FOR AGENDA

0401

EBD/88/318

November 8, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Tanzania - Structural Adjustment Facility - Medium-Term Economic and Financial Policy Framework, 1988/89-1990/91

Attached for consideration by the Executive Directors is the medium-term economic and financial policy framework paper under the structural adjustment facility for Tanzania. 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 staff report for the 1988 Article IV consultation with Tanzania and its request for a second annual arrangement under the structural adjustment facility (EBS/88/227, 11/9/88), 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)

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Department Heads

INTERNATIONAL MONETARY FUND

TANZANIA

Structural Adjustment Facility
Medium-Term Economic and Financial Policy Framework, 1988/89 - 1990/91

Prepared by the Tanzanian authorities in collaboration with the staffs of the Fund and the World Bank

November 4, 1988

I. Introduction

1. This is the second medium-term economic and financial policy framework paper (PFP) prepared by the Government of Tanzania in collaboration with the staffs of the International Monetary Fund and the World Bank. It reviews the progress made under the first year of the initial PFP and outlines the Government's objectives and program for the 1988/89-1990/91 period.

2. The first PFP, which covered the period July 1, 1987-June 30, 1990, contained a wide range of policy measures aimed at correcting long-standing macroeconomic, structural, and sectoral imbalances, thus laying the foundations for sustained economic growth and a viable external financial position in the medium and long term. This structural adjustment program was in turn based on the Government's medium-term economic recovery program (ERP) launched in 1986. The implementation of the Government's program during 1987/88 was supported by an arrangement under the structural adjustment facility (SAF), which overlapped with the last seven months of an 18-month stand-by arrangement approved by the Executive Board on August 28, 1986, and by a World Bank Multisector Rehabilitation Credit approved on November 20, 1986 with a Supplementary Credit approved on January 19, 1988.

3. Overall, policy performance during the first year of the PFP had a number of positive effects, in particular on agricultural production. However, structural problems related to the processing, transportation, and marketing of agricultural products, as well as the sharp drop in the price of exports, especially coffee, have hampered the pace of economic recovery and have in turn contributed to greater-than-envisaged credit expansion and lower-than-programmed export earnings.

4. The present PFP reaffirms the Government's determination to enhance economic growth and strengthen the country's external financial position. To this end, it maps a policy strategy that builds on the ERP and the initial PFP, incorporating additional measures meant to address difficulties encountered in 1987/88.

II. Progress Under the First Year of the Initial PFP

a. Objectives and strategy in the initial PFP

5. The Government's objectives for the 1987/88-1989/90 period (as described in the first PFP) were to achieve an average rate of economic growth of at least 4 percent per annum, corresponding to a positive growth in per capita income of about 1 percent; to reduce the rate of domestic inflation from about 30 percent in 1986/87 to below 10 percent in 1989/90; and to reduce the external current account deficit from 176 percent of merchandise exports in 1986/87 to 122 percent in 1989/90.

6. To attain these objectives, the Government of Tanzania adopted a strategy whose guiding principle was that a restoration of economic growth and a return to a viable external position required a major restructuring of the economy toward the production of exportable goods and efficient production for domestic markets. The strategy was composed of five main elements. (i) The Government would 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) The responsiveness of agricultural production and marketing would be improved by enhancing the role of cooperatives and licensed traders, and by limiting the role of marketing boards, while ensuring their cost efficiency and financial strength. (iii) The Government would reduce the budget deficit (after adjustment for changes in interest rates and in the exchange rate) in order to allow a substantial net repayment of domestic bank credit by the Government and an expansion of credit to the productive sectors while reducing sharply monetary growth and the rate of inflation. (iv) The public investment program would stress the rehabilitation and maintenance of the existing capital stock. (v) Finally, to improve financial intermediation, the financial system would be reviewed and measures taken to make it more flexible and efficient. In all key areas, substantial progress was to be achieved in the context of the first-year program for 1987/88.

b. Implementation of the first-year program

7. In order to implement the above strategy, a coherent set of policies was put in place during 1986/87, as envisaged in the first-year program, except as noted below, and significant progress was achieved. In contrast to the average annual GDP growth of only 1.5 percent during the previous five years, Tanzania enhanced its growth performance in 1987/88 and registered an estimated increase of 4 percent in real GDP, owing primarily to a sizable jump in the production of food and export crops. However, the large increase in agricultural production--combined with persistent export crop processing difficulties, transportation constraints, and problems encountered in the marketing of grains led to a large increase in bank credit to the marketing boards and cooperatives and a shortfall in the volume of exports. The result was a larger-than-anticipated monetary expansion, the persistence of a high inflation

rate, and a further weakening of the external position and an accumulation of external payments arrears. Thus, while the economy was improving, the supply response was being hampered by processing, transportation, and marketing bottlenecks that could be remedied only by a sustained effort on the part of the Government and external agencies. The annexed policy matrix spells out in detail the progress achieved in implementing the Government's adjustment program during the first year.

8. In the external sector, 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; 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. As the exchange rate adjusted, the Government continued to remove trade and exchange restrictions; beginning in February 1988, about US$5 million a month was made available for selected eligible import categories (mainly raw materials and spare parts) on a non-administrative basis through an open general license (OGL) system under which all qualifying applications for import licenses are automatically granted.

9. The Government has also carried out a study of the import tariff system and has reached agreement with the World Bank on the nature and timing of measures to rationalize the tariff structure. These measures (described in paragraph 28) have been introduced with the 1988/89 (July-June) budget. Institutional strengthening of the tariff administration is already under way through enhanced training programs, better supervision at points of entry, and some technical support from the United Nations Development Programme (UNDP). The export retention scheme has been simplified through the reduction in differentials in retention rates and increased flexibility in the utilization of retained export earnings.

10. Tanzania's balance of payments performance in 1987/88 did not match the program's targets. Merchandise exports rose from US$337 million in 1986/87 to US$365 million in 1987/88, which fell short of the US$422 million envisaged in the program. Increased production of export crops, especially cotton, failed to lead to increases in exports because of inadequate ginning capacity for cotton, obsolete processing equipment for tobacco, and the poor state of the central railway line that is used for export crops. In addition, export prices, in particular for coffee, were lower than anticipated in the program. Total imports are estimated to have amounted to US$1.2 billion, broadly in line with the level anticipated in the program despite some shortfall in disbursements of foreign loans. The current account deficit (including government transfers) is estimated to have reached US$293 million, versus US$208 million in the program. This put pressure on the level of foreign exchange reserves, which reached three weeks' coverage of merchandise

imports by June 30, 1988. Tanzania was unable to meet many of its debt service obligations, and this in turn led to some shortfall in capital inflows.

11. In the area of fiscal policy and public sector resource management, the Government aimed at containing the Central Government's annual overall deficit on a checks-issued basis over the program period to T Sh 24.7 billion, equivalent to 13 percent of the GDP projected at the time (9.4 percent of revised GDP). Based on the provisional fiscal outturn for 1987/88, it is now estimated that the deficit was about T Sh 18.1 billion, or 6.9 percent of revised GDP, substantially below the program target, reflecting both lower-than-projected current and development expenditure. However, owing to an unanticipated large reduction in the float of government checks and lower than programmed external disbursements, domestic financing exceeded the program target, with bank financing reaching about T Sh 4.6 billion 1/, compared with the targeted reduction of T Sh 2.0 billion.

12. The pressure of expenditure commitments remains strong; these commitments need to be brought into line with available resources. In order to find a longer-term solution to current budgetary problems, the Government is carrying out a public expenditure review with the assistance of the World Bank, which will assist it in drawing up a medium-term strategy for managing public expenditure. The main components of this strategy are summarized in Section III (b) below. The Government has also reoriented development expenditures in the context of the ERP, through a rolling Public Investment Program (PIP), toward rehabilitation and the completion of ongoing projects, and away from new capital investments.

