CHAPTER 1

Tanzania: Growth Acceleration and Increased Public Spending with Macroeconomic Stability

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In the space of a few decades, Tanzania moved from colonialism to independence—including the union of two states (Tanganyika and Zanzibar)—to socialism to a market-oriented developing economy. Each of these stages involved significant change, with different economic institutions and economic incentives.

Tanzania has emerged from this period of significant economic transition as one of the most rapidly growing economies in Sub-Saharan Africa. For the first time since independence, it has broken out of the cycle of short-lived accelerations in growth that has characterized many low-income countries, enjoying strong uninterrupted growth since the mid-1990s. During the period between 1992/93 and 2008/09, inflation remained in single digits; the debt burden fell dramatically; the level of public spending increased significantly, permitting expansion of public services; and international reserves rose sharply (annex figures 1.A1 and 1.A2).

Achieving and sustaining rapid growth while preserving macroeconomic stability represents a major achievement, and significant improvements have taken place in many aspects of development. But Tanzania remains a low-income country, with per capita gross domestic product (GDP) of only $550 in 2009, and it is on track to meet only about half of the Millennium Development Goals (MDGs). The challenge is to harness the country's enormous potential to increase growth and thus to provide opportunities for all to enhance living standards.[1]

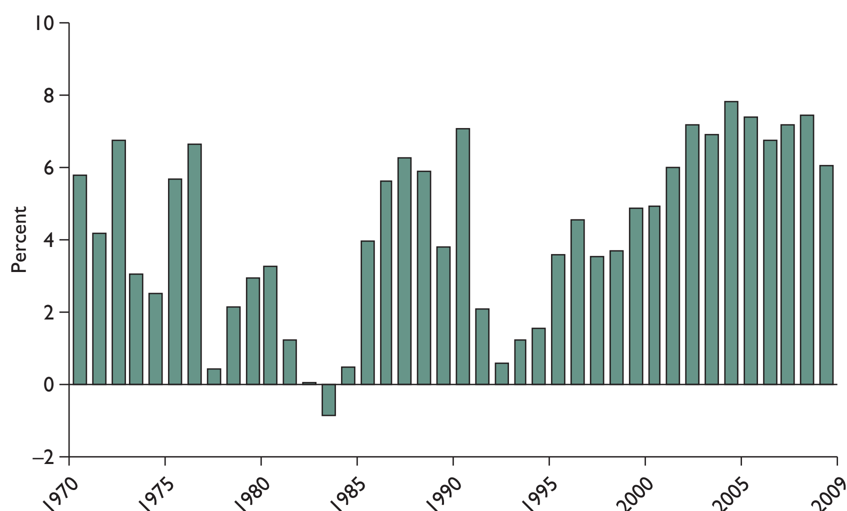
TANZANIA'S GROWTH TAKE-OFF

Sub-Saharan Africa enjoyed relatively rapid growth over the decade leading to the 2009 global financial crisis. After many years of poor performance, it grew faster than developed countries between 1995 and 2005.

Tanzania experienced sustained growth acceleration over this period (figure 1.1). This section examines when and why this acceleration occurred.

Most low-income countries exhibit frequent phases of growth, stagnation, and decline (Pritchett 2000), even where key policies and country characteristics have been relatively stable (Easterly et al. 1993). A technique developed by Bai and Perron (1998) can be employed to identify structural "up" and "down" breaks in economic growth trends, capturing this "stop and go" behavior of economic growth in low-income countries. A break in growth is identified as the point after which the average growth rate is above or below the previous average growth rate. Berg, Ostry, and Zettelmeyer (2008) extend this methodology to identify "growth spells" by modifying the procedure to determine sample-specific critical values when the time dimension is 30 years or less, the typical time horizon in low-income countries growth series. This methodology was used here to identify episodes of growth acceleration for all countries in Sub-Saharan Africa for which sufficiently long data series were available (table 1.1). The results reveal a large number of countries with growth accelerations in the 1990s (11 of 25).[2]

Figure 1.1 Real GDP Growth in Tanzania, 1970–2009



Source: Tanzanian authorities.

Table 1.1 Countries in Sub-Saharan Africa Experiencing "Growth Spells" in the 1990s

Country	Year of acceleration
Burkina Faso	1998
Cameroon	1994
Djibouti	1998
Equatorial Guinea	1994
Ghana	1997
Liberia	1994
Mozambique	1995
Namibia	1998
Rwanda	1994
South Africa	1995
Tanzania	1996

Source: Authors' compilation, based on data from Berg, Ostry, and Zettelmeyer 2008.

Tanzania's growth take-off was spurred by several key factors, including the significant structural changes that occurred as the basic institutions of a market economy—a private banking system, the unification of the exchange rate, and price liberalization—were introduced. Relative to other countries that have experienced growth accelerations, Tanzania stands out in two respects. First, the extent of the reforms was much broader and larger than the average of other countries that saw growth accelerate. Second, there was a long lag between key reforms and the realization of the growth acceleration. The role of macroeconomic policy making during this period was to balance the need to create a supportive environment for growth against the need to contain the potential vulnerabilities that have derailed economic booms in the past, in Tanzania and elsewhere. Tanzania's macroeconomic record has been remarkably successful during a period that has seen both external shocks (sharp fluctuations in global commodity prices, such as oil and food, and a global financial crisis) and domestic shocks (periodic droughts, bank failures, and governance scandals). Navigating such shocks without major macroeconomic disruption is a reflection of strong institutions and responsible policy making.

In addition, Tanzania's move to a higher growth trajectory came following a period of substantial economic reform. Three distinct phases in economic policy making can be identified (figure 1.2).[3] The first, which began at the time of the Arusha Declaration in 1967, was the period of Ujamaa socialism, which created a one-party system with state control of the economy and nationalization of all major enterprises. This period ended in the mid-1980s, with attempts to gradually introduce key components of a market-oriented economy.

The pace and breadth of key reforms—both absolutely and relative to the rest of the world—can be highlighted by using newly constructed indexes of structural reforms developed by the Research Department of the International Monetary Fund (IMF) covering several kinds of real (trade, agriculture, and networks) and financial (domestic finance, banking, securities, and capital account)

Figure 1.2 Chronology of Transformation of Tanzania's Economy, 1967–2009

OUTCOMES

1967–1985	1986–1995	1996–
• Low export and real GDP growth • Deterioration of physical infrastructure • Loss-making state enterprises, and large subsidies financed by directed bank lending • Budget deficits financed by printing money • Shortages of goods and high inflation • Large external imbalances, exhaustion of foreign reserves, and buildup of external arrears • Rising poverty	• But: large segments of the economy still dominated by public monopolies • Insolvency of large state-owned banks and losses in other parastatals • Persistent weaknesses in budgetary management • Large fiscal deficits • Continued accumulation of arrears and monetization of the deficits • Elusive macroeconomic stability • Low growth for most of the period	• Higher broad-based real GDP growth • Inflation declined to single digits • Strong growth in nontraditional exports and turnaround in balance of payments • Large increase in international reserves • Composition of expenditure moved toward more allocations for povert-reducing programs • Creation of efficient, competitive banking system • Increased credit to the productive sectors of the economy

Source: Nord et al. 2009.

indicators. The indexes, which date back as far as the 1970s, are summarized in annex C and in Prati, Onorato, and Papageorgiou (2010).

