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April 28, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Tanzania - Staff Report for the 1987 Article IV Consultation and Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Tanzania and a review under its stand-by arrangement, which will be brought to the agenda for discussion on a date to be announced. Draft decisions appear on pages 36-38.

Mr. Artus (ext. 7676) or Mr. Abdi (ext. 6517) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

TANZANIA

Staff Report for the 1987 Article IV Consultation and Review Under Stand-By Arrangement

Prepared by the African Department

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

Approved by G.E. Gondwe and W.A. Beveridge

April 27, 1987

I. Introduction

A staff mission consisting of Messrs. Artus (head-AFR), Abdi (AFR), Chopra (ETR), Mahler (FAD), Simpson (AFR), Wattleworth (RES), and Sharma (secretary-ETR) visited Dar es Salaam during the period February 6-March 3, 1987 to conduct the 1987 Article IV consultation discussions and the review under the current stand-by arrangement. 1/ The mission also held preliminary discussions on a medium-term policy framework for the three-year period 1987/88-1989/90 (July-June), and on an economic and financial program for 1987/88 that could be supported by use of Fund resources under the structural adjustment facility (SAF). Mr. Rueda-Sabater of the World Bank resident mission in Dar es Salaam participated in the discussions on the medium-term policy framework. 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. Parmena, Advisor to the Executive Director for Tanzania, attended a number of the policy discussions.

The Fund approved an 18-month stand-by arrangement for Tanzania on August 28, 1986, in an amount equivalent to SDR 64.2 million, or 60 percent of quota (EBS/86/183, August 8, 1986). Under this arrangement, Tanzania has already purchased SDR 32.99 million comprising the balance available under the first credit tranche of SDR 26.75 million

1/ A mission comprising Messrs. Artus, Abdi, Chopra, Mahler, Simpson, and Ms. Heflin (secretary-AFR) returned to Dar es Salaam during March 24-31 to conclude the discussions for the Article IV consultation and the review. The last Article IV consultation discussions were held in Dar es Salaam during the period December 3-14, 1985 and were concluded by the Executive Board on March 20, 1986.

and a second purchase of SDR 6.24 million. The first of the remaining quarterly purchases, equivalent to SDR 6.24 million each, is conditional on observance of the performance criteria established for end-December 1986 and on the completion of the present review of the program. As of end-March 1987, Tanzania's total use of Fund credit amounted to SDR 37.06 million (34.63 percent of quota). If all scheduled repurpurchases and purchases under the current stand-by arrangement are made, outstanding use of Fund credit will reach SDR 64.2 million by the end of the current stand-by arrangement at end-February 1988 (Table 1).

When the Executive Board considered Tanzania's request for a stand-by arrangement, Executive Directors welcomed the comprehensive adjustment and recovery program that the Tanzanian authorities had adopted and noted that the emphasis given to the agricultural sector was appropriate. Most Directors, nevertheless, were concerned by the envisaged slow pace of adjustment in a number of areas, given the large imbalances facing the economy and the stated objective of achieving a sustainable balance of payments by the early 1990s. In particular, Directors questioned the adequacy of the adjustment of the real effective exchange rate and the proposed mid-1988 date for reaching an equilibrium rate. They also noted that interest rates were envisaged to become positive in real terms only by mid-1988.

The discussions on the review under the stand-by arrangement were comprehensive and took into account the developments in the economy since the program went into effect, as well as the Executive Board conclusions. In particular, the review focused on the evolution of policies on exchange rate, interest rate, and financial policies during the second half of fiscal year 1986/87. The discussions also covered the setting up of targets and quantitative performance criteria for the period through end-June 1987. In a letter dated April 27, 1987 (Attachment I), the Tanzanian authorities summarize the developments under the program through December 1986 and note that all the performance criteria for end-September and December 1986 were observed, except for the ceiling on total domestic credit at end-December for which they request a waiver. The authorities also propose targets for the period through June 1987 and detail the policies which will be implemented through the end of the 1986/87 fiscal year.

The staffs of the Fund and the World Bank have worked closely in assisting Tanzania to develop its medium-term adjustment and recovery program. Summaries of Tanzania's relations with the Fund and the World Bank are presented in Annexes II and III, respectively. Tanzania continues to avail itself of the transitional arrangements of Article XIV, Section 2.

Table 1. Tanzania: Schedule of Proposed Purchases and Repurchases, August 28, 1986-February 1988

	Position at Dec. 31, 1986	1986/87 Aug. 28-Nov. 15	1986/87 Nov. 16-Feb. 15	1987 Feb. 16-May 15	1987 May 16-Aug. 15	1987 Aug. 16-Nov. 15	1987/88 Nov. 16-Feb. 15	1988 Feb. 16-May 15
				(In millions of SDRs)				
Purchases								
Stand-by arrangement	--	26.75	6.24	6.24 1/	6.24	6.24	6.24	6.25
Ordinary resources	--	26.75	6.24	6.24 1/	6.24	6.24	6.24	6.25
Borrowed resources	--	--	--	--	--	--	--	--
Repurchases	4.07	1.26	--	2.04	--	2.03	--	--
Credit tranches and enlarged access resources	4.07	1.26	--	2.04	--	2.03	--	--
Transactions under special facilities	--	--	--	--	--	--	--	--
Net purchases	4.07	25.49	6.24	4.20	6.24	4.21	6.24	6.25
Fund holdings of Tanzania's currency, subject to repurchase, at end of period	4.07	30.82	37.06	41.26	47.50	51.71	57.95	64.20
				(In percent of quota)				
Fund holdings of Tanzania's currency, subject to repurchase, at end of period	3.80	28.80	34.64	38.56	44.39	48.33	54.16	60.00
Under tranche policies	3.80	28.80	34.64	38.56	44.39	48.33	54.16	60.00
Special facilities	--	--	--	--	--	--	--	--

Sources: IMF, Treasurer's Department; and staff estimates.

1/ This purchase could not be made before the completion of the first review of the stand-by arrangement.

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

1. Developments through 1985/86

Tanzania's economy underwent a protracted deterioration during the 1970s and early 1980s, with declining production and exports, deteriorating physical infrastructure, a rising inflation rate, mounting foreign debt, and accumulating external arrears. Although this deterioration was partly due to a number of exogenous factors, such as a worsening in the terms of trade and a prolonged drought, the main contributing factors were inappropriate exchange rate and pricing policies, which discouraged the production of exportables and encouraged import-intensive activities, the heavy protection accorded to inefficient enterprises, and expansionary fiscal and monetary policies.

During the four years ended 1984, the increase in real gross domestic product (GDP) averaged 0.5 percent per year, which implies a decline in per capita terms of about 2.8 percent per year. Agricultural output, which accounts for about 40 percent of GDP, increased modestly. During the same period, industrial output declined at an annual average rate of about 5 percent as the lack of foreign exchange led to shortages of imported inputs and spare parts, and low capacity utilization. The overall budget deficit, as a proportion of GDP, averaged 12 percent in the three fiscal years ended June 1984, and was financed primarily by domestic bank credit, which rose at an average annual rate of 21 percent of money stock at the beginning of each fiscal year during the three-year period. This substantial expansion of credit to the public sector led to an increase in broad money supply, which averaged 22 percent over the three years ended June 1984. Reflecting the domestic supply constraint and the expansionary domestic financial policies, the annual inflation rate averaged about 30 percent during this period, and the overall balance of payments recorded large deficits, which led to a depletion of external foreign reserves and an accumulation of sizable external payments arrears (Table 2).

Faced with these developments, the Government introduced a number of policy changes in June 1984 aimed at stimulating domestic production and at restoring financial and economic stability. Among the principal policy measures introduced were a 26 percent devaluation of the Tanzania shilling, large real increases in producer prices (particularly for export crops), elimination of food and agricultural input subsidies, restructuring of some government parastatals, and reorganization of agricultural marketing channels through the reintroduction of cooperative unions. Also, in mid-1984 an export retention scheme was introduced, whereby exporters were allowed to keep 10-15 percent of their foreign exchange proceeds, and use them for the importation of inputs relating to their activities. An "own-exchange" scheme, which allowed importation of specified commodities without recourse to official foreign exchange holdings was also introduced in 1984, to alleviate shortages of essential production inputs and consumer goods.

Table 2. Tanzania: Selected Economic and Financial Indicators, 1983-1986/87

	1983	1984	1985	1986 Est.	1986/87 Prog.	1986/87 Rev. prog.
			(Changes in percent)			
GDP and prices						
Real GDP	-2.0	3.2	2.3	3.0	3.5	3.5
Consumer prices	27.0	36.2	33.3	32.4	30.0	32.0
Government budget 1/						
Revenue excluding grants	22.1	26.5	16.5	54.9	54.9	57.6
Total expenditure	13.3	24.4	24.6	54.1	54.1	55.6
Money and credit						
Total credit	15.8	21.9	22.0	18.7	12.0	17.4
Of which: government (net)	(17.5)	(21.9)	(28.0)	(9.3)	(9.6)	(10.5)
Money plus quasi-money	13.2	22.4	27.5	17.0	10.7	18.0
Velocity (GDP relative to M2)	2.67	2.54	2.80	2.85	3.53	3.41
Interest rates (12-month saving deposits)	7.5	7.5	10.0	15.0	15.0	21.5 2/
External sector (on the basis of U.S. dollars)						
Exports, f.o.b.	-8.3	-2.8	-22.5	21.7	13.0 3/	12.0 3/
Imports, c.i.f.	-25.3	9.0	11.9	5.1	12.8 3/	7.4 3/
Nominal effective exchange rate	-15.6	-19.2	-2.2	-69.5	-43.1	-56.0
Real effective exchange rate	2.2	4.0	8.7	-61.3	-12.7	-39.3
			(In percent of GDP)			
Overall government budget deficit 1/						
(Checks-issued basis)	-8.5	-8.1	-9.0 4/	-10.9	-10.9	-10.8
(Checks-cleared basis)	-8.5	-7.1	-6.7 4/	-10.9	-10.9	-12.2
			(In percent of merchandise exports)			
External current account deficit						
Excluding grants	115.0	124.7	192.0	154.6	163.4	177.8
Including grants	92.7	87.3	124.3	50.2	110.9	55.7
Scheduled external debt service 5/						
Including IMF	35.3	66.4	55.7	55.5	66.0	57.6
Excluding IMF	30.2	62.1	53.3	52.1	63.9	55.8
			(In millions of U.S. dollars)			
External current account Balance excluding grants (deficit -)	-435.7	-484.4	-548.4	-537.5	-669.6	-630.3
Overall balance (deficit -)	-0.2	-158.7	-394.6	-297.3	-438.8	-255.8
Stock of payments arrears	452.5	438.5	638.0	1,069.0 6/	670.0	1,069.0 6/
			(In weeks of imports)			
Gross official reserves	4.0	1.6	0.8	2.4	1.9	3.3

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/ 1986/87 projections compared with 1985/86 estimates.
4/ If the exchange rate and interest rate adjustments implemented and planned for 1986/87 had taken place in the 1985/86 budget, the overall deficit to GDP ratio would have been increased by about 7 percentage points.
5/ In percent of exports of goods and services, and private transfers.
6/ Arrears eligible for rescheduling as of September 30, 1986.

These policy changes and institutional reforms had some positive effects on the economy, and in moderating the expansionary impact of domestic financial policies in 1984/85. However, there were no significant policy adjustments in 1985/86, and, as a result, most of the gains of the preceding fiscal year were eroded. Producer price adjustments in 1985/86 were limited to 10-20 percent in nominal terms, which was well below the rate of inflation, and the exchange rate was allowed to appreciate. As detailed below, the overall impact of the policy measures adopted during the two years (1984/85 and 1985/86) proved to be insufficient to stimulate domestic economic recovery and to contain the domestic financial imbalances and the deterioration in the balance of payments.

Based on preliminary national income accounts data, which are subject to significant revision and are only indicative of general trends, real GDP increased by 2.3 percent in 1985. However, the performance of the agricultural sector was constrained by the shortages of inputs and the general deterioration in the country's infrastructure. The production of export crops and their marketing was adversely affected by shortages of fuel and other transportation problems. Also, owing to a continued shortage of essential inputs, production in the manufacturing sector declined in 1985, with capacity utilization for most industries ranging from 20 percent to 30 percent. These trends continued during the first half of 1986 as the foreign exchange constraint became more acute and most domestic production (except agricultural output) stagnated.

As a result of the measures adopted in June 1984, the Central Government's overall budget deficit on a checks-issued basis (with foreign grants treated as financing) declined from an annual average of 9.5 percent of GDP in 1982/83-1983/84 to 8.1 percent of GDP in 1984/85 (Table 3). This improvement was mainly due to a reduction in the current expenditure to GDP ratio from the level of the preceeding two fiscal years, as subsidies for foodstuffs and transfers to the major agircultural marketing boards were eliminated from the budget in 1984/85. The reliance on domestic bank financing declined substantially to 3.2 percent of GDP in 1984/85, from about 6 percent during the preceding two fiscal years.

The revised estimates for 1985/86 indicate that the overall deficit on a checks-issued basis increased to about T Sh 11.1 billion, about 9.0 percent of GDP. Total revenue increased by 16 percent over the 1984/85 level, which was only about half the increase in nominal GDP. This lower growth in revenue reflected mainly a deterioration in the collection of taxes on imports, despite a significant increase in the shilling value of imports. Revenue from the sales tax on local products also increased modestly as a result of the stagnation in industrial production. However, income tax revenue increased by more than 40 percent, mainly because of the introduction of a payroll tax and an improvement in the administration of the corporate income tax.