13. The Government's interest rate policy in 1987/88 and the first half of 1988/89 aimed at enhancing financial intermediation by bringing interest rates in real terms to a positive level. Thus, between June 30, 1987 and early December 1988 most interest rates on savings and time deposits will have been raised by about 7 percentage points, leading to term deposit rates that range from 16 percent for 31 days to 29 percent for 12 months and over--somewhat below the 31 percent rate of inflation for the 12-month period to end-June 1988 but substantially above the inflation rate of 18 percent targeted for 1988/89. Lending rates, including government borrowing rates, were increased simultaneously, but by about 3 percentage points less than deposit rates to reduce the previously high margin between the two. Moreover, a Commission was appointed by the President to undertake a study of the financial sector with a view to recommending improvements in the system (see Section III).

1/ Out of this total, T Sh 2.1 billion corresponds 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.

14. Implementation of the program's credit policies encountered serious difficulties. Net domestic assets of the banking system rose by T Sh 27.9 billion (60 percent of the initial money stock) during 1987/88, compared with an increase of T Sh 14.4 billion (31 percent of the initial money stock) targeted in the program. The cause of the excessive growth in credit stemmed mainly from the growing financial difficulties of the marketing boards, in particular the National Milling Corporation (NMC) (see below), and to a lesser extent the tobacco and cotton marketing boards, owing to the processing and transportation problems affecting these two crops. During this period, bank credit to specified marketing boards increased by T Sh 13.2 billion (28 percent of the initial money stock), as opposed to a reduction of T Sh 1.4 billion envisaged in the program. Taking into account an improvement in net foreign assets of the banking system (excluding medium-term foreign liabilities) of T Sh 2 billion, broad money increased by 35 percent, versus the targeted 10 percent. Related to this monetary expansion, inflation during 1987/88 is estimated at 31 percent, instead of declining to 20 percent by end-June 1988 as anticipated in the program. The Government continued to eliminate price controls, reducing the number of categories of goods under control to 22. Controlled prices were adjusted to reflect market conditions and changes in production and import costs.

15. The program's production incentives to agriculture were in the form of increases in producer prices and the restructuring of the marketing system. For basic food commodities, broad policy decisions for improving the marketing system were taken in September 1987. These were aimed at streamlining NMC's activities and enhancing the role of cooperative unions, licensed traders, and large institutional consumers. However, because these decisions were taken in mid-season, full implementation was not possible during the 1987/88 season. Under these circumstances, and in conjunction with a greatly improved supply situation, the NMC incurred sizable losses.

16. With regard to export crops, the program called for a significant increase in producer prices in real terms. In 1987/88 the program anticipated an average inflation rate of 25 percent, and producer prices were raised by an average of about 30 percent, except for cotton and most types of tobacco for which prices were constrained by the weakness of commodity prices in the world market and the difficulties encountered in reducing margins for marketing intermediaries. However, in the event, inflation averaged 31 percent so that most producer prices declined in real terms. To improve export crop marketing, the Government undertook studies with the assistance of the World Bank to develop crop-specific action programs. Those for cotton and tobacco, which have been completed (together with one for coffee) and are to be implemented in 1988/89, are particularly timely, given the problems experienced in 1987/88.

17. During 1987/88 there was an upturn in the performance of the manufacturing sector, partly due to better channelling of available foreign exchange resources as a result of an improved foreign exchange allocation system which was put in place in 1987 and which was subsequently complemented by the introduction of the OGL facility in February 1988, and partly also due to developments in the exchange rate which benefitted exporting firms. On the whole, however, capacity utilization remained extremely low, and the Government has initiated the preparation of action programs for several sub-sectors (described in paragraph 58).

III. Policies and Medium-Term Strategies for 1988/89-1990/91

18. The above review of policy implementation for 1987/88 shows that progress was made on many fronts. However the performance under the first-year program was hampered by several persistent structural problems especially those related to the processing, transportation and marketing of agricultural products. In addition, lower disbursements of external assistance and the weakening in export prices of some of the major export products exacerbated the difficult external payments situation. To correct these problems and support the recovery of output and exports, and consistent with the ERP objectives, during the 1988/89 to 1990/91 period the Government's priorities in the area of structural policies will be to: continue with the rehabilitation and maintenance of the physical infrastructure of the country in support of the directly productive sectors and provision of key social services, particularly in the transport sector; improve processing and marketing of agricultural products and ensure the timely provision of inputs and spares; continue with the rehabilitation and restructuring of the industrial sector in order to improve efficiency, reduce import dependence, and restore positive industrial GDP growth. In addition, a reform of the financial system will be undertaken that would improve the efficiency of the system as well as assist in enhancing savings and ensuring its channelling to productive activities. These structural policies will be accompanied by appropriate external and cautious demand management policies which will support economic growth, external adjustment, and contribute to a rapid decline in the inflation rate. Economic growth during the program period would thus result from the elimination of structural bottlenecks and from further rationalization in the use of resources.

19. For the three years from 1988/89 to 1990/91, the program is aimed at accomplishing the following objectives: (i) an average rate of economic growth of 4-5 percent per annum, which will correspond to a positive growth in per capita income of 1-2 percent; (ii) a reduction in the rate of inflation from about 30 percent at end-1987/88 to 18 percent by end-1988/89, and less than 10 percent by end-1990/91; and (iii) a major improvement in the external position. The improvement on the external side will include an increase in gross reserves from a level equivalent to about 3 weeks of merchandise imports at end-1987/88 to

5 weeks at end-1988/89 and 9 weeks at end-1990/91; the elimination of external payments arrears during 1988/89 through cash payments and rescheduling; and an annual increase of about 11 percent in the volume of exports. The current account deficit (excluding government transfers) would decline from an estimated 214 percent of merchandise exports in 1987/88 to below 143 percent in 1990/91. These developments would result in substantial progress toward restoration of a sustainable balance of payments position in the second half of the 1990s. To achieve the overall objectives of the program, the specific policy and institutional reforms detailed below will be implemented.

a. External sector policies

20. While there have been major changes in policy in favor of the external sector, including a sharp depreciation of the Tanzania shilling, Tanzania continues to face large external adjustment difficulties. To address them, external policies in particular will have to remain geared toward the achievement of a substantial increase in exports relative to minimum import requirements throughout the program period. Furthermore, Tanzania will seek to consolidate the reorientation of external assistance from project financing toward untied balance of payments support.

21. In early November 1988, the Government devalued the Tanzania shilling to T Sh 120 per U.S. dollar, about 15 percent below the end-June 1988 level in real effective terms, and renewed its policy of exchange rate depreciation in real effective terms. During the rest of the program period, the Government will continue to implement an active exchange rate policy to support the achievement of the external objectives. In particular, the Government will review periodically the exchange rate in light of the need to ensure adequate progress toward the external objectives listed in paragraph 19, assessments of developments in the terms of trade, the rate of inflation, and the relative profitability of efficient economic activities oriented toward exports and import substitutes, and progress in the implementation of the OGL system. Based on its evaluation of these and other factors, the Government will adjust the exchange rate to ensure that an appropriate exchange rate is in place.

