225.1	-247.8
Other	-92.7	-98.5	-101.5	-104.7	-108.0	-111.5	-115.0	-118.7
Private transfers (net)	182.5	220.0	200.0	185.0	175.0	165.0	155.0	145.0
Current account (excluding government transfers)	-696.5	-781.6	-817.6	-825.4	-804.9	-829.6	-822.7	-853.1
Government transfer (net)	489.0	489.0	516.9	535.0	553.7	573.1	593.1	613.9
Current account	-207.5	-292.6	-300.7	-290.4	-251.2	-256.5	-229.6	-239.2
Medium- and long-term loans, net	14.9	-0.5	91.4	94.6	119.2	125.4	-190.1	-176.9
Inflows	232.0	189.5	271.0	272.1	270.0	277.4	224.7	234.3
Outflows	-217.1	-190.0	-179.6	-177.5	-150.8	-152.0	-414.8	-411.2
Suppliers' credits (net)	-12.2	-4.5	-2.0	-0.6	-0.5	3.5	2.8	7.3
Errors and omissions 2/	-10.0	-21.2	-10.0	-2.5	—	—	—	—
Overall balance	-214.8	-318.8	-221.2	-198.9	-132.4	-127.6	-416.8	-408.8
Financing	40.0	318.8	-744.8	-56.1	-90.3	-80.4	-54.0	-45.3
IMF (net)	57.6	33.0	44.3	3.9	-30.3	-15.4	-4.0	-10.3
Purchases (stand-by arrangements)	32.2	7.9	—	—	—	—	—	—
SAF	28.0	27.7	44.3	19.9	—	—	—	—
Repurchases	-2.6	-2.6	—	-16.0	-30.3	-15.4	-4.0	-10.3
Reserves (increase -)	-67.7	-23.3	-64.3	-60.0	-60.0	-65.0	-50.0	-35.0
Arrears (increase +)	—	259.8	-724.8	—	—	—	—	—
Debt rescheduling	—	—	—	—	—	—	—	—
Arrears	—	—	—	—	—	—	—	—
Current maturities	62.7	49.3	—	—	—	—	—	—
Financing gap	-174.8	—	-966.0	-255.0	-222.7	-208.0	-470.8	-454.1
Memorandum items:								
Eligible debt relief	—	—	966.5	255.7	223.7	216.2	473.0	456.5
Gross reserves (in weeks of imports)	5.1	2.8	5.3	7.4	9.4	11.0	12.2	12.6
Current account (in percent of exports)	-165.0	-214.2	-193.2	-170.4	-142.3	-126.8	-110.9	-103.0

Sources: Data provided by the Tanzanian authorities; and staff estimates.

1/ Includes interest on debt relief and gap financing.
2/ Includes change in net foreign asset position of the National Bank of Commerce.

Table VI. Tanzania: Export Projections, 1986/87-1993/94

(Value in millions of U.S. dollars; volume in thousands of metric tons; unit value in U.S. dollars per kilogram)