Table 3. Tanzania: Central Government Operations, 1982/83-1986/87

	1982/83	1983/84	1984/85	1985/86		1986/87	
	Actual	Actual	Prov.	Budget estimates	Revised estimates	Program 1/	Staff estimates
	(In millions of Tanzania shillings)						
Total revenue	11,819	14,426	18,244	18,920	21,246	32,899	33,479
Tax revenue	11,252	13,711	17,229	17,343	20,076	31,843	31,629
Customs duty	736	959	1,531	1,500	1,477	4,935	4,145
Sales tax (imports)	856	1,492	1,276	1,221	1,345	3,943	3,665
Sales tax (local)	5,188	6,418	8,878	8,600	9,289	14,711	13,689
Income tax	3,773	4,083	4,678	4,260	6,586	6,781	7,900
Other taxes	699	759	865	1,762	1,376	1,473	2,230
Nontax revenue	567	715	1,015	1,577	1,170	1,227	1,850
Safety margin						-171	
Total expenditure	18,442	20,886	25,980	27,561	32,373	49,899	50,379
Current expenditure	14,062	16,174	20,031	20,762	26,331	35,040	35,520
Development expenditure and net lending	4,380	4,712	5,949	6,799	6,042	14,859	14,859
Overall deficit (checks-issued basis)	-6,623	-6,460	-7,736	-8,641	-11,127	-17,000	-16,900
Adjustment to cash and other items (net)	-412	-3	909	--	2,790	--	2,200
Overall deficit (checks-cleared basis)	-7,035	-6,463	-6,827	-8,641	-8,337	-17,000	-19,100
External grants and loans (net)	2,563	1,464	2,484	3,202	2,222	13,800	14,450
Domestic financing	4,472	4,999	4,343	5,439	6,115	3,200	4,650
Bank financing (net)	4,003	4,492	3,112	5,200	5,243	2,500	3,400
Nonbank financing (net)	469	507	1,231	239	872	700	1,250
	(In percent of GDP) 2/						
Total revenue	18.7	19.0	19.0	15.3	17.2	21.1	21.5
Total expenditure	29.1	27.5	27.1	22.3	26.2	32.0	32.3
Current expenditure	22.2	21.3	20.9	16.8	21.3	22.5	22.8
Development expenditure	6.9	6.2	6.2	5.5	4.9	9.5	9.5
Overall deficit (checks-issued basis)	10.5	8.5	8.1	7.0	9.0	10.9	10.8
Overall deficit (checks-cleared basis)	11.1	8.5	7.1	7.0	6.7	10.9	12.2
Bank financing	6.3	5.9	3.2	4.2	4.2	1.6	2.2
	(In percent of total expenditure)						
Overall deficit (checks-issued basis)	35.9	30.9	29.8	31.4	34.4	34.1	33.6

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

1/ The 1986/87 budget presentation was complicated by the fact that the decision to move the exchange rate in line with the negotiations with the Fund (an average rate of T Sh 49.55 = US$1) was not taken until shortly before presentation of the budget. Hence the program estimates are shown here. These are the same as the subsequently adjusted budget estimates, except for the following: (1) development expenditure was assumed to be T Sh 1.0 billion less in the program; (2) the program estimate of nontax revenue excludes T Sh 200 million included in the budget as a contribution from Zanzibar, but which has not actually been paid in the past; (3) the program changes in the revenue estimates plus the program changes in the expenditure estimates leave a balance of T Sh 171 million, which was kept as a safety margin, rather than being used to increase expenditure or reduce the deficit below T Sh 17,000 million.

2/ The latest staff estimates of GDP are used.

Total expenditure in 1985/86 increased by 25 percent over the 1984/85 level as current expenditure was substantially above the initial budget estimate (by 27 percent) primarily on account of higher-than-budgeted transfers to local government and defense expenditure. Development expenditure increased by only 2 percent over the 1984/85 level and as a ratio of GDP declined sharply to 4.9 percent in 1985/86. Since February 1986, the Ministry of Finance has sought to bring expenditure under better control by at least temporarily dishonoring checks issued in excess of monthly allocations. However, total current expenditure in 1985/86 exceeded the amount authorized by Parliament in the supplementary budget by about T Sh 2.0 billion, indicating that little progress had been made in improving expenditure control.

Net external grants and loans declined by T Sh 0.3 billion to T Sh 2.2 billion in 1985/86 and net nonbank financing also declined by T Sh 0.3 billion to T Sh 0.9 billion, mainly because nonbank amortization payments increased sharply from their unusually low level in the previous year. Net bank financing rose from T Sh 3.1 billion in 1984/85 to T Sh 5.2 billion in 1985/86, equivalent to 15.9 percent of the stock of broad money at the beginning of the period. There was also an unusually large float of checks issued before the end of June 1986 (the end of the fiscal year), but not cleared by the Bank of Tanzania until the first half of 1986/87. The check float at the end of 1985/86 was T Sh 6.7 billion (21 percent of total expenditure), compared with T Sh 2.4 billion at the end of the previous fiscal year (9 percent of total expenditure).

During the two fiscal years ended June 1986, domestic credit expansion accommodated and reflected, to a large extent, the public sector's borrowing requirement. Because of smaller public sector borrowing, the rate of expansion of overall domestic credit, as a percent of beginning money stock, moderated in 1984/85 to 21.8 percent (compared with an annual average of about 28.0 percent in the preceding three fiscal years). Bank credit to the private sector, including parastatal enterprises, rose at a modest rate, owing to the continuing stagnation in the level of economic activity. These trends were, however, reversed in 1985/86 as the overall domestic credit increased by 28.2 percent, as a percent of beginning money stock, on account of larger borrowing by the Central Government and the agricultural marketing boards. Credit to the rest of the economy also rose by about 30 percent during the year. Over the two years, the net foreign asset position of the banking system, including the buildup of external payments arrears, declined sharply to a net liabilities position of T Sh 14.5 billion as of end-June 1986. These credit and net foreign asset developments contributed to an increase of 19.0 percent and 17.8 percent in broad money in fiscal years 1984/85 and 1985/86 respectively. Over the two years there was no major adjustment of the structure of interest rates, which remained substantially negative in real terms.

Despite the measures adopted in mid-1984, Tanzania continued to experience large and increasing external imbalances during the following two financial years. These imbalances were reflected in a compression of imports and a large accumulation of arrears in commercial and debt service payments. Underlying these developments were the above-mentioned inadequate pricing and expansionary financial policies, deterioration in the terms of trade, and an exchange rate policy that allowed a real appreciation of the Tanzania shilling by about 103 percent during the seven-year period ended December 1985, notwithstanding the significant devaluation undertaken in 1984.

In 1985, export earnings amounted to US$286 million--their lowest level since 1972 (the decline in export receipts amounted to 50 percent in U.S. dollar terms and 35 percent in volume terms in the five years 1981-85). Total imports are estimated to have been US$1 billion or about US$100 million higher than in 1984, as own-exchange imports increased from US$40 million in 1984 to about US$232 million in 1985. The current account deficit, excluding government transfers, amounted to about US$548 million in 1985, or the equivalent of about 192 percent of merchandise exports. Although net inflows of medium- and long-term loans increased by US$56 million, oil credits contracted in earlier years became due resulting in a decline in net capital inflows. Consequently, the overall balance of payments recorded a large deficit (US$395 million), which, with gross reserves already having been exhausted, was mainly financed through an accumulation of arrears.

In view of the considerable time lag of data availability, there is only partial information available on the balance of payments developments during the first half of 1986. Exports rebounded to about US$201 million in the first half of 1986, reflecting mainly high world market prices for coffee. Nontraditional exports continued to stagnate. Overall, there are indications that Tanzania's external position showed a further deterioration in the first half of the year, as evidenced by a large accumulation of external payments arrears, including those to the Fund, and in respect of oil credits from oil-producing countries.

Tanzania's medium- and long-term external debt at end-1985 was estimated at US$3.2 billion, of which US$564 million represented arrears on principal and interest payments that are eligible for rescheduling. Reflecting, in part, the unfavorable export performance and a concentration of maturities, the debt service ratio has risen from 17 percent in 1981 to 56 percent in 1986, notwithstanding concessional terms of borrowing.

2. The 1986/87 adjustment program

In early 1986 the Government decided to introduce a more comprehensive medium-term economic recovery program. The new program was presented at a Consultative Group meeting in Paris in June 1986, where it received wide support from the international community. Its main medium-term objectives are to achieve a positive growth rate in per capita income and a low rate of inflation, while restoring a sustainable external balance of payments position. Major emphasis is placed on measures to improve resource allocation and enhance production incentives such as appropriate price policies and improvements in marketing arrangements. These measures are supported by appropriate demand-management policies.

A first set of measures announced at the time of the 1986/87 budget presentation included the following: an initial 58 percent depreciation of the Tanzania shilling (in U.S. dollar terms), with subsequent adjustments in the rate aimed at achieving gradually an equilibrium exchange rate by mid-1988; a 50 percent increase in interest rates in June 1986, with subsequent adjustments aimed at achieving positive real interest rates by mid-1988; an increase in nominal producer prices for agricultural exports, ranging from 30 percent to 80 percent and decontrol of domestic prices over a period of three years, with one third decontrolled effective July 1986. These policies were to be accompanied by the adoption of restrained fiscal and monetary policies, and institutional and policy reforms to improve the efficiency of the agricultural, industrial, and transport sectors. In support of these measures, an 18-month stand-by arrangement of SDR 64.2 million was approved by the Fund on August 28, 1986, and a multisector rehabilitation credit of US$130 million (incorporating cofinancing of US$33.8 million by the United Kingdom, the Federal Republic of Germany, and Switzerland) was approved by the World Bank on November 20, 1986. 1/

3. Performance under the stand-by arrangement

The Tanzanian authorities have generally implemented with timeliness the adjustment measures envisaged under the stand-by arrangement. Most policy changes, including the exchange rate adjustment to T Sh 40 per U.S. dollar, were announced jointly with the budget presentation on June 19, 1986, and took effect on July 1, 1986. Two measures, however, namely the liberalization of the export retention scheme and the adjustment of some domestic prices, were delayed up to September 1986, owing to administrative constraints. All indicative targets and performance criteria for end-September 1986 and end-December 1986 have been observed, except for the performance criteria regarding total domestic credit at end-December 1986. All the main objectives of the initial program for 1986/87 remain achievable.

a. Output and price developments

Economic conditions in Tanzania improved significantly during the second half of 1986 and the early months of 1987 as the year's agricultural crop was good and the availability of imported consumer

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1/ Additional cofinancing of US$15 million from the Netherlands was made available in early 1987.

goods increased from the low levels of the preceding few years. The recovery of agricultural output was attributable to improved weather conditions, better price incentives, a more flexible marketing system for domestic food crops with enhanced participation of private traders, and improved availability of essential agricultural inputs. Agricultural output has also been indirectly affected by the improved availability of incentive (consumer) goods, largely resulting from the expansion of the list of commodities eligible through the own-exchange import scheme. The industrial sector failed to recover during the second half of 1986 because of the persistent lack of essential imported inputs and spare parts. However, there were some signs that industrial activity was picking up in early 1987 as the external financial assistance for import support began to be disbursed so that for the whole of 1986/87, real GDP is likely to expand by the 3.5 percent envisaged in the program.

The significant improvement in the availability of domestic food crops helped to contain the increases in the consumer price index resulting from the depreciation of the exchange rate and adjustments in administered prices. By December 1986 the 12-month inflation rate amounted to 33.2 percent, despite a 69.5 percent depreciation of the Tanzania shilling, the decontrol of a third of the commodities subject to price controls, and major adjustments in prices of products and services remaining under price controls such as petroleum (80 percent-90 percent) and electricity tariffs (80 percent). By June 1987, the 12-month rate of inflation is expected to be 32 percent, compared with the initial program projection of about 30 percent.

b. Fiscal developments

The 1986/87 program, which includes some slightly different assumptions from the approved budget, envisaged an overall budget deficit of T Sh 17.0 billion (equivalent to about 10.9 percent of the estimated GDP). While involving a small increase in the overall deficit to GDP ratio compared with the previous year, this represented a considerable cut in the underlying budget deficit because the reduction in the overvaluation of the exchange rate and in the negative real interest rate on treasury borrowing reduced the "hidden" subsidies to the budget. 1/ While the change in the exchange rate raised the budget deficit, it had an even larger effect on the domestic currency valuation of net foreign grants and loans, so that the need for bank financing of the deficit was reduced from T Sh 5.2 billion in 1985/86 to T Sh 2.5 billion in 1986/87.

1/ If the exchange rate and interest rate adjustments provided for in the 1986/87 program had been applied to the 1985/86 budget, it is estimated that the overall deficit (with foreign grants treated as a financing item) in that year would have been about 16 percent of GDP.

The budget sought to improve the elasticity of the tax system, to reduce the disincentive effects of the extremely high marginal income tax rates, and to contain current expenditure. Almost all of the specific local sales tax rates were converted to ad valorem rates, which, combined with a full pass-through of increased costs, including those resulting from the devaluation, was expected to result in about a 58 percent increase in revenue from the local sales tax. Other important tax changes included an increase in the basic customs duty rate from 20 percent to 25 percent and a reduction in the range of personal income tax brackets from 25-95 percent to 20-75 percent. The budget provided for an increase in the total wage bill of only 20 percent, an adjustment that should be seen in the context of the envisaged 30 percent rate of inflation and the absence of a general wage increase over the past two years, during which time the cost of living had increased by 70 percent. Employment levels in all sectors of the civil service, except for teachers and medical personnel, were frozen. The Government also increased a number of educational service charges, abolished all subsidies to parastatals, and abolished the export bonus scheme. The priority in development expenditure was given to projects already under implementation and to the rehabilitation of existing infrastructures. New projects were limited to those considered essential to the effort to rehabilitate the economy. The program estimates for 1986/87 assumed that development expenditure would be T Sh 1.0 billion less than the estimate included in the budget, a conservative estimate of the likely shortfall, given past experience.

Data on the outcome for the first half of 1986/87 indicated that recurrent expenditure and net foreign financing were about as anticipated under the program, but that there was a shortfall in revenue of about T Sh 700 million. The shortfall in revenue resulted from lower-than-expected imports and domestic production of manufactured goods. However, mainly because of a large shortfall in development expenditure related to delays in project implementation, the overall deficit on a checks-issued basis was well below the program ceilings for both September and December. Net bank financing to the Government was accordingly well below the program ceiling, despite the larger-than-expected check float at end-1985/86.

c. Monetary and credit developments

As noted above, the program envisaged a sharp deceleration in the rate of domestic credit expansion, with an increased share for sectors other than the Central Government and seven selected marketing boards. Monetary and credit developments through end-December 1986 indicate that the expansion in total bank credit was in excess of the program ceiling while the increases in net bank credit to the Central Government and credit to the selected seven marketing boards were within the program ceilings. The increase in total bank credit during the six months ended December 1986 amounted to T Sh 7.5 billion, compared with a program ceiling of T Sh 6.3 billion (19.3 percent and 15.8 percent of beginning period money stock, respectively). The increase in government borrowing from the banking system amounted to T Sh 0.4 million and was significantly below the T Sh 1.8 billion ceiling under the program, primarily as a result of delayed capital expenditure outlays. The combined borrowing of the selected seven marketing boards increased by T Sh 1.3 billion, equivalent to about 52 percent of the increase allowed under the program. Nevertheless, the total domestic credit expansion was exceeded as the season's crop finance requirement at the cooperative union level increased sharply by T Sh 4.1 billion during the six months. The sharp increase in the crop finance requirement is attributable to large volumes of production, particularly of cotton and maize, transportation and processing bottlenecks, and delays in purchasing and payments by the marketing boards, which led to an unanticipated buildup of large stocks of both export and domestic food crops.

The higher expansion in total domestic credit was accompanied by an unprogrammed increase in other monetary assets (net) of about T Sh 2.0 billion during the first six months of 1986/87. This increase in other assets comprises primarily the interbank float of checks in transit, including government checks cashed at the National Bank of Commerce, but not accepted at the Bank of Tanzania's central government consolidated account. Including this unprogrammed increase in other assets (net), the net domestic assets of the banking system increased by 24.4 percent of the beginning stock of broad money during the six months ended December 1986, versus the 15.8 percent envisaged in the program. Also, during the period, the net foreign assets of the banking system improved by US$9.6 million, compared with an indicative target of US$5.0 million in the program. As a result of this unprogrammed increase in net domestic assets and the net improvement in foreign assets, broad money increased by 26.0 percent during the six months through end-December 1986, compared with a 13.0 percent increase in the program (Table 4).