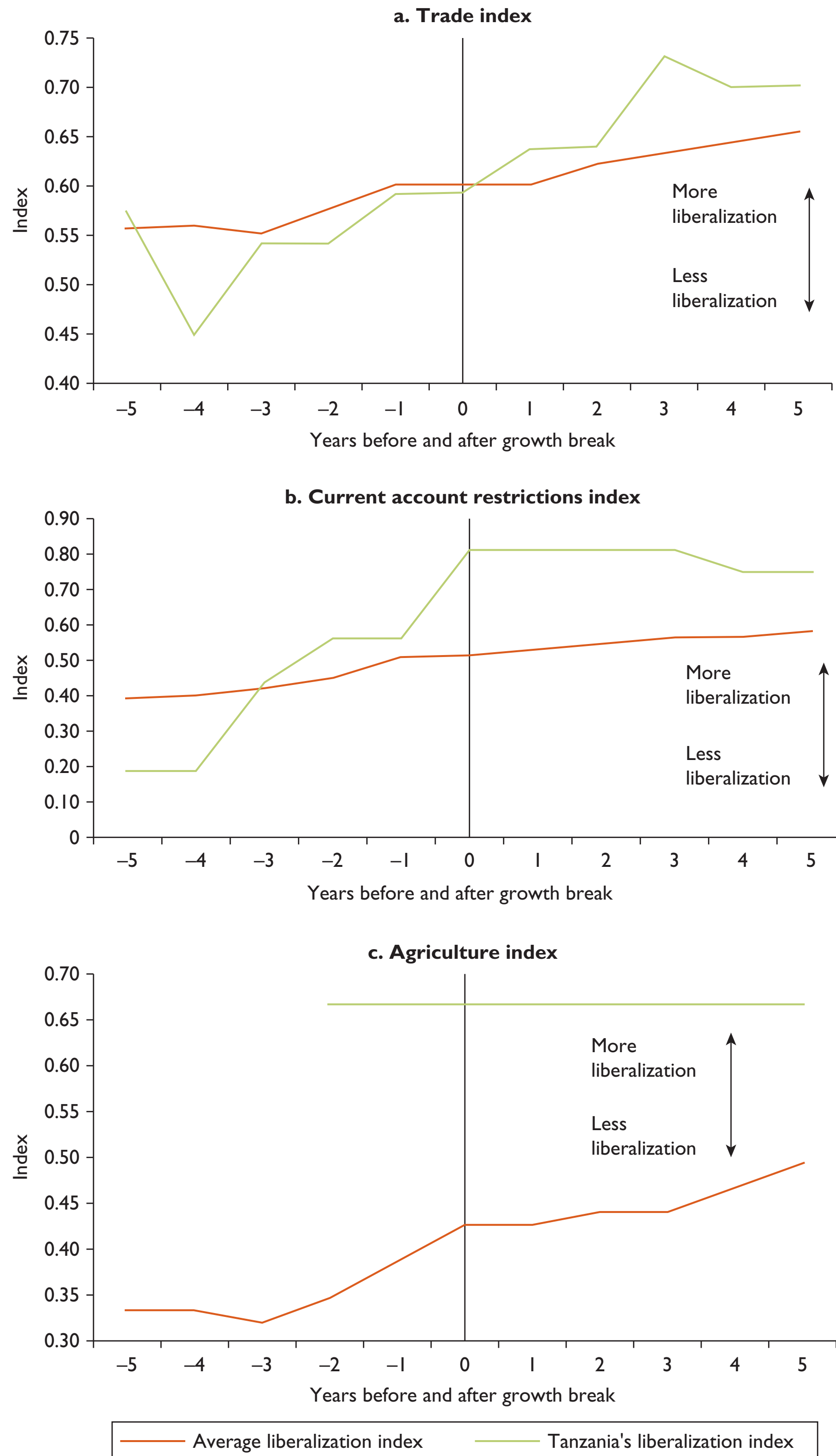
There was a broad trend across much of the world toward greater structural reform and liberalization during the 1990s. Tanzania implemented significant reforms in the real and financial sectors beginning in the early 1990s and continuing into the late 1990s, reaching levels well above the averages for Sub-Saharan Africa (an exception is the capital account index, which lagged the region as a whole). Clear standouts are current account and domestic financial reforms (annex figure D1), which show extraordinary improvements in a very short period. Figures 1.3 and 1.4 document the association between reforms (especially in trade and finance) and growth breaks.

Various factors may explain this pattern. First, given the nationalization of all private property that occurred in 1967, a credibility gap probably existed regarding the irreversibility of reforms. Second, given the physical size of Tanzania and the limited means of communication, it took time to convey information on the reforms throughout the country and to translate the legislative reforms into actual change on the ground. Third, as discussed in Mwase and Ndulu (2008), failure to address key bottlenecks prevented the realization of gains from other reforms. The exchange market was unified only in 1994, for example, removing a severe obstacle to trade, including access to needed imports (figure 1.5).

SUSTAINING GROWTH FOLLOWING THE INITIAL ACCELERATION

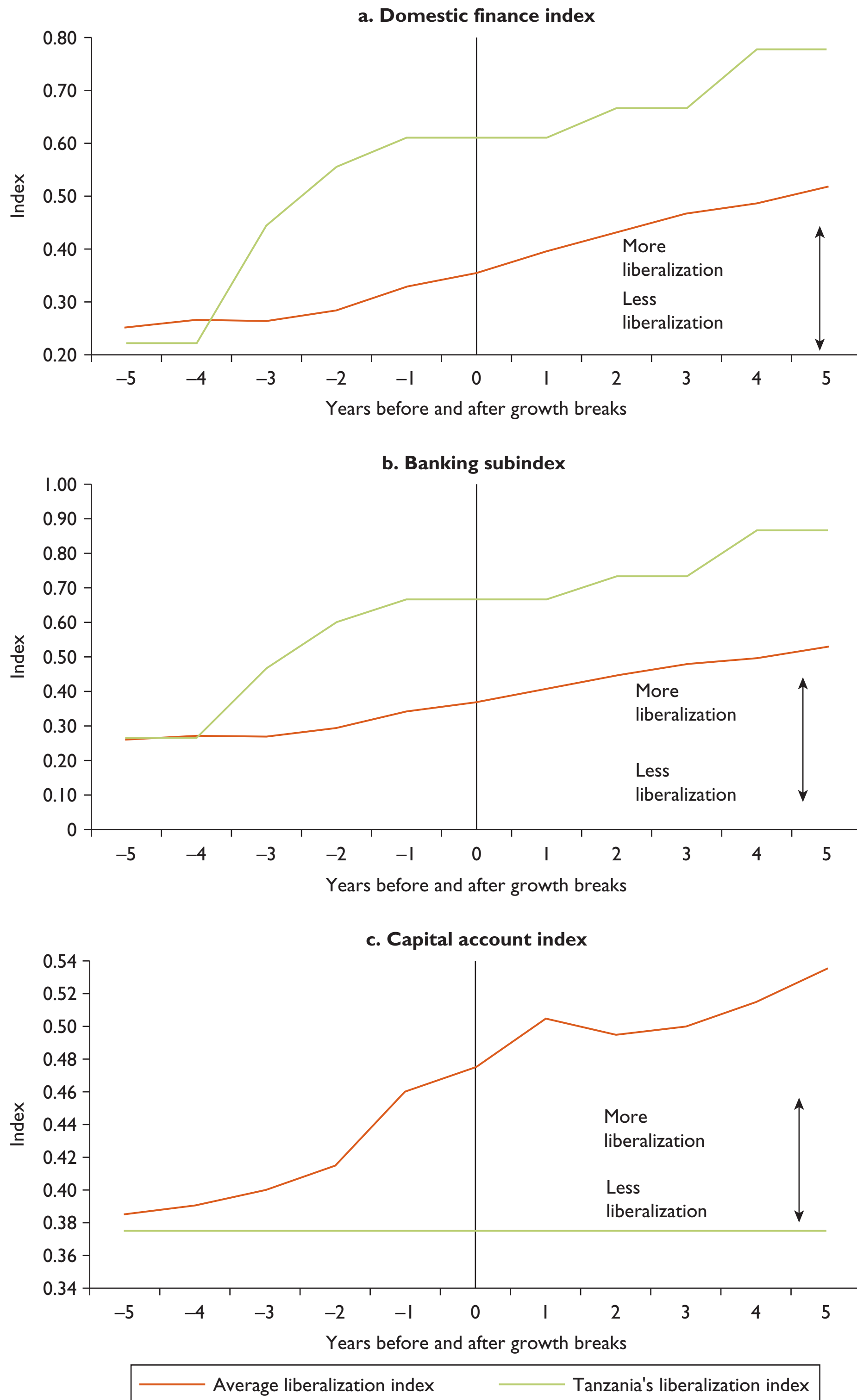
Tanzania's economy has grown by 3.5–7.8 percent a year since 1996, averaging 6.0 percent, well above the rates for Sub-Saharan Africa as a whole. These rates represent a substantial increase over earlier growth rates in Tanzania and, unlike previous accelerations in growth, have been maintained over a sustained period of time (figure 1.6).

Figure 1.3 Indexes of Real Sector Reform in Tanzania and Other Countries Experiencing Growth Acceleration



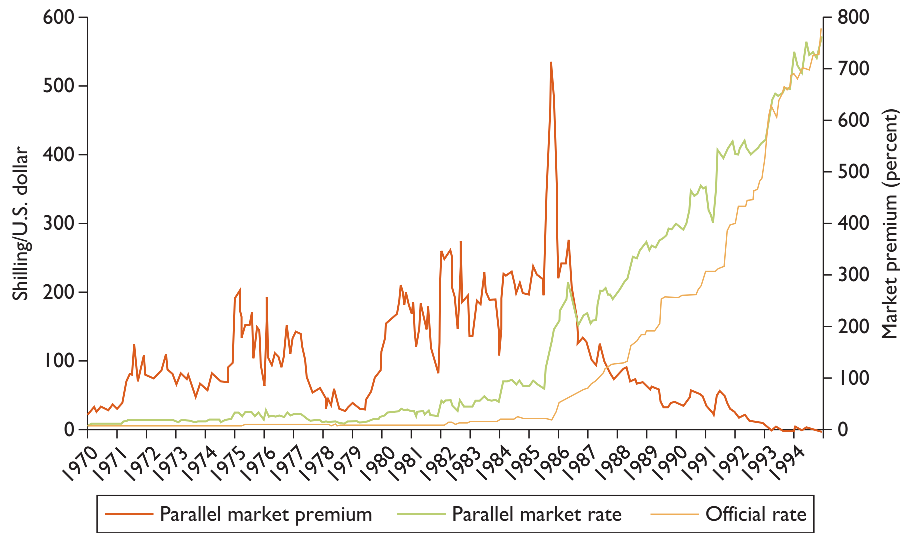
Source: Authors estimates using GDP data from IMF 2010d.
Note: The number of countries used to compute each average varies across indexes, based on data availability. See annex B for a list of countries included in sample.