22. During 1988/89, with financial assistance from the World Bank and bilateral donors, the Government will significantly expand the OGL facility. In a first phase to be completed by February/March 1989, the facility will be progressively broadened by the inclusion of a comprehensive list of imported items, comprising an estimated three fourths of all imported recurrent inputs and spare parts normally financed by export earning and nonproject aid flows, as well as selected incentive and capital goods. In a second phase, to take place in the course of 1989, the OGL facility will be expanded further (in line with availability of funds) with the aim of providing non-administrative access to foreign exchange for all categories of imports (i.e., consumer, intermediate and capital goods), consistent with the

implementation and objectives of the ERP. In parallel with the expansion of the facility's coverage, the ceiling currently applicable on importers' applications will be increased to US$500,000 by end-January 1989, and then removed altogether during the course of 1989.

23. With the 1988/89 budget, the Government has implemented the first phase of a tariff reform and has simplified the existing structure of tariffs and sales taxes on imported goods by reducing the range of rates and the number of exemptions granted (see paragraph 28). In addition, consistent with the establishment of an appropriate exchange rate, the present transitory measures of foreign exchange retention and own-funded import schemes will be gradually phased out. By end-January 1989, and in the light of the expansion of the OGL system, the maximum export retention rate will be reduced from 50 percent to 35 percent (with limited temporary exceptions) and the retention for traditional exports will be abolished. Except for nontraditional and nonmanufacture exports, the maximum rate will be reduced further to 25 percent by mid-1989 and the scheme will be terminated by end-1990.

24. While representing a significant policy condition for economic restructuring and restoration of external balance, the maintenance of an appropriate exchange rate will not be sufficient to guarantee that the necessary increase in exports is realized, since Tanzania faces severe infrastructural bottlenecks. A major effort will be needed to overcome the country's transportation constraints. In addition, export crops in Tanzania continue to be affected by crop-specific problems in the marketing systems and inadequate crop processing capacity. Action programs to deal with these impediments are described in paragraphs 40-45 and 50-53.

25. To encourage foreign investment, in particular in the export sector, the Government intends to rationalize investment procedures during 1988/89 by revising existing guidelines, including those relating to repatriation of profits and dividends. In addition, the Government will intensify its efforts to promote tourism through private and public ventures with foreign participation.

26. The Government recognizes that a successful resolution of debt obligations is critical to the medium-term viability of the program and will call for debt rescheduling under the Paris Club in December 1988, and for rescheduling with other non-multilateral creditors soon thereafter. In addition, the Government will continue to refrain from contracting directly, or guaranteeing, nonconcessional borrowings with maturity of less than 15 years, except for normal import-related credits. Public production enterprises aggregate nonconcessional borrowing with maturity of less than 15 years will remain limited to US$50 million per year.

b. Fiscal policy

27. The Government will strengthen its efforts to address existing structural weaknesses in the areas of the tax system and its administration, the composition of public expenditure, and the monitoring and control of expenditure. These structural deficiencies have contributed over time to a low buoyancy of government revenue, an erosion of the authorities' ability to maintain the minimum of government services needed to sustain economic development, an excessive debt service burden, and an inflationary amount of net domestic bank credit to the Government. Thus, the Government views the need to achieve rapid progress in these areas as crucial and has used the 1988/89 budget to take further appropriate corrective measures. Moreover, it has introduced new tax measures and expenditure restraints in order to limit the deficit to a level that allows no increase in the stock of net domestic bank credit to Government. These measures will permit a substantial increase in credit to the nongovernment sector in an environment of restrained monetary growth and declining inflation rates.

28. On the revenue side, efforts to improve the tax system and its administration are being undertaken by the Government. A tax review has been carried out by the Fund staff and will be shortly discussed with the Government. In 1988/89, the Government will stress the enhancement of the efficiency and yield of the system of import duties and sales taxes. In particular, in the context of the IRTAC program, exemptions for customs duty and sales taxes will be reduced, and the Government will implement strictly its policy of no exemption on commercial imports. In addition, during 1988/89 a review of aid-related exemptions will be undertaken to limit, where appropriate, contractual aid exemptions following consultations with aid agencies. With the 1988/89 budget, the tariff system was reformed to provide adequate protection to domestic production, as well as to simplify revenue collection and administration, and also increase revenue collection. The maximum rate was lowered from 150 percent to 100 percent and its application limited to a very small number of luxury items, while the number of rates was reduced from over 20 to 7 and all remaining specific tariffs were converted to ad valorem rates. Also with the 1988/89 budget, measures were adopted to reform the sales tax system, including, inter alia, a further expansion of the sales tax base by the inclusion of additional manufacturing and service enterprises, the elimination of some distortive provisions, and some reduction in the number of rates. By end-January 1989, the Government will complete a detailed action program for the next phase of the tariff and sales tax reform, which will be implemented with the 1989/90 budget and be consistent with the Government's revenue objectives. The further reform of the tariff structure will have the objective of limiting the maximum rate to 60 percent and the number of rates to four, while the additional reform of the sales tax system will have the objective of establishing one basic rate, with separate excise taxes for a limited list of traditionally excisable revenue earners and luxury items. A proposal to institute a credit system for sales taxes will also be prepared and evaluated by end-

January 1989 with the objective of introducing it with the 1989/90 budget. Moreover, institutional strengthening of the Customs Department is already under way through enhanced training programs, technical support under a UNDP project, better supervision of points of entry, and imposition of commensurate penalties. These measures will be continued and reinforced by additional actions to strengthen tax administration.

29. Regarding specific measures in other fiscal areas, the 1988/89 budget includes increases in users charges for education, medical services and roads, and in the rates of excise tax for beer, cigarettes and soda.

30. With the 1989/90 and 1990/91 budgets, the authorities will reform personal income taxes and company taxes, with the aim of broadening the tax base and enhancing tax collection, thereby permitting a needed reduction in nominal rates. In particular, with the 1989/90 budget, the Government will further strengthen the income tax administration, building on the improvements introduced with the budget for 1988/89. To that end, a program will be developed by end-March 1989. The main elements of the program will include further improvements to the information system, improved training of the expanded staff, reform of the system of staff rewards, and new procedures for better supervision, monitoring, and control.

31. On the expenditure side, during 1988/89, the Government will stress the following elements: (i) the concentration of recurrent expenditure on key programs (e.g., the maintenance of the physical infrastructure, the improvement of staffing, equipment, and incentives for revenue departments, the enhancement of basic health and education); (ii) the elimination of overstaffing in the civil service and the tightening and improvement of the selection process for recruitment; (iii) the progressive improvement of the average level and structure of public service pay, consistent with containment of the overall wage bill; (iv) the extension and improvement of cost recovery in the provision of government services; (v) the continued emphasis in development expenditure on rehabilitation of the physical infrastructure, consistent with recurrent budget priorities; (vi) the improvement of maintenance procedures to stop the rapid deterioration of the capital stock; (vii) the enhancement of local government finances and their management; (viii) the strengthening of policies, including measure to improve management, eliminate overstaffing, and adjust prices and tariffs to ensure that commercial parastatals become self-financing; and (ix) the improvement of the systems of planning, budgeting, and aid coordination.

32. As preparation for implementation of this expenditure reform program, a census of the public service was conducted in March 1988 with a view to establishing firm manpower data and identifying discrepancies between establishments, payrolls, and those actually in post. As a result of this census, about 7,600 ghost workers have so far been eliminated from the payrolls of the Central Government and 20,400 from the payrolls of local governments. Furthermore, during 1988/89 the

Government will continue its policy of freezing the staffing level of the civil service, except in education and health, while reallocating positions to priority services such as tax administration. This allowed for inclusion in the budget of a 10 to 20 percent increase in salaries, with introduction of housing allowances and responsibility allowances for senior civil servants and professionals, while limiting the wage bill increase in 1988/89 to 25 percent. The 1988/89 budget also includes a 10 percent increase in appropriations for maintenance expenditures in real terms, with most of the increase being for road maintenance.

