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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/18-3

12:30 p.m., March 18, 2019

3. United Republic of Tanzania—2019 Article IV Consultation

Documents: SM/19/49 and Supplement 1; and Supplement 2; SM/19/51; and Correction 1

Staff: Gelbard, AFR; Gonzalez Miranda, SPR

Length: 36 minutes

Executive Board Attendance

T. Zhang, Acting Chair

Executive Directors	**Alternate Executive Directors**
D. Mahlinza (AE)	
M. Raghani (AF)	
	J. Corvalan (AG), Temporary
	G. Kim (AP), Temporary
	F. Antunes (BR), Temporary
	X. Cai (CC), Temporary
	J. Rojas (CE), Temporary
	C. Williams (CO), Temporary
R. Kaya (EC)	
	F. Bellocq (FF), Temporary
	K. Merk (GR)
	P. Dhillon (IN), Temporary
	T. Persico (IT), Temporary
M. Kaizuka (JA)	
	K. Osei-Yeboah (MD), Temporary
	D. Fadhel (MI), Temporary
	V. Rashkovan (NE)
	T. Gade (NO)
	L. Palei (RU)
M. Mouminah (SA)	
	Z. Abenoja (ST), Temporary
	P. Trabinski (SZ)
	D. Ronicle (UK)
	D. Crane (US), Temporary

G. Tsibouris, Acting Secretary
S. Maxwell, Summing Up Officer
D. Jiang, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present

African Department: E. Gelbard. Strategy, Policy, and Review Department: M. Gonzalez Miranda. Senior Advisors to Executive Directors: P. Braeuer (GR), Y. Danenov (SZ), T. Sitima-wina (AE). Advisors to Executive Directors: A. Abdullahi (AE), A. Nainda (AE), E. Ondo Bile (AF), R. Pandit (ST), J. Montero (CE).

3. UNITED REPUBLIC OF TANZANIA—2019 ARTICLE IV CONSULTATION

Mr. Mahlinza and Mr. Odonye submitted the following statement:

Our Tanzanian authorities appreciate the constructive engagement with staff during the recent Article IV consultation mission. They broadly agree with staff's policy recommendations and value continued Fund engagement.

Over the past decade, Tanzania has experienced macroeconomic stability and relatively high rates of growth, resulting in an improvement on a number of social indicators. The impressive growth performance was supported by appropriate fiscal and monetary policies anchored by a Fund supported Policy Support Instrument (PSI). Despite these gains, growth prospects remain challenged by significant infrastructure gaps, human development constraints, and sizeable unemployment levels.

Against this background, the Tanzanian authorities launched their second five-year Development Plan (FYDPII) in 2016. The Plan, under the theme 'Nurturing Industrialization for Economic Transformation and Human Development' seeks to build a strong base for transforming Tanzania into a semi-industrialized nation. To achieve the Plan's objectives, the authorities have prioritized measures to boost medium-term growth prospects; strengthen fiscal policy; enhance monetary policy and reduce banking sector vulnerabilities; improve the business climate; promote good governance; and implement structural reform measures.

Macroeconomic developments and prospects

The macroeconomic environment remained stable in 2017-18, with growth reaching 6.7 percent. The sustained expansion in real GDP was attributed to increased investments, higher production from cement and ceramic tiles companies, and construction activities. Looking ahead, growth is projected to remain robust underpinned by recovery in private sector credit growth, increased mining production emanating from the recent FDI inflows into mining, gas and oil exploration, and significant increases in public investment, including construction of the Standard Gauge Railway and Rufiji River Hydro Power Plant, among others. Additional growth impetus is expected to emanate from ongoing expansion and rehabilitation of airports, seaports, roads and bridges across the country as well as the expansion of electricity supply.

Inflation remained below the Central Bank medium term target and East African Community (EAC) benchmark of 5 percent in 2017-18. In December 2018, annual headline inflation decreased to 3.3 percent from 5.0 percent in December 2017 owing to the substitution of domestic gas for oil imports.

The overall external position has improved in the last two years, with the current account deficit narrowing to around 3 percent of GDP, reflecting the substitution effect between domestic gas and oil imports as well as low implementation of capital budget. At the same time, the nominal exchange rate remained broadly stable and international reserves reached 5 months of import cover.

Tanzania's Human Development Report for 2017 shows improvements in the human development index (HDI). The HDI score rose from 0.371 in 1995 to 0.531 in 2015, indicating an increase of 43 percent over a 20-year period. This exceeded the average HDI for sub-Saharan Africa, estimated at 0.518 in 2015. The proportion of the population experiencing multidimensional poverty also declined from 64 percent in 2010 to 47.4 percent in 2015.

Fiscal policy

Our authorities remain committed to implementing prudent fiscal policy, consistent with the convergence criteria of the East African Community (EAC). Over the past three years, the government has streamlined expenditure to promote the growth and transformation of the economy through its industrialization strategy.

As part of an effort to enhance revenue, the authorities have implemented tax administration measures including cleaning up the taxpayer register with a view to removing duplication and non-existent taxpayers. In the IT area, the government e-Payment Gateway System (e-PGS) was developed to facilitate revenue collection. Furthermore, the planned procurement of the IDRAS system is expected to strengthen the government electronic payment revenue gateway system, and facilitate online tax registration, as well as filing and payment of taxes. In addition, the new Electronic Revenue Collection System (e-RCS) was launched to capture information on taxpayers and service providers. The Tanzania Revenue Authority (TRA) has also developed a compliance risk management system to enhance tax compliance and information sharing among TRA departments.

In order to address concerns about the backlog on expenditure arrears and delayed VAT refunds, the authorities have commenced a process for the verification of claims with a view to clearing all VAT claims in line with the VAT Act. They remain committed to implementing their strategy for the management of arrears, which prohibits commitments outside the IFMIS and requires publication of information on expenditure arrears. The settlement of domestic arrears by government is expected to unlock working capital and result in significant improvements in the level of banks' non-performing loans (NPLs).

As part of an effort to improve the efficiency in public investment, the authorities have prepared a public investment manual, which seeks to improve the appraisal, selection and implementation of public investment projects.

Tanzania continues to pursue prudent debt management practices, with public debt remaining under 40 percent of GDP. The Debt Sustainability Analysis (DSA) indicates that Tanzania is at low risk of debt distress. The authorities are committed to ensuring that borrowing remains guided by the country's debt targets, which are consistent with EAC targets.

Monetary and Financial Sector Policy

The Bank of Tanzania remains focused on delivering low and stable inflation over the medium term. They are pressing ahead with their plans to modernize the monetary policy framework by transitioning towards interest rate-based monetary policy. As part of an effort to improve the environment, the authorities have drafted the interbank markets code of conduct and established an electronic interbank trading platform. The authorities plan to introduce a policy rate and standing facilities and to use open market operations.

To enhance banking sector resilience, the authorities are implementing the recommendations of the 2018 Financial Sector Stability Analysis. Recruitment of additional staff to strengthen supervision has commenced, while plans to undertake on-site examination of banks with high NPLs are advanced. BOT is continuing the implementation of the Basel III requirements and expects to shortly commence with other reforms including the preparation of an Emergency Liquidity Assistance operational framework, and the National Risk Assessment Report to support AML/CFT risk-based supervision. The Financial Stability Forum for crisis preparedness has been operationalized, with some meetings having already taken place. The authorities have also adopted the Microfinance Law, which empowers BOT to supervise and regulate microfinance institutions.

Improving the business climate

The authorities have implemented several measures to improve the business environment and remain committed to implementing further improvements. Recently the government launched a blueprint to address legal and regulatory challenges to doing business, including non-tariff barriers. Other measures include streamlining taxes and permits; establishing a one-stop center for business permits; introducing an online registration for businesses, incorporation of companies, trademarks, patents, and issuance of industrial licenses. Going forward, the authorities will implement the blueprint and increase consultations with the private sector. In order to facilitate payment for government services, the authorities are setting up a system for e- payments. In addition, the authorities are strengthening the laws and regulations to remove non-tariff barriers in line with the East African Community common market protocols.

In the energy sector, the authorities' focus is to work with development partners on strategies to clear TANESCO's arrears and to proceed with projects to increase electricity connectivity, including an energy source diversification strategy. At the same time, the authorities will continue to prioritize enhancement of the financial strength of TANESCO. During the financial years 2016/17 and 2017/18, the government already paid TZS 2.2 trillion to offset arrears to TANESCO.

Structural reforms

As part of an effort to improve transparency and clarity in the mining sector in line with Extractive Industries Transparent Initiatives' (EITI) principles, the authorities enacted new legislation on Mining and Private-Public-Partnership. These pieces of legislation aim to provide clarity and transparency in the mining industry and ensure that both the government and investors get a fair share of mining proceeds. Going forward, tackling governance and corruption remains high on the authorities' agenda as is prioritization of data improvement to government to enhance economic policy making.

To enhance human capital formation, the authorities have implemented improvements in access to basic education. The fee-free basic education policy has increased primary and secondary enrolment ratios. To address the increased demand, the authorities have prioritized investments to accommodate increased enrollment. They consider that the current pipeline of teachers undergoing training is adequate to accommodate associated increases in demand. A teacher deployment strategy, counselling and child protection guidelines, and a non-formal schooling program is also being developed to address the gender disparities.

Conclusion

Our authorities are committed to undertake reforms aimed at resolving development challenges, including rebuilding infrastructure, improving human capital development, reducing poverty, and tackling underemployment. Accordingly, they continue to direct their policy efforts towards addressing these challenges to promote the business and investment environment. The authorities look forward to continued Fund collaboration in intensifying reform implementation to promote private sector-led development.

Mr. Fachada and Mr. Antunes submitted the following statement:

We thank staff for the reports and Messrs. Mahlinza and Odonye for their thorough statement. Tanzania has been an inspiring case of success in Sub-Saharan Africa over the last decade. Strong and sustained economic growth with macroeconomic stability has led to sensible improvement in social indicators. We commend the Tanzanian authorities for their prudent management of macroeconomic and social policies. Recognizing the progress so far achieved, we concur with staff’s evaluation that the country still faces several important challenges, particularly in areas such as infrastructure, education and gender equality. Therefore, we encourage the authorities to consider staff’s recommendation with a view to scale-up public investment and accelerate inclusive growth.

Tanzania’s fiscal position is relatively solid, but there is space to improve tax mobilization and budget execution. Given the relatively low public debt/GDP ratio and the low risk of debt distress, there is space for a more ambitious capital expenditure. At about 12 percent of GDP, tax revenue is also low, even in comparison with other countries of the region. Improving tax administration and simplifying the tax system are key to securing the fiscal space for a productive investment boost, capable of bringing the country to the next development level. The authorities’ declared intention to broadening the tax base and modernizing the system is a step in the right direction.