Figure 1.4 Indexes of Financial Sector Reforms in Tanzania and Other Countries Experiencing Growth Acceleration



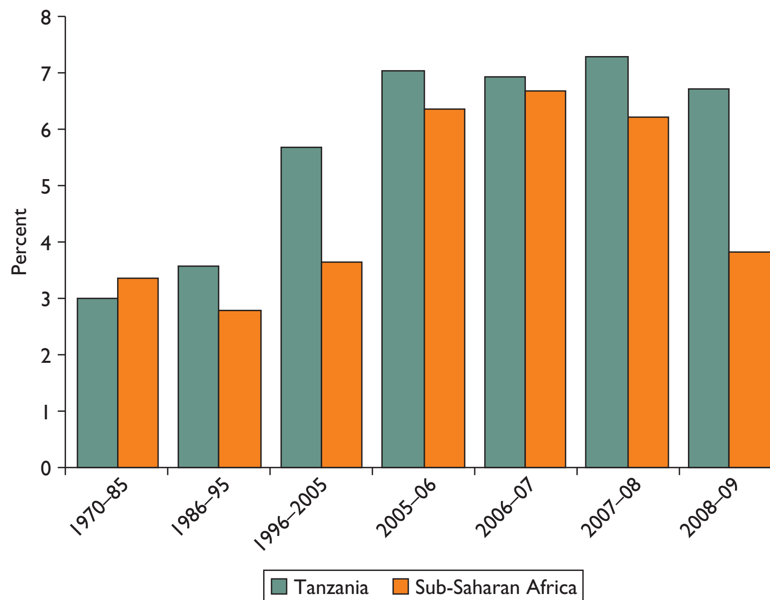
Source: Authors estimates using GDP data from IMF 2010d.
Note: The number of countries used to compute each average varies across indexes, based on data availability. See Annex B for a list of countries included in sample.

Figure 1.5 Official and Parallel Market Exchange Rates in Tanzania, 1970–95



Source: Nord et al. 2009.

Figure 1.6 Real GDP Growth in Tanzania, 1970–2008/09

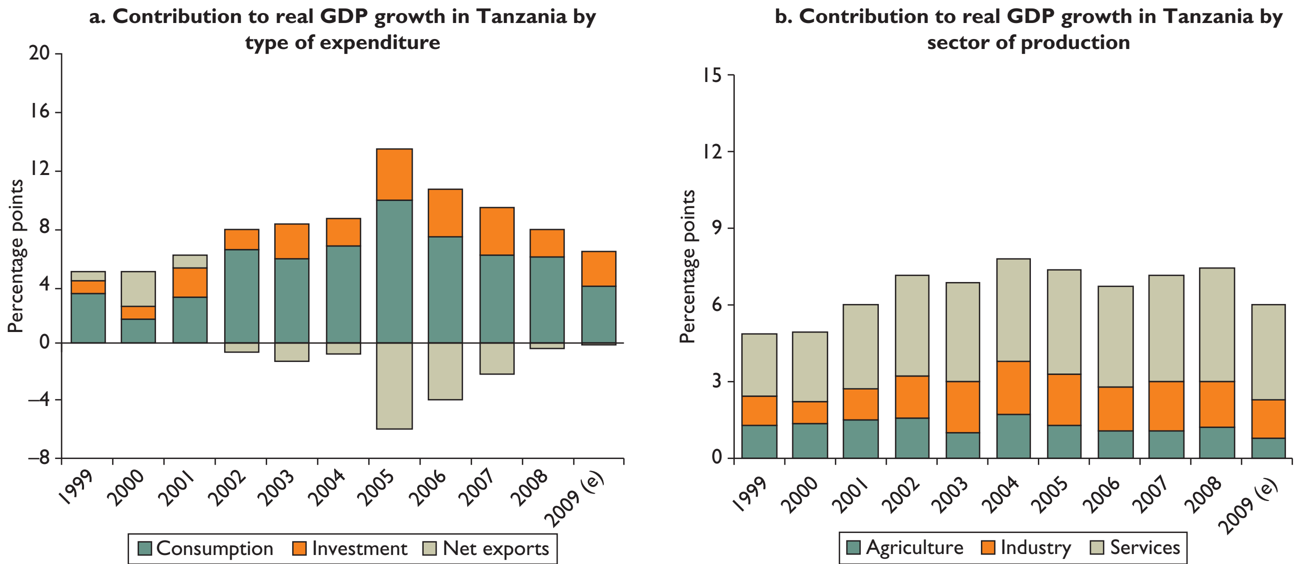


Sources: Tanzanian authorities and IMF staff estimates.

Several patterns are evident from Tanzania's growth performance (figures 1.7 and 1.8 and table 1.2):

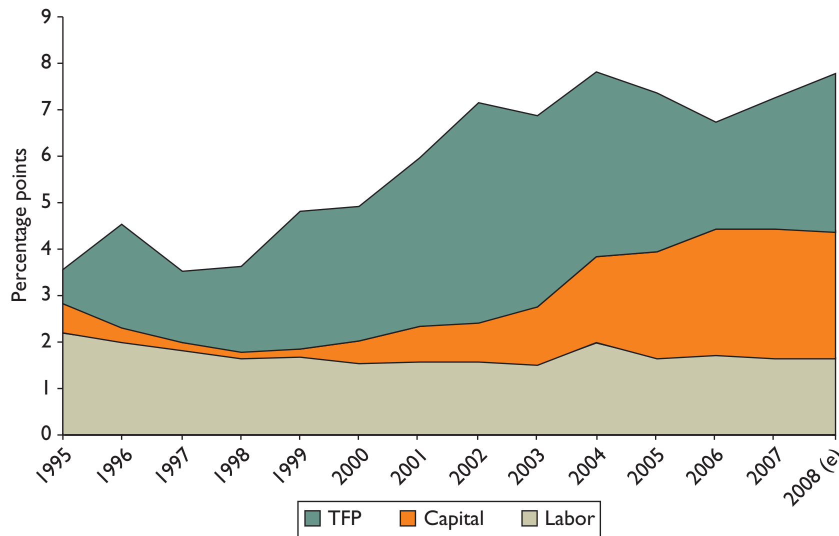
- Acceleration has been driven by domestic demand, not exports. Large increases in both consumption and investment have been recorded, in both cases reflecting significant increases in public spending.
- The key sectors contributing to growth have been services and, to a lesser degree, industry; agriculture has not contributed to growth. Within the service sector, particularly rapid growth has been experienced in construction, telecommunications, financial services, and mining—all subsectors that have been liberalized. The limited contribution of agriculture—in a country where

Figure 1.7 Contributions to Real GDP Growth in Tanzania by Type of Expenditure and Production, 1999–2009



Sources: Tanzanian authorities and IMF staff estimates.

Figure 1.8 Contribution to Real GDP Growth in Tanzania of Labor, Capital, and Total Factor Productivity, 1995–2008



Sources: Tanzanian authorities and IMF staff estimates.

about three-quarters of the population resides in rural areas, where poverty is concentrated—is a concern. It also represents an opportunity, because international experience suggests that the sector can respond rapidly if the right incentives and supporting infrastructure are put in place.

- The acceleration in growth can be traced to a combination of higher investment and increases in productivity. Growth decomposition is always subject to interpretation, particularly regarding the estimation of the capital stock (and therefore the contribution of investment and the interpretation of the residual as

Table 1.2 Factor Contributions to Real GDP Growth in Tanzania, 1986–2008 *(percent)*

Item	1986–90	1991–95	1996–2000	2001–08
Real GDP growth	5.3	1.8	4.3	7.1
Labor force	2.2	2.5	1.7	1.7
Capital	0.9	1.3	0.3	1.9
Total factor productivity	2.2	–2.0	2.3	3.5

Source: Tanzanian authorities and IMF staff calculations.

productivity growth). That said, it is clear that the acceleration in Tanzania was not driven by greater use of labor.[4] Studies of the agricultural sector during this period show little or no improvement in yields for the sector as a whole, with increased output coming from an increase in land under cultivation.

