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October 6, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Tanzania - Policy Framework Paper

Attached for consideration by the Executive Directors is the policy framework paper under the structural adjustment facility for Tanzania which, together with the second review of the stand-by arrangement and Tanzania's request for arrangements under the structural adjustment facility, will be brought to the agenda for discussion on a date to be announced. The staff report on Tanzania's request for use of Fund resources will be circulated shortly.

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

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INTERNATIONAL MONETARY FUND

TANZANIA

Structural Adjustment Facility

Policy Framework Paper 1987/88-1989/90

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

October 5, 1987

I. Economic Background

1. Over the last decade, Tanzania's economy has been facing serious problems. The country has suffered continuous decline in output and export earnings, which, in turn, led to a reduction in the domestic saving rate and a rapid fall in import volumes. As imports declined, acute shortages of raw materials, spare parts, and consumer goods emerged, leading to further decreases in production and a deterioration in the capital stock of key production and service sectors. The outcome has been manifested in high rates of inflation, large balance of payments deficits, increasing debt and accumulation of external payments arrears, declining real per capita income, and a declining tax base (Table 1).

2. Both external and internal factors contributed to this deterioration in the economic and financial situation. The external factors that contributed to the decline were the budgetary strain resulting from Idi Amin's war of aggression and the effects of the breakup of the East African Community; the 1979 second oil price shock (the oil bill increased by US$150 million); and declining agricultural commodity prices in the world market, which caused a major deterioration in the terms of trade. The internal factors included insufficient resources for the agricultural sector, inadequate producer incentives, weaknesses in marketing and distribution systems, expansionary fiscal and monetary policies, and growth in the size of the government sector and related management problems.

3. Faced with these developments, the Tanzanian Government adopted in June 1982 a three-year Structural Adjustment Program (SAP) designed to stimulate agricultural development, improve capacity utilization and efficiency, restore financial and economic stability, and improve planning and cost control mechanisms. These measures were intensified in the 1984/85 budget, as the exchange rate of the Tanzania shilling was depreciated, food and agricultural input subsidies eliminated, some government agencies and parastatals reorganized, cooperative unions reintroduced, and large real increases in producer prices provided.

Table 1. Tanzania: Selected Economic and Financial Indicators, 1983-1989/90

	1983	1984	1985	1986 Estimates	1986/87 Estimates	1987/88 Program	1988/89	1989/90
				(Changes in percent)				
GDP and prices								
Real GDP	-2.0	3.2	2.3	3.0	3.5	4.0	4.0	4.0
Consumer prices								
End of period	27.3	36.1	28.2	33.2	32.4	20.0	15.0	8.0
Average	27.0	36.2	33.3	32.4	32.9	25.0	20.0	12.0
Government budget 1/								
Revenue excluding grants	22.1	26.5	16.5	54.9	46.4	61.7	...	...
Total expenditure	13.3	24.4	24.6	54.1	34.5	72.0	...	...
Money and credit (end of period)								
Total credit	15.8	21.9	22.0	18.7	29.6	21.0	13.5	12.0
Of which: Government (net)	(17.5)	(21.9)	(28.0)	(9.3)	(6.8)	(-5.8)	...	...
Money plus quasi-money	13.2	22.4	27.5	17.0	22.1	10.0	10.0	9.3
Velocity (GDP relative to M2)	2.77	2.77	2.80	2.85	3.30	3.42	3.68	3.86
Interest rates (12-month saving deposits)	7.5	7.5	10.0	15.0	21.5 2/	24.0	...	...
External sector (on the basis of U.S. dollars)								
Exports, f.o.b.	-8.3	-2.8	-22.5	21.7	12.0 3/	19.0	16.3	15.6
Imports, c.i.f.	-25.3	9.0	11.9	5.1	7.4 3/	7.7	3.8	3.3
Nominal effective exchange rate	-15.6	-19.2	-2.2	-69.5	-45.9	...	...	...
Real effective exchange rate	2.2	4.0	8.7	-61.3	-26.6	...	...	...
				(In percent of GDP)				
Overall government budget deficit 1/								
Checks-issued basis	-8.5	-8.1	-9.0 4/	-10.9	-8.0	-13.0	-13.4	-12.6
Checks-cleared basis	-8.5	-7.1	-6.7 4/	-10.9	-10.1	-12.0	-12.6	-11.9
				(In percent of merchandise exports)				
External current account deficit								
Excluding grants	115.0	124.7	192.0	154.6	176.4	165.0	143.7	122.2
Including grants	92.7	87.3	124.3	50.2	53.5	49.2	37.8	27.4
Scheduled external debt service 5/								
Including IMF	35.3	66.4	55.7	55.5	54.8	52.1	47.7	41.2
Excluding IMF	30.2	62.1	53.3	52.1	53.1	51.2	46.8	39.2
				(In millions of U.S. dollars)				
External current account balance excluding grants (deficit-)	-435.7	-484.4	-548.4	-537.5	-625.5	-696.5	-701.7	-687.5
Overall balance (deficit-)	-0.2	-158.7	-394.6	-297.3	-255.8	-214.8	-144.9	-74.3
Stock of payments arrears	452.5	438.5	638.0	1,069.0 6/	1,069.0 6/	...	...	...
				(In weeks of imports)				
Gross official reserves	4.0	1.6	0.8	2.4	2.2	5.1	7.1	8.4