The Bank of Tanzania (BoT) has successfully kept inflation under control; nevertheless, some fragilities of the banking sector need to be addressed. We welcome the move from reserve money targeting to interest rate targeting and the initiatives to improve the monetary policy transmission mechanism. We take note that the Financial Sector Stability Analysis (FSSA) has concluded that the Tanzanian banking sector is vulnerable to liquidity, credit and concentration risks, partially because of relatively high dollarization, and that small and state-owned banks may need to review their business models to survive. With that in mind, we encourage the strengthening of the institutional capabilities and the supervisory practices of the BoT.

Tanzania's external position is relatively comfortable. Reserves are at adequate levels, the exchange rate is stable, and the balance of payments does not reveal any major imbalance. Structurally, the shift from oil imports to domestically produced gas made possible a substantial reduction of current account deficits over the last decade. We also note that, according to the EBA model, Tanzania's external position is broadly in line with fundamentals, as well as the real effective exchange rate. We encourage the authorities to keep on building buffers against external shocks, particularly in face of a less favorable international scenario.

Recognizing Tanzania's good economic performance over the last years, we second most of staff's reforms recommendations. Thanks to the competent work of the local authorities over the past decade, Tanzania is currently able to take a decisive leap forward. For that to happen, it is necessary to diversify the productive base and increase capital accumulation. We appreciate staff's recommendations to scaling-up public investment and encourage the authorities to take them into consideration. Improvement in infrastructure, education, and gender equality can have a major impact on Tanzania's development trajectory. At the same time, we understand the authorities' endeavor to aggregate value to Tanzania's export with a view to upgrading the country's position in global commodity chains. We understand from certain parts in the report that staff is critical of some of the more interventionist policies recently put forward by the Tanzanian government. Could staff elaborate on the matter and suggest alternative strategies to diversify the country's economy and develop the industrial sector?

Mr. Tan and Ms. Pandit submitted the following statement:

We thank staff for the comprehensive set of reports and Mr. Mahlinza and Mr. Odonye for their informative buff statement. Tanzania has high economic potential given its well-endowed natural resources and favorable geographical position in the African region. While the economy has enjoyed relatively high growth and stability in recent years, a combination of factors including weak fiscal management, inadequate physical infrastructure and human capital pose significant challenges to Tanzania unlocking its full potential. We therefore support staff recommendations to pursue a broad growth-enhancing reform agenda to promote strong, inclusive and private sector-led economic growth in the long-term. We agree with the broad thrust of staff's appraisal and would like to offer the following comments for emphasis.

Significant fiscal reforms are vital to support further economic development. While the level of public debt remains manageable and risk of debt distress is assessed to be low, strong attention is warranted in the areas of government spending, revenue administration and governance, and public investment management. Unrealistic budget planning, expenditure arrears and unfriendly tax administration remain an issue, particularly given the negative impact on banks' balance sheets and credit to the private sector. We therefore share staff's view that Tanzania would benefit from timely actions to strengthen budget credibility, fiscal transparency and good governance, as well as enhance public investment management to focus on growth-enhancing investments. In this regard, we take positive note of the authorities' commitment toward prudent fiscal policy and more efficient public investment management.

Comprehensive structural reforms will be crucial to improve the business environment and promote sustainable growth. Besides various development challenges facing Tanzania, the business climate has deteriorated at the same time due to recent policy and legislative initiatives as noted in the staff report. There is significant scope for structural and market-friendly reforms to lay the foundation for inclusive, private sector-led growth. We welcome the authorities' efforts to, among other things, simplify the company registration and licensing policy and implement the Blueprint for regulatory reforms, while noting their differing views with staff regarding other structural reforms related to human capital formation, energy and agriculture, gender equality and statistics. We see merit in staff's recommendations and would encourage further consideration by the authorities to prioritize and progress on the key reforms that will help improve the ease of doing business and unlock private sector development. We also encourage the authorities to work on improving data quality to support informed policy decisions.

More efficient market conditions are needed to underpin the shift to an interest rate-based monetary policy framework. We welcome the authorities' efforts to modernize the monetary policy operations framework by moving from reserve money targeting to interest rate targeting. However, we note the impediments to the transmission mechanism due to fragmentation in the interbank market, as well as market volatility arising from BOT's forex market interventions. As rightly pointed out by staff, more needs to be done to foster the right market conditions for stronger interest rate transmission and exchange rate flexibility.

Financial sector reforms can contribute to financial stability as well as economic growth and inclusion. While the banking system has been relatively stable, we note the recent deterioration in system-wide bank profitability, liquidity and asset quality, as well as the vulnerabilities to shocks. Further efforts as noted by the authorities should therefore continue to strengthen financial regulation and supervision, including the effective implementation of the 2018 FSSA recommendations. At the same time, there are also opportunities to foster financial sector development and inclusion such as broadening SMEs' access to finance and promoting microfinance and credit availability.

With these comments, we wish the authorities every success in their future endeavors.

Mr. Saito, Mr. Ozaki and Ms. Mori submitted the following statement:

We thank staff for the informative papers and Mr. Mahlinza and Mr. Odonye for their insightful statement. We also appreciate staff's candid analysis and recommendations. While Tanzania has successfully maintained macroeconomic stability in the past decade, alongside some improvement in social indicators, we are worried about recent policies and changes in legislation, which lead to deteriorate the achievement of the past decade. We urge the authorities to implement necessary reforms to support inclusive, private sector-led growth and financial stability. As staff rightly pointed out in the paper, insufficient progress and delays with their approach and/or new legislative setbacks and interventionist policies could further undermine confidence and lead to negative financial and economic spillovers. As we broadly agree with the thrust of the staff's appraisal, we will limit our comments to the following points:

Fiscal Policy

We welcome that the authorities agreed with the staff's fiscal recommendation, indicating to improve revenue projections, implement IDRAS, improve the government electronic payment revenue gateway system, and expand the tax base through registration of new taxpayers. In particular, we put emphasis on the importance of expenditure control and budget planning. We agree with staff's recommendation to compute and publish details on the stock of expenditure arrears, and to implement the authorities' strategy on clearance and prevention of arrears. Another issue we have keen interest is to improve the credibility of fiscal policy through realistic budget planning by avoiding overoptimistic economic growth assumptions and cautiously estimating the profitability of large taxpayers and the impact of tax reforms.

Monetary, Exchange Rate and Financial Sector Policies

We concur with staff's recommendation that monetary policy should focus on keeping inflation low and ensuring exchange rate flexibility. We welcome that the BoT is moving from reserve monetary targeting to interest targeting. To this end, we concur with staff that introducing a policy rate and using open market operation for liquidity management are utmost important. On the banking system, we have concerns for rising NPLs owing to government spending arrears to suppliers, delays in VAT refunds, and weaknesses in banks' credit risk management. In this regard, financial sector reforms are needed to reduce vulnerabilities.

Structural Reforms

We encourage the authorities to implement structural reforms in a timely manner. Delays or little progress in implementing structural reforms will hinder the private sector development. Regarding the education, while staff recommend both a significant increase in budget resources and their effective deployment, staff say in the paper that it will be important to focus on reducing the student-teacher ratio. However, the number of teachers will not increase in a short period, even though the budget resource increases, as they need to have educational background, and it will take some time for the potential teacher candidates to be trained, while the authorities considered the current pipeline of teacher training will be sufficient to deal with the increase in demand. Could staff share their view about what kind of policy is effective to increase the number of qualified teachers?

When it comes to addressing skills mismatches, staff recommend overhauling the system of visa permits for foreign workers. On the other hand, the authorities are not concerned about the need to change visa policies. Could staff elaborate more on the reasons of the view divergence on visa issue? How do staff see any concern for deterioration of the security when relaxing the visa requirement?

As for the data, staff note that there are serious weaknesses in the data in the context of rebasing of the national accounts. According to the staff, weaknesses in the quality of the underlying data affect the quality of the estimates of the level and growth of GDP, and GDP data requires urgent improvements in key sources. We would appreciate it if staff could elaborate more whether and how the recent amendments to the Statistics Act affect the quality of the data. Staff's comments are welcome.

Mr. Ostros and Mr. Gade submitted the following statement:

We thank staff for their well-written reports. Tanzania has successfully maintained macroeconomic stability in the past decade with improvements in social indicators. The macroeconomic conditions remained stable in 2017/2018, but recent legislative and policy initiatives have led to a deterioration in the business environment. This will likely slow growth and imply risks to continued economic development and improvement in socio-economic indicators. We agree with the report's description of the economic and financial situation and the key risks going forward. We thank Mr. Mahlinza and Mr. Odonye for their helpful BUFF statement, and we are encouraged to see that the authorities broadly agree with staff's policy recommendations. We agree with the staff appraisal and add the following points for emphasis.

On the fiscal side, we concur with staff that fiscal reforms are necessary in the areas of taxation, expenditure control, and public investment management. Whilst several reforms are pursued by Tanzania, we agree that it would be necessary to prioritize public investments with the highest payoff as determined by high quality assessments. It will be essential to address VAT refunds and handle the government's collective arrears, as well as strengthen governance in the form of anti-corruption and transparency measures. On the debt sustainability analysis, we took note of staff's conclusion. However, we would appreciate staff's elaboration on whether the projections for future borrowing requirements include the large infrastructure projects planned.

Growth prospects will largely depend on improvement in the business environment. Reforms should focus on nurturing the business climate by aligning laws and regulations with those applied in competitive economies. Recent policy and legislative initiatives have had an adverse impact on the business environment, including new provisions on national resources and PPP legislation entailing – among other things - a ban on foreign arbitration and limits on foreign ownership, which have clouded the investment climate. Therefore, we concur with staff’s recommendations related to the implementation of the Blue Print for Regulatory Reforms.

Having access to reliable and transparent statistics is critical for policymakers to be able to make sound decisions on policies and reforms. The recent amendments to the Statistical Act that severely restrict the production and dissemination of statistics depart from best practices and could have adverse implications. We agree with staff that urgent steps are required to improve the national accounts, to ensure an open and independent statistics agency, and to amend the Statistics Act to liberalize the use, production, and publication of data.

We encourage the authorities to continue improving the financial system policy framework, in line with the main recommendations made in the recent Financial System Stability Assessment. These include measures to reduce nonperforming loans and increase provisioning and institutional and systemic buffers to manage liquidity, credit, and concentration risks, as well as improvements in bank supervision.