Although exports did not lead the growth acceleration—indeed at just 25 percent of GDP in 2008/09, they remain at a low level—the composition of exports has seen significant changes (figure 1.9). Traditional exports (cotton, coffee, and tea) have declined significantly in importance, partly reflecting the reorientation of the sector toward meeting the consumption needs of a rapidly growing local population. At the same time, gold exports went from zero in 1999 to $1.4 billion (nearly 40 percent of export receipts) in 2009, making Tanzania the fourth-largest gold exporter in Africa after South Africa ($6.3 billion), Ghana ($2.6 billion), and Mali ($2.0 billion). The service sector—tourism and other services, such as transport—has also grown at a steady rate.

The external environment

Tanzania's growth acceleration coincided with a period of both unprecedented expansion in the global economy and significant volatility in commodity prices and capital flows (private and official, including both aid and debt relief) that have posed challenges for macroeconomic management. Given its low level of exports, Tanzania has been insulated from fluctuations in prices and demand for exports and the boom-bust cycles such fluctuations have created in other commodity-dependent countries. However, significant impacts have been felt on the import side. The sharp increase in oil prices during the 2000s resulted in an oil import bill of $1.7 billion in 2007/08, almost 9 percent of GDP. Recent spikes in the price of fertilizer, most of which is imported, have constrained the government's ability to stimulate agricultural production. Disruptions in the global rice market in 2008 hit Zanzibar hard, contributing to inflation that reached 27 percent a year in September 2008 before declining to 5 percent a year later.

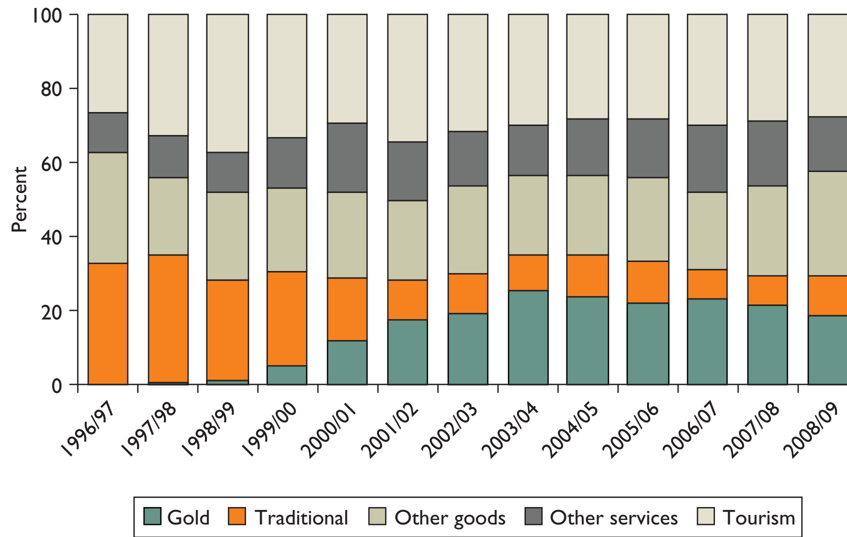
Fairly broad restrictions on capital account transactions remain in place—preventing, for example, foreign portfolio inflows to the domestic government securities markets or private capital outflows into neighboring securities markets. Private capital inflows are nevertheless becoming an increasingly important source of financing for investment. Foreign direct investment, most of it in the mining sector, averaged 3.5 percent of GDP during 1996–2008. Before the global financial crisis, loan syndications were being used to finance investment, mostly in the telecom sector.

Official capital inflows have been important sources of financing for Tanzania since independence. Official development assistance peaked on average during 1986–92 (it represented almost 25 percent of GDP in 1992) before declining through the 1990s and then rising again, to about 17 percent of GDP in 2007. The component of aid that goes through the budget has been rising, albeit with significant year-on-year variability (table 1.3).

In addition to the absolute level of aid inflows, two other aspects of aid have had macroeconomic impacts. First, the composition of aid inflows has shifted. In line with the government's stated preferred modality, aid has increasingly been provided in the form of general budget support—cash that goes directly into the budget—rather than project support. Such aid gives the government more control over the use of resources provided by development partners and can be used to better meet national rather than externally driven (foreign) priorities. However, the use of general budget support also places a heavier burden on government processes to ensure the effective allocation of budgetary resources and maintain a broad dialogue with development partners on results and use of funds to ensure continued access to aid. Its use also complicates macroeconomic management, making it critical to ensure that the spending of aid does not induce undesirable macroeconomic consequences, such as a sharp appreciation of the exchange rate. An early evaluation of the impact of general budget support in Tanzania noted that it facilitated the government's ability to implement policies to which it was committed without discernable adverse macroeconomic consequences, but that it was less effective in securing commitment to policies (Lawson et al. 2005).

Significant aid has been provided in the form of debt relief. Tanzania qualified for the Heavily Indebted Poor Countries Initiative in 2001, receiving debt relief of about

Figure 1.9 Composition of Exports of Goods and Services in Tanzania, 1996/97–2008/09



Source: Tanzanian authorities.

Table 1.3 Gross External Program and Project Assistance in Tanzania, 1996/97–2007/08

Year	Program assistance[a]		Project assistance		Debt service relief	Total assistance
	Grants	Loans	Grants	Loans		
1996/97	1.7	0.9	3.0	3.2	0.0	8.7
1997/98	1.7	1.3	2.6	2.2	0.0	7.8
1998/99	1.7	1.2	2.5	1.9	0.0	7.3
1999/00	1.7	0.7	2.8	2.8	0.0	8.1
2000/01	1.6	0.5	3.2	2.1	0.4	7.8
2001/02	2.4	0.9	2.8	1.1	0.6	7.8
2002/03	3.2	1.3	2.3	1.1	0.6	8.5
2003/04	3.4	1.7	2.6	2.0	0.6	10.2
2004/05	4.2	1.3	2.7	2.1	0.5	10.7
2005/06	3.5	2.0	2.0	1.9	0.7	10.1
2006/07	3.3	1.7	1.2	2.2	1.2	9.7
2007/08	3.5	2.4	3.0	2.2	0.9	12.1

Source: Tanzanian authorities and IMF staff estimates.
a. Includes both general budget support and basket funds.

$3 billion. In 2006 the IMF, the World Bank, and the African Development Bank implemented the Multilateral Debt Reduction Initiative, providing debt relief of an additional $3.5 billion.

Debt relief has substantially reduced the debt burden in Tanzania, freeing up budgetary resources for alternate uses. It has also left the country with a low level of debt—in absolute and especially net present value terms, given the highly concessional nature of much of the outstanding stock—generating a low risk of debt distress in conventional debt sustainability analyses (see, for example, the joint Bank/Fund debt sustainability analysis in IMF 2010c) and making Tanzania a potentially attractive destination for capital inflows. Cognizant of the difficulties that arose from the very high debt burden, in 2004 lawmakers introduced a formal minimum concessionality requirement in external borrowing by the government, initially established at 50 percent but subsequently reduced to 35 percent.

Fiscal policy

The most striking feature of fiscal policy between 1992/93 and 2008/09 was the expansion in public spending. After falling to 15–17 percent of GDP in the mid-1990s as inflation

was brought under control, spending increased sharply in 2001/02, reaching more than 25 percent of GDP in 2008/09 (even higher figures were budgeted for 2009/10 and 2010/11) (figure 1.10). Government spending per capita increased from about $40 in 1998/99 to $150 in 2008/09.

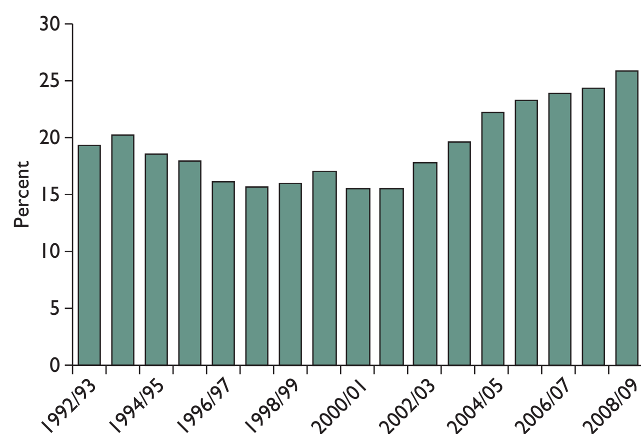
How was this spending financed without endangering price stability or increasing debt sustainability? Where did the money go? Expenditures are financed by increasing revenues, obtaining financing from abroad (as loans or grants), or borrowing domestically. Tanzania has used all three sources (figure 1.11).

Revenue performance has been striking. After an initial dip in the second half of the 1990s, revenues increased strongly, from just 10 percent of GDP in 1999/2000 to almost 16 percent in 2008/09. The improvement reflects a combination of tax policy and administration.

Tax policy has focused on reorienting the tax system to reflect the changing economic structure, as parastatals were gradually privatized; trade (internal and external) was liberalized; and a private sector, often informal, emerged. Key changes included the following:

- A value added tax (VAT) was introduced in July 1998, providing about one-third of government revenues. The rate was reduced to 16 percent in July 2009, bringing it into line with most other East African countries.
- Income taxes, which also provide about one-third of government revenues, were progressively modernized, with the maximum rates reduced to 30 percent, down from 70 percent rate in 1991.