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

1/ On a fiscal year basis, beginning on July 1 of each year.
2/ Effective April 1, 1987.
3/ 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 various policy initiatives had some important and positive effects on the economy; in particular, there was a substantial increase in the supply of foodgrains for the domestic market in 1984/85. Overall, however, they proved to be insufficient to stimulate major economic recovery and to stop the deterioration of the balance of payments, in part because of shortfalls in external financing. After a review of the results of the SAP, it became evident that further intensification of policy adjustments, coupled with additional external resources, was necessary in order to accelerate the pace of economic recovery.

4. In early 1986 the Government decided to introduce a more comprehensive medium-term Economic Recovery Program (ERP). The new program, announced in the 1986/87 budget and presented at the June 1986 Consultative Group meeting in Paris, 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 which improve resource allocation and enhance incentives to work, save, and invest, such as appropriate price policies and improvements in production and marketing arrangements. These supply-enhancing measures are to be supported by appropriate demand-management policies.

5. A first set of measures announced at the time of the 1986/87 budget presentation included an exchange rate adjustment (the exchange rate of the Tanzania shilling in terms of the U.S. dollar moved from T Sh 17 in mid-April 1986 to T Sh 40 in June 1986), with subsequent adjustments in the rate aimed at gradually achieving an equilibrium exchange rate by mid-1988; an increase in interest rates, including a rise in the 12-month savings deposit rate of 5 percentage points to a rate of 15 percent, with subsequent adjustments aimed at gradually achieving positive real interest rates by mid-1988; an increase in nominal producer prices for agricultural exports, ranging from 30 to 80 percent; and, except for the identified 12 categories of commodities, a decontrol of domestic prices over a period of three years, with one third decontrolled effective July 1986. These policies were accompanied by 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 (MRC) was approved by the World Bank on November 20, 1986, which incorporated financing from IDA and the African Facility (US$100 million), and attracted Special Joint Financing (US$50 million) by the Federal Republic of Germany, the Netherlands, Switzerland, and the United Kingdom.

II. Medium-Term Strategies and Policies

6. The policy changes introduced during the first year of the ERP are important. However, the achievement of a sustainable rate of growth under conditions of external and internal balance remains constrained by a number of structural problems, which the Government intends to address within the socio-political framework chosen by the people of Tanzania. The principal structural adjustment measures which the Government proposes to undertake are (i) the allocation of foreign exchange on a priority basis to the most efficient enterprises to ensure increases in industrial capacity utilization and widespread improvements in the efficiency of industrial production; (ii) reductions in the cost and improvements in the responsiveness of the agricultural marketing system; (iii) reduction in the budget deficit and improvements in the structure of revenue and expenditure, aimed in particular at increasing resources for the maintenance and rehabilitation of existing capital assets; (iv) increased flexibility and improved efficiency in the financial system; and (v) greater reliance on correct price signals. Tanzania also faces longer term development constraints of rapid population growth, inadequate infrastructure, relatively low levels of manpower development, and an export base vulnerable to swings in world commodity prices.

7. In order to address these issues, the Government intends to continue to reinforce its program of policy and institutional reforms during the three years from 1987/88 to 1989/90. For this period, the program is aimed at accomplishing the following objectives: (i) an average rate of economic growth of at least 4 percent per annum, which will correspond to a positive growth in per capita income of about 1 percent per annum; (ii) a reduction in the domestic rate of inflation from about 30 percent in 1986/87 to below 10 percent in 1989/90; and (iii) a reduction in the current account deficit (excluding government transfers) from 176 percent of merchandise exports in 1986/87 to 122 percent in 1989/90, which would prepare the way for the restoration of a sustainable balance of payments position in the early 1990s. Economic growth during this period should result from restoring agricultural output, particularly of export crops, to the levels achieved during the early 1970s and from improving efficiency and capacity utilization in the industrial sector. To achieve the overall objectives of the program, the specific policy and institutional reforms detailed below will be implemented.

a. Macroeconomic policies

(1) External sector policies

8. During the program period, the Government will be implementing an active exchange rate policy and a reform of the exchange and trade regime. The policy of exchange rate adjustment followed since April 1986 (with the rate moving from T Sh 17 per U.S. dollar to T Sh 68 per U.S. dollar in August 1987) will be continued in order to achieve an

equilibrium exchange rate by mid-1988; this equilibrium rate would be consistent in the medium term with the target rate of economic growth and a current account position that is financeable, without undue restrictions on current account transactions and related payments.