	1986/87	1987/88 Prog.	1987/88 Est.	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
Coffee									
Value	136.90	116.04	90.33	115.14	120.72	127.16	133.60	141.15	148.85
Volume (MT)	47.73	50.52	41.01	48.64	49.37	50.34	51.50	52.62	53.63
Unit value	2.87	2.30	2.20	2.37	2.44	2.53	2.59	2.68	2.77
Cotton									
Value	37.78	89.60	64.08	59.79	67.73	77.85	89.02	99.85	111.19
Volume (MT)	44.39	67.35	45.61	45.62	50.74	54.27	58.06	61.50	65.18
Unit value	0.85	1.33	1.41	1.31	1.33	1.43	1.53	1.62	1.71
Sisal									
Value	5.00	9.16	5.80	6.56	7.05	7.41	7.62	7.73	7.81
Volume (MT)	13.18	26.18	13.68	14.52	15.27	15.88	16.16	16.21	16.21
Unit value	0.38	0.35	0.42	0.45	0.46	0.47	0.47	0.48	0.48
Tea									
Value	15.73	20.54	16.44	22.14	24.19	27.27	31.10	34.63	37.83
Volume (MT)	12.17	15.05	12.30	14.51	15.15	16.22	17.61	18.66	19.41
Unit value	1.29	1.37	1.34	1.53	1.60	1.68	1.77	1.86	1.95
Tobacco									
Value	12.68	21.93	12.33	13.09	14.67	16.52	18.06	19.29	20.03
Volume (MT)	7.47	12.08	9.15	8.51	8.99	9.66	10.39	10.92	11.15
Unit value	1.70	1.82	1.35	1.54	1.63	1.71	1.74	1.77	1.80
Cashew nuts									
Value	12.02	20.82	15.08	15.30	17.52	19.79	21.94	23.94	27.85
Volume (MT)	11.40	23.58	14.59	12.05	13.00	13.99	14.79	15.43	17.20
Unit value	1.05	0.88	1.03	1.27	1.35	1.41	1.48	1.55	1.62
Subtotal	220.11	278.09	204.06	232.02	251.89	276.00	301.34	326.59	353.56
Petroleum products	5.93	6.96	10.37	9.84	10.83	11.07	11.45	12.17	12.93
Minerals	16.01	20.00	26.27	30.81	35.80	39.20	42.93	43.65	44.17
Manufactured goods	53.29	70.00	79.79	80.19	95.43	116.90	138.51	158.83	178.31
Other	41.24	47.00	44.00	70.37	90.50	122.25	160.09	200.67	239.60
Subtotal	116.47	143.96	160.82	191.21	232.56	289.43	352.98	415.32	475.02
Grand total	336.58	422.05	364.88	423.23	484.44	565.42	654.32	741.91	828.58

Sources: Data provided by the Tanzanian authorities; and staff projections.

Table VII. Tanzania: Medium- and Long-Term Debt Service, 1987/88-1993/94

(In millions of U.S. dollars)

	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
Multilateral	87.84	91.03	87.93	80.60	76.01	73.71	72.20
Principal	55.63	57.92	55.39	51.86	49.82	49.91	51.53
Interest	32.21	33.11	32.55	28.74	26.19	23.80	20.67
Use of Fund credit	6.50	6.54	22.37	35.31	18.61	6.65	12.79
Repayments	2.60	0.00	16.00	30.30	15.37	4.03	10.21
Charges	3.90	6.54	6.38	5.01	3.23	2.62	2.58
Suppliers' credit	44.92	35.35	29.46	28.41	23.55	22.99	17.65
Principal	32.31	25.97	22.73	23.52	20.53	21.16	16.74
Interest	12.61	9.38	6.73	4.89	3.02	1.83	0.91
Bilateral loans	128.32	119.52	122.56	99.82	104.26	101.03	97.40
Principal	98.54	95.17	98.49	78.87	85.12	83.53	81.89
Interest	29.78	24.36	24.07	20.95	19.14	17.50	15.54
Financial institutions	52.84	38.49	32.85	26.92	22.01	18.85	13.80
Principal	35.83	26.52	23.61	20.07	17.05	15.37	11.77
Interest	17.01	11.98	9.24	6.85	4.96	3.48	2.02
1986 rescheduling/Arrears	73.28	73.28	73.28	73.28	73.28	339.28	339.28
Principal	--	--	--	--	--	266.00	266.00
Interest	73.28	73.28	73.28	73.28	73.28	73.28	73.28
Total debt service	393.70	364.20	368.45	344.31	317.72	562.51	553.12
Principal	224.92	205.57	216.20	204.61	187.89	439.99	438.12
Interest	168.78	158.63	152.25	139.70	129.83	122.52	115.00
Total debt service (excluding IMF)	387.20	357.66	346.07	309.00	299.12	555.86	540.33
Principal	222.32	205.57	200.20	174.31	172.52	435.96	427.91
Interest	164.88	152.09	145.87	134.69	126.60	119.90	112.42
Memorandum items:							
Interest on new commitments, gap financing, and debt relief	11.80	33.31	44.80	62.38	79.02	102.55	132.79
				(In percent)			
Debt service ratio 1/ 2/							
Including IMF	58.0	53.4	51.5	45.9	40.7	62.7	59.3
Excluding IMF	57.1	52.5	48.7	42.0	38.8	61.8	58.2

Sources: World Bank, Debtor Reporting System; and staff estimates.

1/ As a percentage of exports of goods, services and private transfers.
2/ Includes interest on new commitments, gap financing, and debt relief.