Figure 1.10 Government Expenditure in Tanzania as Percent of GDP, 1992/93–2008/09



Source: Tanzanian authorities.

- The tax system was simplified, through restrictions on the range of taxes subnational authorities can impose and the repeal of numerous low-yielding taxes.
- Relative stability was achieved in key tax rates. Following initial reforms, the rates of the major taxes were left largely unchanged, in part because they were linked to regional tax harmonization initiatives.[5]

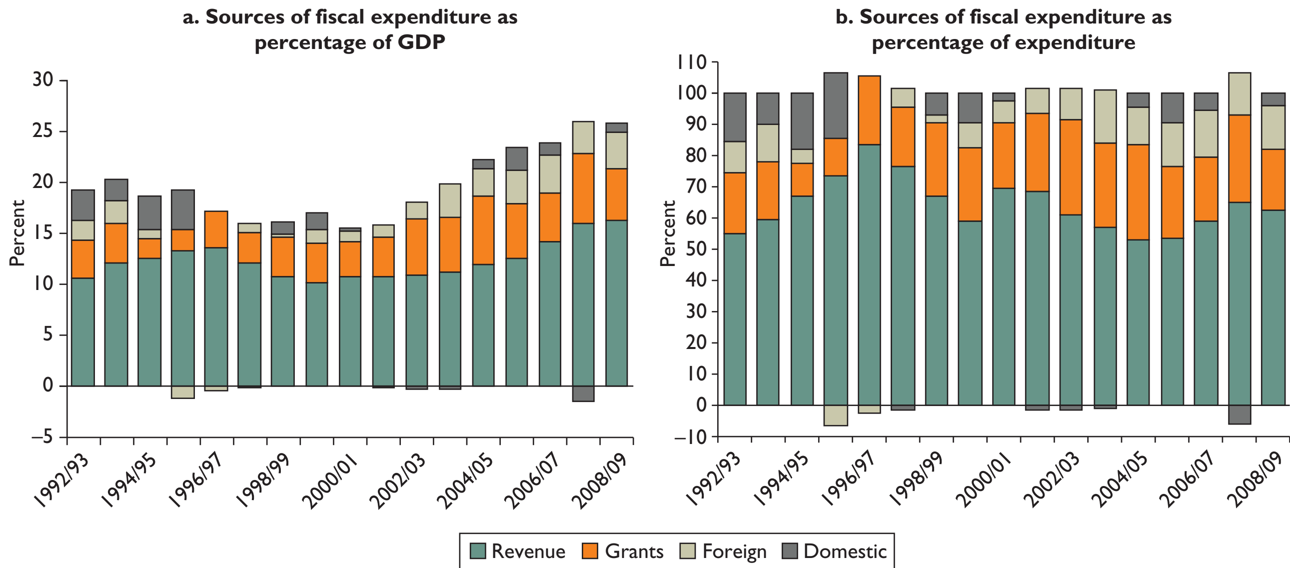
Improvements in tax administration have been no less important. The first step in strengthening administration came with the creation of the Tanzania Revenue Authority, in 1998/99. The Tanzania Revenue Authority has been able to progressively modernize tax collections, by introducing self-assessment procedures and electronic filing and payments and by carefully allocating its own human resources into high-return areas. Indeed the Large Taxpayer Department introduced in 2003 now collects almost three-quarters of domestic taxes, with the number of enterprises covered rising from 98 to more than 370.

There is still scope for improving tax policy. In addition to its revenue-raising role, tax policy has been used as a component of the broader development strategy to provide incentives for specific economic activities in an attempt to attract investment. Exemptions, such as tax holidays, are provided for qualified investments and for companies established in designated export-processing zones or special economic zones. A special regime was also created for mining activities, based on a tax/royalty regime but with additional relief from VAT and other taxes, such as the fuel levy. The efficacy of such incentive regimes for attracting investment is the subject of a fierce debate and beyond the scope of this chapter. Recent budgets have also introduced VAT exemptions for specific industries or products, thereby eroding the tax base and complicating tax administration.

Reliance on domestic financing—initially largely from the central bank, later from commercial banks and social security funds—has decreased significantly, in part out of a desire to contain the rate of monetary growth to bring down inflation. For several years in the mid-2000s, budgets were anchored on a zero net domestic financing target, which provided continued support for inflation stabilization, eased interest rate pressures, and increased room for banks to lend to the private sector. Where there were shortfalls in foreign financing, limited resort was made to domestic financing in order to avoid disruptions in expenditure programs.[6]

Even with this dramatic improvement in revenues, donor dependency has not declined. Government revenues

Figure 1.11 Sources of Fiscal Expenditure in Tanzania, 1992/93–2008/09



Source: Tanzanian authorities and IMF staff calculations.

still cover only about 50–60 percent of government expenditures—less than the level of recurrent spending (see figure 1.11).

Weak domestic revenue perpetuates reliance on foreign support, potentially adding both uncertainty and volatility to the government's ability to deliver its programs. Alternatively, the low share of government revenues to expenditures can be interpreted as an effort by the government to exploit the availability of cheap financing sources to expand delivery of public services beyond the level possible from domestic resources alone. The key is to ensure that efforts are under way to build a broad tax base capable of sustaining the desired level of public services in the event that donor funds diminish over time, that these efforts are not reduced by the presence of aid inflows, and that the additional public spending is used wisely.

The higher spending has appropriately been focused on priorities related to the National Strategy for Growth and Reduction of Poverty (known by its Swahili acronym, MKUKUTA). The 2009/10 budget allocates 71 percent of expenditures to MKUKUTA priorities. At the sectoral level, the two sectors receiving the largest budget allocations are education and health, which together account for about 30 percent of budgetary spending. The impact of the spending is difficult to gauge. In education, for example, substantial investment in construction of new classrooms has supported an expansion in primary school enrollment to about 95 percent, up from about 60 percent a decade earlier. But issues remain with unfilled vacancies for teachers, particularly in rural communities; uneven financial transfers; and concerns about the quality of education, with pass rates in standardized examinations declining. In the health sector, a recent value-for-money study identified sharp regional differences in activity levels and performance, with no linkage to resource allocations (National Audit Office 2010).

Monetary and exchange rate policies

The primary objective of the Bank of Tanzania is to maintain domestic price stability conducive to balanced and sustainable growth of the national economy. A secondary objective is to support the integrity of the financial system. With inflation reduced to single digits and a financial system that has grown rapidly in recent years, the Bank of Tanzania appears on track to meet both objectives.

It has not been an easy transition. In the late 1980s Tanzania had one of the least developed financial systems in the world. Credit was allocated centrally; all of the major financial institutions were state owned; there were no capital or money markets, so the Bank of Tanzania simply printed money to finance the fiscal deficit and provide liquidity to insolvent banks; and foreign exchange was rationed, with a substantial spread between the official and black market rates.

Interest rates and foreign exchange markets were progressively liberalized starting in 1991, but the initial distortions—the legacy constraints—took time to resolve and served to shape economic policy options for most of the decade. In particular, with minimal foreign exchange reserves, central bank interventions in the market were initially targeted at accumulating reserves while smoothing seasonal volatility in the exchange rate. As the government was able to rein in its domestic financing needs and donors increasingly moved to providing budget support, the availability of foreign exchange increased, allowing the Bank of Tanzania to accumulate reserves, reducing upward pressure on the exchange rate (figure 1.12). It did so at the cost of assigning the burden of liquidity management to Treasury bill sales, however, resulting in rising domestic debt and upward pressure on nominal interest rates.

This unbalanced monetary policy mix, with high yields on government securities, low inflation, and exchange rate stability, proved difficult to sustain, however, particularly given the shallow domestic financial market with a small number of key players (Abbas, Ali, and Sobolev 2008). In late 2007 the central bank issued a press release indicating that its foreign exchange operations were limited to smoothing short-term volatility and that the exchange rate could appreciate. Only thereafter did markets become more balanced.