9. As the exchange rate moves toward equilibrium, the Government will begin removing existing trade and exchange restrictions and rely more on the use of tariffs and other indirect economic levers to influence developments in the balance of payments. This reform of the trade and payments system will be implemented in a phased manner according to a timetable that will increase the portion of imports free of exchange and trade restrictions. The Government will issue import licenses and foreign exchange on demand for selected commodity imports, effective January 1, 1988, and then gradually broaden the coverage so as to include all industries and categories of goods consistent with the ERP by 1989/90. In order to equilibrate the supply of and demand for foreign exchange, including those for the categories of imports mentioned above, periodic reviews of the exchange and trade policies also will be made. In addition, the Government has carried out a study of the tariff system with the assistance of the World Bank; based on this study, the Government is reviewing the modifications that may be appropriate. The modifications will be implemented in the the 1988/89 fiscal year. The modifications to the tariff system will aim at revenue neutrality.

10. The Government intends to review periodically the export retention scheme and the "own exchange" import scheme. A steadily increasing proportion of imports are now coming into the country via these schemes, which constitute major sources of supply of spare parts and other intermediate goods, as well as consumer goods. The export retention scheme, which was already revised in September 1986 in an effort to encourage optimal use of retained proceeds, has been further reviewed, and the Government has implemented new modifications regarding easy accessibility to foreign exchange, reduction in differentials in retention rates, and rationalization of the import and export lists and pattern of utilization of retention in August, 1987. As progress is made toward attaining external equilibrium, the Government's ultimate objective would be to abolish this scheme. In addition, the Government has worked out an improved foreign exchange allocation system and plans to utilize it during the transition period to the extent that administrative allocations are necessary.

(2) Fiscal policy and public sector resource management

11. During the three fiscal years 1987/88-1989/90, the Central Government's annual overall deficit (with foreign grants treated as financing) will be contained to around 13 percent of GDP or less, a level that ensures that there will be a sharp reduction in the need for net domestic financing, and thus bank financing, in order to reduce the rate of monetary expansion and increase the access of productive sectors to credit. Although the depreciation of the exchange rate will result in a substantial increase in the overall deficit from the 1986/87 level,

both in nominal terms and as a percentage of GDP, this will be more than financed by the effect of that depreciation on the local currency value of the net inflow of foreign loans and grants, so that the need for domestic borrowing will be substantially reduced. Reliance on external borrowing will be kept consistent with the need to reduce the external debt service ratio. The program will require that, in addition to a continuous effort to improve tax administration, expenditure-restraining measures be introduced in order to contain the relative real absorption of goods and services by the Central Government.

12. During 1986/87 the Government took significant measures to increase revenue and to improve the tax system, and intensified its efforts to restrain overall expenditure growth. The 1986/87 tax measures were designed to raise additional revenue and to improve the elasticity of the tax system by converting most of the remaining specific sales taxes to an ad valorem basis, and to improve incentives by reducing the high marginal tax rates on personal income. The Government also made significant increases in a number of local sales tax rates, and has sought to improve tax collection and administration.

13. Regarding public expenditure, the budget for 1986/87 already provided for a freeze on employment in the civil service, except for teachers and medical personnel, and maintained the policy of no budget subsidies to parastatals. A major focus of the subsequent expenditure containment effort will be to ensure that the growth of the wage bill remains below the rate of inflation. The freeze on employment in the civil service will need to continue, and rationalization and retrenchment will be resorted to, whenever appropriate. An effort will also be made to improve the salary structure, consistent with labor efficiency. A Presidential Salaries Commission has already been reviewing issues of pay, incentives, and staffing for the Central Government, as well as local governments and parastatals. Given the urgent need to increase the level of real maintenance expenditure in order to stop the rapid deterioration of the existing capital stock, it will be necessary to restrain the expansion of most other forms of expenditure. The recently announced budget for 1987/88 provides for a real reduction in the wage bill and in most categories of discretionary recurrent expenditure. Other important areas in which the Government is seeking improvements are strengthening its budgetary controls and monitoring system, and improving the independent financial base of local government. The latter will require enhanced efforts to increase revenue and control expenditure at the local government level. The Government is in the process of preparing a medium-term strategy for public expenditure with the assistance of the World Bank. On the basis of this strategy, an action program will be specified for implementation in the fiscal year 1988/89.