Deposit and lending interest rates were adjusted effective July 1, 1986, with the rate on one-year saving deposits increasing from 10 percent to 15 percent; and lending rates on consumer loans from 16 percent to 21 percent. Also, interest rates on treasury bills were increased to 9.5 percent for 91-day maturities. Interest rates were again increased effective January 1, 1987, by 2-3 percentage points. The rate on one-year savings deposits was increased to 17.3 percent, while lending rates on consumer loans rose to 24 percent. Thus, as of the beginning of January, deposit rates were equivalent to 53 percent of the inflation recorded in 1986.

d. External sector developments

At the time the program for 1986/87 was formulated, the balance of payments financing gap for the fiscal year was projected at US$508 million. This financing gap was based on an import target of US$1,100 million, representing an increase in real terms of some 4 percent over the 1985 outcome, and an export projection of US$410 million. Revised export projections, however, indicate that

Table 4. Tanzania: Monetary Survey, June 1983-June 1987

(In millions of Tanzania shillings)

	June 1983 Actual	June 1984 Actual	June 1985 Actual	June 1986 Est.	June 1986 Actual	Dec. 1986 Actual	Dec. 1986 Prog.	March 1987 Revised	June 1987 Prog.	June 1987 Revised
Foreign assets (net)	-5,383.0	-7,511.0	-7,611.9	-14,755.5	-14,464.1	-13,987.3	-14,513.5	-13,564.0	-13,555.5	-13,264.1
Medium-term foreign liabilities (blocked deposits)	--	--	--	--	--	-1,826.4	-1,500.0	-2,700.0	-3,600.0	-3,600.0
Domestic assets (net)	27,491.0	35,157.0	40,497.0	51,363.0	49,804.9	59,449.1	57,663.0	61,941.4	57,628.0	58,560.3
Domestic credit	27,431.0	34,372.0	40,392.2	52,212.0	49,675.0	57,151.2	58,512.0	60,241.4	58,477.0	58,340.0
Claims on Government (net)	19,424.0	23,916.0	27,028.2	33,772.0	32,271.4	32,708.5	35,572.0	33,771.4	36,272.0	35,671.4
Claims on other public entities and private sector	8,007.0	10,456.0	13,364.0	18,440.0	17,403.6	24,442.7	22,940.0	26,470.0	22,205.0	22,668.6
Selected marketing boards	5,298.0	5,914.0	6,782.0	6,145.0	7,017.4	8,354.6	8,695.0	10,350.0	6,770.0	8,642.4
Other	2,709.0	4,542.0	6,581.7	12,295.0	10,386.2	16,088.1	14,245.0	16,120.0	15,435.0	14,026.2
Of which: Co-op unions	(...)	(...)	(...)	(...)	(2,466.5)	(6,564.7)	(...)	(5,564.0)	(...)	(3,064.0)
Other items (net)	60.0	785.0	105.0	-849.0	220.3 1/	2,297.9	-849.0	1,700.0	-849.0	220.3
Money and quasi-money	22,108.0	27,646.0	32,885.4	39,969.0	38,735.4	48,787.5	45,052.1	49,377.4	44,233.1	45,692.1
Valuation account	--	--	--	-3,360.6	-3,304.2	-5,152.1	-3,402.6	-3,700.0	-3,760.6	-3,995.9
Memorandum item:										
Valuation account (arrears)	...	...	...	...	30,859.7	38,394.1	...	...	...	...

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

1/ Includes a statistical discrepancy of T Sh 90.4, which is not consolidated with net domestic assets.

exports in 1986/87 are likely to be only about US$355 million. This downward revision is due mainly to the poor performance of non-traditional exports, which are expected to amount to US$90 million in 1986/87, compared with the program projection of US$145 million. Non-traditional exports consist mainly of manufactured goods, minerals, and petroleum products. As the inflow of foreign exchange to the manufacturing sector has been slower than expected, most producers still lack spare parts and raw materials, thus adversely affecting manufactured exports. Overall exports of traditional crops are expected to be in line with the program's projections. Coffee exports are now expected to be lower than the program's projection because of the revised projection of 34 percent decline in the average price between July-December 1986 and January-June 1987. However, as transportation and processing difficulties are eased, cotton exports are expected to pick up considerably in the second half of the fiscal year, thus partially offsetting the decline in coffee exports. Moreover, tobacco exports have benefited from the higher-than-projected prices for Tanzanian tobacco.

The import target of US$1,100 million during 1986/87 remains achievable largely because own-exchange imports are projected to amount to about US$225 million, compared with the program projection of US$135 million. Corresponding to this increase in own-exchange imports, inflows of private transfers are expected to be higher. The oil import bill is projected at US$168 million, or 14 percent less than envisaged when the program was formulated, owing mainly to a lower volume of crude oil imports.

Despite the downward revision of the projection for total exports in 1986/87 and the unchanged import target, the current account deficit is projected to be about US$630 million, which is US$40 million lower than envisaged in the program because a higher proportion of the import target is expected to be financed by own-exchange resulting from higher inflows of private transfers (Table 5).

Inflows of grants are projected to be US$134 million higher than the program assumption, reflecting the US$87 million committed at the Consultative Group meeting held in June 1986 and US$47 million of co-financing for the World Bank's Multisector Rehabilitation Credit. The World Bank is expected to disburse at least US$68 million in 1986/87 under this credit, and, therefore, inflows of medium- and long-term loans should exceed scheduled amortization payments. The overall balance of payments deficit is now projected at US$255.8 million. As expected, this deficit is being financed by purchases from the Fund under the current stand-by arrangement amounting to the equivalent of about US$55 million, and rescheduling of principal and interest, in the

Table 5. Tanzania: Balance of Payments, 1983-86 and 1986/87

(In millions of U.S. dollars)

	1983	1984	1985	1986 Est.	1986/87 Prog.	1986/87 Rev.
Trade account	-440.0	-504.2	-713.6	-702.4	-690.0	-745.5
Exports, f.o.b.	378.8	388.3	285.6	347.6	410.0	354.5
Imports, c.i.f.	-818.8	-892.6	-999.2	-1,050.0	-1,100.0	-1,100.0
Oil	(-229.0)	(-227.4)	(-223.8)	(-167.2)	(196.2)	(-168.4)
Own exchange	(...)	(-40.0)	(-231.8)	(-246.6)	(-135.0)	(-224.1)
Other	(-589.0)	(-625.1)	(-543.6)	(-636.2)	(-768.8)	(-707.6)
Services (net)	-14.6	-43.2	-68.1	-85.1	-112.1	-109.8
Receipts	108.1	107.4	108.1	110.0	125.0	125.0
Payments	-122.7	-150.6	-176.2	-195.1	-237.1	-234.8
Interest	(-55.8)	(-89.3)	(-97.3)	(-112.8)	(-144.6)	(-148.7)
Other	(-66.9)	(-61.3)	(-78.9)	(-82.3)	(-92.5)	(-86.2)
Private transfers (net)	18.9	63.0	233.3	250.0	132.5	225.0
Inflows	38.9	80.9	256.9	274.0	155.5	249.0
Outflows	-20.0	-17.9	-23.6	-24.0	-23.0	-24.0
Current account (excluding government transfers)	-435.7	-484.4	-548.4	-537.5	-669.6	-630.3
Government transfers	145.0	145.6	193.4	363.0	298.7	432.7
Inflows 1/	149.3	149.1	197.4	367.0	302.7	436.7
Outflows	-4.3	-3.5	-4.0	-4.0	-4.0	-4.0
Current account	-290.7	-338.8	-355.0	-174.5	-370.9	-197.6
MLT loans (net)	149.9	-74.1	-18.5	17.0	-19.3	45.5
Inflows 2/	252.7	182.8	200.0	203.0	160.0	228.0
Outflows	-102.8	-256.9	-218.5	-186.0	-179.3	-182.5
Suppliers' credits (net)	101.8	109.8	-32.0	-55.4	-48.6	-48.6
Errors and omissions 3/	20.0	144.4	10.9	-84.4	--	-55.1
Overall balance	-19.0	-158.7	-394.6	-297.3	-438.8	-255.8
Financing	19.0	158.7	394.6	297.3	-69.0	255.8
IMF (net)	-29.9	-27.5	-14.2	13.1	-29.0	25.7
Purchases (SBA)	(--)	(--)	(--)	(39.6)	(--)	(54.6)
Repurchases 4/	(-29.9)	(-27.5)	(-14.2)	(-26.5)	(-29.0)	(-29.0)
Reserves (- increase)	-15.1	3.1	10.0	-16.2	-15.0	-20.7
Arrears (increase +)	64.0	183.1	398.8	-843.3	-25.0	-1,024.6
Debt rescheduling						
Arrears	--	--	--	843.3	--	999.6
Current maturities	--	--	--	300.4	--	275.8
Financing gap	--	--	--	--	507.8	--

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

1/ Includes US$87 million in FY 1986/87 from 1986 Consultative Group meeting, and US$47 million cofinancing with the World Bank's MRC.

2/ Includes World Bank MRC of US$68 million in FY 1986/87 (excluding cofinancing).

3/ Prior to 1986, includes a portion of official transfers. The large negative errors and omissions item in 1986 and in 1986/87 probably reflects the fact that disbursements of official transfers and MLT loans will be less than the commitments figure reported in the table. If disbursements are in line with commitments, imports in 1986/87 could be higher by about US$50 million.

4/ Includes elimination of overdue obligations in 1986.

framework of the Paris Club, of US$276 million, which is significantly higher than initially estimated (about US$204 million). 1/

Gross reserves at end-December 1986 were the equivalent of 2.4 weeks of 1986 imports, compared with 0.8 week at end-1985. As noted above, the increase in net reserves during the first six months of the fiscal year amounted to US$9.6 million, compared with the indicative target of an increase of US$5 million during that period.

The tight foreign exchange constraints faced by Tanzania had resulted in a large accumulation of external payments arrears, including those regarding public and publicly guaranteed debt service obligations. Paris Club creditor countries agreed to reschedule 97.5 percent of principal and interest arrears outstanding as of September 30, 1986. The estimate of arrears eligible for rescheduling as of that date is US$1,069 million, of which US$789 million relates to medium- and long-term debt and US$280 million to short-term debt. Regarding the nonaccumulation of any new external payments arrears, excluding debt service payments to official creditors subject to rescheduling, there was no accumulation of new arrears between end-June 1986 and end-December 1986. As to the performance criterion on the cash reduction in arrears, between July 1, 1986 and September 30, 1986, arrears were reduced by about US$28 million when Tanzania eliminated its overdue financial obligations to the Fund; the performance criterion for that period called for a US$25 million reduction in arrears. Further cash reductions in arrears of US$4.2 million to multilateral institutions were made between end-September and end-December 1986. Therefore, the cash reduction in arrears amounted to US$32.2 million during July-December 1986, compared with the performance criterion of a US$30 million reduction.

The misalignment of the exchange rate was one of the principal factors underlying the decline in domestic production and the deterioration in the balance of payments. Therefore, exchange rate

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1/ At the time the program for 1986/87 was formulated, it was envisaged that the US$508 million gap would be filled as follows: purchases from the Fund, US$70 million; additional donor assistance in the context of a Consultative Group meeting, US$104 million; the World Bank MRC, US$130 million; and debt relief, US$204 million. The revised financing projections are as follows: purchases from the Fund, US$55 million; additional donor assistance, US$87 million; the World Bank MRC, US$115 million (including US$47 million cofinancing from donors); and debt relief, US$276 million. As these financing projections add up to US$533 million, i.e., US$55 million in excess of the revised financing requirement of US$478, in Table 5 the US$55 million is shown in the errors and omissions item. This negative errors and omissions item could reflect an overestimation of disbursements of MLT loans and official transfers, or if disbursements are in line with projections, it could reflect an underestimation of imports.

policy has been a crucial element of the new adjustment policy. In advance of the period of effectiveness of the stand-by arrangement, the exchange rate was depreciated from T Sh 17 per U.S. dollar in mid-April to T Sh 40 per U.S. dollar by end-June. Subsequently, as a performance criterion, the real effective exchange rate of the Tanzania shilling was to be depreciated by 1 percent each month. In the event, the exchange rate of the Tanzania shilling was depreciated more than envisaged under the program. At end-December 1986 the actual rate was T Sh 51.7 = US$1, compared with the performance criterion minimum of T Sh 45.4 = US$1. By end-March 1987, the exchange rate was T Sh 57.2 = US$1 versus the T Sh 48.4 called for under the program, i.e., the depreciation was about 18 percent larger than envisaged. In effect, during the period July 1986-March 1987, the real effective exchange rate of the shilling was adjusted by an average of 3 percent per month instead of the 1 percent per month called for under the program. 1/ Since mid-1986, the exchange rate of the Tanzania shilling in the unofficial parallel market has remained in the range of T Sh 140-T Sh 160 per U.S. dollar, except for a brief period in the last quarter of 1986 when it reportedly appreciated to T Sh 110-T Sh 120 per U.S. dollar.

The memorandum of economic policies noted that in February 1986 the export retention scheme, under which selected exporters are allowed to retain a portion of their foreign exchange receipts and use it for imports relating to their economic activity, was liberalized further. In the event, owing to administrative and coordination problems, the liberalization did not come into effect until September 1986. Under the modified scheme, exporters of nontraditional goods (industrial, farm, marine, and mineral products) are allowed to retain 50 percent of their foreign exchange earnings. Producer-exporters must use their retained foreign exchange to purchase imports essential to their production activities. For trader-exporters, one fourth of their retained foreign exchange is automatically transferred back to the producer who may use it to import raw materials and spare parts; the remaining three fourths of the retention may be used by the trader-exporter to import any good listed as importable under the own-exchange scheme. Retained earnings may be transferred among producer-exporters; trader-exporters may transfer retained earnings to producer-exporters, but not to other trader-exporters. Transferability is required to take place through the banking system.

1/ The standard index developed in connection with the information notice system indicates that from the time of the last Executive Board discussion of Tanzania's exchange rate policy--the August 1986 meeting to consider Tanzania's request for a stand-by arrangement--through January 1987, the Tanzania shilling depreciated in real effective terms by 12.5 percent. Since developments in the exchange rate for the shilling are discussed in the present paper, no separate information notice will be issued.

III. Report on the Discussions and Financial Program for January-June 1987

1. Production, marketing, and pricing policies

The Tanzanian representatives noted that the Government's policy intent with respect to agriculture was to attain self-sufficiency in food supplies and to maximize the value of export cash crops in terms of foreign exchange. While they considered that the favorable weather was a major factor behind the recovery in agriculture in 1986/87, they also attributed gains to recent policy measures aimed at improving the procurement system both at the input and output levels, at diversifying crop marketing, and at providing higher incentives to producers. In particular, the authorities indicated that the flexibility of the marketing system had been enhanced since May 1985 with the reintroduction of the cooperative unions, which purchase directly from farmers and process most crops, and the authorization given to private estates, growing sisal and tea, to market directly, domestically, and abroad. Simultaneously, the Government had gradually dismantled restrictions to regional grain trade, first by increasing to 500 kilograms the amount of grain that may be moved without a permit, and, since March 1987, by abolishing altogether permits for the internal movement of grain. The Tanzanian authorities underlined their intention to further improve the marketing system by allowing cooperatives to export directly, or through agents outside the marketing boards, starting with the next crop season. They added that the procurement of most agricultural inputs, which, in earlier years had been confined to large parastatals in charge of importation and domestic distribution, has been opened up with cooperative unions and private importers allowed equal access to foreign exchange for their importation.