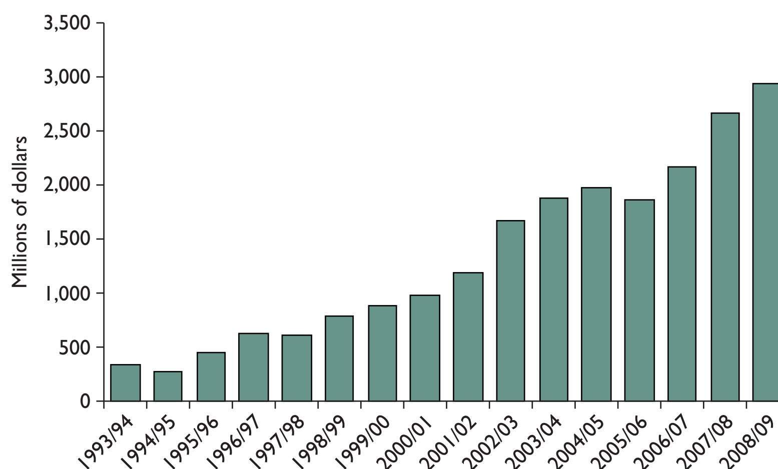
Private banks

Private banks were formally permitted in 1992, but none began operations until 1994. All of the large state-owned banks were privatized, but the process was lengthy and the former state-owned banks—CRDB (privatized in 1996), NBC (privatized in 2000), and NMB (privatized in 2005)—continue to dominate the financial system. Indeed, only since about 2000 has the private sector been able to access credit from the banking system.

Credit has grown rapidly since then (figure 1.13). Entry of new banks has accelerated in recent years, with 41 banks licensed as of the end of June 2010. Access to financial services remains limited, however—only 11 percent of adult Tanzanians held a bank account at end-2009—with financial services in rural areas increasingly shifting to mobile telephone systems.

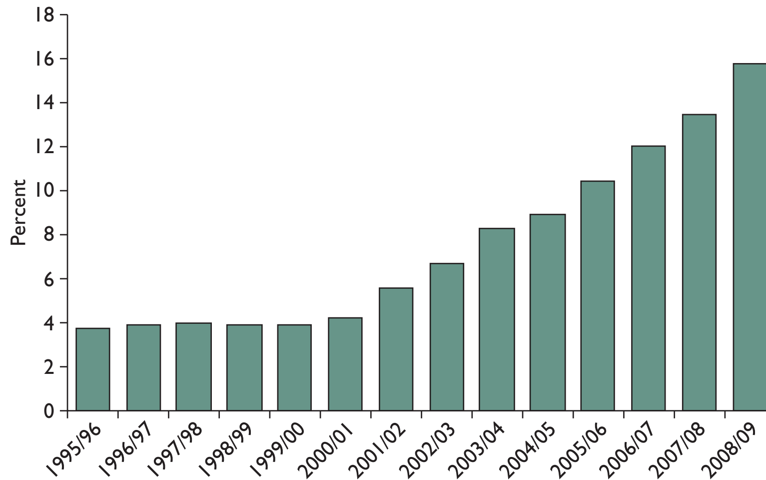
Financial sector supervision has evolved along with the changing role of Tanzania's financial institutions. The government and the Bank of Tanzania developed a risk-based supervisory framework that provides sufficient authority to the body responsible for supervising and regulating the banking system. A bank intervention and resolution framework is in place, supported by a deposit insurance scheme. These institutions facilitated the closure of four private banking institutions, including two foreign-owned, without major disruptions to the banking system and with full compensation for individual depositors.[7] The legislative foundation for supervision of the broader financial system—chiefly pension funds and insurance companies—has been put in place, but implementation needs to be enhanced to guard against the buildup of potentially large fiscal liabilities.

Figure 1.12 Foreign Exchange Reserves in Tanzania, 1992/93–2008/09



Source: Tanzanian authorities.

Figure 1.13 Private Sector Credit as Percent of GDP in Tanzania, 1992/93–2008/09



Source: Tanzanian authorities and IMF staff calculations.

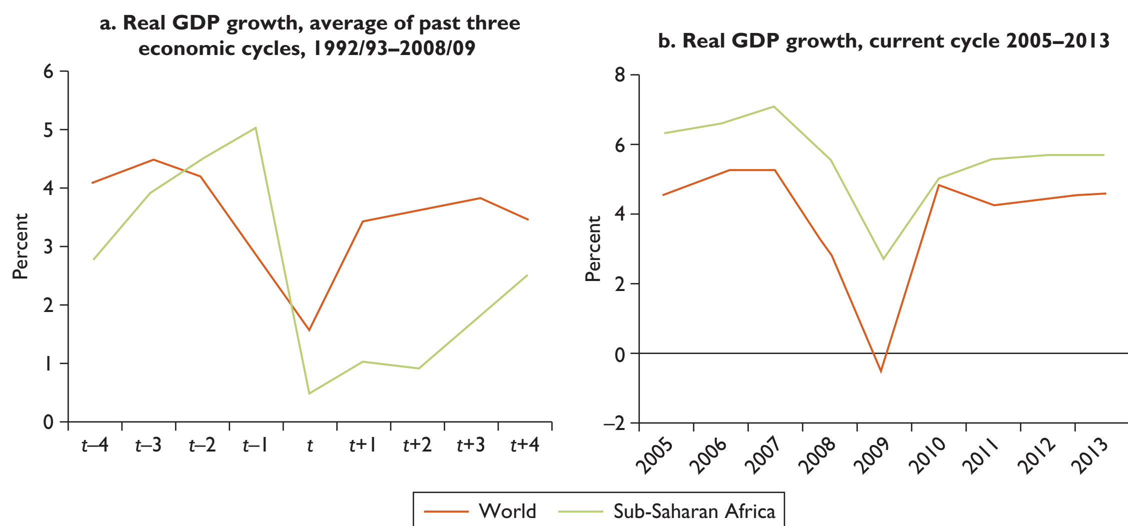
USING THE NEWFOUND POLICY SPACE: COUNTERCYCLICAL POLICY RESPONSE TO THE GLOBAL FINANCIAL CRISIS

The degree to which Tanzania, and many other countries in Africa, have changed in terms of both economic structures and macroeconomic policy space was clearly demonstrated during the global financial crisis. Past global slowdowns have been very difficult for Africa: as documented in IMF (2010a), in previous global slowdowns, Africa suffered both a deeper slowdown and a more gradual recovery. This crisis has been different, with Sub-Saharan Africa as a whole seeing a large but short-lived dip in economic growth (figure 1.14).

Another key difference is that, for the first time, many countries in Sub-Saharan Africa were in a position to pursue countercyclical policies in the face of an adverse shock. In response to previous shocks, African countries generally pursued procyclical macroeconomic policies, largely out of lack of choice: high debt burdens, limited sources of financing, and low levels of international reserves provided few options for easing fiscal or monetary policy in the face of a growth slowdown. In addition, changes in the structure of the global economy—specifically the increased role of China and India, both of which are key trading partners for much of Sub-Saharan Africa and which were able to contain the damage to their economies—mitigated the external demand shock experienced by countries in Sub-Saharan Africa from the global financial crisis.

Despite initial concerns that contributed to a request for financing from the IMF under the exogenous shocks facility, Tanzania has managed to contain the impact of the global financial crisis through a macroeconomic policy response supported by interventions at the microeconomic level, all laid out in an economic recovery plan launched in June 2009. At the macroeconomic level, both fiscal and monetary policies were eased to help sustain the growth momentum. On the fiscal side, easing of more than 2 percent of GDP was envisaged, including a reduction in the VAT rate from 20 percent to 18 percent, partial government guarantees for loan restructurings in troubled sectors, expanded agricultural input subsidies, expanded investments in energy and road sectors, and temporary exemptions from royalties for tanzanite and diamond miners. The interventions were specifically targeted to sectors expected to be hardest hit by the crisis. The fiscal easing was financed in part by development partners, several of which were able to advance funding from future years, but also in part from domestic sources, with a modest increase in the volume of sales of Treasury bills and exceptional direct credits from the central bank. As elsewhere, commercial banks became more risk averse, with credit growth to the private sector falling sharply and high demand for government obligations serving to push interest rates to record lows. Although the crisis is not yet over, preliminary estimates for 2009 point to growth slowing to 6.0, rising to 6.5 percent in 2010.

Figure 1.14 Real GDP Growth in Sub-Saharan Africa and the World, 1992/93–2008/09



Source: IMF 2010d.
Note: t = trough in the cycle.

WHAT'S NEXT?

Tanzania has managed to achieve and sustain rapid growth while preserving macroeconomic stability for the past 15 years. Despite this achievement, it is on track to achieve only about half of the MDGs (table 1.4) (United Republic of Tanzania 2009b). What needs to be done in the years ahead? What macroeconomic policies would be beneficial?

Accelerating pro-poor growth

Constraints to growth in Tanzania are similar to those seen in most countries: inadequate infrastructure, regulatory bottlenecks, skill shortages, and deficiencies in the legal environment. These weaknesses constrain the realization of income opportunities at all levels—from the smallholder farmer trying to get surplus crops to market to the large foreign investor.

The past few years have seen little progress in several indicators of the business environment. Tanzania's rank in the Doing Business Index has been slipping, reaching 131 in 2010, as other countries have taken more determined strides to make their economies more business friendly. Tanzania scores particularly poorly on basic bureaucratic requirements involving numbers of procedures and permits and the time spent to receive them. The importance of addressing this slowdown in these broader areas of structural reform is reinforced by a key result of the literature on growth spells: although macroeconomic and financial reforms can drive a growth up-break, they are not sufficient in isolation to sustain one (Hausmann, Pritchett, and Rodrik 2005).