14. Because of the urgent need to provide for adequate maintenance of the existing capital stock, there is a need to shift from new capital investments to maintenance and rehabilitation of the existing capital stock. In particular, there is a critical need to repair the rapidly

deteriorating roads throughout the country, whose condition has sharply raised transport time and cost. Development expenditure will be concentrated on ongoing projects and rehabilitation, and new projects will be started only if deemed essential for economic recovery. The magnitude of the overall investment program and its composition will be reviewed annually in the context of the annual arrangements under the structural adjustment facility (SAF).

15. For public enterprises, which play an important role in the economy, the main objectives are to accelerate the restructuring process which was initiated during 1984/85 and to strengthen the management and operations of these enterprises to ensure an adequate return on investment. This process has already been initiated in the agricultural parastatals with the result that the operations of some enterprises were reorganized and rationalized. The Government is undertaking, together with the World Bank, a detailed review of the parastatal sector. This review will include proposals for the rehabilitation or restructuring of public enterprises, in accordance with the MRC letter on development policy. On the basis of these reviews, the Government will prepare, within the 1987/88 fiscal year, an action program, including a schedule for implementation of policy and institutional changes.

(3) Monetary policy and financial sector reforms

16. Over the next three years, the Government will implement a monetary and credit policy which is consistent with strengthening the balance of payments and reducing the inflation rate. In addition, within the overall credit expansion, the Government intends to reduce its borrowing requirement so as to allow sufficient credit for the productive sectors of the economy. To ensure the attainment of these objectives, quarterly domestic credit and government credit expansion targets will be established. The Government also intends to make the interest rate structure positive in real terms by mid-1988. Consequently, quarterly adjustments will continue to be made as necessary in the principal deposit and lending rates; after the last adjustment on July 1, 1987, the one-year deposit rate reached about 80 percent of the inflation rate. Government borrowing rates, including the treasury bill rates, will continue to be adjusted so as to be consistent with the overall structure of interest rates.

17. Besides the Central Bank, the banking system of Tanzania currently comprises the National Bank of Commerce on the mainland, the People's Bank of Zanzibar in the islands, the Cooperative and Rural Development Bank (commercial bank), the Tanzania Investment Bank, the Tanzania Housing Bank, the Tanzania Development Finance Company Limited, and the Tanzania Post Office Savings Bank. There are also several other specialized financial institutions, which, like the commercial banks, have either geographical or functional specialization. To provide diversified financial services and to improve the efficiency of banking services, the Government recognizes that there is need to reform the current system, and, therefore, will prepare an action program that will

focus on ways to improve the efficiency of existing financial institutions and to develop other publicly owned financial institutions to provide a full range of financial services. This action program, with a timetable for its implementation, will be discussed with the World Bank and Fund staffs by end-June 1988, and its implementation will begin in 1988/89.

(4) Pricing and distribution policies

18. There has been a significant reduction in the number of products subject to price controls, and it is the government policy to continue this process. Except for a maximum of 12 categories of commodities considered essential consumer items, and comprising some 15 percent of the consumer price index, the Government will decontrol all remaining commodities before the end of the fiscal year 1988/89. Two thirds of these products were removed from price controls at the beginning of fiscal years 1986/87 and 1987/88, and the remainder will be decontrolled at the beginning of fiscal year 1988/89. During the transition period, adequate adjustments in controlled prices will be made to avoid cost-price imbalances and subsidies, while at the same time encouraging reductions in costs through efficiency improvements. The Government has already been making such adjustments for a range of products and services, and intends to continue doing so. As domestic price controls are removed, the domestic distribution of the affected products will also be deconfined.

b. Sectoral policies

(1) Agricultural marketing and pricing policies

19. During the past two years, domestic marketing of foodgrains has been diversified. In order to ensure better and reliable supplies to consumers at the lowest cost possible, cooperatives and individuals have been allowed to market foodgrains and all restrictions on the transport of foodgrains have been removed. Given the new diversified market structure, the Government has recently reviewed the proper role for the National Milling Corporation (NMC) and has begun to introduce measures to effect the institutional and operational changes necessary to ensure the NMC's efficient operations and financial viability. From 1987/88, the NMC's role will be limited to operating the strategic grain reserve; carrying out the Government's import of foodgrains; conducting milling activities on behalf of cooperative unions and other traders, as well as on its own behalf for special contracts; and operating as a buyer of last resort.

20. Some progress has been made in reforming the institutional structure for processing and marketing Tanzania's export crops, but further reforms are needed to increase efficiency in the agricultural sector, to reduce the marketing costs, and to ensure a lasting recovery in export earnings. The responsibilities of former crop authorities have been assigned to newly constituted or created cooperatives and marketing boards. Private estates growing sisal and tea are now per-

mitted to market directly instead of through marketing boards. Starting in the 1987/88 crop season, cooperative unions and other large producers will be able to export directly or through agents. The Government is committed to take additional steps to improve the efficiency of export crop marketing, to reconsider the relative responsibilities of marketing boards, cooperatives, and other private institutions, with a view to further expanding the role of cooperatives and other private institutions and limiting the role of the marketing boards, while ensuring their cost efficiency and financial strength. Studies to develop action programs for cotton, coffee, and tobacco will be completed by September 1987; studies for other export crops will be completed by end-1987. The implementation of these action programs will begin in 1987/88.