33. As noted below, steps will continue to be taken to ensure improved performance of the agricultural marketing system, with a return to financial viability for the marketing boards in their reduced role. In order that their current operations under the new system are not burdened by heavy financing charges on past losses, on July 1, 1988 the Government assumed the unsecured bank overdrafts of the marketing boards amounting to T Sh 13.6 billion. The Government will amortize this debt over ten years and will pay interest to the National Bank of Commerce on the balance (which will be set each year at the average cost of funds of the NBC).

34. With regard to the Public Investment Program (PIP), the Government will continue to concentrate development expenditures on the completion of ongoing projects and rehabilitation during 1988/89 and the next two years, while the large number of projects in the PIP will be further reduced. To that end, locally funded projects are being scrutinized and consolidated to improve implementation. In addition, as existing donor-financed projects, or phases of projects, are completed, external funding will be applied to selected rehabilitation investments with high immediate returns (e.g., projects to improve the infrastructure that supports export activity, as well as selected rehabilitation investments in social services). In the selection and design of projects and programs, particular attention will be paid to the sustainability of the recurrent costs. Moreover, the Government policy that parastatals in the commercial sector should increasingly seek their investment capital from the banking sector will be continued. To assist in the planning and management of expenditures, the Investment Project Review (IPR) of the PIP will be rolled over annually.

35. Efforts will also focus on strengthening the budget process and improving expenditure control. A budget management development program has already been established, with work under way on improving budget guidelines and reporting. To complement these efforts, the Government will enhance the reliability of the central monitoring system (the monthly flash report), which is providing information on expenditure on a checks-issued basis, by requiring the customs department to monitor the value of imports related to development projects directly financed from abroad on a monthly basis. In addition, to improve information on the Governemnt's purchase of goods and services, the system of reporting of expenditure on a commitment basis will be re-established by end-September 1988.

36. As a result of these measures, the program for 1988/89 targets a deficit of T Sh 35.2 billion on a checks-issued basis, equivalent to 10.4 percent of GDP, compared with a targeted deficit of 9.4 percent in 1987/88 (based on revised GDP estimate) and an estimated outcome of 6.9 per cent. However, these numbers do not accurately represent the adjustment effort undertaken because, until recently, both the scheduled interest payments on the foreign debt and the externally financed development expenditure were greatly undervalued, owing to the overvaluation of the exchange rate. A better indicator of the adjustment effort is the revenue/GDP ratio, which is targeted to increase to 21.5 percent of GDP in 1988/89 compared with 18.0 percent for 1987/88. While expenditure will increase in relation to GDP to 31.9 percent in 1988/89 versus 25.9 percent in 1987/88, this primarily reflects exchange rate changes, as well as interest payments on the debts of the marketing boards assumed by the Government on July 1, 1988. Overall, the 1988/89 program provides for no increase in the stock of bank credit to Government compared with net government recourse to bank financing equivalent to 10 percent of money stock in 1987/88.

c. Monetary policy and financial sector reform

37. 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 restraint on bank credit by the Government and a reform of agricultural marketing that will eliminate the financial deficit of the marketing boards that was previously covered systematically by bank credit (see Section e(1) below). In 1988/89, in particular, the Government's fiscal policy will make it possible to keep the net stock of bank credit to the Government constant (net of assumption of the marketing boards' debts), while the total increase in net bank credit to specified marketing boards will be limited to T Sh. 2 billion. Taking into account the targeted improvement of US$20 million in the net international reserves of the Bank of Tanzania, this will allow the authorities to expand domestic credit to the rest of the economy by T Sh. 25.7 billion, or 26.5 percent, with an increase in broad money limited to 10 percent, versus 35 percent in 1987/88. The reduction in the rate of monetary growth reflects in part an unwinding of the large increase in crop financing provided last year to the marketing boards. Moreover, it also 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.

38. In 1988/89, and to a similar extent also during the next two years, much of the expansion in domestic credit will be directed to the financing of the recurrent inputs, rehabilitation, and restructuring needs of existing and potentially efficient industrial firms and other nontraditional activities. Credit to agricultural cooperatives will be monitored closely by the National Bank of Commerce and the Bank of Tanzania to ensure proper utilization of bank credit and to prevent

sustained bank financing of operating deficits. Loan decisions of the National Bank of Commerce and other banks will be made strictly on their own accord.

39. To encourage domestic financial savings and their efficient use, the authorities will seek interest rates that are positive in real terms, with nominal rates reviewed quarterly in the light of inflationary developments. Government borrowing rates, including treasury bill rates, will 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, which will be completed by March 1989. An action program will be developed by mid-1989 to effect 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.

d. Pricing and distribution policies

40. There has been a significant reduction in the number of products subject to price controls, from over 400 categories of goods in the early 1980s to only 23 categories in 1987. Furthermore, apart from a maximum of 12 categories of commodities considered essential consumer items, which constitute no more than 15 percent of the CPI, the Government has decontrolled all remaining commodities in conjunction with the 1988/89 budget. For those products that remain under control, the Government will set prices to avoid subsidies, to reflect market conditions, to fully pass the import costs through users, and to encourage efficient production. In parallel with the policy of price decontrol, the Government has implemented measures resulting in de facto deconfinement of internal trade for most commodities during 1986/87 and 1987/88. By end-January 1989, the Government will take measures formalizing a complete deconfinement of internal trade, except a few goods whose prices remain under control and some imports that are confined because of health and security reasons.

e. Sectoral policies

(i) Agricultural marketing and pricing policies

41. A critical feature of the program for the agricultural sector is the continuation of the restructuring of the marketing system for basic food commodities. Measures already taken, i.e. increases in producer prices, substantial involvement of the private sector in grain trade, together with the coincidence of favorable weather conditions, helped move Tanzania from a food deficit to a food surplus situation over the last two years and generally improved the availability of food to consumers throughout the country. However, the grain marketing system still continues to face problems such as high official marketing costs and inadequate quality control on deliveries to official agencies.

42. The Government is now undertaking to reform the food crop marketing system, building on the improvements already achieved, with the aim of reducing the economic costs of food distribution and minimizing the economic and financial burden of the food crop marketing activities on the nation as a whole within the overriding objective of ensuring national food security. For maize, this will be achieved by redefining the role of licensed traders, the cooperative unions, the Government and the NMC. In particular, unlike in the past, maize marketing costs associated with food security functions will now be for the account of the Government through its Strategic Grain Reserve/Buffer Stock (SGR) arrangement for which a provision of T Sh 1 billion has been made in the 1988/89 program. Net additions to the SGR will be limited to a level that can be financed from the budget. The management of the SGR system will be the responsibility of the Government through its appointed agent. 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. Thus, the Government will be the buyer and seller of last resort, managing a price support system which will enhance food security and ensure a certain degree of price stability both at the producer and consumer level.

43. Official procurement prices for the SGR will be floor prices providing farmers and primary societies with a guaranteed outlet for their maize. Thus, under the new system, the procurement of maize will be decontrolled at primary society/cooperative union level. Under this system, cooperative unions, and whenever feasible primary societies, will be allowed to sell maize to licensed traders. The Government will manage the SGR and will act as buyer and seller of last resort. This implies that in good production years, the Government will build up the SGR. In poor crop years, the SGR would be drawn down by selling maize at pre-determined prices. These prices will be set within a range that would cover the full cost of operating the SGR over the medium term. Whenever a succession of exceptionally good crops result in unduly high procurement and stocks, the Government will sell maize, either for domestic use or export; in the latter case, exporters will benefit from the existing retention scheme. Any losses that could arise under these circumstances from differences between the full unit cost of the SGR and the sale price will be borne by the Government.