Infrastructure is a constraint across Africa. But Tanzania lags even other countries in Africa (table 1.5).

Where will growth come from? Studies of potential growth drivers for Tanzania (Mbelle et al. 2010, for example) highlight a combination of agriculture, tourism, transport, and mining, with a focus on developing manufacturing and value addition activities. The identified sectors largely reflect physical and geographical endowments, with existing activities in these sectors fairly nascent—only a small portion of Tanzania's natural resource endowments are being exploited—and often characterized by low productivity. In many countries developing agriculture has been key to ensuring sustained progress toward the MDGs (World Bank 2005). Tanzania has decided to emphasize agriculture, having launched the Kilimo Kwanza (Agriculture First) campaign designed to accelerate reforms in the sector, including expanding input subsidy programs and significant investments in irrigation.

Meeting macroeconomic challenges

Addressing the infrastructure deficit will be expensive and will likely require funding beyond that likely to be available on the highly concessional terms at which Tanzania has been borrowing. The additional funds could come from many potential sources, including donor-financed projects,

Table 1.4 Projected Progress toward Selected MDG Targets by Tanzania

Target	1990	2000	2008	2015	Likely to achieve target?
Population below basic needs poverty line (percent)	39.0	36.0	33.6	19.5	No
Under-five underweight (percent)	28.5	29.5	22.0	14.4	No
Under-five stunted (percent)	46.6	44.4	38.0	23.3	No
Primary school net enrollment rate	54.2	58.7	97.2	100.0	Yes
Under-five mortality rate (per 1,000 live births)	191.0	153.0	112.0	64.0	Yes
Infant mortality rate (per 1,000 live births)	115.0	99.0	68.0	38.0	Yes
Maternal mortality rate (per 100,000 live births)	529.0	—	578.0	133.0	No
Births attended by skilled health personnel (percent)	43.9	35.8	63.0	90.0	No
HIV prevalence, 15–24 (percent)	6.0	—	2.5	< 6.0	Yes
Access to potable water (percent of rural population)	51.0	42.0	57.1	74.0	No
Access to potable water (percent of urban population)	68.0	85.0	83.0	84.0	Yes

Source: United Republic of Tanzania 2009a.
Note: — Not available.

Table 1.5 Infrastructure Indicators in Selected Countries in Sub-Saharan Africa

Country or country group	Households with fixed telephone (percent of households)[a]	Mobile phones (subscribers per 100 people)[b]	Households with electricity (percent connected to network)[a]	Roads (km per 1,000 km² of land)[c]	Access to improved sanitation (percent of the population)[a]	Access to improved water source (percent of the population)[a]
Ghana	8	32	44	187	10	80
Kenya	12	30	13	111	42	57
Rwanda	1	7	5	568	23	65
South Africa	27	92	63	300	59	93
Tanzania	10	21	11	62	33	55
Uganda	3	18	8	385	33	64
Zambia	4	21	20	50	52	58
Sub-Saharan Africa	7	16	29	—	31	58
Sub-Saharan Africa low income[d]	6	19	26	—	15	25
Sub-Saharan Africa middle income[d]	19	36	55	—	41	66

Source: World Bank Africa Infrastructure Country Diagnostic Database and World Bank various years.
Note: — Not available.
a. Data are from Demographic and Health Surveys, latest available year for 2001–08.
b. Data are for 2006.
c. Data are for latest available year 2001–08.
d. Income groups are based on World Bank classification.

local or international bonds, and public-private partnerships (Ter-Minassian, Hughes, and Hajdenberg 2008). Countries in Sub-Saharan Africa are increasingly accessing international capital markets, in several cases in the context of IMF-supported programs (Redifer 2010). Whatever the source of financing, it will be critical to ensure strong government processes for project selection, planning, and implementation and effective debt management to maximize the probability of a strong economic return while containing macroeconomic risks. Additional capacity to monitor risks in public-private partnerships will also be important to avoid the emergence of potentially significant contingent liabilities (the track record of such partnerships in Tanzania and more generally in Sub-Saharan Africa is littered with examples of projects in which the host government ended up either simply taking over the project or having to renegotiate in order to provide better terms for the private sector partner) (Gratwick and Eberhard 2008).

Fiscal pressures—not just from infrastructure spending but also from growing demand for public services as a result of high population growth—could be eased by mobilizing additional domestic resources. Estimates of tax potential suggest that revenues could reach 21 percent of GDP, almost 5 percentage points more than current collections (IMF 2010c).[8] A big part of the revenue loss stems from exemptions, which amounted to 30 percent of tax collections (3.5 percent of GDP) in 2007/08, according to estimates by the Tanzania Revenue Authority, making Tanzania's VAT

one of the least efficient in the region (table 1.6). A possibly substantial upside is natural resource revenues: the mining sector is expanding rapidly and, as exemptions are reined in and those for the more established mines expire, the tax take can be expected to increase significantly. Close cooperation and transparency in the granting of exemptions will also need to be tackled in the context of regional integration efforts, in order to avoid a race to the bottom, with potential investors able to induce neighboring governments to compete against one another on the physical location of activities, resulting in the erosion of the tax base.

The exchange rate may also pose challenges. To date, the flexibility in the exchange rate, the apparent absence of resource capacity constraints in the economy, and productivity growth have all served to avoid the emergence of a misalignment of the exchange rate (see Hobdari 2008). Going forward, in the event of the planned scaling up of both public spending and private sector investment, emerging capacity constraints will need to be monitored carefully, and it will be important to ensure that public spending is channeled into productivity-enhancing investment to support the competitiveness of the economy. Similarly, the move to a common currency for the East African Community—which could generate additional growth opportunities—will need to address the issue of how individual national economies will adjust to localized shocks once they relinquish the ability to adjust through the exchange rate.

Limiting vulnerabilities but preparing for the worst

Even with the best macroeconomic policies and monitoring systems, bad outcomes can happen. Timely policy responses are often critical for containing the impact of bad outcomes. Being able to craft them requires having appropriate systems in place before the shock occurs.

In the financial sector, Tanzania's basic crisis resolution framework, together with a deposit insurance scheme, was able to handle failures of individual banks. That framework should be continuously reviewed to ensure that it can meet potential risks; there is room to further strengthen banking supervision, including risk analysis and enforcement of prudential requirements, while addressing staffing constraints (IMF 2010b).

The absence of effective oversight of pension funds is a critical deficiency in the current regulatory framework. Little information is available on the financial position of pension funds, their role in capital markets, and potentially large fiscal liabilities.

With the increasing integration of the financial system of the East African Community, there is also a need to ensure that a coordinated policy response or intervention can be orchestrated in the event of, say, pressure on a systemic institution. The initial difficulty in agreeing on a coordinated response was perhaps one of the key features of the global financial crisis.

More generally, a well-defined social safety net can help protect the most vulnerable in the event of economic downturns. All of these responses require policy flexibility. Retaining the policy buffers that were used to such good effect during the global financial crisis is critical for the conduct of countercyclical policy and the ability to prevent an adverse shock from derailing the economy's growth momentum.

CONCLUSION

Tanzania has seen unprecedented sustained growth acceleration since 1996. Several major (real and financial) reforms played a pivotal role in the take-off. Maintaining macroeconomic stability was a critical component in

Table 1.6 VAT Revenue and Revenue Productivity in Selected Countries in Sub-Saharan Africa, 2009/10

Country	Current standard VAT rate (percent)	VAT revenue (percent of GDP)[a]	Revenue productivity (percent)[b]
Kenya	16.0	6.0	37.5
Malawi	16.5	6.0	37.0
Rwanda	18.0	6.0	33.3
South Africa	14.0	5.7	40.5
Tanzania	18.0	4.6	25.5
Uganda	18.0	4.0	22.2
Unweighted average	16.8	5.4	32.7

Source: IMF VAT database and staff projections.
a. Projection for 2009/10.
b. Total VAT revenue, as percent of GDP, divided by the standard rate.

sustaining growth. Navigating the post–1996 period has involved the development of new policy instruments, as the nature of the economy changed and legacy constraints were eased.

Is another 15 years of uninterrupted growth likely? Untapped growth potential clearly remains, and the policy space that has been developed over the past decade or so can provide needed support.