The authorities indicated that the negative effects of long-standing processing and distribution constraints were compounded in 1986/87 by the magnitude of the crops. As a result, there was a buildup of stocks, particularly of maize and cotton. In the case of maize, the National Milling Corporation (NMC) had purchased over 200,000 tons of maize during the second half of 1986, but was able to sell less than 30,000 tons. The staff representatives proposed to sell available stocks of maize to all comers including private traders (rather than only to institutions and other selected agents as currently practiced) at the rate of at least 20,000 tons a month. In addition, to further reduce stocks, the sale of available yellow maize (less preferred by local consumers) to manufacturers of animal feed should be facilitated. The authorities accepted these proposals, and, in addition, they indicated that the Central Government would purchase about 80,000 tons of maize from the NMC for the establishment of a strategic grain reserve. The cost of the strategic grain reserve, estimated at T Sh 1 billion, would be financed with additional foreign assistance, earmarked for this purpose, or with external assistance not yet allocated to specific purposes. To further reduce its operating losses and its resort to bank financing, the NMC increased its retail price for rice from T Sh 19 per kilogram to T Sh 26 per kilogram, effective April 1, 1987.

Aside from problems caused by inefficient marketing and distribution constraints and by this year's large crop, the difficulties experienced by the NMC are essentially rooted in its mandate to procure at a fixed price in all the national territory, while private traders can concentrate their purchases in the districts close to urban centers. In addition, procurement prices have been set at such a high level that it makes the NMC a preferred buyer rather than a buyer of last resort. The Government is currently conducting a review of the NMC's operations and responsibilities in grain marketing, which is to be finalized by June 1987.

Processing constraints and transportation problems also hampered the marketing of the 1986/87 cotton crop, estimated at 72,000 tons, close to twice the average for the last five years. The ginning of cotton was delayed by the lack of lubricants for the ginneries and by outmoded machinery, which limited plant efficiency and led to frequent stoppages, while the shipment of lint was slowed down by the lack of railroad equipment. In particular, because of delays in ginning, the equivalent of some 18,000 tons of lint was expected to be left unginned by end-June. Moreover, the prices at which most of the crop was sold in mid-1986 were much lower than those now prevailing in the world market and contributed to a much larger operational deficit for the Cotton Marketing Board (TCMB) than originally projected. A turnaround in the TCMB's financial position is not expected until the next crop year, when the exchange rate adjustment, coupled with a reduction in processing and marketing costs, would allow for some profits if world market prices remain at current levels or higher.

The Tanzanian authorities stated their intention to continue to increase agricultural producer prices in real terms through further exchange rate adjustments and reductions in marketing costs. In recent years, Tanzania's producer prices in U.S. dollars at the official rate, for most crops, except coffee and tea, were generally higher than those of selected neighboring countries (Table 6). However, when parallel market rates are used, Tanzania fared rather poorly in comparison with the selected countries, where the divergence between the parallel market and official exchange rates is not as wide. For the 1986/87 crop, producer prices in nominal terms were increased between 30 percent for cotton and tobacco and 80 percent for coffee. For the 1987/88 crop, producer prices for tobacco and cotton had been announced; tobacco prices had been increased by 28-29 percent, while the price of cotton had been increased by 15 percent. In both instances, the increase had been limited by the need to prevent further pressures on the finances of the marketing boards.

Currently the Government's industrial strategy is to provide adequate access to required inputs and to improve the competitiveness of

Table 6. Tanzania: Official Producer Prices for Selected Food and Export Crops in Kenya, Malawi, and Tanzania, 1983/84-1986/87

(In U.S. dollars per kilogram)

	1983/84	1984/85	1985/86	1986/87
Food crops				
Maize				
Kenya				
Official rate	0.12	0.12	0.11	0.13
Parallel market rate	0.10	0.11	0.11	0.12
Malawi				
Official rate	0.09	0.07	0.07	0.05
Parallel market rate	0.07	0.05	0.05	0.04
Tanzania				
Official rate	0.17	0.22	0.27	0.11
Parallel market rate	0.05	0.06	0.05	0.05
Rice				
Kenya				
Official rate	0.13	0.12	0.21	0.18
Parallel market rate	0.11	0.11	0.20	0.17
Malawi				
Official rate	0.11	0.10	0.10	0.10
Parallel market rate	0.09	0.07	0.08	0.08
Tanzania				
Official rate	0.31	0.34	0.41	0.17
Parallel market rate	0.09	0.09	0.08	0.07
Wheat				
Kenya				
Official rate	0.17	0.19	0.16	0.20
Parallel market rate	0.15	0.17	0.15	0.19
Malawi				
Official rate	0.16	0.17	0.19	0.16
Parallel market rate	0.12	0.12	0.15	0.13
Tanzania				
Official rate	0.23	0.25	0.31	0.13
Parallel market rate	0.07	0.07	0.06	0.05
Export crops				
Cotton (seed)				
Kenya				
Official rate	0.28	0.31	0.29	0.31
Parallel rate	0.24	0.28	0.28	0.30
Malawi				
Official rate	0.30	0.27	0.27	0.24
Parallel market rate	0.23	0.20	0.21	0.20
Tanzania				
Official rate	0.47	0.47	0.66	0.32
Parallel market rate	0.14	0.12	0.13	0.13
Coffee (arabica, clean)				
Kenya				
Official rate	2.62	2.67	2.42	...
Parallel market rate	2.23	2.43	2.30	...
Malawi 1/				
Official rate	2.01	1.95	3.18	2.51
Parallel market rate	1.55	1.43	2.45	2.09
Tanzania 2/				
Official rate	2.22	2.06	2.25	1.22
Parallel market rate	0.65	0.54	0.45	0.99
Tea (processed)				
Kenya				
Official rate	1.64	3.60	2.05	...
Parallel market rate	1.39	3.28	1.95	...
Malawi 1/				
Official rate	2.17	1.44	0.90	0.96
Parallel market rate	1.68	1.05	0.69	0.50
Tanzania 3/				
Official rate	2.62	2.40	2.20	1.10
Parallel market rate	0.77	0.62	0.45	0.44

Sources: Data provided by the Tanzanian authorities; Kenya: Central Bureau of Statistics' Economic Survey 1986 and the Central Bank of Kenya; and Malawi: ADMARC's official producer prices; and staff estimates.

1/ Export price.
2/ Producer price for parchment converted into price for clean arabica coffee for comparison purposes.
3/ Cost of processed tea from smallholders.

the overall sector. While there had been some additional access to foreign currency through the export retention scheme, and through transfers effected under the own-exchange scheme, the manufacturing sector had lacked a timely provision of the required foreign exchange through end-1986; improved access to foreign exchange is expected in 1987 through disbursement of foreign assistance. With respect to the competitiveness of the manufacturing sector, the Tanzanian authorities indicated that they would rely mainly on economic measures that improve the overall economic environment, including exchange rate adjustments, the decontrol of prices, and the deconfinement of the distribution of inputs and manufactured products. Also, the high level of protection presently enjoyed by the domestic industry will be largely dismantled through the replacement of quantitative restrictions by a rationalized external tariff regime, expected to become effective with the 1987/88 budget.

The authorities argued that parastatals have been forced to depend on their own resources since the elimination of budget subsidies and noted that the restructuring of the parastatal sector, which had begun in 1984/85, would continue in the months ahead. In cooperation with the World Bank, the Government would undertake a review of parastatals to single out enterprises whose management and operations could be strengthened to ensure an adequate return on investment, and to phase out nonviable ones.

The Tanzanian authorities considered the precarious situation of the national transportation network a major obstacle to economic activity, and indicated that a national transport policy paper dealing with relevant issues in the transportation sector had already been prepared and discussed with the World Bank. In advance of the implementation of the paper's conclusions, the Tanzanian Government has commenced work to rehabilitate major roads, ports, and the railway system.

2. Fiscal policies

The authorities agreed with the mission that there was need to take additional budget measures in order to contain the reliance on bank credit to a prudent level. In particular, they agreed with the mission that it would be appropriate to take the necessary measures to reduce the check float from T Sh 6.7 billion (21 percent of total expenditure) at the end of 1985/86 to T Sh 4.5 billion (9 percent of total expenditure) at the end of 1986/87. They also agreed that the trend of revenue for the first half of the year and projections for the second half indicated that a revenue shortfall of about T Sh 1.15 billion was likely for the year as a whole. The authorities adopted in early April 1987 revenue and expenditure measures estimated to yield about T Sh 1.9 billion during the remainder of the fiscal year.

The new revenue measures announced with effect from April 1, 1987 are the following: (i) significant increases in the ad valorem local sales tax rates on beer, cigarettes, soft drinks, and spirits, as well as increases in selective customs duty rates, and an increase in the basic stamp duty rate were estimated to yield T Sh 850 million during the remainder of the fiscal year, and more than four times that amount in the following fiscal year; (ii) improvements in tax administration were expected to yield T Sh 200 million, primarily because of more careful scrutiny of certain imports through the main port and improved mobility of tax collector (through a substantial increase in the number of vehicles available to tax collectors); (iii) the sale of obsolete government equipment was estimated to yield an additional T Sh 200 million; and (iv) dividends from parastatals were estimated to be about T Sh 200 million above the latest estimate for the fiscal year primarily because of a sharp raise in the dividends from the Tanzania Petroleum Development Corporation (TPDC), which until now has retained most of its profits after taxes for various investment plans. Thus, altogether, revenue measures were expected to yield over T Sh 1.45 billion in the remainder of 1986/87, more than offsetting the revenue shortfall of T Sh 1.15 billion expected for the fiscal year. The amount of additional revenue expected from improvements in tax administration and the sale of obsolete equipment may be somewhat optimistic, given the short period left in fiscal year 1986/87. However, the authorities did not consider the estimates to be unduly optimistic,and felt that any shortfall from these two sources was likely to be offset by some of the other more conservative revenue projections.

The authorities did not feel it was possible to reduce the current budget appropriations for 1986/87; however, after a detailed examination of the local component of all development projects, it was agreed to make postponements of development expenditure, which would cut T Sh 450 million from the budgeted amount. The authorities were firm in their commitment to avoid the need for any supplementary allocations, and were confident that expenditure monitoring and the check clearance procedures of the Bank of Tanzania had been improved sufficiently to ensure the desired reduction in the level of the check float at the end of 1986/87.

The more-than-anticipated rapid depreciation of the exchange rate was estimated to increase the overall budget deficit by T Sh 0.65 billion, resulting from a T Sh 0.28 billion increase in total revenue and a T Sh 0.93 billion increase in total expenditure. However, taking account of the increase in the local currency value of the net foreign assistance during the period, which was also estimated at T Sh 0.65 billion, the net impact on the need for bank credit to the Government was neutral.

As a result of the various adjustments described above, the end-June 1987 ceiling on the cumulative overall deficit on a checks-issued basis was reduced slightly to T Sh 16.90 billion, versus the T Sh 17.00 billion initially envisaged, while the end-March ceiling was set at T Sh 7.904 billion, which is unchanged from the indicative target originally specified. In addition, quarterly cumulative indicative targets were set for recurrent expenditure and total expenditure for both March and June as shown in Table 7. The ceiling on the overall deficit of T Sh 16.90 billion and the indicative expenditure targets for fiscal year 1986/87 will be adjusted upwards for new external assistance of up to T Sh 1.00 billion provided solely for the purpose of financing the establishment of a strategic grain reserve.

Nonbank financing is now expected to be T Sh 550 million higher than envisaged in the program with the increase coming from the TPDC (T Sh 350 million), the National Insurance Corporation (T Sh 100 million), and the National Provident Fund and the Post Office Savings Bank (about T Sh 50 million each). Given that the level of bank credit to the Government at end-June 1986 was about T Sh 1.5 billion less than envisaged in the program because of the delay in the checks-clearing process with the Bank of Tanzania, the ceiling on the increase in bank credit to Government for the fiscal year ending in June 1987 was increased by T Sh 0.90 billion to T Sh 3.40 billion.

3. Credit and monetary policies

The Tanzanian authorities considered credit and monetary policies a tool for strengthening the country's balance of payments position and reducing inflationary pressures. They noted that during the first half of fiscal year 1986/87, domestic credit had increased by 19 percent in terms of the original money stock (as opposed to 16 percent in the program), but attributed the acceleration in the growth rate mainly to factors beyond their control, such as the magnitude of agricultural output (much larger than originally forecast) and the additional need for financing of stocks in the face of difficulties in the domestic transportation and processing systems.

Ceilings for overall credit for end-March 1987, for net domestic assets (NDA) for end-June 1987, for net credit to the Government and for credit to the specified seven marketing boards for end-March and June 1987 have been established. 1/ The increase in NDA from end-June 1986 to end-June 1987 is limited to T Sh 8.755 billion, or 22 percent of the initial money stock, compared with T Sh 6.265 billion implicit in the original program. The higher level of NDA is attributable to the additional credit needs of the Central Government in the amount of T Sh 0.9 billion, additional financing required by the marketing boards of T Sh 1.0 billion, and the provision of T Sh 0.5 billion to take care of larger crop financing by the rest of the economy. The ceiling on NDA is adequate in terms of the overall credit demand of the economy, given the projected level of economic activity.

1/ Under the original program, ceilings on overall domestic credit had been established, as a performance criteria, for the period through end-December 1986. However, because of a sharp increase in other monetary assets during the last half of 1986, the ceiling for end-June 1987 has been set for net domestic assets.

Table 7. Tanzania: Quantitative Ceilings and Performance Criteria, June 1986-June 1987

	June 1986 Actual Stocks	July-Dec. 1986 Actual Change	July 1986-March 1987	July 1986-June 1987 Prog.	July 1986 June 1987 Rev. Prog.
			Performance criteria		
		(In millions of Tanzania shillings)			
Change in net domestic assets	49,805.0	n.a.	n.a.	6,265.0 1/	8,755.4
Change in total bank credit	49,675.9	7,476.3	10,566.4	6,265.0 2/	8,665.0
Change in net central government bank borrowing	32,271.3	437.1	1,500.0	2,500.0 2/	3,400.0
Change in bank credit to specified marketing boards	7,017.4	1,337.2	3,332.6	625.0 2/	1,625.0
Indicative total central government expenditure targets		17,317	30,654	49,899	50,379 3/
Indicative central government recurrent expenditure		14,527	21,954	35,040	35,520 3/
Overall central government deficit		3,233	7,904	17,000	16,900 3/
		(In millions of U.S. dollars)			
Minimum improvement in net official foreign assets of Bank of Tanzania (indicative)		9.6	12.0	20.0	20.0
Cumulative reduction in external arrears		32.2	40.0	50.0	50.0
New external payment arrears		--	--	--	--
Government contracting and guaranteeing of nonconcessional loans of 1-15 years of maturity		--	--	--	--
Increase in public and publicly guaranteed short-term external debt 4/		--	--	--	--
New nonconcessional foreign borrowing contracted by public sector productive enterprises on their own credit-worthiness in the maturity range of 1-15 years		--	50.0	50.0	50.0

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

1/ Net domestic asset target implicit in the indicative program targets.
2/ Indicative program targets established in June 1986.
3/ These amounts will be adjusted upwards by up to T Sh 1.0 billion provided for the establishment of a strategic grain reserve, funded by new external financial assistance.
4/ Excludes bridging finance and import related credits of an original maturity of up to and including one year.