44. The role of NMC and cooperative unions in maize procurement and distribution will be commercially oriented, i.e. these agencies will only buy and sell maize grain where and when they hope to gain profit from doing so. The into-store price NMC will pay will be freely negotiated, taking into account producer prices, official levies and other costs. Similarly, NMC will determine its ex-store price. NMC's procurement and sales will be used in the first instance to turn over the stock of the SGR in order to avoid undue physical losses.

45. As further improvement in the grain marketing system, and to improve the quality of official maize procurement, the Government is introducing an improved grading system. In 1988/89, a discount of 15 percent is applied for crop deliveries of substandard quality, while crop deliveries with a significant amount of foreign matter are not accepted. A more comprehensive grading system will be announced by end-January 1989, and will become effective with the 1989/90 crop season.

46. For the 1988/89 crop year, the Government has announced a uniform price for all regional depots for the maize purchased for its own account of T Sh 13.90 per kilogram. Furthermore, subject to sustainable food security, starting with the 1989/90 season, procurement prices for the SGR will be gradually differentiated to eliminate economic distortions in the present panterritorial pricing system. In order to reduce marketing costs and thus facilitate higher farmgate prices, the Government is now actively encouraging primary societies, cooperative unions, and private traders to buy and sell grain on a commercial basis within and between regions, including the sale of grain to NMC depots.

47. The NMC will continue to handle any imports of rice and wheat that the Government may deem necessary. These imported products will be subject to import duties of 25 percent to protect domestic producers. Domestically procured rice and wheat will be deconfined at cooperative union level and marketed by the NMC on commercial terms. The prices at which the NMC will sell rice and wheat will reflect NMC's full costs and be reviewed annually, as well as whenever there is a significant change in import costs or in the relative sizes of procurements from farmers, Nafco and imports. The marketing of cassava, sorghum and millet will be deconfined at primary society/cooperative union level, and the NMC will procure these commodities only if it can do so profitably. Beans will be deconfined at cooperative union level and the NMC will procure beans only to satisfy the effective demand of institutions. The price at which the NMC will sell beans will reflect NMC's full costs.

48. Improving the efficiency of the marketing system for export crops is another important element of the Government's agricultural policy. The reforms already introduced, which have included real increases in producer prices, the relaxation of constraints on private sector involvement in the export of nontraditional crops, and the reestablishment of cooperatives, have all helped to stimulate production. They have done little, however, to reduce marketing costs for the major export crops, which are mainly handled by the parastatal marketing boards.

49. The Government intends to increase the flexibility of export crop marketing and to put greater pressure on marketing margins by: (i) reducing the role of the marketing boards to nonmonopolistic agents of the cooperatives, and of Government instruments for the provision of quality control and market intelligence; (ii) allowing the cooperatives to retain the ownership of the crops until they are sold, rather than transfer it to the marketing boards; and (iii) giving the cooperatives

more autonomy also for procurement, through the establishment of a two-tier pricing system for cotton, tobacco, and cashewnuts, similar to the system already existing for coffee and tea, in which the 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 market conditions, in mid-1989 for cotton and tobacco).

50. Phased action programs have been prepared for three major crops (coffee, cotton, and tobacco), and action programs for the others will be prepared during 1988/89. The crop-specific action programs for coffee, cotton, and tobacco will be implemented starting in early 1989, will guide the setting of the next official (first-tier) prices, incorporate incentives for improving quality and marketing efficiency, and ensure that cooperative unions are able to benefit from any export retention scheme in existence. In the interim, any financial surpluses resulting from export prices in Tanzania shillings beyond the level assumed when setting the current prices will be used, in the first instance, to retire cooperative union overdrafts and other liabilities.

51. In addition to these structural changes in the marketing and pricing system for food and export crops, the Government is moving ahead with programs to alleviate other constraints to efficient agricultural marketing. Promotion of exports through crop-specific actions include the development of a program to increase the ginning capacity from 300,000 bales of cotton to 500,000 bales by the early 1990s. For tobacco, there will be an enhancement of the management of the Tobacco Marketing Board, as well as a modernization of its equipment aimed at improving the quality of processed tobacco. Major rehabilitation programs for rural and trunk roads and for the Tanzania Railway Corporation are under preparation (see below); resources are being made available for rehabilitation of agroprocessing facilities and for construction, where necessary, of storage facilities; and agricultural support services (credit, research, and extension) are being strengthened.

(2) Industrial sector

52. Tanzania's industrial sector continues to face high import dependence, inadequate infrastructure, shortages of skilled manpower, low capacity utilization (at about 25 percent), and the existence of inefficient operations. Efforts to reorient the industrial sector by channeling resources toward productive enterprises at the expense of unviable activities were initiated during 1987/88 and will be continued over the next three to five years. The strategy currently being pursued in industry has two basic objectives: (i) intersectoral reorientation, whereby agriculture and infrastructure receive a larger share of resources while industrial growth results, inter alia, from the more efficient use of a smaller share of overall resources, and (ii) re-orientation within industry toward potentially productive firms,

subsectors, and activities and away from unviable activities. The latter will involve a reorientation of investment resources toward recurrent and rehabilitation needs, especially benefitting those official firms which are domestic resource-based, labor intensive, and export-oriented.

53. The major ongoing macroeconomic reforms under the ERP have already resulted in some reallocation of resources. Since 1986, resource allocation in general, and of imported inputs in particular, has shifted from industry to agriculture and transport. A retrenchment in production and utilization of inputs is already apparent among many industrial activities while a number of efficient firms have managed to increase capacity utilization. This reallocation process is expected to intensify as the ERP policies take full effect.

54. The above macroeconomic measures have created the conditions in which a meaningful rationalization of the industrial sector can take place. Accordingly, the Government intends to propose and implement a comprehensive program of industrial restructuring, covering all manufacturing subsectors, over the 1989-1992 period. To that effect, the Government will develop and implement action programs, initially for three subsectors: textiles, leather, and agroprocessing. These subsectors, which are based on domestic resources, comprise more than one-third of total industrial production, and are deemed to have considerable potential for improving productive efficiency and capacity utilization through restructuring and rehabilitation. Implementation of the action programs for these three subsectors will be initiated by January 1989.

55. The subsectoral action programs to be developed by the Government in all industrial sectors would consist of subsector-wide measures designed to alleviate constraints to efficient economic activities in the subsector, as well as enterprise-specific interventions. The latter would include technical, institutional, operational and financial measures which would involve, inter alia, consolidation and streamlining of activities, rehabilitation of plant and machinery and, when appropriate, phase out of inefficient activities. Consistent with the industrial strategy and measures mentioned above, the Government intends to continue with the present policy of minimizing expenditures in new industrial investments, in order to devote resources to industrial restructuring and rehabilitation.

(3) Transportation sector

56. The transport sector has deteriorated over a number of years. Poor rural roads and major trunk roads make transport in the country both difficult and costly. Until recently, the ports, with deteriorated berths and equipment, could not adequately handle Tanzania's trade volume and transit traffic of the neighboring landlocked countries. The Government recognizes that the response of the productive sector to the ERP's reform initiatives will be curtailed without urgent improvements to the transport system.

57. The Government has responded to this need through the Emergency Program for Tanzania Railway Corporation (TRC), a port modernization project for Dar es Salaam, and a ten-year development program for the Tanzania-Zambia Railway (TAZARA). Preparation for the second phase of the emergency program for TRC as well as the additional requirements for the port modernization project will be completed in 1988 with a view to commencing implementation by the second quarter of 1989. Current rehabilitation efforts of the TRC will significantly improve Tanzania's ability to transport agricultural crops, including export crops, by the 1989/90 season. In the meantime, the Government will take immediate measures to focus the existing resources of the TRC system on the transportation of export crops for the current season.