Finally, we would like to commend the IMF for taking a broad view on developments and addressing issues of inclusive economic development. The need to invest in education and manage the skills gap, the need to close the gender equality gap, as well as improved access to finance, energy supply and access, are important for future development.

Mr. Merk, Mr. Psalidopoulos, Mr. Rashkovan, Mr. Tolici, Mr. Braeuer and Mr. Persico submitted the following joint statement:

We thank staff for their report and Mr. Mahlinza and Mr. Odonye for their buff statement. Over the last decade, Tanzania’s sound macroeconomic policies have led to important progress toward macroeconomic stability, relatively high rates of economic growth and improved social indicators. Despite the economic stability, the risks remain tilted to the downside and the projected pace of growth depends strongly on the intensity and pace of reforms. Recent initiatives and inefficiencies in fiscal management have led to an overall deterioration of the business climate. We are concerned that long standing criticalities are only partially addressed by the authorities. This will require further progress, namely strengthening fiscal management, improving the business environment and avoiding unpredictable or interventionist policies. We broadly concur with staff's analysis and offer the following comments for emphasis.

Enhancing fiscal management and improving public investment are key for maintaining fiscal sustainability. We learned from the DSA that a somewhat higher fiscal deficit of 3.5 percent of GDP could be sustained over the medium-term, while keeping the risk for debt distress low. Unrealistic revenue projection is a fiscal challenge that was an area of concern under the PSI and needs to be addressed through realistic budget planning. Revenue mobilization and current expenditures rationalization are essential to create fiscal space for priority social spending and closing infrastructure gaps. Given Tanzania's low level of tax revenues, we encourage the authorities to focus their efforts on fighting tax evasion and improving revenue collection. We note that domestic spending arrears reached 1.1 percent of GDP while the arrears to pensions funds and contingent liabilities to the state-owned electricity company are estimated at 2.5 and 0.3 percent of GDP respectively. We encourage the authorities to accelerate the clearance of these arrears, tackle the causes and prevent further accumulation by improving the quality of fiscal management in the areas of expenditure controls, revenue projections and financing.

Growth prospects in Tanzania depend largely on improvements in the business environment. We take note that, while over the last decade Tanzania followed policies that improved competition and fostered growth, the most recent developments signal an overall deterioration of the business climate. Although the authorities are committed to improving the business environment and implementing the Blueprint for Regulatory Reforms, the fact that recently the cost of doing business has increased and competitiveness has been affected by revised legislation and fiscal arrears, is regrettable. To avoid further deterioration of the business environment, it is of utmost importance to regain confidence of domestic as well as external – private and public – investors.

We urge the authorities to ensure that official statistics are of high quality and well trusted, and protect openness and transparency in their use, to further public dialogue. In particular, we are concerned by the discrepancy between official GDP data and other high frequency indicators, which is also reflected in the divergence of GDP projections by staff and authorities. In this regard, we share staff's concerns about the recent amendments to Tanzania's 2015 Statistics Act, severely restricting the production and dissemination of statistics.

Improving governance and fighting corruption must remain high on the authorities' agenda. We strongly support the ongoing efforts of authorities to tackle corruption and create good governance. While the implementation of the five-year anti-corruption strategy is a good starting point to improve governance, the existing legalization needs to be enforced and built further on best practices. We urge the authorities to continue their efforts in this field that will ultimately result in higher fiscal revenues.

Progress on reducing gender-based disparities could increase Tanzania's growth prospects. We learn from Appendix IX that potential economic gains from reducing gender inequality could amount to 0.5 percent of GDP. We encourage the Tanzanian authorities to take swift measures to remove all legal acts that discriminate against women and are inconsistent with the Constitution, and implement measures aimed at improving access to higher education, land ownership and employment opportunities.

We are particularly concerned about the deterioration of confidence among donors and investors communities resulting in the reduction of both grants and FDI. In this regard, we urge the authorities to properly step up and prioritize the most needed corrections in order to safeguard investors' and donors' confidence in their capacity to meet their future financing needs. Recalling the interest expressed by the authorities on the occasion of the seventh and last review of the country's PSI, is staff aware of any intentions by the authorities to seek a successor program?

On a final note, we strongly urge the authorities to step up their efforts to resolve outstanding arrears to external creditors. We have questions regarding staff's observation in the DSA that the external arrears claims made by Belgium continue to be disputed by the authorities, pending an internal validation process. In this vein, we urge staff to clarify the reasons why the arrears claims with respect to repayment of loans granted by the state of Belgium in 2001 and 2003 are considered "disputed debts".

Mr. Daïri and Mr. Alavi submitted the following statement:

We thank staff for the informative set of papers and Mr. Mahlinza and Mr. Odonye for their helpful buff statement. We concur with the thrust of staff appraisal.

Tanzania has been experiencing a period of relative economic stability and improved social indicators in recent years: real GDP growth has been robust with low inflation, public debt is manageable with a low risk of debt distress, and international reserves are assessed to be adequate. These achievements reflect the authorities' commitment to prudent macroeconomic policies and reforms, guided by the government's Second Five-Year Development Plan. However, challenges remain from infrastructure and human development gaps and high unemployment. Over the medium term, in addition to safeguarding the macroeconomic gains, the authorities would need to pursue a range of bold, time-bound and focused reforms to significantly reduce poverty and tap the country's abundant economic potential to facilitate its transition to a semi-industrial economy, as envisioned under the second five-year development plan.

Fiscal policy is broadly on track with a moderate headline deficit and no major fiscal sustainability risks. However, weak expenditure control and shortcomings in VAT administration are impacting budget execution, and revenue over-estimation is a recurrent issue. Strengthening budget planning and execution and enhancing transparency would help bolster policy credibility. We take positive note of the recent elimination of "ghost workers" and welcome the increased emphasis on timely implementation of the Strategy for Management of Arrears for their clearance and to prevent new accumulation, which will help alleviate liquidity pressures on the productive sector, including the energy company, and reduce related NPLs. On the revenue side, given Tanzania's low tax ratio, domestic revenue mobilization efforts should be stepped up, including by broadening the tax base, modernizing the tax system, and addressing administrative inefficiencies.

Bank of Tanzania's accommodative stance remains appropriate in the current low inflation environment. We agree that monetary policy should continue to focus on keeping inflation low and maintaining exchange rate flexibility. The gradual transition from reserve money targeting to an interest rate-based framework, supported by open market operations to manage liquidity, is welcome.

The banking sector is relativity stable, but remains vulnerable to weak asset quality, in particular among small banks, and liquidity and concentration risks, which are exacerbated by high dollarization. We are comforted by the findings of the recent FSSA on the soundness of the financial regulatory framework and encourage the authorities to step up efforts to enhance systemic liquidity management, strengthen prudential oversight, and upgrade financial crisis prevention and management, in line with FSAP recommendations. Also important to the credibility and integrity of the financial system are tightening of risk-based AML/CFT supervision and aligning the prudential framework with international standards, including the plan to implement Basel III requirements. Progress achieved in all these areas is encouraging. We support the authorities' efforts to deepen financial markets and foster financial inclusiveness.

Despite its abundant natural resources and significant economic potential, Tanzania continues to face high rates of unemployment and poverty, and large infrastructure gaps, as rightly pointed out by Mr. Mahlinza and Mr. Odone. At the same time, weaknesses in governance, administrative inefficiencies and unreliable access to electricity have hampered private sector activity. We are pleased to note the steps taken by the authorities to create an enabling environment for private sector growth, including by tackling inefficiencies, improving governance, and fighting corruption, and encourage further reforms in these areas. Reducing gender-based disparities in economic opportunities is also crucial to boost growth potential, increase employment, and alleviate poverty.

We wish the authorities continued success.

Mr. Raghani, Mrs. Boukpessi and Mr. Diakite submitted the following statement:

We thank staff for the comprehensive set of reports and Messrs. Mahlinza and Odonye for their insightful buff statement. Tanzania's macroeconomic performance has been broadly satisfactory in the last decade, notably with real GDP growth averaging 6 percent, inflation contained at single digits, and public debt below 40 percent. Although, the country has made progress in improving social indicators more needs to be done to substantially upgrade social conditions. While the medium-term outlook appears broadly favorable, we note the downside risks stemming notably from recent inefficiencies in fiscal management which have built up arrears and created vulnerabilities in the financial sector. In this context, we urge steadfast efforts to address these vulnerabilities to preserve macroeconomic stability and strong growth in the medium term. Furthermore, a strong impetus is needed on structural reforms to improve the business climate and competitiveness, address the infrastructure gap, and continue to improve human capital. We broadly concur with staff's policy recommendations and would like to offer the following comments:

Mobilizing additional domestic revenue and improving the efficiency of public expenditures are crucial for preserving fiscal sustainability and creating space to meet infrastructure needs. In this regard, we take note of the authorities' intentions to reform both tax policy and tax administration, including broadening the tax base through the VAT and implementing the Integrated Domestic Revenue Administration System (IDRAS). Furthermore, we are pleased to note the streamlining of tax holidays and exemptions in line with international standards as underscored in the interesting selected issues papers. On the expenditure side, the authorities' plan to put in place a strategy to manage and prevent further accumulation of arrears is welcome. Given the importance of such a strategy for the viability of public finances, we would appreciate further details from staff. Finally, a scale-up in public investment calls for measures to strengthen its management. To this end, we appreciate the new public investment manual and look forward to its effective use. Carry out of cost-benefit analysis of large scale projects especially in the energy sector is also key and should be pursued.

Developing Monetary policy instruments to better anchor inflationary pressures, improve liquidity management and transmission mechanism is warranted. We note the significant progress in enhancing the monetary policy framework and encourage continued efforts to further strengthen the conduct of monetary policy. We take positive note of the authorities' commitment to keep inflation close to their medium-term target and the East African Community (EAC) benchmark of 5 percent target and strengthen the Bank of Tanzania (BOT)'s monetary policy framework by moving to interest-rate targeting. We believe that commitment to a flexible exchange rate is key to gradually rebuild international reserves and help absorb any potential future shocks. Furthermore, in order to normalize liquidity in the FX markets, we agree that implementing a true repo market is necessary and we welcome the global master repurchase agreement established in this regard. Despite the BOT's continued efforts to strengthen the banking' sector resilience, it continues to face significant challenges stemming mainly from the high dollarization of the economy and corporate and households' debts. In line with the recommendations of the recent Financial Sector Stability Analysis (FSSA), we encourage the authorities to continue strengthening the regulatory and supervisory frameworks, ensuring an effective implementation of Basel III requirements and enhance the macroprudential framework. This would be crucial to support growth, stability and financial inclusion.