Table VIII. Tanzania: Performance Versus Quantitative Benchmarks, SAF 1987/88

	1987/88	
	Program	Estimate
	(In millions of U.S. dollars)	
Minimum improvement in net international reserves of Bank of Tanzania	20.0	10.7
Cumulative cash reduction in external arrears	12.7	--
New external payments arrears (gross)	--	259.8
Increase in public and publicly guaranteed short-term external debt 2/	--	--
Government's contracting and guaranteeing of nonconcessional loans of 1-15 years' maturity	--	--
New nonconcessional foreign borrowing contracted by public sector enterprises on their own credit worthiness in the maturity range of 1-15 years	50.0	7.9
	(In millions of Tanzania shillings)	
Change in net domestic assets	14,400	27,868
Change in net central government domestic bank borrowing	-2,000	4,657
Change in bank credit to specified marketing boards	-1,400	13,246
Indicative total central government expenditure	74,969	65,535
Indicative central government recurrent expenditure	55,208	49,323
Overall central government deficit	-24,665	-18,056

1/ Data represent the actual stocks outstanding at the end of June 1987.

2/ Debt having an original maturity of up to and including one year, excluding import-related credits.

Table I. Tanzania: Summary of the 1988/89 Financial Program

Targets	
Real GDP growth (in percent)	4.0
Inflation rate (year-end over year-end in percent)	18.0
Current account deficit (in percent of merchandise exports)	193.2
Increase in gross reserves of the Bank of Tanzania (end-period; in US$ millions)	64.3
Reduction in external arrears (end-period, in US$ millions)	724.8

Policy package

1. External policies

a. Exchange rate policy

Initial 18 percent devaluation of Tanzania shilling to T Sh 120 per U.S. dollar and the commitment to make further small monthly adjustments in real terms over the balance of 1988/89.

b. Liberalization of exchange and trade system

Substantial broadening of the open general licensing (OGL) system in February/March when it is estimated that no less than three fourths of all imported recurrent inputs and spare parts, and selected consumer and capital goods, will be funded through the OGL facility. These imports are estimated to exceed US$200 million for fiscal year 1988/89.

c. Other external sector policies

Decrease in the external current account deficit from 214 percent of merchandise exports in 1987/88 to 193 percent in 1988/89, reflecting increases of 16.7 percent in export value and 6.1 percent in import value. Increase in gross reserves of US$64.3 million, and reduction in external arrears of US$724.8 million. The Government will not contract or guarantee any nonconcessional loans of 1-15 years' maturity.

2. Budgetary policies

Budget deficit on a commitment basis of 10.4 percent of GDP financed without net recourse to the domestic banking system.

Substantial increase in revenue reflecting the impact of exchange rate adjustment on export and customs revenues, the reform of customs tariffs and sales taxes, reform of the income tax system, increased license fees and road tolls, improved cost recovery through increases in various fees and charges for government services, and a further strengthening of the tax administration. In total, revenue is programmed to rise by 53 percent, to 21.5 percent of GDP in 1988/89, compared with 18 percent of GDP in 1987/88.

Restrain expenditure growth, with limit in increases in wages of the civil service to 10-20 percent, and contain the size of the civil service. The budget includes a 10 percent increase in real terms in appropriations for maintenance expenditure. A monitoring system for capital expenditure will be set up.

3. Public sector structural measures

Implementation of action program devised with World Bank's assistance to improve the policy and institutional environment within which parastatals operate and to rehabilitate or restructure specific enterprises in 1988/89.

4. Monetary and credit policies

Increase in net domestic credit limited to T Sh 27.5 billion, consistent with the program's growth and inflation objectives, which allows for a substantial increase in credit to the domestic economy, with no net bank credit to the Government. Broad money to expand only by 10 percent.

Increases of 5 percentage points in deposit rates and 2 percentage points in lending rates, with rates to be kept under review in light of inflationary trends, to encourage savings and improve efficiency in credit allocation.

5. Pricing policies

The number of categories of consumer items subject to price controls was reduced to 12 with the 1988/89 budget. Adjust prices for goods remaining controlled to avoid cost-price distortions and subsidies.

Maintenance of incentives for agricultural production through increases in producer prices. A two-tier price system was implemented for cashew nuts in October 1988, and subject to improved market conditions, the same system will be implemented in mid-1989 for cotton and tobacco.

Source: Memorandum of Economic Policy.