58. The Government is also concerned about improving the efficiency of the roads and trucks that transport nearly 70 percent of domestic resources. The financing requirements for such improvements are substantial and therefore will need to be spread over several years. Given this serious situation, the Government has prepared a national transport policy (NTP) document that recommends: (i) the concentration of future efforts in the rehabilitation and maintenance of the basic network; (ii) increased resource allocation to the transport sector, particularly for roads; (iii) better utilization of existing assets through improved management and operations; (iv) strengthening institutional structures for rehabilitation, maintenance, and operations.

59. 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 freeing of intra-regional trucking tariffs and the seeking of donor support to meet the annual requirement for increased truck inputs and replacements.

f. Social aspects of the program

60. While the impact of the program has been favorable thus far, the Government, which has long emphasized the social aspects of its economic policies, will continue to monitor social aspects of the adjustment process very carefully in order to ensure both that low-income groups have opportunities to participate in the economic recovery program and that vulnerable groups are not adversely affected. Those identified as needing particular attention during the recovery process include the poorest income groups, women and children, and those displaced from public employment.

61. In order to enhance social developments, especially for vulnerable groups, the Government intends to increase the effectiveness of basic human services (education and health/sanitation/water supply) through improved local government management and finance. In particular, it

will take measures to improve planning and management of primary health and education at the district level while increasing the resource base of the districts. Areas of particular attention will be improved quality and effectiveness of primary education and primary health care delivery; stimulation of local community initiatives for environmental health and child nutrition; and capacity to rehabilitate and maintain the required local infrastructure. A program of action to strengthen the gathering and analysis of the data needed to assess the nutritional and health status of vulnerable groups is already under implementation. In addition, the Government will seek to encourage informal sector expansion, particularly in urban and peri-urban areas, so as to develop a broader income base for the poor.

IV. External Adjustment and Financing

62. For many years, Tanzania will continue to face large external imbalances. Therefore, during the program period, the Government will pursue an active exchange rate policy. This should enable adequate increases in domestic producer prices of export crops to be made in consistency with the ERP and contribute to an expansion of their production. Moreover, the implementation of the action program to rehabilitate and restructure the industrial sector will lead to a pick up in manufactured exports and also to substantial import savings through improved efficiency in the use of imported inputs. Given this considerable adjustment effort, the Government's targeted rate of economic growth of 4-5 percent per annum, together with a moderate increase in real per capita consumption, should be achievable with modest increases in import volumes and a major improvement in the external position over the medium term. The success of this adjustment strategy depends on a temporary boost in external support over the medium term, both in the form of official transfers and other bilateral and multilateral disbursements, including debt rescheduling/cancellation.

63. The ultimate aim of shifting relative prices toward exportable goods is to ensure that exports finance an increasing proportion of imports. In the immediate future, however, the export potential of some traditional crops will remain constrained: coffee, owing to Tanzania's quota under the ICO agreement; cotton, because of insufficient ginning capacity and transportation difficulties; and tobacco, as a result of processing and marketing problems. However, it is expected that the difficulties facing cotton and tobacco will be overcome by the 1989/90 crop year, and exports of all categories will benefit from improved incentives and from the gradual reduction in transport bottlenecks. Export volume is thus expected to increase at an annual average of some 11 percent between 1988/89 and 1990/91 reflecting, in the main, an improved program of inputs, enhanced incentives, and better transportation and marketing arrangements. The main thrust of this export increase will come from continuous increases in nontraditional exports, averaging some 17 percent per annum in volume through 1990/91. Imports are projected to grow at an annual average of 5 percent in U.S. dollar

terms over the program period, corresponding to an import volume growth of over 2 percent per annum, comprising non-oil volume growth of 2 percent and oil volume growth of 3 percent. Subsequently, import volume is projected to grow annually by some 3 percent. Given the forecasts of commodity price movements for Tanzania and for manufactured exports of industrial countries, it is estimated that the terms of trade should improve by a cumulative 5 percent over the program period. The services account shows a moderate improvement over the program period, with higher receipts--from the expected pickup in tourism, together with larger transportation revenues resulting from the rehabilitation of ports--to be partly compensated by higher interest payments, including payments for debt rescheduling. With the maintenance of an appropriate exchange rate and further measures to liberalize the trade regime, private transfers are projected to decline.

64. On the basis of these import and export growth projections, the current account deficit (net of government transfers) is projected to decrease only slightly, from US$818 million in 1988/89 to US$805 million in 1990/91. However, as a percentage of merchandise exports, the current account deficit will decline from 193 percent in 1988/89 to 142 percent in 1990/91. These deficits are expected to be covered partly by official transfers (including resources under the World Bank's Special Program of Assistance for Sub-Saharan Africa, pledged at the Consultative Group meeting in Paris in July 1988, and exceptional financing) which would increase from US$788 million in 1988/89 to US$824 million in 1990/91. The aid funds are assumed to become increasingly fungible, untied from procurement restrictions and subject to nonadministrative allocation of foreign exchange.

65. With this increase in external assistance, the deficit in the overall balance is projected to decline from US$221 million in 1988/89 to US$132 million in 1990/91. The programmed accumulation of reserves will bring them from their current low level, equivalent to just under three weeks of imports, to the equivalent of over two months of imports by 1990/91. The financing gap, including expected disbursements under the Fund's structural adjustment facility, and before any exceptional balance of payments assistance, will remain large over the program period; from an estimated US$966 million in 1988/89, it is projected to decline to US$223 million in 1990/91. However, these large financing gaps can be fully covered through 100 percent debt rescheduling of: pre-cutoff maturities falling due, reschedulable arrears, and the unpaid and forthcoming moratorium interest payments arising from the 1986/87 rescheduling. Apart from the above, Tanzania is expected to be able to meet its current obligations, and it is envisaged that no new external arrears will be accumulated over the medium term.

66. Projections of the Bank of Tanzania cash flow indicate that in 1988/89, some US$50 million of the envisaged external support will need to be provided in a form that can fund the cash imports requirements, which include payments for oil, or payments of the nonreschedulable debt service. During 1989/90 and 1990/91, the foreign exchange cash position

of the bank of Tanzania is projected to improve considerably, reflecting primarily the increase in exports and the envisaged phasing out of retention privileges.

67. Beyond the program period, and despite the large adjustment effort envisaged, the financing gap is expected to rise sharply as the large amount of debt rescheduled in 1986/87 begins to fall due. Therefore, a longer-run solution to Tanzania's difficult external situation would require, in addition to the prolonged implementation of the kind of external policies outlined above, the active support from the international community in the form of highly concessional financing.