Further efforts are needed to improve the business environment, foster greater private sector participation and attain sustained high and inclusive growth. We welcome the recent measures aimed at addressing the adverse effects of previous laws and regulation for doing business, including streamlining and easing the granting of licenses and permits. We welcome the Tanzania's blueprint for regulatory reforms and look forward to its implementation. Further details and an indicative timetable from staff would be appreciated. Additional efforts are also required to spur long-term competitiveness and job creation, by enhancing education and job training, closing the gender gap as well as improving governance. For the later, we welcome the enactment of the new legislation on mining and PPPs as indicated in Messrs. Mahlinza and Odonye' s buff statement. We also very much appreciate measures aimed at increasing provision of educations services but further efforts consistent with the recommendations of developments partners are required to ensure quality and reduce geographical and gender barriers. It will be also important to improve the sustainability and development of the energy and agricultural sectors and achieving the financial stability of the public electricity utility, TANESCO as well as enabling greater private sector participation in agricultural markets should therefore, rank high in the authorities' priorities.

With these remarks, we wish the Tanzanian authorities further success in their endeavors.

Ms. Levonian and Mr. Williams submitted the following statement:

We thank staff for their comprehensive set of papers and Messrs. Mahlinza and Odonye for their informative buff statement. Tanzania's current macroeconomic stability and strong growth provide an enabling environment for the authorities to accelerate well-sequenced fiscal and structural reforms to meet their development objectives. These reforms will require sound and resolute actions geared at safeguarding debt sustainability, invigorating private investment, and further reducing poverty. We broadly concur with staff's assessments and recommendations and offer the following remarks for emphasis.

We welcome the proactive measures to improve fiscal operations, but more effort is needed to strengthen fiscal management going forward. We take positive note of the steps taken to reduce wages and salaries, and mobilize revenue, which will provide more resources for growth-friendly public investment and social spending. At the same time, the fiscal balance continues to be better than budgeted while expenditure arrears and delayed tax refunds remain large. This conundrum warrants better budget planning, execution, and monitoring. Furthermore, the arrears have the potential to increase risk to financial system stability by, inter alia, elevating NPLs, to undermine budget credibility, and to weaken the business environment. Against this backdrop, we encourage the authorities to move with dispatch to implement their strategy to manage arrears, and to settle refunds in line with the VAT Act. A strengthened public investment management system guided by the authorities' Public Investment Manual will also be integral to improving fiscal transparency and budget credibility.

We welcome the authorities' intention to implement the 2018 FSSA recommendations. In this regard, we stress urgency in tackling deficiencies highlighted in the FSSA report, most notably the need to enhance supervision and strengthen the AML/CFT framework. We are thus heartened that the authorities have already started to recruit staff to strengthen banking supervision and are taking meaningful steps to implement other key financial sector reforms.

Steady implementation of structural reforms that augment sound macroeconomic policies will enhance Tanzania's competitiveness and support inclusive growth. The authorities' anti-corruption strategy provides a solid foundation to meaningfully enhance governance, and we urge sustained enforcement of the strategy. We also welcome recent initiatives that consolidate business processes and leverage IT to enhance the business environment. Further, we encourage the authorities to push ahead with their education strategy to broaden enrollment, improve skill development, and close gender gaps. However, we are concerned that recent legislative changes that restrict foreign ownership and ban international arbitration may inhibit competitiveness, hamper investment, stem donor support, and depress growth. We welcome staff's comment on the authorities' claim that these changes are designed to fairly share mining proceeds between investors and the government. Finally, we support staff's call for the authorities to take steps to improve the quality and reliability of the national statistics.

Mr. Villar and Mr. Rojas Ramirez submitted the following statement:

We thank staff for its report and Mr. Mahlinza and Mr. Odonye for their buff statement.

The Tanzanian economy has been growing steadily with improved economic indicators, while implementing prudent economic policies. Nevertheless, Tanzania faces uncertainties that may jeopardize growth and stability.

Besides, as staff notes in its report, there are serious weaknesses in the data and other high-frequency indicators point to a more subdued pace of economic activity. Additionally, staff notes that amendments to the Statistics Act severely restrict the production and dissemination of statistics and could have adverse implications. Could staff elaborate on these adverse implications as well as on their impact on the baseline scenario?

The country may unleash its higher potential and achieve stronger inclusive growth and economic performance by undertaking reforms addressed to enhancing fiscal management, public investment, and the business environment.

On the fiscal front, debt evolution has been stable at 37 percent of GDP and the DSA shows a low risk of debt distress. However, even if under the base line scenario Tanzania continues to achieve stability and growth, there are vulnerabilities stemming from an underperforming fiscal administration that may compromise public finance soundness. On fiscal administration, we notice inconsistencies in revenue projections associated with VAT refund delays, spending arrears and underperforming in public investments. We agree with staff on the need of reforms in the areas of tax administration, expenditure control, and budget planning.

On monetary policy, we agree with staff on improving liquidity management, reduce exchange rate operations and encourage authorities to implement the new monetary framework and work on the process of moving from reserve money targeting to interest rate targeting. While we see that the Tanzanian external position is in line with fundamentals and has reduced the current account deficit, we encourage authorities to allow further exchange rate adjustments.

The banking sector presents vulnerabilities as shown in the 2018 Financial Sector Stability Analysis (FSSA) stress test. The system portrays high dollarization and compromising NPL levels in some banks. We encourage authorities to push on financial sector reforms aiming at improving supervisory report enforcing prudential norms and corrective regulations. We welcome the authorities' commitment to follow FSSA recommendations, to strengthen banking supervision, and implement Basel III requirements and AML/CFT risk-based supervision.

Mr. Kaya and Mr. Stradal submitted the following statement:

We thank staff for their informative set of reports, and Messrs. Mahlinza and Odonye for their helpful statement. Tanzania's economic growth has significantly surpassed that of its sub-Saharan peers over the past several years, while avoiding major macroeconomic imbalances. However, population growth has been a major driver and on a per capita basis, Tanzania's economic growth is less impressive, as corroborated by the slow progress in improving developmental indicators. We fully agree that some recent legislative setbacks and interventionist policies threaten the hard-won stability. Tanzania is well-positioned to accelerate its development if the institutional and policy frameworks facilitate the private sector dynamism. We concur with the thrust of the Staff Report and encourage the authorities to take heed of the manifold policy advice.

We welcome the authorities' commitment to implementing prudent fiscal policy. Despite the increase in the public debt ratio over the past decade, debt is assessed as sustainable with low risk of distress. It is important to strengthen the budget planning procedures and fiscal transparency to avoid overoptimistic revenue projections. The recent accumulation of spending arrears is a worrying sign and should be addressed before it grows in significance. Could staff clarify whether the latest available data is as of June 2017 (1.1 percent of GDP), mentioned in paragraph 5? Public investment governance should be improved to effectively allocate the scarce resources to projects addressing the large infrastructure deficit. Mobilizing domestic revenues through the simplification of the tax system and tax registration, as well as enhancing tax administration, are essential for the long-term sustainability of public finance in the presence of a sizeable informal economy. Generous tax holidays granted to exporting companies in export processing zones should be reconsidered.

We commend the Bank of Tanzania for broadly keeping inflation close to its target over an extended period of time. We concur that the monetary policy is appropriately accommodative at the current juncture. We support, in principle, the strategic shift from reserve money to interest rate as the key policy lever to achieve the inflation target. However, the shallowness of the financial market, the underdevelopment of domestic repo markets, and frequent foreign exchange market interventions raise concerns about the appropriate timing of a new monetary policy regime switch. Staff correctly points out the importance of the right sequencing. Upon reading the buff statement, we have an impression that the transition is imminent. We welcome staff's comments on whether the envisioned timeline for the regime switch is realistic.

The financial sector vulnerabilities deserve continued attention. The Financial Sector Stability Assessment was discussed at the Board only four months ago and hence, it is premature to comment on the progress of risk mitigation. We welcome that work has commenced on strengthening the supervisory capacities and that the plans to undertake on-site examination of banks with high non-performing loans are advanced. We reiterate our concern on the health of financial sector and the urgent need to follow up on the Financial Sector Assessment Program's recommendations on banking supervision, stress testing, as well as crisis prevention and management in a timely manner.

Multi-pronged structural reforms are needed to unlock Tanzania's growth potential. We are highly concerned that the recent interventionist policies to an extent negate the previous progress in improving the business climate and competition. The simplification of the regulatory environment, strengthening the legal certainty and rules-based governance, and removing the non-tariff trade barriers are essential steps towards restoring the confidence of domestic and foreign investors, as well as donors, about the overall direction of Tanzania's economic development. We also support staff's call to upgrade the education policies, address the electricity distribution bottlenecks, and modernize the agriculture sector which employs two-thirds of the working age population.

Finally, we call on the authorities to urgently improve the quality of data, which is a prerequisite for informed policymaking. Staff highlight significant weaknesses in national accounts that undermine the credibility of the upward revisions of recent GDP growth figures. Could staff elaborate on how amendments to the Statistics Act depart from best international practice?

Mr. Sun and Ms. Cai submitted the following statement:

We thank staff for the well-written report and Mr. Mahlinza and Mr. Odonye for their helpful buff statement. Tanzania has successfully maintained economic stability, with a number of social indicators improved. We welcome the authorities' reform commitment, especially on fiscal management. We agree with the thrust of staff's appraisal and would limit our comments to the following.

Improving fiscal and public investment management is crucial to unleash economic potential. Given the low level of public investment and manageable public debt, we encourage the authorities to increase the needed infrastructure investment while carefully preventing debt risks. To do so, enhancing public investment management is critical. It is also important to improve the quality of public spending to avoid the recurrence of domestic arrears. We take positive note of the authorities' efforts to improve feasibility studies and selection of projects based on cost-benefit analysis. To improve project efficiency, we encourage the Fund to provide the necessary technical assistance in this respect. Meanwhile, enhancing revenue mobilization and strengthening tax administration are also warranted. We welcome the cleanup of the taxpayer register and the government e-Payment Gateway System. Given Tanzania's low tax ratio, more needs to be done to foster compliance management by adopting risk-based analyses and audits.

To increase the resilience of the financial sector, we see merit in continuously enhancing the institutional frameworks in line with international standards and strengthening the supervisory coordination mechanism. We emphasize the importance of deepening the market to build resilience to liquidity shocks and encourage the authorities to improve market infrastructure to foster price discovery and increase market access. More could be done to enhance financial services to enterprises, especially micro, small, and medium sized enterprises. At the same time, more efforts are warranted to address the financial infrastructure gaps. The rapid growth of mobile banking is encouraging, and the supervision of digital finance should be strengthened at the same time.