Consistent with the increase in NDA through end-June 1987, the increase in overall domestic credit from end-June 1986 to end-March 1987 will be limited to T Sh 10.556 billion, or 27 percent of the initial money stock (compared with T Sh 6.66 billion implicit in the original program). The ceiling for the NDA at end-June will be adjusted upwards by the amount of nongovernment sector deposits related to debt rescheduling, which are blocked at the Bank of Tanzania. 1/ The increase in credit to the seven marketing boards for the period end-June 1986 to end-March 1987 will be limited to T Sh 3.333 billion, and from end-June 1986 to end-June 1987 to T Sh 1.625 billion. The net domestic borrowing by the Government from the banking system, which was T Sh 32.27 million as of end-June 1986, will not increase by more than T Sh 1.50 billion by end-March 1987, and by T Sh 3.40 billion by end-June 1987. These ceilings on net credit to Government will be reduced if the external inflow through the budget exceeds the Tanzania shilling equivalent of US$201 million (T Sh 9.67 billion) by end-March 1987, and US$270 million (T Sh 14.45 billion) by end-June 1987.

Consistent with the above ceilings on total domestic credit, and given the target of a US$20 million improvement in net external assets for fiscal year 1986/87, broad money is projected to increase by 18.0 percent from end-June 1986 to end-June 1987 (compared with 10.7 percent in the original program). The increase in monetary growth and the associated lower velocity are consistent with the larger-than-anticipated volume of marketed agricultural production, and with the effect of the more depreciated exchange rate on the prices of traded goods.

The Tanzanian authorities indicated that they remained committed to their objective of attaining a positive level of real interest rates. On January 1, 1987, there was an across-the-board increase of 2.5 percentage points in lending and deposit rates, whereby the interest rate on savings deposits with a one-year maturity increased to 17.25 percent. On April 1, 1987 the interest rate structure was raised further by 4.25 percentage points, with the result that the rate on a one-year savings deposit rose to 21.5 percent, equivalent to two-thirds of the measured inflation rate for the 12-month period ended December 1986. The Government intends to increase again the whole structure of interest rates on July 1, 1987, at which time interest rates will become positive in real terms, based on the expected rate of inflation of about 22 percent, for the next 12 months. The Government also intends to bring the treasury bill rate into reasonable alignment with the general structure of interest rates (including interest rates on longer-term government securities) through a substantial increase by July 1, 1987.

1/ As the blocked deposits of the nongovernment sector as of end-March 1987 were negligible, no credit ceiling adjustment is required for that date.

4. External sector policies

The external sector outlook for the second half of the fiscal year indicates that the balance of payments performance is basically on track. The import target of US$1,100 million remains achievable, and, as transportation and other bottlenecks are eased and the inflow of foreign exchange to the manufacturing sector picks up, exports during January-June 1987 are projected to be US$207 million, compared with US$148 million during the preceding six-month period. Based on current commitments and projected disbursements of government transfers and medium- and long-term loans, the overall balance of payments deficit is projected to be US$256 million. This deficit is being financed by purchases from the Fund and by debt relief.

As mentioned above, the authorities have accelerated somewhat the adjustment of the exchange rate. By end-March 1987, the exchange rate was T Sh 57.2 per U.S. dollar, versus the T Sh 48.4 per U.S. dollar called for under the stand-by arrangement, i.e., the depreciation was about 18 percent larger than envisaged. In view of the fact that the balance of payments developments are in line with those previously envisaged, that net external assets have increased more than envisaged, that the objectives of the program for 1986/87 remain achievable, and that the authorities have taken measures to address the problems that have emerged in the agricultural marketing and fiscal areas, the authorities remained unconvinced of the need for a further speeding up of the exchange rate adjustment at the present time. They indicated that they will stay at least 17 percent ahead of the commitment in the letter of intent, and also that they remain committed to the target of achieving an equilibrium exchange rate by mid-1988.

The staff indicated to the authorities that, in its view, the current pace of exchange rate adjustment is not sufficient to ensure adequately rapid progress toward the attainment of an equilibrium rate by mid-1988. The value of import licenses demanded illustrates the overvaluation of the exchange rate. For the January-June 1987 allocation period, import license applications (excluding own-funds imports) had a total value of T Sh 45.7 billion. By comparison, the total value of import licenses issued in calendar year 1986 (excluding own-funds imports) was T Sh 26.3 billion. 1/ Another indicator of the overvaluation of the official exchange rate is the parallel market exchange rate which has remained in the range of T Sh 140-T Sh 160 per U.S. dollar in the past few months. Developments in domestic production costs for major export crops also indicate that a further large exchange rate depreciation was necessary to restore adequate producer prices and

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1/ The authorities only recently began compiling data on the demand for import licenses. Therefore, a corresponding figure for import license applications in 1986 is not available. The total value of import license applications probably overstates the true demand for import licenses.

profitability of the marketing boards. Finally, the balance of payments projections for the late 1980s indicate that large financing gaps will persist.

Regarding trade policies, the own-exchange import scheme has been successful in terms of facilitating imports of intermediate and consumer goods. As noted above, the modified foreign exchange retention scheme for nontraditional exports came into effect in September 1986. The authorities intend to implement changes in this scheme that will increase the allowable retention for certain exports, as well as reduce the current limitations on transferability of retained foreign exchange. The authorities reiterated their intention to phase out both the own-exchange import scheme and the export retention scheme as progress is made toward attaining an equilibrium exchange rate.

IV. Medium-Term Outlook

External sector prospects remain extremely difficult, and success in attaining external viability over the next five years will depend on the continued and vigorous implementation of policy reforms, as well as on support from the international community, including further exceptional financing and debt relief. In the early years of the adjustment effort, imports will need to increase considerably in real terms to support rehabilitation of the infrastructure, which is essential to sustaining the expected improvement in production and exports stemming from the policy reforms.

Total exports are expected to improve considerably from their depressed level of US$286 million in 1985 to attain about US$376 million in 1987, and increase thereafter by an average of 16 percent per year in nominal terms to US$675 million by 1991 (Tables 8 and 9). These export projections are broadly similar to the projections contained in the staff report for the request for the stand-by arrangement (EBS/86/183). For some traditional crops, an increase in the volume of exports is expected, owing to the increases in producer prices. In addition, it is also anticipated that some exports that were taking place outside of official channels will be redirected as a result of the recent depreciation of the exchange rate, and improved incentives. Moreover, the projected reorganization of the agricultural marketing institutions and arrangements, along with the provision of more incentive goods in the rural sector, should have a beneficial effect on production and exports. The cumulative effect of these measures is expected to revitalize traditional exports, and, by 1991, export volumes of most traditional crops will be at least as high as the levels reached in 1981. Total traditional export receipts are projected to be about US$388 million by 1991, compared with US$262 million in 1986.

A major improvement in nontraditional exports is expected in response to the changed policy environment. In 1986 the value of nontraditional exports had fallen to about US$86 million, or about

Table 8. Tanzania: Balance of Payments, 1986-91

(In millions of U.S. dollars)

	1986 Est.	1987	1988	1989	1990	1991
		Projections				
Trade account	-702.4	-773.5	-796.4	-736.8	-708.7	-693.3
Exports, f.o.b.	347.6	376.5	423.6	502.9	593.7	675.1
Imports, c.i.f.	-1,050.0	-1,150.0	-1,220.0	-1,239.7	-1,302.4	-1,368.3
Oil	(-167.2)	(-169.5)	(-179.8)	(-190.8)	(-202.4)	(-214.7)
Own exchange	(-246.6)	(-201.6)	(-167.4)	-65.0)	(-65.0)	(-65.0)
Other	(-636.2)	(-778.9)	(-872.8)	(-984.0)	(-1,035.1)	(-1,088.6)
Services (net)	-85.1	-126.9	-116.4	-113.7	-111.4	-109.1
Receipts	110.0	140.0	156.0	167.7	180.3	193.8
Payments	-195.1	-266.9	-272.4	-281.4	-291.7	-302.9
Interest 1/	(-112.8)	(-176.9)	(-176.9)	(-180.1)	(-184.2)	(-188.9)
Other	(-82.3)	(-90.0)	(-95.5)	(-101.3)	(-107.5)	(-114.1)
Private transfers (net)	250.0	200.0	160.0	120.0	100.0	100.0
Inflows	274.0	224.0	186.0	146.0	126.0	126.0
Outflows	-24.0	-24.0	-26.0	-26.0	-26.0	-26.0
Current account (excluding government transfers)	-537.5	-700.4	-752.8	-730.6	-720.1	-702.4
Government transfers (net)	363.0	401.0	425.0	440.0	460.0	475.0
Inflows	367.0	405.0	428.5	443.5	463.5	478.5
Outflows	-4.0	-4.0	-3.5	-3.5	-3.5	-3.5
Current account	-174.5	-299.4	-327.8	-290.6	-260.1	-227.4
MLT loans, net 2/	17.0	-11.1	59.6	79.6	112.7	153.0
Inflows	203.0	209.5	273.2	273.7	251.8	283.1
Outflows	-186.0	-220.6	-213.6	-194.1	-139.1	-130.1
Suppliers' credits, net 2/	-55.4	-17.8	-6.6	1.9	7.7	8.8
Errors and omissions	-84.4	--	--	--	--	--
Overall balance	-297.3	-328.3	-274.8	-209.1	-139.7	-65.5
Financing	297.3	133.4	-37.5	-49.0	-51.7	-61.7
IMF (net)	13.1	25.0	7.5	-4.0	-21.7	-31.7
Purchases (SBA)	(39.6)	(30.0)	(7.5)	(--)	(--)	(--)
Repurchases 3/	(-26.5)	(-5.0)	(--)	(-4.0)	(-21.7)	(-31.7)
Reserves (- increase)	-16.2	-40.0	-45.0	-45.0	-30.0	-30.0
Arrears (increase +)	-843.3	-40.0	--	--	--	--
Debt rescheduling						
Arrears	843.3	--	--	--	--	--
Current maturities	300.4	188.4	--	--	--	--
Financing gap	--	-194.9	-312.3	-258.1	-191.4	-127.2
Memorandum items:						
Total debt service eligible for debt relief	(...)	(62.8)	(226.1)	(193.6)	(135.9)	(127.5)
Current account (excluding official transfers) as a percentage of exports	-154.6	-186.0	-177.7	-145.3	-121.3	-104.0
Gross reserves in weeks of imports	2.4	4.3	6.0	7.8	8.6	9.3

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

1/ Includes interest on debt relief and gap financing.
2/ Prior to 1987, oil credits are classified as suppliers' credits. In 1987 and beyond, oil credits are classified as bilateral MLT loans.
3/ Includes elimination of overdue obligations in 1986.

Table 9. Tanzania: Export Projections, 1985-91

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

	1985	1986	1987	1988	1989	1990	1991
Coffee							
Value	118.50	184.67	119.45	142.11	152.41	178.54	190.08
Volume (MT)	44.02	50.38	49.34	55.00	57.00	65.00	67.00
Unit value	2.69	3.67	2.42	2.58	2.67	2.75	2.84
Cotton							
Value	29.60	30.40	62.48	55.07	65.87	75.34	85.55
Volume (MT)	22.11	31.69	60.00	39.00	44.00	47.00	50.00
Unit value	1.34	0.96	1.04	1.41	1.50	1.60	1.71
Sisal							
Value	5.90	5.20	8.40	9.76	11.11	12.00	12.96
Volume (MT)	15.49	15.06	24.00	27.90	31.30	33.80	36.00
Unit value	0.38	0.35	0.35	0.35	0.36	0.36	0.36
Tea							
Value	17.00	13.61	22.05	24.31	29.75	33.39	36.65
Volume (MT)	11.65	9.54	15.00	15.10	17.00	18.00	19.00
Unit value	1.46	1.43	1.47	1.61	1.75	1.86	1.93
Tobacco							
Value	13.60	12.70	30.31	21.42	24.05	28.31	31.76
Volume (MT)	7.74	7.19	16.70	11.80	13.00	15.00	16.50
Unit value	1.76	1.77	1.82	1.82	1.85	1.89	1.93
Cashew nuts							
Value	11.50	15.00	21.68	20.54	23.92	27.55	31.36
Volume (MT)	23.61	17.81	25.00	23.00	26.00	29.00	32.00
Unit value	0.49	0.84	0.87	0.89	0.92	0.95	0.98
Subtotal	196.10	261.58	264.37	273.21	307.11	355.13	388.36
Petroleum products	13.70	4.63	5.11	5.42	5.75	6.10	6.47
Minerals	21.60	13.00	20.00	20.00	25.00	27.50	30.25
Manufactured goods	32.80	39.10	50.00	80.00	105.00	130.00	150.00
Other	21.40	29.30	37.00	45.00	60.00	75.00	100.00
Subtotal	89.50	86.03	112.11	150.42	195.75	238.60	286.72
Grand total	285.60	347.61	376.48	423.63	502.86	593.73	675.08

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

40 percent of the level attained in 1981. It would appear that considerable scope exists for the revitalization of exports of manufactured products and other processed and semiprocessed products. Provision of capital and spare parts to enable rehabilitation of productive capacity, and judicious selection of potentially viable enterprises that should be rehabilitated are crucial elements for the output response in this sector. With the rehabilitation of the sector, manufactured exports are projected to respond markedly, increasing from US$39 million in 1986 to US$150 million in 1991. Mineral exports and other exports are also expected to respond favorably, resulting in total nontraditional exports of about US$285 million by 1991.

Provision of an adequate level of imports is crucial for the revitalization of the economy. The authorities' import program consists of two broad categories: investment/rehabilitation imports and recurrent imports. Rehabilitation imports are aimed at remedying the main bottlenecks in manufacturing and agriculture. The largest share of resources is targeted toward infrastructure, which has been identified as the most important sector for rehabilitation. Recurrent import requirements relate partly to productive inputs required for priority areas (energy, manufacturing, and agriculture). Recurrent imports also include commodities entering under the own-exchange scheme. To meet the initial rehabilitation needs of the program, imports were targeted at US$1,100 million in fiscal year 1986/87. The initial rehabilitation needs of the program are expected to be met by 1988, and imports are projected at US$1,220 million in that year. After 1988, imports are projected to grow more moderately, by 2 percent a year in real terms, through 1991. In the projections contained in the staff report for the request for the stand-by arrangement (EBS/86/183), imports were expected to increase by 1 percent a year in real terms through 1991. The higher real increases in the current projections take into account a step-up in the World Bank's projected lending program to Tanzania, as well as Tanzania's success in marshalling donor assistance.