21. The Government recognizes that in addition to efficient marketing institutions, the provision of adequate price incentives is necessary to increase agricultural production and exports. During the three-year program, the Government is committed to increase official producer prices for export crops to at least a level equivalent to 60-70 percent of export prices (f.o.b.), or to ensure a real increase of at least 5 percent annually over the medium term, whichever is higher. In addition, the Government will allow greater price differentials depending on quality, so as to encourage production of higher grades.

22. In order to improve the timely availability of agricultural inputs, the Government has deconfined the importation and distribution of all agricultural inputs other than fertilizers and seeds effective March 1987. In this context, all importers are being allowed equal access to foreign exchange.

(2) Industrial sector

23. Tanzania's industrial sector faces high import dependence, inadequate infrastructure, shortages of skilled manpower, low capacity utilization, and the existence of a number of inefficient operations. To improve this situation, it will be necessary to provide selectively the necessary raw materials, spare parts, and infrastructure to achieve higher levels of capacity utilization and efficiency. Efforts will be made to reorient the industrial sector by channelling resources toward productive enterprises at the expense of inefficient ones. The policy program outlined above, in particular the exchange rate, trade regime, and pricing measures, will go a long way toward accomplishing these objectives. During 1987 the Government and the World Bank will undertake studies to identify and develop an action program to restructure and rationalize the industrial sector; these studies will be completed during 1987/88. Together, these measures will free resources for use by more efficient firms, enabling them to expand output rapidly and at low cost because of the existence of excess capacity in many sectors. These measures will be supplemented by the implementation of the public investment program, which, as already noted, focuses on restructuring and rehabilitating existing capacity.

(3) Transportation sector

24. The transportation sector in Tanzania has deteriorated over a number of years; the railway system cannot meet the demand, the main road network is in serious disrepair, and the feeder roads constrain the transport of agricultural input and output. It is vital for the recovery of agricultural exports and economic activity generally that remedial measures be taken without delay. The Government has already taken important steps to improve the situation through the provision of necessary input, spare parts and equipment, strengthened management, and tariff increases. The main problem remains the massive financial requirement of physical rehabilitation. A rehabilitation and modernization program for the port of Dar es Salaam to increase its capacity and efficiency is in progress. Implementation of an emergency relief and rehabilitation program for the Tanzanian Railways Corporation agreed with the World Bank and donor countries will begin in 1987, and is scheduled for completion in 1989; thereafter a longer-term program of improvements is planned. Rehabilitation of the main roads with the assistance of the World Bank and donor countries is now getting under way, but the financial requirements in this area are substantial and the task will require several years. To tackle the severe road maintenance problem, the Government is committed to re-establish a highway maintenance capacity. The institutional framework for a feeder road rehabilitation and maintenance capacity will also have to be established. The Government will allocate more foreign exchange for identified packages of road repair supplies and for transport operators, and will revise road tariffs as needed to reflect full costs. In addition, the Government has already completed a national transport policy paper.

III. Social Impact of the Program

25. By helping to reverse a decade of decline in the Tanzanian economy, which has affected all income groups, this program should be beneficial in the medium term for all groups in Tanzanian society. Even in the short term, those who depend on agriculture for their livelihood should benefit from the improved price incentives and efficiency of marketing and transportation. The urban population, and particularly the lower-income groups, will be adversely affected, in the short run, by the inflationary pressures, the public sector employment freeze, and the restructuring of some parastatals and private sector firms. However, in the medium term, the inflationary pressure in the economy should be mitigated by several factors. First, the expected foreign exchange inflow will help to stimulate economic activity and increase the output of goods and services so that the rate of inflation would be moderated. Second, the tight fiscal and monetary controls which the Government has committed itself to will contain general inflationary pressures. Third, improvements in industrial capacity utilization should reduce marginal costs of production. Improved producer prices are expected to induce increased production of agricultural crops and increase farmers' incomes. The response of farmers will be enhanced by

improvements in the supply and distribution of agricultural inputs, an easing of transportation bottlenecks, and the reduced cost of agricultural marketing.

IV. Growth and External Financing Aspects

26. This program is not only expected to result in a GDP growth rate of at least 4 percent per year, but also in a gradual improvement in the external current account and the overall balance of payments position. Since there is substantial scope for improving efficiency in the economy, through allocating resources to the most efficient parts of the agricultural and industrial sectors, enhancing incentives generally, and restoring production to higher historic levels, this growth should be achievable with modest increases in imports over the levels achieved in 1986 and envisaged for 1987. Growth will also be prompted by changes already under way in the composition of investment in favor of rehabilitation of key social and physical infrastructure, in particular the transportation system. On the whole, imports would grow by an average of 2 percent per year in volume terms and 5 percent in U.S. dollar terms.