Improving the business climate is essential for long-term competitiveness and job creation. As such, we welcome the blueprint for regulatory reforms to further improve the business environment. Strengthening governance is key to laying a firm foundation for broad-based and long-term growth in this regard. Increasing efficiencies in the use of public resources and enhancing their capacity are needed. We encourage the authorities to step up their efforts to further improve institutions and governance, as well as address the remaining vulnerabilities.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Mouminah, Mr. Alkhareif and Mr. Alhomaly submitted the following statement:

We thank staff for a set of comprehensive reports and Mr. Mahlinza and Mr. Odonye for their helpful buff statement. We broadly agree with the thrust of staff assessment and recommendations and would therefore focus our comments on the following few points for emphasis.

It is encouraging to note the progress made by the authorities under their five-year development plan, launched in 2016. We find the scenarios presented in Box 1 to be useful in providing a broad direction of the macroeconomic prospects and risks over the medium-term. We also see the rationale behind the authorities' more optimistic outlook. However, the outlook is subject to uncertainty and important risks remain. To this end, we encourage the authorities to step up their efforts particularly in the fiscal area and in accelerating the implementation of growth-enhancing reforms, with the aim of promoting higher and sustainable growth and further strengthening social conditions.

With regard to fiscal policy, we welcome the authorities' renewed commitment to achieving the convergence criteria of the East African Community (EAC). However, we remain concerned about accumulation of domestic arrears and urge the authorities to put in place steadfast measures to strengthen expenditure control and budget administration. Toward this end, we welcome the steps taken to verify VAT claims and are reassured by the strategy for arrears management, as highlighted in the buff statement. In addition, we concur with staff regarding the importance of strengthening tax administration and public investment management, with the goals of addressing fiscal risks and optimizing the allocation of public resources. In this regard, we take positive note of the authorities' efforts to enhance domestic revenue collection and management and look forward to the implementation of the Integrated Domestic Revenue Administration System (IDRAS) to upgrade tax management.

The remaining vulnerabilities in the financial sector underscore the importance of further strengthening the oversight and policy framework to help preserve financial stability, in line with the 2018 Financial System Stability Assessment (FSSA). In particular, the risks associated with under-provisioning, high NPLs, dollarization, and liquidity and credit pressures require steadfast plans to enhance banking system resilience through increasing buffers and provisioning and strengthening the supervisory framework. We also share staff's view on the importance of further developing the risk-based AML/CFT supervision. In this vein, we take positive note of the authorities' effort to strengthen financial regulation and supervision and are comforted by their commitment to implement FSSA recommendations.

With these comments, we wish the authorities all the success in their future endeavors.

Ms. Pollard and Ms. Crane submitted the following statement:

We thank staff for the informative papers and Messrs. Mahlinza and Odonye for the helpful buff statement. Tanzania has been successful in maintaining macroeconomic stability and posting steady growth, but risks are clearly building. Looking forward, IMF staff forecast a declining growth trajectory that will be inadequate to lift Tanzania's rapidly growing population out of poverty. We share staff's concerns about a deterioration in the economic and business environment and believe it calls for a hard look at the broader direction of policies. Continued progress on monetary management and a solid external position are bright spots, while stronger efforts are needed to improve governance and strengthen fiscal management by raising revenues, addressing arrears, and ensuring high quality public investment. When the Board last discussed Tanzania's final PSI review in January 2018, the authorities had interest in a follow-on non-borrowing arrangement, but this has not materialized. Staff comments are welcome. We concur with the staff appraisal and would like to highlight several points.

Business Environment and Governance. Anecdotal reporting from the private sector and third-party indicators point to rising concerns about an unpredictable business environment as well as room for improvement on "Doing Business" relative to peers. We would emphasize the importance of streamlined regulations and transparent, competitive markets to reduce the potential for corrupt and collusive behavior and to foster a dynamic private sector that can create jobs for Tanzanians. Recent government intervention in the cashew markets is one example of concern, and we encourage the authorities to consider less distortive ways to provide social support to farmers, when needed. Can staff comment on the potential fiscal cost of this action, and whether fiscal contingencies have been properly accounted for?

Fiscal. Stronger attention is needed to the growth-orientation and quality of the fiscal effort. Budget under-execution due to inefficient investment and spending procedures have more than compensated for overoptimistic revenue projections, but the resulting fiscal effort is of low quality. Stronger revenues should come from tax simplification to reduce the burden of compliance and broadening the base through registration of new taxpayers. We urge the authorities to act on staff recommendations to strengthen budgetary controls and address arrears (which are also weighing on banks), and welcome related IMF capacity development efforts. Interest expenditures are still relatively modest and are not crowding other essential spending, but experience shows that this situation can erode quickly and is slow to recover. Finally, we appreciate the footnote outlining the public investment projects included in the baseline and urge the authorities to undertake rigorous cost-benefit analysis, apply high standards of transparency and competition, and to seek technical support from the MDBs as needed.

Gender Inequality. We appreciated the analysis on gender inequality in Appendix IX indicating the scope for economic gains by addressing discrimination and educational opportunities for women. The Tanzania example shows that increasing labor force participation rates of women is not a sufficient condition for equality. Women need to increase their presence in higher wage fields.

Data. While staff still find data to be adequate for surveillance purposes, data issues are emerging, and the authorities need to act to protect data credibility and accuracy. First, technical measures are needed to strengthen national accounts data. In addition, we urge the authorities to take staff advice to revisit recent amendments to the Statistics Act, which have had a chilling effect on public discourse of economic developments and would outlaw the collection and publication of basic statistical data by the private sector or civil society. We note with concern the recent suspension of a major newspaper because the government objected to the exchange rate values it reported.

Mr. de Villeroché, Mr. Castets, Mr. Ronicle, Miss Chen and Ms. Susbielle submitted the following joint statement:

We thank staff for a comprehensive set of papers covering the current issues in Tanzania, and Mr. Mahlinza and Mr. Odonye for their informative buff statement. We welcome the economic stability of Tanzania and the improvements in social indicators, though we note that the decrease in the poverty rate is only small and the Human Capital Index unchanged.

We broadly agree with staff’s appraisal and share staff concerns regarding the changes in critical legislation relating to the business environment and the Statistics Act. We agree that these changes have led to considerable uncertainty about the pace of economic activity and that many of them will lead to a slowdown in medium term growth. This would be detrimental to progress on poverty reduction, not least given the high rate of population growth.

We share the concerns raised by staff on the amendments to the Statistics Act and data quality and its impact on the reliability of macroeconomics indicators. Can staff elaborate further on what impact these issues could have on investor confidence and the business environment, for example would staff expect an increase in risk premia for the official and private sectors?

Fiscal

We note that in many areas of the report the Tanzanian authorities are in agreement with Fund staff, in particular on the fiscal recommendations, which is encouraging. We read the selected issues paper with interest and welcome the positive comments relating to several areas of corporation tax policy; it is important for the authorities to build on these successes. We endorse staff's recommendations on fiscal management and in particular the urgent need to tackle the build-up of VAT refunds; given this, what plans do staff have, or might be considering, to support the recommended policy reforms, for example deploying tools developed under the "Macro Research for Development" program on fiscal planning and project appraisal.

We welcome the ambition for rebalancing public spending in favor of investment, in order to boost competitiveness and growth. However, we would like to stress the importance of prioritizing projects and programs, as envisaged in the authorities' public investment manual. Greater selectivity and effective sequencing will help ease capacity constraints in implementation and will also contribute to the achievement of higher-level strategic objectives like improved connectivity. In this aim, it's crucial to clear arrears in the electricity sector, to improve the financial sustainability of state-owned enterprise such as TANESCO and facilitate the involvement of the private sector. How do staff assess the recent legislation passed on PPPs and do staff consider that it provides sufficient safeguards to implement PPPs in a country such as Tanzania, with limited capacity to negotiate such complex arrangements?

We welcome the assessment that Tanzania's risk of debt distress remains low even in the more pessimistic scenario, at a time where we are seeing significant debt problems in many low-income countries.

Regional context

Not all issues identified by staff are unique to Tanzania; while we endorse a strong separation of issues that are commonly experienced in the SSA region from those that are specific to Tanzania, to ensure critical messages in the AIV report are not diluted, some contextualization with regional similarities may be helpful. Issues such as domestic resource mobilization, build-up of financial risk in SOEs, domestic arrears contributing to a build-up of non-performing loans, and financial sector vulnerabilities from those NPLs are important to Tanzania but not unique in the region. Some of these issues are structural in nature and will not be easily resolved in the short term. Given some issues are experienced by several countries in the region, are there lessons that can be learnt from regional peers?

Financial sector and inclusion

We commend the reaffirmed commitment of the authorities to keep inflation low and implement an interest-rate based monetary policy framework. Stress tests conducted as part of the Financial Sector Stability Analysis (FSSA) revealed low resilience to liquidity, credit, and concentration risks and concerns about the business model of small and state-owned banks. We encourage the authorities to implement the financial sector reforms needed to reduce vulnerabilities as recommended by the FSSA.

We welcome staff responding to our request from the Tanzania FSSA board meeting in November 2018 with respect to looking deeper into the issue of financial inclusion in Tanzania. Appendix VI on financial access and inclusion is helpful as it points to some of the key drivers which can improve access to credit. Taking a wider view on inclusion, in future AIVs we would appreciate more on economic inclusion – what are the barriers and what policy options are available to the authorities?

Structural reforms

We appreciate the recent improvements in access to basic education and encourage the authorities to increase budget resources to ensure quality education and reduce gender and rural-urban disparities. To address skills mismatches, we emphasize the importance of implementing a flexible and transparent work-visa permits policy to attract needed skills and support private investment.

Mr. Trabinski and Mr. Danenov submitted the following statement:

We thank staff for a valuable set of papers and Messrs. Mahlinza and Odonye for their insightful buff statement. Growth in Tanzania remained relatively strong over last decade contributing to macroeconomic stability and improved social indicators. The country's favorable geographical position and a large stock of natural resources, if properly harnessed, could create more inclusive and robust economic growth. However, existing gaps in infrastructure, inefficiencies in fiscal management, and weak business environment constitute important impediments to future development. We recognize Tanzanian authorities' achievements in improving social indicators and implementing reforms, and we broadly concur with staff's policy recommendations. We also call on the authorities to introduce decisive reforms, while preserving economic stability.

Continued fiscal reforms are needed to support economic growth. While the level of debt remains manageable and the risk of debt distress is low, it is important to ensure expenditure control and improve revenue projections. Strengthening budget credibility, tax administration and public investment management will be key in increasing growth prospects and creating an environment for future structural reforms. The recently discovered offshore deposits of natural gas call for a well-thought through management strategy. Moreover, we welcome the authorities' readiness to implement their Arrears Management Strategy, improve the government electronic payment revenue gateway system and repay legitimate VAT refunds as well as to expand the tax base through the registration of new tax payers.