The move to an equilibrium exchange rate, combined with the liberalization of pricing and domestic trade policies, will strengthen incentives for significant import substitution, increase efficiency in the use of imported inputs, and decrease dependency on imported inputs. It is envisaged that imports entering Tanzania under the own-exchange scheme will remain high in 1987, reflecting partly the increase in retained export receipts. As progress is made toward attainment of an equilibrium exchange rate and the export retention scheme is phased out, this source of imports is expected to diminish. Despite the improvement in exports, Tanzania's heavy dependence on imports results in a considerable deficit on the trade account for the foreseeable future, although a gradual improvement is projected through 1991. Excluding official transfers, the current account is projected to remain almost unchanged between 1987 and 1991.

Debt service obligations will continue to impose a considerable burden on foreign exchange resources, even though much of the existing stock of debt, estimated at about US$3.7 billion at end-1986, was contracted on concessional terms. Before debt relief, debt service payments in 1986 are estimated to amount to 55 percent of exports of goods, services, and private transfers and to decline to 36 percent by 1991 primarily on account of the improvement in exports (Table 10). Interest payments will increase sharply between 1986 and 1988; in addition to interest on existing commitments and debt relief, this reflects projected new borrowing over that period and interest on that part of the financing gap not covered by exceptional assistance.

The new medium- and long-term borrowing to 1991 is assumed to be on concessional terms with no principal repayments until after 1991. These normal capital inflows and generous aid donor import support will more than offset amortization of existing debt. The overall balance of payments deficit, therefore, is projected to show a marked improvement, declining from US$297 million in 1986 to US$66 million in 1991. However, the continuing need to rebuild foreign reserves, as well as the projected repurchases from the Fund, will result in large, though declining, financing gaps throughout the period. These gaps will need to be closed through debt relief on current maturities and the provision of exceptional financing, although by the end of the period it is expected that debt relief alone should be sufficient to close the gap.

V. Staff Apprasial

Over the past twelve months, the Tanzanian authorities have undertaken substantial adjustment efforts. From end-March 1986 to end-March 1987, they allowed the real effective exchange rate to depreciate by nearly 70 percent, back to the level of the mid-1970s. In line with this depreciation, the minimum producer prices for the various crops were increased sharply for the 1986/87 crop year, especially for the export crops, albeit from a low base. To stimulate agricultural production further, the authorities took measures to enhance the flexibility of the marketing structures by increasing the role of private traders and cooperatives in domestic trade. The own-exchange scheme was developed further, resulting in a much improved availability of imported goods and incentive (consumer) goods, as well as spare parts and small producer equipment. The primary focus of public sector investment was shifted from large new projects, with questionable rates of return, to the huge task of rehabilitation and maintenance of the existing infrastructure. Financial policies were assigned the task of controlling nominal domestic demand so that the exchange rate depreciation would result in a change in relative prices rather than in an upward shift in the overall price level. Total domestic credit expansion, in particular, was restrained, while fiscal adjustment allowed for an increase of the share of credit to the nongovernment sector. Interest rates were raised significantly, with the interest rate on 12-month savings deposits moving from 10 percent in March 1986 to 21.5 percent by early April 1987.

Table 10. Tanzania: Medium- and Long-Term Debt Service, 1986-91

(In millions of U.S. dollars)

	1986	1987	1988	1989	1990	1991
Multilateral	81.33	84.05	83.55	80.83	71.71	65.11
Principal	50.49	54.42	55.56	54.92	47.88	43.44
Interest	30.84	29.63	27.99	25.91	23.83	21.67
Use of Fund credit	17.00	8.58	5.14	9.45	26.52	34.79
Repurchases	14.20	4.89	--	4.01	21.67	31.70
Charges	2.80	3.69	5.14	5.44	4.85	3.09
Suppliers' credits	51.31	34.31	27.47	23.16	20.16	20.09
Principal	37.58	23.12	18.90	16.79	15.60	16.71
Interest	13.73	11.19	8.57	6.37	4.56	3.38
Bilateral loans	185.15	164.18	155.09	133.99	86.80	85.53
Principal	148.16	130.21	127.35	112.46	69.44	70.06
Interest	36.99	33.97	27.74	21.53	17.36	15.47
Financial institutions	63.94	52.72	43.58	36.45	28.98	21.91
Principal	42.73	35.95	30.73	26.73	21.77	16.61
Interest	21.21	16.77	12.85	9.72	7.21	5.30
Total debt	398.43	343.84	314.84	283.88	234.17	227.43
Principal	293.16	248.59	232.54	214.91	176.36	178.52
Interest	105.27	95.25	82.29	68.97	57.81	48.91
Total debt excl. IMF	381.43	335.26	309.69	274.43	207.65	192.64
Principal	278.96	243.70	232.54	210.90	154.69	146.82
Interest	102.47	91.56	77.15	63.53	52.96	45.82
Memorandum items:						
Interest on new commitments, gap financing, and debt relief	7.44	81.10	93.24	108.97	123.72	137.22
Debt service as a percentage of goods, services, and private transfers	55.48	57.39	53.30	48.11	39.77	36.65

Source: World Bank, Debtor Reporting System.

Some favorable effects of this adjustment effort are already evident. Economic activity is beginning to pick up and the supply of foodstuffs and other consumer goods has improved. The production of coffee is estimated to have increased by 15 percent in 1986/87, while the production of cotton may have doubled. For the first time in many years, there is a surplus of maize. The good rainfall has certainly played an important role in this expansion of agricultural production, but so have the increases in producer prices and the enhanced availability of imported consumer goods. Inflation has not accelerated, despite the major exchange rate depreciation and large adjustments in many administered prices. Thus, both the economic growth and inflation targets of the 1986/87 (July-June) program remain achievable. The expected growth rate of 3.5 percent is the highest in the 1980s, while the inflation rate of 32 percent is the lowest since 1983.

Not surprisingly, the adjustment effort has not been without problems. However, in all main instances the authorities have reacted by taking appropriate measures. In the fiscal area, in particular, the authorities have just implemented a major package of measures to reduce the large float of government checks partly resulting from the failure to control government recurrent expenditure in late 1985/86, as well as to offset a shortfall in tax revenue in the first half of 1986/87. The authorities also gave their firm commitment to avoid the need for supplementary budget allocations and to improve expenditure monitoring so as to ensure the desired reduction in the level of check float. In the staff's view, significant progress also needs to be made in reducing the reliance on bank financing in the context of the 1987/88 budget. In the agricultural area, the surge in production has compounded the weakness still present in the marketing system. The National Milling Corporation (NMC), in particular, burdened by the financial cost of a large bank overdraft and the panterritorial procurement price policy, and handicapped by a grossly inadequate distribution system, was unable to compete with the private sector once the maize shortage was over. To restrain the need for bank credit by the NMC, emergency measures had to be taken in March 1986 to increase its volume of sales. However, this is only a temporary solution and the role of the NMC is now being reconsidered. In the view of the staff, it should rapidly be transformed into a buyer of last resort, and, as a first step, its procurement price for maize should be lowered so as to avoid a further operating deficit in 1987/88.

Adjustment policies will obviously have to be maintained and strengthened over a number of years if sustained economic development is to be achieved. Nevertheless, it is heartening that the first phase can already be described as a relative success. In the coming months, an important task will be to broaden the economic recovery through an expansion of manufacturing output. The performance of the manufacturing sector has been disappointing so far, largely because of the continued shortage of imported spare parts and intermediate inputs. Some delays in the disbursement of external assistance for import support by the international community have been compounded by administrative delays in

Tanzania so that, by early 1987, little if any assistance had trickled down to Tanzanian manufacturers. This situation is now changing as foreign exchange allocations are picking up. For the foreseeable future, however, the pent-up demand for foreign exchange will far exceed the available supply, and the recovery of the manufacturing sector will largely depend on the efficiency of the allocation system for foreign exchange.

This excess demand for foreign exchange raises the issue of the exchange rate. Despite the major exchange rate adjustment already effected, and the fact that by end-March 1987 the real effective exchange rate was about 18 percent below the rate corresponding to the performance criterion in the stand-by arrangement, the exchange rate of the Tanzania shilling remains substantially overvalued. This overvaluation continues to affect most aspects of economic life. Smuggling of exports, for example, has been reduced only minimally because the incentives to smuggle continue to be high with the official rate at about 40 percent of the parallel rate as of end-March 1987. Real producer prices for export crops were much improved in 1986/87, but this improvement cannot be sustained, let alone strengthened as envisaged by the medium-term policy of the authorities, in the absence of a further major exchange rate adjustment. More fundamentally, the manufacturing sector is highly import-intensive and oriented to meeting domestic demand, which remains a far more lucrative activity than meeting foreign demand. Therefore, further adjustment progress, which would set the base for continued economic development and the restoration of a sustainable balance of payments position by the early 1990s, will require the prompt adoption of a realistic exchange rate.

VI. Proposed Decisions

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

A. 1987 Consultation

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--) 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) 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.

B. Review and Request for a Waiver Under the Stand-By Arrangement

1. Tanzania has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Tanzania (EBS/86/183, Supplements 1 and 2) and paragraph 5 of the letter of the Minister of Finance, Economic Affairs, and Planning, attached to the stand-by arrangement, in order to review policies, establish performance criteria

for the first half of 1987, and reach understandings subject to which Tanzania may make further purchases under the arrangement.

2. The letter dated April 27, 1987 from the Minister of Finance, Economic Affairs, and Planning (Attachment I, to EBS/87/88) shall be attached to the stand-by arrangment for Tanzania, and the letter dated August 8, 1986 shall be read as supplemented by the letter of April 27, 1987.

3. Accordingly, Tanzania will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Tanzania's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing beyond 12.5 percent of quota during any period in which the data at the end of the preceding period indicate that:

(i) the ceiling on changes in total domestic credit and in net domestic assets of the banking system as specified in paragraph 13 of the attached letter dated April 27, 1987; or

(ii) the ceiling on changes in the net bank credit to the Government as specified in paragraph 11 of the attached letter dated April 27, 1987; or

(iii) the ceiling on changes in bank credit to the seven marketing boards as specified in paragraph 13 of the attached letter dated April 27, 1987; or

(iv) The ceiling on the overall budget deficit as specified in paragraph 10 of the attached letter dated April 27, 1987,

is not observed.

4. The Fund decides that the first review under paragraph 4(b) of the stand-by arrangement is completed and that, notwithstanding the nonobservance of the schedule for the completion of the review in that paragraph and in paragraph 5 of the letter dated August 8, 1986, the nonobservance of the ceiling on overall domestic credit for end-December 1986, and the applicability of the performance criteria specified under (3) above for end-March 1987, Tanzania may proceed to make purchases under the arrangement.

April 27, 1987

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Camdessus:

1. The implementation of the economic program described in the Memorandum of Understanding on Economic and Financial Policies attached to my letter of August 8, 1986, is progressing largely as envisaged, and the economic situation in Tanzania is improving significantly. The targets set for 1986/87 (July-June) for economic growth (3.5 percent), inflation (30 percent), and the external current account deficit, excluding government transfers, (US$670 million), remain achievable. However, after meeting all the indicative targets and the performance criteria for end-September 1986, the Government was unable to meet one of the performance criteria for end-December 1986, namely, the criterion concerning total bank credit. Exceptionally good crops for maize and cotton, as well as difficulties encountered in their marketing, led to a larger than envisaged need for crop financing. As a result, total bank credit increased by T Sh 7,476 million 1/ from end-June 1986 to end-December 1986, versus the maximum increase of T Sh 6,309 million envisaged in the program. In view of the circumstances that led to the rapid increase in total bank credit and the additional policy measures adopted to alleviate this problem, the Government of Tanzania requests that it be granted a waiver of the nonobservance of this performance criterion at end-December 1986. All other indicative targets and performance criteria for end-December 1986 were met. Nevertheless, the Government is aware of various problems that could endanger the progress of the program during the first half of 1987, including mainly the existence of an abnormally large float of government checks at end-June 1986 and an emerging shortfall in tax revenue. There was also a rapid growth in "other net monetary items." Therefore, to ensure that the program is on track during the first half of 1987, the Government has also adopted additional policy measures aimed at solving these various problems. Furthermore, the Government is committed to continue its adjustment of the exchange rate and interest rates.

2. The major factor behind the improvement in the economic environment in Tanzania over the past six months was the weather, with favorable

1/ Includes T Sh 920 million Bank of Tanzania credit to Government to retire government treasury bills held by the nonbank sector.

rainfalls coupled with reinvigorated efforts by farmers leading to bumper crops. Nevertheless, the policy measures adopted by the authorities ahead of, and as part of, the current 18-month program that began in September 1986 have also played an important role. In particular, the substantial increase in real producer prices that were announced in 1985 and became effective July 1, 1986 was an important factor behind the rise in agricultural output. The improvements in the distribution of most agricultural inputs and in the domestic crop marketing system were factors that have further stimulated agricultural output. In addition to the enhanced availability of foodstuffs, there has also been a substantial increase in the availability of imported goods.

3. In contrast, the performance of the manufacturing sector has remained somewhat disappointing, largely because the foreign exchange inflow to the sector has been slower than expected, in part due to a slower than expected disbursement of the foreign assistance committed during the June 1986 Consultative Group meeting. Most producers remain without sufficient access to the spare parts and intermediate inputs that would permit them to increase production on a significant scale. Many producers are also without the domestic financial resources needed to obtain import credit, especially given the tripling in the local currency prices of imported goods over the past year. Nevertheless, there are signs that a pickup in activity may be emerging over the next few months, as foreign exchange constraints are being eased. As Tanzania's manufacturing sector is largely based on agricultural output and caters to agriculture, its performance is also expected to benefit from the rapid expansion of agriculture. The export-oriented industries should also begin to expand as they become more competitive, owing to the adjustment of the exchange rate.

4. As output performance in agriculture has improved, other constraints of a structural nature remain and have given rise to new problems. Processing constraints and major difficulties in transportation and in marketing led to a buildup of stocks by cooperatives and marketing boards in the maize and cotton sectors. The problem was aggravated in the cotton sector by the sharp decline in world market prices, which gave rise to a large operating deficit for the marketing board. As a result, as detailed in paragraph 12, credit for crop finance accounted for most of the rapid domestic credit expansion during the second half of 1986.

5. In the food sector, the National Milling Corporation (NMC) purchased 207,000 tons of maize in the second half of 1986, but was able to sell only 27,000 tons during the same period. By February 23, 1987, the NMC had unsold stocks of 217,000 tons of maize. This was a result of increased production and the greater diversity of marketing channels. To reduce the NMC's accumulated stocks of maize and bank financing, the Government implemented the following measures on March 1, 1987: (1) the NMC changed its distribution and pricing policies so that it could sell to all comers at least 20,000 tons of white maize a month

through the end of June 1987; and (2) the NMC began to sell its stock of yellow maize, which is less preferred, to feed producers. In addition, by mid-May, 1987, on the basis of the amount already sold by the NMC and the prospects for the 1987/88 crop, the Government will decide on the amount of maize to be exported. The Government also intends to purchase 80,000 tons of maize (about two to three months' normal commercial sales) from the NMC for the purpose of stockpiling a strategic grain reserve. The cost of this reserve, estimated at T Sh 1 billion, will be financed through additional foreign assistance, and the use of foreign assistance already received but not yet allocated to specific projects. In addition, on April 1, 1987, the NMC was authorized to increase its retail price for rice from T Sh 19 per kg to T Sh 26 per kg, which corresponds to its cost for domestic rice. These various measures should ensure a sharp decline in the NMC's bank overdraft over the next few months. For 1987/88 and beyond, the Government is conducting a review to be completed by end-May 1987, to determine the proper role for the NMC, and will introduce by mid-1987 appropriate policy and institutional changes, including in procurement procedures, that will ensure efficient operations, and financial viability.