27. Exports are expected to finance an increasing portion of imports. The volume of traditional primary exports is expected to increase by 20 percent in 1987, largely because of substantial increases in cotton, tobacco, and tea exports. Thereafter, the volumes of traditional primary exports and other exports are projected to increase by approximately 10 percent and 20 percent, respectively, per year, a consequence of an improved program of inputs, enhanced incentives, and better transportation and marketing arrangements. Combined with a modest recovery in world prices for traditional crops, the value of total merchandise exports in U.S. dollars is projected to grow by 15 percent per year.

28. Given these import and export growth projections, the current account deficit (excluding government transfers) is projected to decline from US$697 million in 1987/88 to US$668 million in 1990/91 (Table 2). As a percent of merchandise exports, the current account deficit will decline from 165 percent in 1987/88 to about 103 percent in 1990/91. These deficits will be met to a large extent by capital inflows from existing and prospective commitments that are expected to remain constant in real terms. Based on these projections, the overall balance of payments position would shift from a deficit of US$215 million in 1987/88 to virtual balance by 1990/91. In addition, the program envisages an annual improvement of about US$20 million in the net reserve position of the Bank of Tanzania. Accordingly, the financing gap before any exceptional balance of payments assistance is estimated to amount to US$175 million in 1987/88, but to decrease to about US$58 million in 1990/91 (Table 3). The authorities will seek to fill this gap through debt rescheduling at concessional terms and additional external assistance.

Table 2. Tanzania: Balance of Payments, 1986-91

(In millions of U.S. dollars)

	1986	1987	1988	1989	1990	1991	1986/87 Rev.	1987/88 Proj.
Trade account	-702.4	-738.7	-759.7	-718.3	-688.8	-673.7	-745.3	-762.9
Exports, f.o.b.	347.6	411.3	460.3	521.5	613.6	694.6	354.7	422.1
Imports, c.i.f.	-1,050.0	-1,150.0	-1,220.0	-1,239.7	-1,302.4	-1,368.3	-1,100.0	-1,185.0
Oil	-167.2	-169.5	-179.8	-190.8	-202.4	-214.7	-168.4	-174.6
Own exchange	-246.6	-201.6	-167.4	-65.0	-65.0	-65.0	-224.1	-184.5
Other	-636.2	-778.9	-872.8	-984.0	-1,035.1	-1,088.6	-707.6	-825.9
Services, net	-85.1	-124.1	-107.3	-98.0	-89.9	-82.0	-107.7	-116.0
Receipts	110.0	140.0	156.0	167.7	180.3	193.8	125.0	148.0
Payments	-195.1	-264.1	-263.3	-265.7	-270.2	-275.9	-232.7	-264.0
Interest 1/	-112.8	-174.1	-167.8	-164.4	-162.7	-161.8	-146.6	-171.3
Other	-82.3	-90.0	-95.5	-101.3	-107.5	-114.1	-86.2	-92.7
Private transfers, net	250.0	205.0	160.0	120.0	100.0	100.0	227.5	182.5
Current account (excluding government transfers)	-537.5	-657.8	-707.0	-696.3	-678.7	-655.8	-625.5	-696.5
Government transfers, net 2/	363.0	477.0	508.0	525.0	540.0	555.0	435.7	489.0
Current account	-174.5	-180.8	-199.0	-171.3	-138.7	-100.8	-189.8	-207.5
Medium- and long-term loans, net 3/	17.0	-29.6	29.4	55.9	95.9	129.9	21.2	14.9
Inflows 4/	203.0	191.0	243.0	250.0	235.0	260.0	203.7	232.0
Outflows	-186.0	-220.6	-213.6	-194.1	-139.1	-130.1	-182.5	-217.1
Suppliers' credits, net 3/	-55.4	-17.8	-6.6	1.9	7.7	8.8	-48.6	-12.2
Errors and omissions and other capital, n.i.e. 5/	-84.4	--	-10.0	--	--	--	-38.6	-10.0
Overall balance	-297.3	-228.2	-186.3	-113.5	-35.1	37.9	-255.8	-214.8
Financing	297.3	172.9	-4.9	-30.7	-53.5	-64.3	255.8	40.0
IMF (net)	13.1	54.1	50.1	14.3	-23.5	-34.3	17.8	57.6
Purchases (SBA)	39.6	31.2	8.1	--	--	--	46.8	32.2
SAF loan	--	28.0	42.0	18.6	--	--	--	28.0
Repurchases 6/	-26.5	-5.1	--	-4.3	-23.5	-34.3	-29.0	-2.6
Reserves (- increase) 7/	-16.2	-46.8	-50.0	-45.0	-30.0	-30.0	-12.8	-67.7
Arrears (increase +)	-843.3	-22.8	-5.0	--	--	--	-1,024.6	-12.7
Debt rescheduling	1,143.7	188.4	--	--	--	--	1,275.4	62.8
Arrears	843.3	--	--	--	--	--	999.6	--
Current maturities	300.4	188.4	--	--	--	--	275.8	62.8
Financing gap	--	55.3	191.2	144.2	88.6	26.4	--	174.8
Memorandum items:								
Current account (excluding government transfers) as a percentage of exports	-154.6	-159.9	-153.6	-133.5	-110.6	-94.4	-176.4	-165.0
Gross reserves in weeks of imports	2.4	4.3	6.2	8.0	8.8	9.5	2.2	5.1