We welcome the transition to an interest rate-based monetary policy framework. Allowing the exchange rate to adjust to fundamental changes and absorb shocks will be important. We concur with staff's recommendation to introduce a policy rate and use open market operations for liquidity management as well as developing the interbank and repo markets. These measures will also help increase financial sector resilience to liquidity shocks.

We encourage the authorities to implement comprehensive structural reforms to improve the business climate and ensure sustainable and inclusive growth. Non-tariff barriers, onerous regulatory prices, high cost of doing business, lack of access to credit and electricity as well as overall governance weaknesses have a negative impact on competitiveness and the overall business environment. We welcome the authorities' blueprint that was launched to address legal and regulatory challenges of doing business and other measures to simplify the procedures of registering new businesses. We agree that improving access to education and eliminating gender disparities in educational attendance are important objectives at current juncture.

Mr. Di Tata and Mr. Corvalan Mendoza submitted the following statement:

We thank staff for the excellent report and the selected issues paper, and Mr. Mahlinza and Mr. Odonye for their informative buff statement.

Tanzania performed well in the past decade, with macroeconomic stability and relatively high rates of growth, and the country has the potential to maintain strong growth if structural reforms are deepened. Official GDP data point to about 7 percent annual growth in 2017-18 (although data weaknesses affect the quality of these estimates), with headline inflation remaining under the central bank's medium-term target of 5 percent. Public debt has increased in recent years but remains manageable at around 37 percent of GDP, while international reserves amount to five months of import cover. Development indicators have improved, but multidimensional poverty (47.4 percent of the population) and the unemployment rate (10 percent) remain high. The authorities have made progress in modernizing the monetary framework, but fiscal management remains weak and structural policies have recently introduced an interventionist stance in some areas. Risks to the outlook are mainly on the downside. Against this backdrop, we agree with staff on the need to press ahead with reforms to strengthen fiscal management, the financial sector, the business climate, and other structural areas.

Staff has prepared two illustrative scenarios that show significantly different outcomes depending on policies. The baseline scenario, which assumes a continuation of current policies and modest progress on structural reforms, points to rates of growth of about 4-5 percent in the medium-term, while an alternative scenario with bolder reforms has the potential to boost growth to about 7 percent. However, the authorities are of the view that real GDP growth could be maintained in the order of 7-8 percent in the short to medium term, even in the absence of certain reforms recommended by staff. Could staff elaborate on these differences of opinion?

The fiscal deficit has been moderate in 2016/17 and 2017/18 and is projected to increase slightly to 2.3 percent of GDP in 2018/19, but budget planning and expenditure control remain weak. These weaknesses have led to the accumulation of domestic spending arrears and delays in VAT refunds and other reimbursable taxes, a situation that is affecting the financial sector through an increase in non-performing loans. We welcome the authorities' plans to implement their Strategy for Management of Arrears and repay legitimate VAT refunds. Could staff provide further information about the timetable to resolve the different types of arrears?

Looking ahead, we see that the fiscal deficit could increase by 2021/22 but take positive note of the authorities' commitment to prudence and convergence to East African Community (EAC) criteria. In this regard, we encourage the authorities to move ahead with fiscal reforms to strengthen domestic revenue, expenditure control, and public investment management, and would also emphasize the importance of improving the credibility of fiscal policy through realistic budget planning. Could staff comment on possible tax policy (rather than tax administration) measures to strengthen revenue, which is low by international standards?

We welcome the authorities' commitment to keep inflation low and the efforts under way to modernize the monetary framework. We agree that the current monetary policy stance remains appropriate but may need to be tightened if inflationary pressures develop. We also see merit in the plan to transition from reserve money targeting to an interest rate-based monetary policy and welcome the planned implementation of the interbank market's Code of Conduct as well as other reforms to improve liquidity management.

Tanzania's banking system presents several vulnerabilities. This is demonstrated by the stress test conducted as part of the FSSA, which revealed low resilience to liquidity, credit, and concentration risks, as well as concerns about the business models of small and state-owned banks. NPLs have risen owing to government arrears and weaknesses in banks' credit risk management, while profitability and liquidity ratios have deteriorated. We encourage the authorities to press ahead with the implementation of the financial sector reforms recommended by staff to reduce vulnerabilities, including the recommendations of the 2018 FSSA, as well as with reforms to increase access to credit. There is also a need to promptly strengthen AML/CFT supervision.

On the structural front, prompt implementation of reforms to improve the business environment is crucial to enhance the economy's growth prospects. We welcome recent measures to streamline regulations and procedures, as well as the establishment of a one-stop center for business permits. Going forward, there is a need to define a timetable for implementing the de-regulations envisaged in the Blueprint for Regulatory Reforms, remove non-tariff trade barriers, review recent policy and legislative initiatives that adversely affect the business climate, and continue with the efforts under way to improve governance. Further reforms are also needed to shore up the energy sector, which has faced longstanding financial problems that constrained investment in generation, transmission and distribution.

With these comments, we wish the Tanzanian authorities every success in their future endeavors.

The Acting Chair (Mr. Zhang) made the following statement:

I thank the Tanzanian authorities for their collaboration with the staff in the context of the 2019 Article IV consultation discussions.

I was in Tanzania in 2017 and had a chance to appreciate the authorities' interest in Fund engagement. As noted in the gray statements, Tanzania since then has maintained its macroeconomic stability, and there were some improvements in the social indicators.

The latest development plan acknowledges the development challenges and has the right objectives. At the same time, the recent trends in policies and legislation have raised concerns around development partners, investors, bankers, and civil society, which casts a cloud on the country's business environment and its economic prospects. Challenges remain in key areas, such as fiscal management, the financial sector, productive public investment, competitiveness, and inclusive private sector-led growth.

Mr. Rashkovan made the following statement:

We thank the staff for the well-detailed and comprehensive staff report, which clearly highlights the most pertinent and recurrent issues, including unpredictable policies, delays, or little progress in implementing some reforms. We also thank Mr. Mahlinza and Mr. Odonye for their informative buff statement.

We issued a joint statement with the German and Italian offices, but I want to make three points for emphasis.

We share Mr. Ostros' and Mr. Di Tata's view that growth prospects in Tanzania depend largely on improvements in the business climate. We welcome the authorities' commitment to improving the business environment and implementing the blueprint for gradual reforms. At the same time, the cost of doing business has recently increased, and competitiveness has been affected by revised legislation on the fiscal arrears. We encourage the authorities to take more actions to ensure the predictability of business legislation, accelerate the clearance of fiscal arrears, and regain the confidence of domestic and external private and public investors.

While the Tanzanian authorities focus on being attractive and open to foreign investment, we note a reduction in FDI. We would be thankful to receive some thoughts from the staff on the objections of foreign investors, and how the staff suggests attracting more foreign investment.

Second, like other Directors, we strongly support the authorities' efforts to tackle corruption and create good governance. The implementation of the five-year anti-corruption strategy is a good starting point, improving governance and creating a level playing field for entrepreneurs. Measures to strengthen the anti-money laundering (AML) framework are also good steps in fighting corruption. However, the existing legislation needs to be enforced and should build further on best practices. We urge the authorities to continue their efforts in improving transparency in fiscal operations and financial sector oversight, and remove red tape and non-tariff trade barriers.

Third, we strongly urge the authorities to resolve outstanding arrears to external creditors. Since 2012, Tanzania has been in arrears with payments on two loans granted by Belgium in 2001 and 2003. At the end of 2018, the arrears were on a level close to EUR 1.22 billion. The continuing efforts of the Belgian authorities, which started in 2014, to contest the existence of these arrears, have so far not been fruitful, and the Tanzanian authorities have not provided credible reasons for contesting the existence of these loans and their arrears. We call upon the staff to continue to flag to the authorities the existence of these loans and their arrears, and to recommend the start of constructive discussions with the Belgian authorities.

Ms. Crane made the following statement:

Like Mr. Rashkovan, we are also concerned by the deterioration in the economic and business environment and the resulting risks to growth. Arrears create fiscal risks and also weigh on banks, as seen in rising NPLs. Recent legislation, including the Statistics Act, are troubling and have had a chilling effect on public discourse related to economic matters. Like others, we call on the authorities to reflect on how they can restore greater credibility with both investors and donors. We believe this will serve them well.

In addition, I wanted to touch on the written responses to technical questions, particularly the first question on the Debt Sustainability Analysis (DSA). We found the footnote in the report outlining the different public investments that were included in the DSA to be helpful. We also find the answer to Question No. 1 to be clear, but we would call attention to the last sentence in that answer that says that the projections do not envisage other flagship projects for which financing has not been identified or disclosed yet. This is standard practice. We asked a similar question in the recent Myanmar Article IV meeting.

In situations where there is a possibility of a rapid scaling up of public investment, including through public-private partnerships (PPPs), we would find it useful to see some scenario analysis that includes investment volumes beyond what has necessarily been formally signed. This scenario analysis—particularly if it could make clear its assumptions on the volumes and terms—could provide useful information to the authorities and potential lenders as they consider possible project finance going forward.

Mr. Raghani made the following statement:

First, we commend the Tanzanian authorities for their strong macroeconomic stability and steady rates of growth, with improvements in social indicators. Nevertheless, more needs to be done in addressing the country's infrastructure gaps, removing human development constraints, and reducing the unemployment level. This calls for further progress to enhance fiscal management, mitigate vulnerabilities in the financial sector, and improve the business environment to meet the authorities' development objectives under their second five-year development plan for 2016-2021.

Second, like many other Directors—Mr. Mouminah, Mr. Di Tata, among others—we encourage the authorities to pursue a prudent fiscal policy consistent with the convergence criteria for the East African Community. We also believe that mobilizing more revenue and streamlining expenditures are essential to promote the growth and the transformation of the economy.

Third, implementing timely and well-calibrated structural reforms is warranted to improve the business climate and foster private sector-led growth. As emphasized in some gray statements, including the joint gray statement by Messrs. de Villeroché, Castets, and Ronicle, we welcome the recent improvements in access to basic education, and encourage the authorities to increase their budget resources to ensure quality education and eliminate gender and rural/urban disparities in education attendance.

Finally, we encourage the authorities to proceed with their efforts aimed at tackling governance and corruption, as well as improving data quality to support policy decisions and proper assessments.

Mr. Palei made the following statement:

We agree with most of the policy recommendations and analyses in the reports. In particular, we agree that the authorities need to improve tax administration, which is a priority for increasing tax revenue as a share of GDP. We also agree with the staff that the authorities need to address, without delay, the issue of VAT refunds.