6. In the cotton sector, an exceptionally good crop (72,400 tons versus an average of 43,800 tons over the preceding five years), high ginning and marketing costs, the export contracting of most of the crop at the low price prevailing in the world market in mid-1986, and delays in processing cotton and in shipping it to export markets, owing to lack of lubricants and spare parts for the ginneries and transportation difficulties, led to a large increase in the bank overdrafts of the cotton marketing board and the cotton cooperatives during the second half of 1986. In January and February 1987, processing and shipping of cotton have picked up sharply as the ginneries received the needed lubricants and spare parts, and railways equipment was reserved for the transportation of cotton. The Government will take all necessary measures to ensure that nearly all of the processed 1986/87 crop is shipped by end-June 1987. Nevertheless, the operating deficit of the cotton marketing board for 1986/87 will be substantially larger than envisaged in the program, even with the speeding up of the exchange rate depreciation. An action program to address the specific problems of cotton marketing is being prepared with the financial assistance of the World Bank. This action program will be put in place in fiscal year 1987/88. If the present world market price of about 60 U.S. cents per pound is sustained, the exchange rate adjustment and some reduction in the processing and marketing costs should restore the profitability of the cotton marketing board in 1987/88.

7. The Government remains committed to its medium-term policy in the Economic Recovery Program (ERP) of setting producer prices at a level equivalent to 60-70 percent of f.o.b. prices, and of ensuring an annual increase of at least 5 percent in real terms, whichever is higher. For 1987/88, a 28-29 percent increase in the producer price of tobacco, i.e., about 5 percent in real terms on the basis of an expected average increase in the consumer price index of 23-24 percent over the preceding

crop year, has already been announced. Producer prices for perennials, including coffee, tea, and cashew nuts, will be announced in July and will be consistent with ERP producer price policy targets. For cotton, however, given the large operating losses of the cotton marketing board expected for 1986/87, the Government has announced an increase of only 15 percent in nominal terms.

8. Within the framework of the 1986/87 budget, the Government has undertaken fiscal adjustment which sought a 5 percentage point reduction in the overall fiscal deficit as a proportion of GDP to 10.9 percent, when the 1985/86 budget outturn is recast at the exchange rate expected to prevail in 1986/87. This effort, combined with a sharp increase in net foreign financing, was expected to reduce the bank financing of the budget deficit from 17 percent of total expenditure in 1985/86 to 5 percent of total expenditure in 1986/87. However, by midyear two major problems had emerged with regard to the 1986/87 budget and the need for bank credit by the Government. First, the trend of revenue during the first half of the year indicated that a shortfall in revenue of approximately T Sh 1.15 billion was likely for the fiscal year as a whole, primarily because of a shortfall in revenue from customs duties and the sales tax on imports and local products as a result of lower than expected imports. Second, the float of government checks issued before the end of June 1986 to pay for 1985/86 expenditure, but not cleared by the Bank of Tanzania before end-June 1986, was abnormally high. It is estimated at T Sh 6.7 billion, equivalent to more than 20 percent of the budgeted government expenditure for 1985/86; this compares with what might be considered a normal level of about T Sh 3.0 billion (9 percent of total expenditure). It was recognized that in order to reduce the float at the end of 1986/87 to a normal level of 9 percent of total expenditure, or T Sh 4.5 billion, would require T Sh 2.2 billion in additional resources. Part of the float was associated with T Sh 2.0 billion of excess expenditure over the budgeted amount for fiscal year 1985/86.

9. To ensure that the program is on track during the second half of 1986/87, the Government will take additional revenue and expenditure measures amounting to T Sh 1.90 billion and will borrow an additional T Sh 0.55 billion from the nonbank sector (Table 1). The Government announced the following new revenue measures with effect from April 1. The local sales tax ad valorem rates were increased on the following products: beer, 165 percent to 225 percent; cigarettes, (a 25 to 50 percentage point increase in the present rates which range from 75 percent to 150 percent; soft drinks from 70 percent to 100 percent; and spirits, from 275 percent to 300 percent. In addition, selected customs duty rates and the basic stamp duty rate were increased. These revenue measures are estimated to yield T Sh 850 million in additional revenue during the last quarter of 1986/87. Improvements in tax administration are expected to yield T Sh 200 million, primarily because of more careful scrutiny of certain imports through the main port and a substantial increase in the number of vehicles available to tax collectors. The sale of obsolete government equipment is estimated to

yield an additional T Sh 200 million. Dividends from parastatals are estimated to be about T Sh 200 million above the latest estimate for the fiscal year, primarily because of a sharp rise in the dividends from the Tanzania Petroleum Development Corporation (TPDC), which until now has retained most of its profits after taxes for various investment plans. Thus, altogether, revenue measures are expected to yield over T Sh 1.45 billion in the remainder of 1986/87, more than offsetting the revenue shortfall of T Sh 1.15 billion now expected for the fiscal year. In addition, the budgeted development expenditure was reviewed to identify some projects with relatively high local currency costs and low economic returns that could be postponed. This was accompanied by a slowdown of investments by public enterprises and more careful scrutiny of these investments, as well as some slippages in implementation. As a result, the local component of development expenditure is being curtailed by about T Sh 450 million from the original program estimates. In addition to the revenue and expenditure measures, nonbank financing is now expected to be T Sh 550 million higher than envisaged in the program, with the increase coming from the TPDC (T Sh 350 million), the National Insurance Corporation (T Sh 100 million), and the National Provident Fund and Post Office Savings (about T Sh 50 million each). The impact of these adjustments in reducing the overall deficit is expected to be partly offset by the more rapid than anticipated depreciation of the exchange rate, which results in a T Sh 0.65 billion increase in the overall deficit on a checks-issued basis (a T Sh 0.28 billion increase in total revenue and a T Sh 0.93 billion increase in total expenditure). As the exchange rate adjustment also increases the local currency value of the net foreign assistance by T Sh 0.65 billion, it has no net impact on net bank credit to Government.

10. The float problem partly results from the fact that checks corresponding to expenditure appropriated under the 1985/86 budget were only cleared with the Bank of Tanzania in 1986/87, rather than in 1985/86 as assumed when the program was designed. Consequently, the stock of bank credit to Government at end-June 1986 was T Sh 1.5 billion less than assumed at the time of setting the credit ceilings for 1986/87. The ceiling on the increase in net bank credit to Government for the fiscal year 1986/87 has therefore been increased to T Sh 3.40 billion, an increase of T Sh 0.90 billion. As a result of the various measures and adjustments described above, the overall deficit on a checks-issued basis is now projected to decrease slightly to T Sh 16.90 billion, versus the T Sh 17.0 billion initially envisaged. Because of the objective of sharply reducing the expenditure float at the end of 1986/87 by T Sh 2.20 billion, the financing requirement is now projected to increase to T Sh 19.10 billion, T Sh 2.10 billion more than initially assumed; foreign financing is projected to increase by T Sh 0.65 billion more, bank financing to increase by T Sh 0.90 billion more, and nonbank financing to increase by T Sh 0.55 billion more. The ceiling on the overall budget deficit of T Sh 16.90 billion for the fiscal year as a whole will be adjustable upward for new external assistance of up to T Sh 1.00 billion provided solely for the purpose of financing the

establishment of a strategic grain reserve, which will be reflected in a corresponding increase in government expenditure.

11. The above-mentioned budgetary targets are based on the underlying expectation that for the first nine months of the 1986/87 fiscal year and for the fiscal year as a whole, total revenue, total expenditure (excluding amortization), with its subcategories of recurrent and development expenditure, as well as the overall deficit, and its financing will develop as shown in Table 1. As indicated earlier, the revised program envisages T Sh 3.40 billion of net bank credit for financing the 1986/87 budget, with the bulk of the remaining deficit being financed by external assistance. Taking into account the expected pattern of receipts and expenditure, the amount of outstanding net bank credit to Government, which was T Sh 32.27 billion as of end-June 1986, will not increase by more than T Sh 1.50 billion by end-March 1987 and T Sh 3.40 billion by end-June 1987. These ceilings are based on the estimated inflow of net external assistance accruing to the budget of the local currency equivalent of US$201 million (T Sh 9.67 billion) between July 1986 and March 1987, and US$270 million (T Sh 14.45 billion) between July 1986 and June 1987. The above ceilings on net bank credit to the Government would be reduced by the full amount of any excess inflow of external assistance over that indicated above, except that there will be no adjustment for new external assistance equivalent to up to T Sh 1.00 billion provided for the purpose of financing the establishment of a strategic grain reserve. The ceilings on net bank credit to Government would also be reduced by the amount of the sale of government securities by the banking system to the Coffee Marketing Board pursuant to paragraph 15 of the Memorandum of Understanding of August 8, 1986. In the above table, this adjustment would be seen as an offsetting increase in nonbank financing. If new foreign financing for a strategic grain reserve is less than T Sh 1.00 billion, an increase in recurrent expenditure equal to the difference would be financed within the limit set for the overall deficit.

12. Monetary and credit developments during the second half of 1986 indicate that, while ceilings for end-December on increases in bank credit to the Government and to the marketing boards were met, the ceiling for end-December on overall expansion of domestic bank credit was exceeded. Reflecting this increase in total domestic credit and a significant increase in other net monetary assets, as well as an increase in net foreign assets, broad money increased by 26 percent compared with a programmed rise of 13 percent. Despite the lower than anticipated government domestic borrowing requirements, the total bank credit increased above the program ceiling primarily on account of a sharp rise in the requirements for crop finance. Despite larger volumes of production, the marketing boards were able to observe the credit ceilings because of delayed purchases, owing largely to processing and transportation difficulties faced by cooperatives. This led to a sharp increase in cooperative union overdrafts from the banking system, which reduced the amount of credit available to the rest of the economy.

13. In addition to the already mentioned credit ceiling on net bank credit to Government, quarterly credit ceilings have been established as performance criteria for bank credit to the specified seven marketing boards for end-March 1987 and end-June 1987, for total domestic credit for end-March 1987, and for net domestic assets (NDA) for end-June 1987 (Table 2). The ceiling on NDA, which is defined to include all other domestic assets of the banking system (except the blocked accounts corresponding to the local currency payments for the foreign debt rescheduled under the Paris Club agreement and the devaluation adjustments of foreign assets and liabilities), has been established in place of total domestic credit, because of the unexpected rise in the other net monetary items during the second half of 1986. The increase in the credit to the seven marketing boards from end-June 1986 will be limited to T Sh 3.33 billion by end-March 1987 and to T Sh 1.63 billion by end-June 1987 (compared with T Sh 0.63 billion in the current program). The increase in total domestic credit from end-June 1986 to end-March 1987 will be limited to T Sh 10.57 billion (compared with T Sh 6.66 billion implicit in the current program). The increase in NDA from end-June 1986 will not exceed T Sh 8.76 billion by end-June 1987 (compared with T Sh 6.27 billion implicit in the current program). The above NDA ceiling would be adjusted upward for the amount of deposits by the nongovernment sector related to debt rescheduling, blocked at the Bank of Tanzania.

14. With an unchanged target for net improvement in external assets (US$20.0 million from end-June 1986 to end-June 1987) and the revised net domestic assets expansion, broad money is expected to increase by 18.0 percent, compared with a 10.7 percent increase initially programmed. This level of monetary expansion is necessitated by the increase in the volume of marketed agricultural production and the increase in central government bank financing on account of the higher than anticipated float. Moreover, it is more consistent with the large increase in nominal gross domestic production (30 percent) and domestic currency prices of imported goods (over 200 percent) envisaged in the program for 1986/87.

15. On January 1, 1987, all deposit and lending rates were increased by 2.5 percentage points, bringing the interest rate on savings deposits of one-year maturity to 17.25 percent, equivalent to 55 percent of the average rate of inflation during the 12-month period ended September 1986. Furthermore, the interest rate structure was raised by an additional 4.25 percentage points on April 1, 1987, bringing the rate on one-year savings deposits to 21.5 percent, equivalent to about 67 percent of the average inflation rate observed during the 12-month period ended in December 1986. Also, it is the Government's intention to increase the interest rate structure by an additional 2.5 percentage points on July 1, 1987. As the inflation rate for 1987/88 is targeted at about 20 percent, versus 30 percent in 1986/87, it is likely that, when defined by looking forward, the real interest rate on one-year savings deposits could be positive on July 1, 1987.

16. The program included an import target of US$1,100 million during 1986/87; the projection for exports was US$410 million. Exports are now expected to be about US$355 million mainly due to poor performance of nontraditional exports. Nevertheless, the current account deficit (excluding government transfers) is projected to be US$630 million, or about the same as originally envisaged because a higher proportion of the import target is expected to be financed by "own exchange" resulting from higher inflows of private transfers. The overall balance of payments deficit, therefore, is expected to be broadly in line with the program's projections. Furthermore, to underpin the projected balance of payments objective, as an indicative target, net reserves were to increase by US$5 million between end-June 1986 and end-December 1986. The actual increase in net reserves during that period was US$9.6 million.

17. At the time the 1986/87 program was formulated, the financing gap for the fiscal year was projected at US$508 million. As expected, this gap is being filled by purchases from the Fund under the current stand-by arrangement amounting to the equivalent of US$55 million; rescheduling, under the auspices of the Paris Club, of principal and interest amounting to US$276 million that is due during the fiscal year; exceptional donor assistance, in the context of a Consultative Group meeting, amounting to about US$87 million; and a Multisector Rehabilitation Credit from the World Bank through which about US$115 million will be disbursed in 1986/87. Therefore, the import target of US$1,100 million and the target of an improvement in net official foreign assets of US$20 million for 1986/87 as a whole remain achievable.

18. The stringent foreign exchange constraints faced by Tanzania had resulted in a large accumulation of external payments arrears, including those regarding public and publicly guaranteed debt service obligations. Paris Club creditor countries agreed to reschedule 97.5 percent of principal and interest arrears, including that on short-term debt, due as of September 30, 1986. The estimate of arrears as of that date that are eligible to be rescheduled is US$1,069 million, of which US$763 million are owed to Paris Club creditor countries and the rest to other creditor countries. Between July 1, 1986 and September 30, 1986, arrears were reduced by about US$28 million through cash payments, compared with US$25 million as called for under the program. Further cash reductions in arrears of US$4.2 million to multilateral institutions were made between end-September and end-December 1986. Therefore, the cash reduction in arrears amounted to US$32.2 million during July-December 1986, compared with the performance criterion of a US$30 million reduction. Because an estimate of arrears as of end-December 1986 that are not eligible for rescheduling will not be available until the bilateral rescheduling agreements are concluded, a schedule for their reduction will be set at the time of the second review of the program.