Table 1. Tanzania: Selected Economic and Financial Indicators, 1986-1990/91

	1986	1987 Est.	1987/88 Prog.	1987/88 Est.	1988/89 Prog.	1989/90	1990/91
			(Changes in percent, unless otherwise stated)				
GDP and prices							
Real GDP	3.6	3.9	4.0	4.0	4.0	4.5	4.5
Consumer prices							
End of period	33.2	28.9	20.0	30.0	18.0	12.0	9.0
Average	32.4	29.9	25.0	29.7	22.6	15.0	10.5
Government budget 1/							
Revenue excluding grants	47.7	51.3	60.3	51.3	52.9	...	...
Total expenditure	45.1	39.5	59.6	39.5	64.4	...	...
Money and credit (end of period)							
Total credit	18.7	47.9	21.1	53.0	26.5	24.7	14.9
Of which: Government (net)	(9.3)	(9.2)	(-5.9)	(13.7)	(--)	(...)	(...)
Money plus quasi-money	17.0	28.8	10.2	35.5	10.0	10.0	9.0
Velocity (GDP relative to M2)	3.3	3.6	4.9	4.2	4.9	5.3	5.8
Interest rates (12-month time deposit rate at end of period)	12.5	24.0 2/	24.0	24.0	29.0	...	...
External sector (on the basis of U.S. dollars)							
Exports, f.o.b.	22.1	-0.2	19.0	7.7	16.0	14.5	16.7
Imports, c.i.f.	5.1	9.5	7.7	8.7	6.1	4.6	4.0
Nominal effective exchange rate 3/	-61.5	-41.2	...	-31.9	...	...	...
Real effective exchange rate 3/	-61.3	-32.1	...	-21.3	...	...	...
				(In percent of GDP)			
Overall government budget deficit 1/							
Checks-issued basis	-8.0	-6.9	-9.4	-6.9	-10.4	...	...
Checks-cleared basis	-8.7	-9.1	-8.7	-9.1	-10.6	...	...
				(In percent of merchandise exports)			
External current account deficit							
Excluding grants	162.4	214.4	165.0	214.2	193.2	170.4	142.3
Including grants	58.1	76.5	49.2	80.2	71.0	59.9	44.4
Scheduled external debt service 4/							
Including IMF	55.5	59.5	52.1	58.0	53.4	51.5	45.9
Excluding IMF	52.1	58.2	51.2	57.1	52.5	48.7	42.0
				(In millions of U.S. dollars)			
External current account balance (excluding grants; deficit -)	-565.0	-742.3	-696.5	-781.6	-817.6	-825.4	-804.9
Overall balance (deficit -)	-280.0	-365.3	-214.8	-318.8	-221.2	-198.9	-132.4
Stock of payments arrears	434.4	595.6	--	724.8	--	--	--
				(In weeks of imports)			
Gross official reserves	2.4	1.4	5.1	2.8	5.3	7.4	9.4

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 2. 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 3. Tanzania: External Financing Requirements, 1988/89-1990/91

(In millions of U.S. dollars)

	Projections		
	1988/89 Prog.	1989/90	1990/91
Financing requirements			
Current account deficit (excluding grants)	817.6	825.4	804.9
Amortization	205.6	200.2	174.3
(MLT loans)	(179.6)	(177.5)	(150.8)
(Suppliers' credits)	(26.0)	(22.7)	(23.5)
Fund repurchases	0.0	16.0	30.3
Reserve accumulation 1/	74.3	62.5	60.0
Reduction in arrears	724.8	0.0	0.0
Total	1,822.2	1,104.1	1,069.5
Available financing 2/			
Grants	516.9	535.0	553.7
MLT loans	271.0	272.1	270.0
(Bilateral creditors)	(41.5)	(34.9)	(35.3)
(Multilateral creditors)	(229.6)	(237.2)	(234.7)
(World Bank)	(197.5)	(206.0)	201.7)
(Other)	(32.1)	(31.2)	(33.0)
Suppliers' credits	24.0	22.1	23.0
Fund disbursements	44.3	19.9	0.0
(SAF)	(44.3)	(19.9)	--
Debt rescheduling	0.0	0.0	0.0
Total	856.2	849.1	846.8
Financing gap	-966.0	-255.0	-222.7
Debt service eligible for debt relief	966.5	255.7	223.7

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

1/ For banking system.
2/ Based on existing commitments and expected new commitments.

Tanzania: Summary of Objectives and Time Frame of Policy Adjustment
1987/88-1990/91

Policy Areas and Specific Objectives	Policy Measures Required and Original Timetable for Implementation	Measures Already Implemented	Measures To Be Implemented and Timetable
1. External sector			
Establish and then maintain equilibrium exchange rate.	Monthly real adjustments to achieve equilibrium by July 1, 1988.	Depreciation of Tanzania shilling by 20.6 percent in real effective terms during 1987/88 but completion of adjustment postponed beyond July 1, 1988.	Devaluation to T Sh 120 per U.S. dollar on November 4, 1988, followed by further real adjustments to foster adequate progress toward external objective and to support envisaged expansion of OGL facility, taking account of developments in terms of trade, rate of inflation, and relative profitability of efficient export- and import-substitutive activities.
Begin removing exchange and trade restrictions.	Introduce a category of imports free of quantitative restrictions and free of restriction on access to foreign exchange and then gradually broaden the coverage. (Initial steps—January 1, 1988, 1988/89, and 1989/90).	OGL facility established February 1988.	Progressive expansion of OGL facility so that by February/March 1989 it will include items comprising an estimated three fourths of all imported recurrent inputs and spare parts financed by export earnings and nonproject aid flows, as well as selected incentive and capital goods. In second phase, to be completed in 1989, the facility will be expanded to all categories of imports, with limited list of ineligible items. Ceilings on importers' applications will be increased to US$500,000 by end-January 1989 and then removed altogether during 1989.
	Review tariff system with World Bank in 1987/88 and introduce appropriate changes consistent with move toward equilibrium exchange rate in 1988/89.	Review of tariffs carried out and fist phase of reform implemented as scheduled in 1988/89 Budget. Measures include a reduction of the maximum rate from 150 to 100 percent and a limit of its application to a very small number of luxury items, a reduction of the number of rates from over 20 to 7, and conversion of all remaining specific tariffs to ad valorem rates.	Action program with objective to further rationalize the tariff structure by limiting the maximum rate to 60 percent and the number of rates to four will be prepared by end-January 1989 and implemented with 1989/90 Budget.
Review retention schemes with ultimate objective of abolishing it, as equilibrium exchange rate is reached.	Modify retention scheme in August 1987.	Retention schemes reviewed as scheduled and action taken to increase transferability of retained earnings and to align rates for nontraditional exports.	By end-January 1989, the maximum retention rate will be reduced from 50 to 35 percent and the retention for traditional exports will be abolished. The maximum rate will be reduced further to 25 percent by mid-1989 and the scheme will be terminated by end-1990.
Limit external debt service burden	The Government and public enterprises not involved in production will refrain from contracting or guaranteeing nonconcessional borrowing with maturity of less than 15 years (July 1987-June 1990).	Complied with in 1987/88.	Continuation of policy, 1988/89-1990/91.
	Public production enterprises aggregate nonconcessional borrowing with maturity of less than 15 years limited to US$50 million per year (July 1987-June 1990).	Complied with in 1987/88.	Continuation of policy, 1988/89-1990/91.

Tanzania: Summary of Objectives and Time Frame of Policy Adjustment
1987/88-1990/91