1/ Includes interest on debt relief and gap financing.
2/ Includes US$87 million in fiscal year 1986/87 from 1986 Consultative Group meeting, and US$50 million co-financing with the World Bank's MRC. Figures for 1987/88 reflect commitments made at the 1987 Consultative Group meeting.
3/ Prior to 1987 and in fiscal year 1986/87, oil credits are classified as suppliers' credits. In 1987 and beyond, oil credits are classified as bilateral medium- and long-term loans.
4/ Includes World Bank MRC of US$70 million in fiscal year 1986/87 and US$60 million in fiscal year 1987/88 (excluding cofinancing).
5/ Includes change in net foreign asset position of the National Bank of Commerce.
6/ Includes elimination of overdue obligations in 1986.
7/ Reserve accumulation in 1987/88 is consistent with a US$20 million improvement in net foreign assets, with the SAF loan treated as a reserve liability.

Table 3. Tanzania: External Financing Requirements, 1987-90

(In millions of U.S. dollars)

	1987	1988	1989	1990	1987/88	1988/89	1989/90
Financing requirements							
Current account deficit (excluding grants)	657.8	707.0	696.3	678.7	696.5	701.7	687.5
Amortization	243.7	232.5	211.4	156.4	238.1	222.0	183.9
MLT loans	(220.6)	(213.6)	(194.1)	(139.1)	(217.1)	(203.9)	(166.6)
Suppliers' credits	(23.1)	(18.9)	(17.3)	(17.3)	(21.0)	(18.1)	(17.3)
Fund repurchases	5.1	--	4.3	23.5	2.6	2.2	13.9
Reserve accumulation 1/	46.8	60.0	45.0	30.0	77.7	47.5	37.5
Cash reduction in arrears	22.8	5.0	--	--	12.7	--	--
Total	976.2	1,004.6	957.0	888.6	1,027.6	973.3	922.8
Available financing 2/							
Grants	477.0	508.0	525.0	540.0	489.0	516.5	532.5
MLT loans	191.0	243.0	250.0	235.0	232.0	246.5	242.5
Bilateral creditors	20.0	50.0	57.5	69.9	35.0	53.8	63.7
Multilateral creditors	171.0	193.0	192.5	165.1	197.0	192.8	178.8
(World Bank)	(155.4)	(143.0)	(140.0)	(110.0)	(164.2)	(141.5)	(125.0)
(Other)	(15.6)	(50.0)	(52.5)	(55.1)	(32.8)	51.3)	(53.8)
Suppliers' credits	5.3	12.3	19.2	25.0	8.8	15.8	22.1
Fund disbursements	59.2	50.1	18.6	--	60.2	42.0	18.6
SBA	31.2	8.1	--	--	32.2	--	--
SAF	28.0	42.0	18.6	--	28.0	42.0	18.6
Debt rescheduling	188.4	--	--	--	62.8	--	--
Total	920.9	813.4	812.8	800.0	852.8	820.8	815.7
Financing gap	55.3	191.2	144.2	88.6	174.8	152.5	107.1
Debt service eligible for debt relief	62.8	226.1	193.6	135.9	175.9	209.9	164.8

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

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

29. The debt service outlook remains a serious concern. The ratio of principal and interest payments, including interest on the consolidated debt and the financing gap, is estimated to decline from 55 percent of exports of goods, services, and private transfers in 1987 to 34 percent in 1991, but this will occur only if future inflows can be received on concessional terms. Accordingly, the Government will not contract or guarantee any external borrowing on nonconcessional terms with a maturity of more than one year and up to and including 15 years; and, except for normal import-related credits, the Government will not allow any increase in the outstanding amount of short-term credits of an original maturity of up to and including one year.

30. The kind of reform undertaken by the Government should lay a sound basis for more rapid growth in output and per capita income in the 1990s. Per capita income, however, will still be at a very low level, and investment requirements will remain high. Therefore, the level of development assistance provided by the international community in the past will need to, at a minimum, be maintained.