19. In February 1986, the Government announced that the export retention scheme under which exporters are allowed to retain a portion of their foreign exchange receipts and to use it for imports relating to their economic activity would be further modified. The modified export retention scheme came into effect in September 1986. Under the scheme, exports are divided into 3 categories: A, B, and C. Category A exports includes the 6 traditional export crops, and exporters of these products may retain 10 percent of their export earnings to finance imports needed for their production activities; transferability of retained earnings is not permitted. Exporters of nontraditional industrial products (known as category B exports) are allowed to retain 50 percent of their foreign exchange earnings. For those exporters of category B products involved in a production activity, this retained foreign exchange must be used to purchase imports essential to their production activities. For trader-exporters, one fourth of their retained foreign exchange is automatically transferred back to the producer who may use it to import raw materials and spare parts; the remaining three fourths of the retention may be used by the trader-exporter to import any item on the official government list of import categories under the scheme. Category C exports comprise mainly farm, marine, and mineral products; exporters of these products are also allowed to retain 50 percent of the value of their exports and are allowed to import any item listed as importable under the scheme. For exporters of category B and category C products, a trader-exporter may voluntarily transfer his retained earnings to any producer-exporter but not to another trader-exporter; also, retained earnings may be transferred among producer-exporters. On occasion, and on a case-by-case basis, exporters in all three categories are allowed to retain up to 100 percent of their export earnings. As envisaged in the program, the Government has recently reviewed the export retention scheme with a view to improving its operation and facilitating access to foreign exchange. On the basis of this review, a number of modifications to the scheme, including an expansion of category B exports, will be implemented by end-June 1987.

20. The Government considers the exchange rate policy an important underpinning of the adjustment program, and therefore has kept it under continuous review. The exchange rate of the Tanzania shilling was depreciated by more than the rate established by performance criteria (1 percent per month over and above the relative rate of inflation vis-à-vis the basket of most important partners) from US$1 = T Sh 40 as of June 19, 1986, to US$1 = T Sh 57.2 as of March 31, 1987. The 1 percent rule called for a rate of only US$1 = T Sh 48.4 by that date. The Government intends to continue the same exchange rate policy.

21. The Government of Tanzania believes that the policies set forth in this letter are adequate to achieve the objectives of its program, but 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.

22. This letter supplements the Memorandum of Understanding on Economic and Financial Policies attached to my letter of August 8, 1986.

Yours sincerely,

C.D. Msuya
Minister of Finance,
Economic Affairs and Planning

Table 1. Tanzania: Central Government Operations, 1986/87

(In millions of Tanzania shillings)

	Program July 86–Mar. 87	Changes in Initial Program: Initial program July 86–June 87	Projected changes without new measures	New fiscal measures	Additional financing	Speeding up of exchange rate adj.	Net changes	Revised Program July 86–June 87–
Revenue	22,750	32,899	-1,150	1,450		280	580	33,479
Total expenditure (excluding amortization)	30,654 1/	49,899		-450		930	480	50,379
Recurrent	21,954 1/	35,040				480	480	35,520
Development	8,700	14,859		-450		450	--	14,859
Overall deficit (checks-issued basis)	7,904 2/	17,000	1,150	-1,900		650	-100	16,900
Change in float (+ = reduction)		--	2,200				2,200	2,200
Overall deficit (checks-cleared basis)	9,600	17,000	3,350	-1,900		650	2,100	19,100
Financing								
External grants and borrowing (net)	7,600	13,800		--		650	650	14,450
Domestic borrowing (net)	2,000	3,200			1,450		1,450	4,650
Bank	1,500 2/	2,500			900		900	3,400
Nonbank	500	700			550		550	1,250

1/ Quarterly cumulative figures for recurrent expenditure and total expenditure are indicative targets, which, if exceeded, will lead the Government to consult with the Managing Director on any needed corrective measures.

2/ Quarterly ceilings on overall deficit and on bank financing are performance criteria.

ATTACHMENT I

Table 2. Tanzania: Quantitative Ceilings and Performance Criteria

	Stocks June 1986 Act.	Change July-Dec. 1986 Act.	Performance criteria July 86-Mar.87	Performance criteria July 86 June 87 Prog.	Performance criteria July 86 June 87 Rev.Prog.
	(In millions of Tanzania Shillings)				
Change in net domestic assets	49,805.0	n.a	n.a	6,265.0 1/	8,755.4
Change in total bank credit	49,675.9	7,476.3	10,566.4	6,265.0 2/	8,665.0
Change in central government bank borrowing	32,271.3	437.1	1,500.0	2,500.0 2/	3,400.0
Change in bank credit to specified marketing boards	7,017.4	1,337.2	3,332.6	625.0 2/	1,625.0
Indicative total central government expenditure targets		17,317	30,654	49,899	50,379
Indicative central government recurrent expenditure		14,527	21,954	35,040	35,520
Overall central government deficit (checks-issued basis)		3,233	7,904	17,000	16,900
	(In millions of U.S. dollars)				
Minimum improvement in net official foreign assets of Bank of Tanzania (indicative)		9.6	12.0	20.0	20.0
Cumulative reduction in external arrears		32.2	40.0	50.0	50.0
New external payments arrears		--	--	--	--
Increase in public and publicly guaranteed short-term external debt 3/		--	--	--	--
Government contracting and guaranteeing of non-concessional loans of 1-15 years of maturity		--	--	--	--
New nonconcessional foreign borrowing contracted by public sector productive enterprises on their own creditworthiness in the maturity range of 1-15 years	--	50.0	50.0	50.0	

1/ Implicit in the indicative credit targets established in June 1986.
2/ Indicative targets established in June 1986.
3/ Excludes bridging finance and import-related credits of an original maturity of up to and including one year.

TANZANIA - Basic Data (continued)

	(In millions of Tanzania shillings, end of period)				
Grants	1,593	1,234	1,892	1,685	12,300
Net foreign borrowing	970	230	592	537	2,150
Domestic nonbank financing	469	507	1,231	872	1,250
Domestic bank financing	4,003	4,492	3,112	5,243	3,400
	1982 Dec.	1983 Dec.	1984 Dec.	1985 Dec.	1986 Dec.
Money and credit					
Domestic credit	26,234	30,378	37,024	49,300	57,151
Of which: government	(17,763)	(20,880)	(25,432)	(32,599)	(32,709)
Money plus quasi-money	21,787	24,664	30,198	38,502	48,786
	1982	1983	1984	1985	1986 Est.
Balance of payments	(In millions of U.S. dollars)				
Trade balance	-682	-440	-504	-713	-702
Exports, f.o.b.	(413)	(379)	(388)	(286)	(348)
Imports, c.i.f.	(-1,095)	(-819)	(-892)	(-999)	(-1,050)
Services (net)	13	-15	-43	-69	-85
Private transfers (net)	25	19	63	233	250
Current account	-644	-436	-484	-549	-537
Government transfers	186	145	145	194	363
Medium- and long-term borrowing	240	150	-74	-19	17
Inflows	(285)	(253)	(183)	(200)	(203)
Outflows	(-45)	(-103)	(-257)	(-219)	(-186)
Suppliers' credits (net)	58	102	110	-32	-55
Other capital movement and errors and omissions	50	20	144	11	-85
Overall balance	-110	19	-159	-395	-297
Financing	110	19	159	395	297
Arrears	93	64	183	399	--
Net foreign assets (increase -)	17	-45	-24	-4	-3
Debt rescheduling (current maturities)	--	--	--	--	300

TANZANIA - Basic Data

Area and population

Area:		945,100 square kilometers
Population:	Total (1986)	22.5 million
	Growth rate	3.3 percent

	1982	1983	1984	1985	1986 Est.
	(In millions of Tanzania shillings)				
Gross domestic product					
At factor cost (constant 1976 prices)	24,104	23,612	24,365	24,916	25,663
Of which:					
Agriculture	(9,639)	(9,597)	(9,849)	(9,689)	(10,176)
Manufacturing and mining	(2,497)	(2,384)	(2,375)	(2,222)	(2,200)
Gross domestic product at current market prices	58,226	68,382	83,499	108,091	139,167
National consumer price index (NCPI) (1970 = 100)					
(Annual change)	28.9	27.0	36.2	33.3	32.4

	1982/83	1983/84	1984/85	1985/86 Rev. est.	1986/87 Staff est.
	(In millions of Tanzania shillings)				
Central government budget					
Total revenue	11,819	14,426	18,244	21,246	33,479
Tax revenue	11,252	13,711	17,229	20,076	31,629
Nontax revenue	567	715	1,015	1,170	1,850
Total expenditure and net lending	18,442	20,886	25,980	32,373	50,379
Recurrent expenditure	14,062	16,174	20,031	26,331	35,520
Development expenditure and net lending	4,380	4,712	5,949	6,042	14,859
Overall deficit (checks-issued basis) 1/	-6,623	-6,460	-7,736	-11,127	-16,900
Adjustment to cash and other items (net)	-412	-3	909	2,790	-2,200
Overall deficit (checks-cashed basis) 1/	-7,035	-6,463	-6,827	-8,337	-19,100

TANZANIA - Basic Data (concluded)

	1982	1983	1984	1985	1986 Est.
	(In millions of U.S. dollars)				
Gross official foreign reserves					
In weeks of imports	1.8	4.0	1.6	0.8	2.4
External public debt					
Debt service obligation as percent of exports of goods, services, and private transfers					
Excluding the Fund	17.3	30.2	62.1	53.3	63.9
Including the Fund	19.4	35.3	66.4	55.7	66.0

Tanzania - Fund Relations
(As of March 31, 1987)

I. Memberships Status

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

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 107.00 million

		SDR million	Percent of quota
(b)	Total Fund holdings of Tanzania shilling:	144.06	134.64
(c)	Fund holdings subject to repurchase and charges	37.06	34.63
	Of which: credit tranche	(32.99)	(30.83)
	supplementary financing facility	(4.07)	(3.80)
	compensatory financing facility	(--)	(--)
(d)	Reserve tranche position:	--	--

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

(a) Current stand-by arrangement:

Arrangement	Duration	Amount	Utilization (In millions of SDRs)	Undrawn balance
Stand-by	8/28/86-2/27/88	64.20	32.99	31.21

(b) Previous stand-by arrangements:

Arrangement	Duration	Amount	Utilization (In millions of SDRs)	Undrawn balance
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

(c) Special facilities:

Compensatory financing facility	Approval was given on Sept. 15, 1980 for a a purchase equivalent to SDR 15.0 million

Tanzania - Fund Relations (continued)
(As of March 31, 1987)

IV. SDR Department

(a) Net cumulative allocation	SDR 31.37 million
(b) Holdings:	SDR 0.13 million

V. Administered Accounts

(a) Trust Fund loans:	
(i) Disbursed	SDR 41.04 million
(ii) Outstanding	SDR 17.79 million
(b) SFF Subsidy Account:	
(i) Payments by Fund	SDR 2.36 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 57.18 per U.S. dollar as of end-March 1987.

VIII. Last Article IV Consultation

The last Article IV consultation was concluded by the Executive Board on March 20, 1986 (EBM/86/48). 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 1985 Article XIV consultation with Tanzania, in the light of the 1985 Article IV consultation with Tanzania conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Tanzania continues to maintain restrictions on payments and transfers for current international transactions in accordance with Article XIV, Section 2. In addition, exchange restrictions evidenced by the external payments arrears, and a multiple currency practice as described in SM/86/23, are subject to approval under Article VIII, Sections 2(a) and 3. The Fund urges the authorities to adopt adjustment policies which will permit the elimination of these restrictions.

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

Tanzania - Fund Relations (concluded)
(As of March 31, 1987)

IX. Technical Assistance

A Technical assistance mission from the Bureau of Statistics was undertaken to review Tanzania's external debt and money and banking statistics (January 19-February 1, 1987). A member of the CBD panel of experts is assigned to the Bank of Tanzania as short-term technical advisor on external debt management.

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, 63 IDA credits and 19 Bank loans, two of these on third window terms, amounting to US$1,274.50 million have so far been approved for Tanzania. Total disbursements amounted to US$1,016.29 million as of February 28, 1987. 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. Since fiscal year 1981, 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 (such as power generation and education facilities).

In addition to financing specific projects, the Bank group has provided nonproject assistance on four occasions in support of government efforts to deal with its balance of payments difficulties.

Lending during fiscal years 1988-92 is currently projected at US$520 million. The composition of the proposed lending program will continue to focus on agriculture and on industrial and infrastructural rehabilitation.

2. 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

TANZANIA: Relations with the World Bank Group (concluded)

policies; the performance of the agricultural sector; improved 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 data on national accounts and related statistics are deficient because of the unreliability of the data for agricultural production and parastatal enterprises, and the absence of an industrial production index and appropriate deflators or extrapolators. The consumer price index is also in need of review to take account of the effects of price controls and parallel markets. A number of recommendations for improvement in these areas were made in a recent Fund technical assistance mission to Tanzania.

b. Monetary accounts

The reporting of data on the accounts of the Bank of Tanzania on a current basis has now recommended after the long disruption resulting from the fire in mid-1984. Data obtained by various missions on money and banking statistics will be included in IFS shortly.

Since reporting was interrupted in 1984, Tanzania has not yet resumed regular reporting of data on commercial banks' detailed accounts. Consequently, no current data on commercial banks' external positions are available to the Bureau of Statistics.

c. Government finance

The 1986 GFS Yearbook contains data for the main aggregates of the budgetary central government for the period 1976-81. It also includes data for expenditures throUgh 1985 and incomplete data for tax revenue for the period 1976-84. The presentation of data for Tanzania in the GFS Yearbook could be improved if data for the extrabudgetary central government and for the state government are reported. Annual data reported for the 1986 GFS Yearbook are different from those reported for IFS due to differences in compilation procedures. Furthermore, although the 1986 GFS Yearbook publishes for the first time provisional data for many countries, it does not do so for Tanzania. The availability of these provisional data, even if they must include some estimates or projections, is very useful for purposes of analysis and policy determination. Production of these data for Tanzania, particularly for major components, on the same basis and with the same coverage as for previous years, would add appreciably to the usefulness of government finance data for Tanzania in the GFS Yearbook.

TANZANIA: Statistical Issues (concluded)

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

The table below shows the currentness and coverage of data published in the country page for Tanzania in the April 1987 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Tanzania, which, during the past year, have been provided rather irregularly. Also, the currentness of the data needs to be improved in several areas.

Status of IFS Data

		Latest Data in April 1987 IFS
Real Sector	- National Accounts	1984
	- Prices	Q3 1986
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1985
	- Financing	1980
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	October 1986
	- Deposit Money Banks	October 1983
	- Other Financial Institutions: Post Office Savings	August 1986
Interest Rates	- Discount Rate	March 1984
	- Bank Lending/Deposit Rates	November 1986
	- Bond Yields	n.a.
External Sector	- Merchandise Trade: Values:	Q1 1986
	- Unit Values 1/	Q1 1986
	- Balance of Payments	1981
	- International Reserves	February 1987
	- Exchange Rates	February 1987

1/ Coffee, cotton, and sisal.