Policy Areas and Specific Objectives	Policy Measures Required and Original Timetable for Implementation	Measures Already Implemented	Measures To Be Implemented and Timetable
2. Government budget			
Reduce government deficit.	Improve revenue performance by new tax and by improved tax collection and administration (1987/88-1989/90).	Increases in excise taxes in the 1987/88 Budget. First phase of reform of sales tax system in 1988/89 Budget, including broadening of base, elimination of some distortive provisions, and some reduction in number of rates.	Preparation of action program of sales tax reform, including possible introduction of credit system, by end-January 1989, with implementation in 1989/90 Budget.
		First phase of reform of tariff system in 1988/89 Budget (see above).	Second phase of reform of tariff system in 1989/90 Budget (see above).
		All exemptions from customs duties and sales taxes for commercial imports were eliminated on July 1, 1988. Programs for strengthening Customs and Tax Departments now underway.	Review of aid-related exemptions during 1988/89. Further strengthening of Customs and Tax Departments.
	Restrain expenditure growth by limiting the growth in real wages to below the inflation rate and containing unauthorized expenditure and transfers to local governments (1987/88-1989/90).	Complied with in 1987/88.	Continuation of policy (1988/89-1990/91) with adjustment in wage differentials in 1988/89 to improve incentives.
Improve productivity of public expenditure.	Prepare a medium-term strategy for public expenditure in consultation with the World Bank in 1987/88 with implementation in 1988/89.	Medium-term strategy for public expenditure prepared with World Bank in 1987/88.	Implementation of medium-term strategy, beginning with 1988/89 Budget.
	Restructure expenditure to more fully fund high-priority programs and projects, especially those involving rehabilitation, and reduce or eliminate funding of low-priority programs and projects (1987/88-1989/90).	Increased allocations to maintenance in 1987/88 and in 1988/89 Budget.	Continuation of policy, 1988/89-1990/91.
	Review annual investment program and its composition in the context of SAF (1987/88-1989/90).	PIP reviewed jointly by Government and World Bank in 1987/88.	PIP will be rolled over and further reviewed each year, 1988/89-1990/91.
3. Nonfinancial public enterprises			
Improve productivity of public enterprises.	Joint Government/World Bank review to develop an action program to improve the policy and institutional environment within which parastatals operate, and to rehabilitate or restructure specific enterprises in 1988/89.	Action program prepared in 1987/88 for implementation in 1988/89.	Implementation of action program, 1988/89-1990/91.
4. Monetary policy and financial sector reform			
Reduce inflationary pressure.	Establish limits for overall monetary and credit expansion (1987/88-1989/90).	Credit benchmarks not complied with due to rapid growth of credit to marketing boards, especially NMC, in 1987/88.	Establishment of limits for overall monetary and credit expansion, 1988/89-1990/91.
	Quarterly adjustments in deposit and lending rates to achieve positive real interest rates by July 1, 1988.	Interest rates were adjusted upward but remain somewhat below ongoing inflation rate.	Positive real interest rates will be achieved by end-1988 and then maintained through periodic adjustments of nominal rates, 1988/89-1990/91.
	Adjust government borrowing rates including treasury bill rates in line with structure of interest rates (1987/88-1989/90).	Satisfactorily implemented in 1987/88.	Government borrowing rates will be maintained in line with structure of interest rates, 1988/89-1990/91.
	Within overall credit limit, allow sufficient credit to production sector and establish quarterly ceilings for net domestic assets of the banking system, and credit to Government (1987/88-1989/90).	Marketing Boards crowded out other productive sector users in 1987/88.	Reform of agricultural marketing in 1988/89 (see below), that will allow a better-balanced allocation of credit, 1988/89-1990/91.

Tanzania: Summary of Objectives and Time Frame of Policy Adjustment
1987/88-1990/91

Policy Areas and Specific Objectives	Policy Measures Required and Original Timetable for Implementation	Measures Already Implemented	Measures To Be Implemented and Timetable
Improve operations of banking system	Reviews by Government, with assistance of Fund and Bank staffs, of the financial system to identify needed reforms in 1987/88, with implementation in 1988/89.	Government has established a Commission and set TOR for review of financial system in course of 1988/89.	Review of financial system and preparation of action program with assistance of Fund and Bank staffs by mid-1989, with implementation in 1989/90. Government will assume unsecured overdrafts of the marketing boards, and will repay one tenth of the debt each year to the NBC, and pay an interest of 8 percent on the outstanding balance.
5. Price and distribution policies			
Provide more appropriate economic signals.	Eliminate remaining price controls except for 12 "essential items" (1987/88-1988/89).	Categories under price control reduced to 22 in 1987/88 and 12 with 1988/89 Budget.	
	Make adequate price adjustments for goods remaining controlled to avoid cost-price distortions and subsidies (1987/88-1988/89).	Satisfactorily implemented in 1987/88.	Continuation of policy, 1988/89-1990/91, with amendment of Regulation of Trade Act by January 1989.
Reduce or eliminate controls over key markets.	Deconfine domestic distribution as price controls are removed (1987/88-1988/89.	Implemented in 1987/88.	Continuation of deconfinement, 1988/89-1990/91. Formal deconfinement of internal trade, except for few items, by end-January 1989.
6. Agriculture			
Improve incentives for production.	Increasing producer prices for export crops to 60-70 percent of export price or by 5 percent per year in real terms (1987/88-1989-90).	Increases in real producer prices for 1987/88 crops fell considerably short of targets.	Farmers will be awarded higher producer prices through the establishment of an equilibrium exchange rate and the gradual implementation of a two-tier price system for coffee, cotton, and tobacco, with final payments reflecting profit of each cooperative.
Improve efficiency of distribution and marketing system.	Review by Government, with assistance of the World Bank, of agricultural marketing boards, especially NMC and Cotton Marketing Board, to redefine roles and find ways to eliminate financial losses and improve efficiency in 1987 with implementation in 1987/88.	Reviews of NMC and other major marketing boards completed in mid-1988.	Marketing of maize, cassava, sorghum, and millet deconfined at primary society/cooperative union level and marketing of beans at cooperative union level, starting mid-1988. NMC will trade on its own account only on a commercial basis. NMC's purchases of maize for the account of the Government will be at T Sh 13.9 per kg, with a 15 percent discount for crop deliveries of substandard quality and reject of deliveries with significant amount of foreign matter. Comprehensive grading system and, subject to sustainable food security, differentiation of procurement prices for maize for SGR/Buffer stock to eliminate economic distortions in panterritorial pricing system, starting with 1989/90 crop year. NMC selling prices for imported rice and wheat to reflect full costs, including 25 percent import duties, starting August 1988. Marketing of export crops decontrolled at cooperative level, with marketing boards operating as non-monopolistic agents of cooperatives and government instruments for quality control and market intelligence, starting with 1988/89 crop year.

Tanzania: Summary of Objectives and Time Frame of Policy Adjustment
1987/88-1990/91

Policy Areas and Specific Objectives	Policy Measures Required and Original Timetable for Implementation	Measures Already Implemented	Measures To Be Implemented and Timetable
7. Industry			
Improve efficiency and capacity utilization of the sector.	Prepare an action program to restructure and rationalize the industrial sector in 1987/88.	Action programs for textiles, leather, and agroprocessing subsectors under preparation and will be completed by December 1988.	Implementation of actions programs for first 3 subsectors, including major restructuring measures for currently inefficient but viable activities and phase out of unviable activities, 1988/89. Preparation of action programs of other subsectors, 1989/90, with implementation in 1990/91.
	Pending exchange rate equilibrium and elimination of administrative allocation, improvements to be introduced in existing foreign exchange allocation system in 1987/88.	Improved system in place and operational in 1987/88.	Continuation of policy for official allocations not covered by OGL facility, 1988/89-1990/91.
	Allocation of capital resources for rehabilitation rather than new projects (1987/88-1989/90).	Complied with in 1987/88.	Continuation of policy, 1988/89-1990/91.
8. Transport			
Improve operational capacity and efficiency of existing equipment.	Allocate more foreign exchange for identified package of road repair inputs and for transport operators in 1987/88-1988/89.	Substantial foreign exchange/-commodity aid allocated to private and public sector transport operations in 1987/88.	Continuation of policy, 1988/89-1990/91.
	Revise trucking tariffs as needed to reflect full costs, as and when necessary.	Intra-regional trucking tariffs revised in 1987/88.	Liberalization of intra-regional trucking tariffs by end-1988.
	Implement emergency relief program for rail transport in 1987/88-1988/89.	Phase I of Emergency Program for Tanzania Railway Corporation underway in 1987/88.	Preparation of Phase II in 1988, with implementation in 1989.
	Adjust rail tariffs to close gap with costs over a two-year period as efficiency in improvements occur in 1987/88.	Adjustment of rail tariffs in 1987/88.	Achievement of full cost coverage, 1988/89.

Source: Policy Framework Paper, October 1987.