In the set of staff papers, the staff devoted great attention to corporate income taxation. The selected issues paper was devoted to this specific subject. We note that this is an important contribution, particularly in light of the recent consideration of this topic at the Board.

One more issue that we noted in the reports was the need to improve the business environment. There is a sense that the business environment has deteriorated somewhat in the recent past. We agree that the authorities need to pay attention to this area. One of the ways to improve the business environment would be to cooperate closely with the World Bank on improving the ranking in the Doing Business indicators and to devise a specific program for how to do it. There is a significant amount of experience in other countries of successful improvements through this particular instrument.

Finally, we call on the authorities to implement the FSAP recommendations without delay.

The staff representative from the African Department (Mr. Gelbard), in response to questions and comments from Executive Directors, made the following statement:[1]

I will now address the questions raised by Directors regarding the differences with the authorities on GDP projections, changes in legislation affecting business and statistics, interventionist policies, fiscal arrears, and the possibility of a Fund-supported program.

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

The staff's GDP forecasts are lower than the recent official figures and projections. As noted in the staff report, there are severe weaknesses in the sources of data used to compile GDP statistics. While official GDP data continue to show growth of about 7 percent in recent years, high-frequency indicators point to a significant slowdown in economic activity.

In addition, the expected payoff on public investments is highly uncertain, and there is a widespread perception, including from surveys, of a worsening of the business climate. It is on this basis that the staff's projections assume a more subdued pace of private investment.

This is also behind the staff's view that concrete policy changes will be needed to lift growth toward the authorities' objectives of 7 to 8 percent and that, absent these changes, growth will unlikely exceed the 4 to 5 percent range.

Regarding changes in legislation that ban international arbitration and allow for retroactive modification and nullification of contracts, the authorities indicated that their goal is to ensure a fair distribution of benefits. To investors, these changes raise risks and lower the attractiveness of investing in Tanzania, as its natural resource regime is no longer aligned with that of other countries. In this regard, the staff suggested that a superior approach would have a more internationally competitive legal regime alongside a team of negotiators that could ensure that contracts are transparent and proceeds are shared fairly. Such an approach would render disputes an exception and contribute to the predictability and attractiveness of the regime.

Some Directors asked about how the statistics law departs from international practice and its effects on the quality of data and the business environment. The law criminalizes the dissemination of information that may invalidate or discredit official statistics and requires official authorization to disseminate any sort of data. These provisions run counter to the good practices established in the U.N. in the Fundamental Principles of Official Statistics and the African Charter on Statistics, which Tanzania has ratified. Specifically, the international principles underscore the need for transparency in the collection and dissemination of data and advocate for the authorities to solicit feedback from the users.

Instead, the provisions will likely limit the production of independent data and may thwart evidence-based analysis and reinforce concerns about the accuracy of official statistics, as the data cannot be challenged. This would likely weaken the overall quality of statistics and hinder the public policy debate and decision making in the government and the private sector.

There was a question about the authorities' interventionist stance on markets. Several such policies were introduced since 2016, including purchasing an entire crop of cashews at inflated prices, imposing price controls and centralizing the importation of fertilizers, and banning the exportation of maize and coffee and the importation of sugar. These policies interfere with price signals, distort the allocation of resources, generate uncertainties for producers and traders, and hamper private sector development. In the staff's view, the main problems in the agricultural sector can be better addressed by predictable policies, the removal of fees and taxes, and investments in irrigation. More generally, to facilitate the development of key sectors, the staff underscores the positive effects of removing red tape, improving skills in the labor force, and the government investing in well-assessed projects with positive externalities, as well as staying current on its expenditures and tax refunds.

Regarding government expenditure arrears, the authorities have approved in 2018 a strategy to control and repay such arrears. The strategy envisages using the integrated financial management system to improve controls and reporting, clearing current year commitments before incurring new ones, and gradually repaying the previous year's stock of arrears. However, the strategy falls short by defining arrears as unpaid claims after the end of the financial year, instead of the usual 30- to 90-day window. It also does not specify criteria to prioritize payments. In addition, the strategy does not tackle the key sources of the problem—namely, overoptimistic revenue projections and underestimates of public investments and their financing. In short, there is still uncertainty around whether expenditure arrears can be cleared in a timely manner and the extent to which such arrears will be avoided in the future.

Regarding delays in VAT refunds, the authorities have started making small reimbursements since 2018, but there is no information on the stock of unpaid claims or when the move from risk-based to universal auditing will be reversed.

Lastly, some Directors inquired about the possibility of a non-financial arrangement. In early 2019, the authorities expressed interest in a successor Policy Support Instrument (PSI). The staff conveyed to them that the progress made in addressing the concerns I mentioned earlier—about the quality of GDP data and the accounting and clearance of domestic arrears and overdue

VAT refunds—would be central to a new program. During the Article IV discussions, the authorities reckoned that these conditions had not yet been met, and the staff did not receive a formal request. In an informal dialogue, however, the authorities mentioned that they saw the Article IV consultation as a stepping stone for discussions on a successor program.

Mr. Mahlinza made the following concluding statement:

On behalf of my Tanzanian authorities, I thank Directors for their support toward the completion of the 2019 Article IV consultation. Their views and recommendations will be conveyed to the authorities.

First, to address the issue of arrears to Belgium, I wish to state that our authorities are still verifying their documents, and they will be discussing with creditors the way forward on this matter.

In the written gray statements and verbal interventions, Directors have commended the authorities for maintaining macroeconomic stability and the improvement in social indicators. However, they noted that growth potential has been hampered by significant development challenges, including the recent deterioration in the business climate, the high incidence of poverty and unemployment levels, as well as infrastructure and human capital gaps. In this context, they emphasized the importance of comprehensive and market-friendly structural reforms to promote sustainable and inclusive growth. We want to assure Directors that the authorities remain committed to implementing reforms and strengthening engagement with the private sector.

On fiscal policy, the authorities wish to underscore their commitment to a prudent fiscal stance, consistent with the convergence benchmarks of the East African Community. They will continue with their efforts to enhance revenue mobilization and improve tax administration, including cleaning up the taxpayer register, with a view to removing duplications and nonexistent taxpayers. To resolve the accumulated arrears and delayed VAT refunds, the authorities have commenced a process for the verification of the claims, with a view to clearing all VAT claims in line with the VAT Act. This is expected to unlock working capital and result in improvements in the level of banks' nonperforming loans.

My authorities recognize the significance of modernizing the monetary policy framework and strengthening financial supervision. In this connection, they are committed to transitioning toward the interest rate-based monetary policy and have started implementing the recommendations of the 2018

Financial Sector Stability Assessment. The recruitment of additional supervisors has commenced, while the plans to undertake an onsite examination of banks with high NPLs have advanced.

The Bank of Tanzania has continued the implementation of the Basel III requirements, including other reforms, such as the preparation of an emergency liquidity assistance operational framework. Implementing structural reforms aimed at improving the business climate and promoting private sector-led growth is the core component of the government's second five-year development agenda. In addition to launching the blueprint to address legal and regulatory challenges to doing business, the authorities are preparing additional laws and regulations to remove non-tariff barriers, in line with the East African Community's common market protocols.

On state-owned enterprises, the authorities concur on the need to improve their finance and governance framework, with a view to facilitate the efficiency of the sector. To this end, they are developing a strategy to clear outstanding arrears for the key SOEs. In the energy sector, the aim is to increase electricity connectivity and access and to diversify sources of energy.

In conclusion, I thank the mission team, led by Mr. Gelbard, for its hard work and active engagement with the Tanzanian authorities during the discussions and for responding to Directors' comments today.

Regarding publication, I wish to bring to the Board's attention that my Tanzanian authorities are still considering the publication of the Article IV report and the press release. At this stage, consent is still being awaited from Dodoma.

The Acting Chair (Mr. Zhang) noted that the United Republic of Tanzania is an Article VIII member, and no decision was proposed.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for maintaining macroeconomic stability, with low inflation and fiscal and debt sustainability, and improvements in social indicators. At the same time, Directors agreed that significant development challenges remain, including infrastructure and human capital gaps and high poverty and unemployment. Against this background, they underscored the importance of strengthening fiscal management, preserving financial stability, and implementing a set of reforms that could allow for a productive scaling up of public investment, improve competitiveness, and support inclusive, private sector led growth.

Directors concurred that somewhat higher fiscal deficits could be sustained in the medium-term while maintaining a low risk of debt distress. They also saw merit in creating fiscal space for growth-enhancing infrastructure investment and social spending. Directors welcomed the planned measures to strengthen revenue mobilization and modernize the tax system. More generally, they called for further efforts to improve budget planning and execution. Directors encouraged the authorities to ensure that VAT refunds are paid in a timely manner and that decisive progress is made in clearing and preventing domestic expenditure arrears. Directors also called for transparent quality assessments of public investments to implement cost-effective, growth-enhancing projects.

Directors welcomed the authorities' intention to pursue a monetary policy that ensures continued low inflation together with measures toward transitioning to an interest rate-based monetary policy framework. They agreed that, to absorb shocks, the exchange rate should be allowed to adjust to changes in fundamentals.

Directors welcomed the Bank of Tanzania's commitment to implement the recommendations from the recent Financial Sector Assessment Program. In particular, they supported strengthening regulation and supervision, monitoring banks' risk management strategies to ensure a sound lending portfolio, and promptly enforcing corrective regulations on problem banks.

Directors noted that comprehensive reforms in key sectors and in governance will be needed to improve the business environment and foster inclusive growth. In this regard, many Directors expressed concern about the potential impact of recent changes in legislation on investor sentiment. Directors considered that improving the quality of education, building skills in the labor force, and closing the gender gap by increasing employment opportunities for women will be important for future development. Directors also encouraged the authorities to clear arrears related to TANESCO and improve efficiency in electricity distribution and connectivity.

Directors emphasized the importance of high quality, reliable economic data to inform policy analysis and decision making. They expressed concern about provisions of the amended Statistics Act that constrain the publication of non-official data and could jeopardize the production of high-quality statistics.

It is expected that the next Article IV consultation with the United Republic of Tanzania will be held on the standard 12-month cycle.