Tanzania: Summary of Objectives and Time Frame of Policy Adjustments, 1987/88-1989/90

Policy Areas	Specific Objectives	Policy Measures	Time Frame
External sector	Establish and then maintain equilibrium exchange rate	Monthly real adjustment to achieve equilibrium by July 1, 1988	July 1987-June 1988
		Periodic reviews of exchange and trade policies to ensure balance between supply and demand, including demand for imports which have been liberalized	
	Begin removing exchange and trade restrictions	Introduce a category of imports free of quantitative restriction and free of restriction on access to foreign exchange and then gradually broaden the coverage	Initial steps, January 1, 1988, 1988/89 and 1989/90
		Review tariff system with World Bank and introduce appropriate changes consistent with move toward equilibrium exchange rate	Implementation in 1988/89
	Review retention scheme with ultimate objective of abolishing it, as equilibrium exchange rate is reached	Modify retention scheme	August, 1987
		Review the retention scheme with the objective to abolish this scheme	Review by mid-1988
	Limit external debt service burden	The Government and public enterprises not involved in production will refrain from contracting or guaranteeing nonconcessional borrowing with maturity of less than 15 years	July 1987-June 1990
		Public production enterprises aggregate nonconcessional borrowing with maturity of less than 15 years limited to US$50 million per year	July 1987-June 1990
Government budget	Reduce government deficit	Improve revenue performance by new tax and by improved tax collection and administration	Additional steps each budget year
		Restrain expenditure growth by limiting the growth in real wages to below the inflation rate and containing unauthorized expenditure and transfers to local governments	Additional steps each budget year
	Improve productivity of public expenditure	Prepare a medium-term strategy for public expenditure in consultation with the World Bank	Review in 1987/88 with implementation in 1988/89
		Restructure expenditure to more fully fund high priority programs and projects, especially those involving rehabilitation, and reduce or eliminate funding of low priority programs and projects	Each budget year
		Review annual investment programs and its composition in the context of SAF	Each budget year

Tanzania: Summary of Objectives and Time Frame of Policy Adjustments, 1987/88-1989/90 (Continued)

Policy Areas	Specific Objectives	Policy Measures	Time Frame
Nonfinancial public enterprises	Improve productivity of public enterprises	Joint Government/World Bank review to develop an action program to improve the policy and institutional environment within which parastatals operate, and to rehabilitate or restructure specific enterprises	Review in 1987/88 with implementation in 1988/89
Monetary policy and financial sector reforms	Reduce inflationary pressure	Establish limits for overall monetary and credit expansion	1987/88, 1988/89, 1989/90
		Quarterly adjustments in deposit and lending rates to achieve positive real interest rates by July 1, 1988	1987/88
		Adjust government borrowing rates including treasury bill rates in line with structure of interest rates	1987/88, 1988/89
		Within overall credit limit, allow sufficient credit to production sector and establish quarterly ceilings for net domestic assets of the banking system, and credit to Government	1987/88, 1988/89 1989/90
	Improve operations of banking system	Review by Government, with assistance of Fund and Bank staffs, the financial system to identify needed reforms	Review in 1987/88 with implementation in 1988/89
Price and distribution policies	Provide more appropriate economic signals	Eliminate remaining price controls except for 12 "essential items"	Beginning of 1987/88; and 1988/89
		Make adequate price adjustments for goods remaining controlled to avoid cost-price distortions and subsidies	As necessary
	Reduce or eliminate controls over key markets	Deconfine domestic distribution as price controls are removed	(Same as date for elimination of price controls)
Agriculture	Improve incentives for production	Increasing producer prices for export crops to 60-70 percent of export price or by 5 percent per year in real terms	Annually
	Improve efficiency of distribution and marketing system	Review by Government, with assistance of the World Bank, of agricultural marketing boards, especially NMC and Cotton Marketing Board, to redefine roles and find ways to eliminate financial losses and improve efficiency	Review in 1987 with implementation in 1987/88
Industry	Improve efficiency and capacity utilization of the sector	Prepare an action program to restructure and rationalize the industrial sector	1987/88

Tanzania: Summary of Objectives and Time Frame of Policy Adjustments, 1987/88-1989/90 (concluded)

Policy Areas	Specific Objectives	Policy Measures	Time Frame
		Pending exchange rate equilibrium and elimination of administrative allocation, improvements to be introduced in existing foreign exchange allocation system	1987/88
		Allocation of capital resources for rehabilitation rather than new projects	Annually
Transport	Improve operational capacity and efficiency of existing equipment	Allocate more foreign exchange for identified package of road repair inputs and for transport operators	1987/88
		Revise trucking tariffs as needed to reflect full costs	As needed
		Implement emergency relief program for rail transport	1987/88-1988/89
		Adjust rail tariffs to close gap with costs over a two-year period as efficiency improvements occur.	1987-88