APPROVAL: April 7, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Fiscal Policy and Debt Sustainability

1. ***On the debt sustainability analysis, we took note of staff's conclusion. However, we would appreciate staff's elaboration on whether the projections for future borrowing requirements include the large infrastructure projects planned?***

- The DSA projections of future borrowing needs include the large infrastructure projects explicitly identified in the authorities' medium-term budget. As mentioned in footnote 7 of the DSA, such projects include: the Standard Gauge Railway (SGR) phase I and II connecting Dar es Salaam with Makutupora (i.e., the capital Dodoma), the construction of the Crude oil pipeline from Hoima (Uganda) to Tanga port, the Rufiji hydropower dam, the expansion of the airport and Air Tanzania's airplane fleet, and a rural electrification project. The total budget costs of these projects are estimated at about US$3.7 billion in the next three years. These projections do not envisage, however, other flagship projects, including for the remaining phases of the SGR, for which financing has not been identified or disclosed yet.

2. ***We endorse staff's recommendations on fiscal management and in particular the urgent need to tackle the build-up of VAT refunds; given this, what plans do staff have, or might be considering, to support the recommended policy reforms, for example deploying tools developed under the "Macro Research for Development" program on fiscal planning and project appraisal.***

- Tanzania has benefited from selected capacity building activities regarding macroeconomic research for development, such as the development of models for economic policy analysis (e.g.: Forecasting and Policy Analysis System). The staff intends to ascertain the authorities' interest on technical assistance and other forms of cooperation on the issues of corporate tax policy, fiscal planning, and public investment management in the context of our future engagement.

3. ***Could staff comment on possible tax policy (rather than tax administration) measures to strengthen revenue, which is low by international standards?***

- Most of the tax potential is on the administration side. Tax policy measures discussed with the authorities are broadening the tax base by bringing new taxpayers into the tax net and expediting negotiations with foreign investors, simplifying the tax regime, and streamlining some remaining discretionary tax exemptions.

4. ***We have questions regarding staff's observation in the DSA that the external arrears claims made by Belgium continue to be disputed by the authorities, pending an internal validation process. In this vein, we urge staff to clarify the reasons why the arrears claims with respect to repayment of loans granted by the state of Belgium in 2001 and 2003 are considered "disputed debts".***

- Under the Fund's disputed claims doctrine, where the Fund accepts a member's representation that the validity or amount of a debt claim is in dispute, such disputed claim does not give rise to arrears for Fund purposes. The disputed claims doctrine is grounded in the Fund's duty of neutrality with respect to disputes between members. Although the Fund reserves the right to challenge a member's representation with respect to a disputed claim, the Fund has generally given the member the benefit of any reasonable doubt and thus has never challenged such a representation. As Fund staff already reported in the January 2018 Staff Report, the Tanzanian authorities have represented to the Fund that they dispute the validity of these claims. More recently, the authorities said that they continue asking the Belgian authorities for additional documents to verify the validity of the debt.

5. ***The recent accumulation of spending arrears is a worrying sign and should be addressed before it grows in significance. Could staff clarify whether the latest available data is as of June 2017 (1.1 percent of GDP), mentioned in paragraph 5?***

- Yes, the latest data on stock of verified domestic expenditure arrears is end-June 2017 and is equivalent to 1.1 percent of GDP. The verification of arrears for the following fiscal year (FY 2017/18) was expected to start six months after the closure of the fiscal year (i.e. in January 2019), and, given recent practice, will likely continue for about another 6 months.

6. ***How do staff assess the recent legislation passed on PPPs and do staff consider that it provides sufficient safeguards to implement PPPs in a country such as Tanzania, with limited capacity to negotiate such complex arrangements?***

- The amendments to the PPP Act were prepared in consultation with the World Bank and largely reflect international good practice for such legislation. A last-minute development was the introduction of an amendment to rule out international arbitration of disputes for foreign investors, which is expected to lower the attractiveness to engage in PPP ventures in Tanzania. Beyond the legal framework, continued investment in capacity building will be needed to ensure that risks associated with PPPs can be appropriately mitigated.

Financial sector, monetary, and exchange rate policies

7. ***The shallowness of the financial market, the underdevelopment of domestic repo markets, and frequent foreign exchange market interventions raise concerns about the appropriate timing of a new monetary policy regime switch. Staff correctly points out the importance of the right sequencing. Upon reading the buff statement, we have an impression that the transition is imminent. We welcome staff's comments on whether the envisioned timeline for the regime switch is realistic?***

- At this point, there is no clear deadline for the regime switch, the staff did encourage the authorities to proceed sequentially and accelerate progress if possible. In January 2017, the BoT Board decided to move a forward-looking monetary policy with a well-communicated and clear inflation objective and short-term interest rates as the operational target. Subsequently, the BoT has been taking steps to move to an interest rate-based monetary policy framework taking into account issues such as underdevelopment and segmentation of markets. While there has been substantial progress in developing market infrastructure to foster price discovery and increase market access, moderate progress has been made on developing true repo markets and designing a suitable monetary policy operational framework and communicate it to market participants. At this point, the transition is not imminent, but it may be possible within the next year.

8. ***We welcome staff responding to our request from the Tanzania FSSA board meeting in November 2018 with respect to looking deeper into the issue of financial inclusion in Tanzania. Appendix VI on financial access and inclusion is helpful as it points to some of the key drivers which can improve access to credit. Taking a wider view on inclusion, in future AIVs we would appreciate more on economic inclusion – what are the barriers and what policy options are available to the authorities?***

- The main barriers concern education, health, infrastructure, financial inclusion, and gender inequality. There are spending inefficiencies and a limited pool of teachers and physicians/specialists, public investment management is weak (with insufficient project evaluation of costs and payoffs), credit markets are shallow and with inadequate infrastructure, and women face difficulties mainly because of existing laws, weak access to higher education, and limited employment opportunities. Accordingly, the main policies should focus on (1) expanding access to quality education and healthcare for the poor, (2) investing in infrastructure, (3) deepening financial inclusion to reach the unbanked population, and (4) equalizing opportunities for education and formal employment for women.

Structural Reforms

9. ***Recent government intervention in the cashew markets is one example of concern, and we encourage the authorities to consider less distortive ways to provide social support to farmers, when needed. Can staff comment on the potential fiscal cost of this action, and whether fiscal contingencies have been properly accounted for?***

- Staff does not have independent information on this matter. However, the Deputy Minister of Agriculture, in responding to questions from MPs, had stated in parliament last month: "It was projected initially that during 2018/19 season, 240,000 tons of raw cashew nuts would be produced. By the end of January 2019, the government had bought and collected just over 214,000 tons of cashews worth about TSH 707 billion (approximately $295 million) equivalent to nearly 90 percent of the estimated crop. The cashew nuts were bought through the Cereals and Other Produce Board (CPB). By end of January 2019, the CPB had paid farmers about TSH 425 billion (approximately $177 million) for nearly 135,000 tons of cashews." The Ministry of Finance has confirmed to staff that there has been no budgetary spending on account of cashews thus far; the CPB secured commercial loans to finance the purchase of cashews. The CPB is a commercial entity aimed at making profit. Its initial capital came from government transfers and loans from Tanzania Agricultural Bank (TADB), National Microfinance Bank, CRDB, and other banks.

10. ***When it comes to addressing skills mismatches, staff recommend overhauling the system of visa permits for foreign workers. On the other hand, the authorities are not concerned about the need to change visa policies. Could staff elaborate more on the reasons of the view divergence on visa issue? How do staff see any concern for deterioration of the security when relaxing the visa requirement?***

- The Tanzanian authorities have tightened significantly the provision of labor permits with a view to encouraging businesses to employ locally available labor. However, businesses have repeatedly noted that they seek to employ foreigners only when the required skills are not available locally. In such instances, not receiving labor permits, or not receiving a decision in a timely manner, has been a significant impediment to business operations and investments. Unfortunately, an unintended side effect is that this ends up adversely affecting the employment of Tanzanians as well and, as noted in the staff report, stifles the transmission of know-how to the domestic labor force. Lastly, on security, staff is not aware of any such concern behind the authorities' policies.

11. ***Could staff share their view about what kind of policy is effective to increase the number of qualified teachers?***

- Sufficient numbers of qualified, currently unemployed, primary and secondary teachers are available in the labor market for recruitment in schools, except for secondary math and science teachers. The main challenge continues to be the allocation of sufficient budgetary resources for additional teacher hiring. With regards to the pool of primary and secondary teachers, donor-funded projects have been contributing to enlarging the pool of qualified teachers considerably in the past few years, e.g. through support to establish additional teacher training colleges and expansion of the enrolment capacity of university level teacher training programs. The shortage of secondary math and science teachers is a more challenging problem due to the limited number of students who complete the secondary school math and science streams, enroll in university-level math and science programs, and become teachers. Short-term measures to address such shortages are recruiting retired science teachers on short-term contracts and hiring non-education university graduates and providing them with training. Longer-term actions are also needed to improv access to, and the quality of, primary and secondary education, especially in math and science. In sum, sufficient budget resources, special consideration vis-a-vis civil service hiring, and strategic reallocation among the existing cadre would be key to increase the number of qualified teachers in Tanzania.

12. ***We welcome the Tanzania's blueprint for regulatory reforms and look forward to its implementation. Further details and an indicative timetable from staff would be appreciated.***

- The blueprint for regulatory reforms developed by the Tanzanian authorities is a detailed program to improve the business environment. It outlines steps to address key impediments such as the time and high cost of setting up businesses, cumbersome and often overlapping processes that add significantly to the cost of running a business, and loopholes in laws and regulations that add to the cost and predictability of implementation. The blueprint has several steps for immediate implementation, some of which the government has already implemented (e.g. lowering fees related to the Occupational Safety and Health Agency), and others that it has announced would be implemented imminently, such as merging the Tanzania Bureau of standards and the Tanzania Food and Drug Administration. Still, there is a larger set of reforms in the blueprint and the timetable for implementation is still being prepared. [2]

Other Issues

13. ***Issues such as domestic resource mobilization, build-up of financial risk in SOEs, domestic arrears contributing to a build-up of non-performing loans, and financial sector vulnerabilities from those NPLs are important to Tanzania but not unique in***

[2] https://www.velmalaw.co.tz/blueprint-for-regulatory-reforms-to-improve-tanzanian-business-environment/

the region. Some of these issues are structural in nature and will not be easily resolved in the short term. Given some issues are experienced by several countries in the region, are there lessons that can be learnt from regional peers?

- At a broad level, several SSA countries do face similar challenges, including issues in domestic resource mobilization, fiscal risks related to SOE, expenditure arrears, and NPLs. However, at a more granular level, the sources and characteristics of these issues tend to differ from country to country and in this respect the recommendations tend to be country-specific and reflect intrinsic features, such as the regulatory framework, institutional arrangements, and capacity to implement reforms. This is the approach that staff has taken to providing advice to the Tanzanian authorities, although of course it is up to them to decide whether and how soon to proceed with the recommendations.