ANNEX 1.A MACROECONOMIC PERFORMANCE

Figure 1.A1 Macroeconomic Performance in Tanzania and Sub-Saharan Africa, 1970–2009

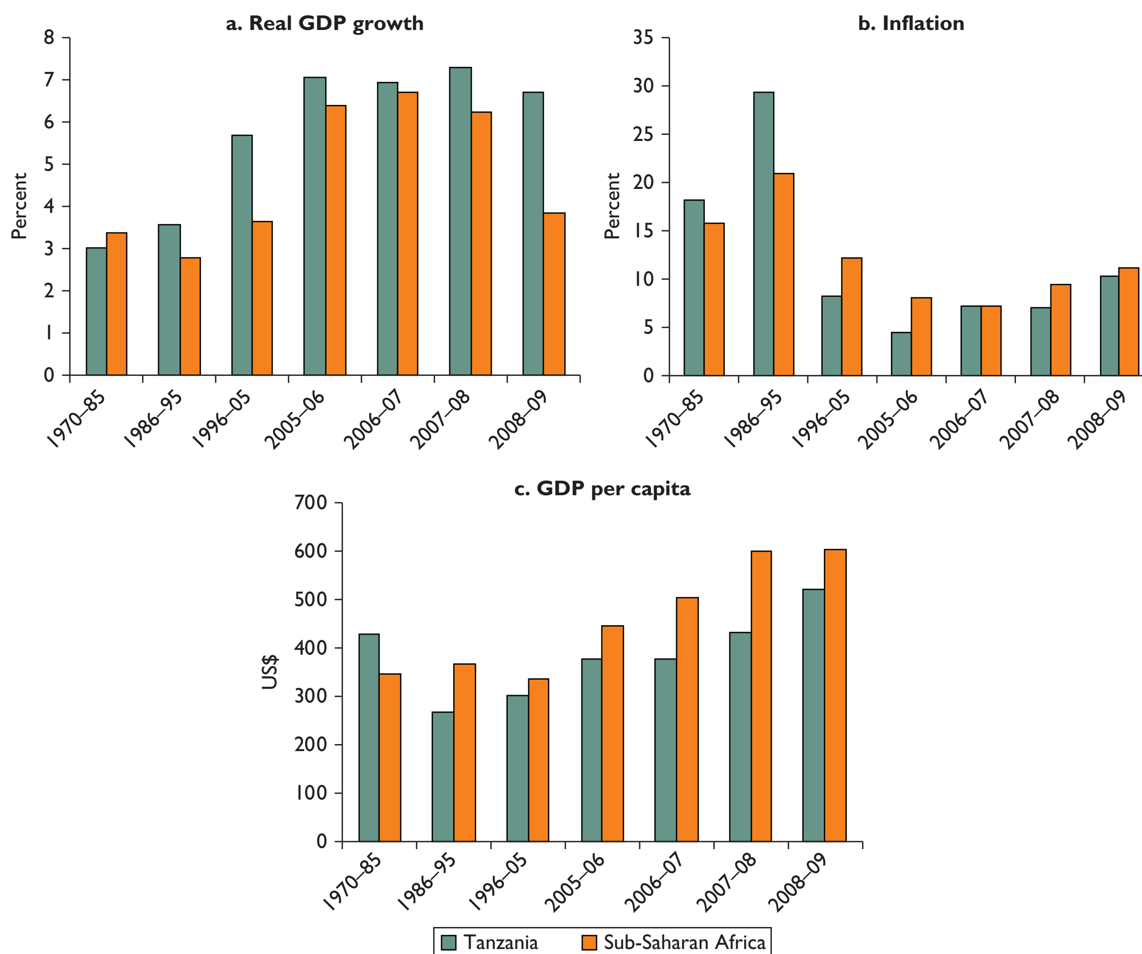
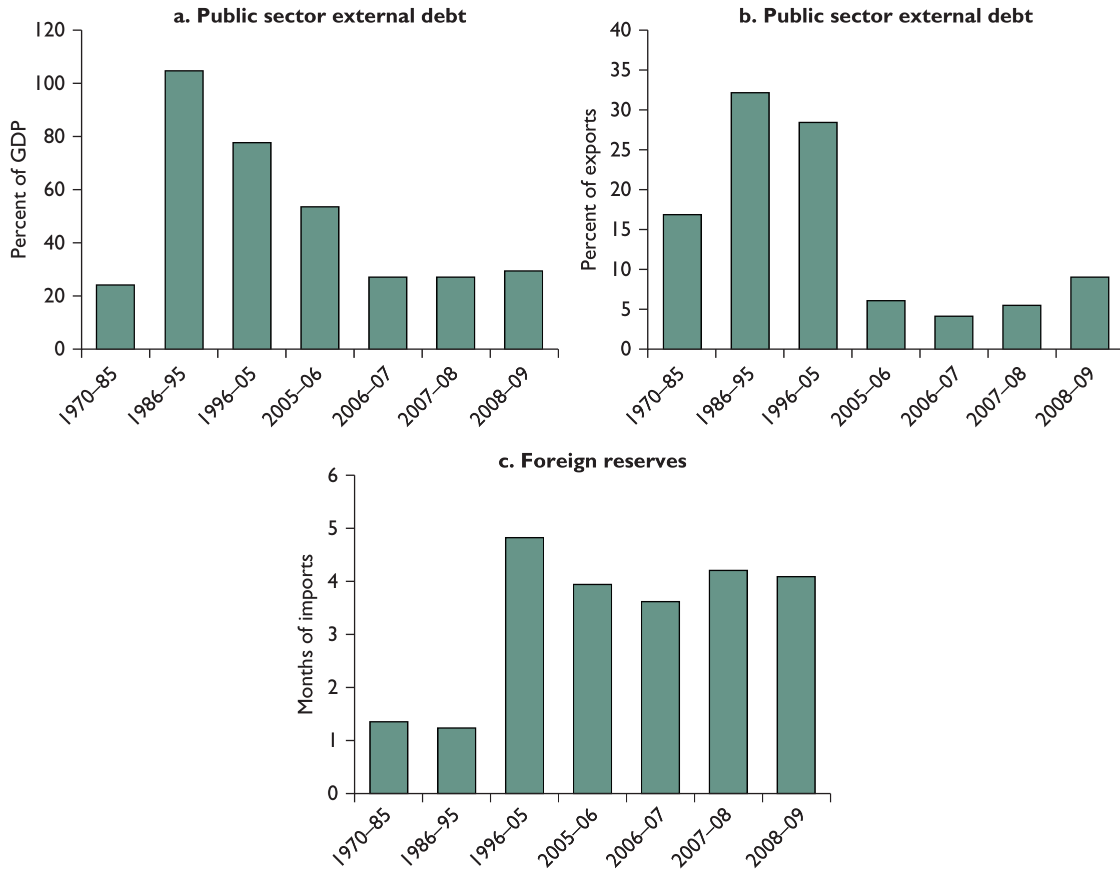


Figure 1.A2 External Sustainability Indicators in Tanzania, 1970–2009



ANNEX 1.B LIST OF COUNTRIES IN THE SAMPLE

Table 1.B1 List of Countries in the Sample

Low income	Middle income	High income
Bangladesh	Albania	Australia
Burkina Faso	Algeria	Austria
Côte d'Ivoire	Argentina	Belgium
Ethiopia	Azerbaijan	Canada
Ghana	Belarus	Czech Republic
India	Bolivia	Denmark
Kenya	Brazil	Estonia
Madagascar	Bulgaria	Finland
Mozambique	Cameroon	France
Nepal	Chile	Germany
Nigeria	China	Greece
Pakistan	Colombia	Hong Kong SAR, China
Senegal	Costa Rica	Ireland
Tanzania	Dominican Republic	Israel
Uganda	Ecuador	Italy
Uzbekistan	Egypt, Arab Rep. of	Japan
Vietnam	El Salvador	Korea, Rep. of
Zimbabwe	Georgia	Netherlands
	Guatemala	New Zealand
	Hungary	Norway
	Indonesia	Portugal
	Jamaica	Singapore
	Jordan	Spain
	Kazakhstan	Sweden
	Latvia	Switzerland
	Lithuania	Taiwan, China
	Malaysia	United Kingdom
	Mexico	United States
	Morocco	
	Nicaragua	
	Paraguay	
	Peru	
	Philippines	
	Poland	
	Romania	
	Russian Federation	
	South Africa	
	Sri Lanka	
	Thailand	
	Tunisia	
	Turkey	
	Ukraine	
	Uruguay	
	Venezuela, R. B. de	

Source: World Bank classification.

ANNEX 1.C MEASURES OF REFORM

Table 1.C1 Measures of Reform

Measure	Description	Source	Coverage			
			Start year	End year	MIN # of countries in any year	MAX # of countries in any year
Real Indices						
Trade Openness						
Tariff Rates	Average tariff rates, with missing values extrapolated using implicit weighted tariff rates. Index normalized to be between zero and unity: zero means the tariff rates are 60 percent or higher, while unity means the tariff rates are zero.	Various sources, including IMF, World Bank, WTO, UN, and the academic literature (particularly *Clemens and Willamson*, 2004)	1960	2005	47	142
Current-Account Restrictions	An indicator of how compliant a government is with its obligations under the IMF's Article VIII to free from government restriction the proceeds from international trade in goods and services. The index represents the sum of two sub-components, dealing with restrictions on trade in visibles, as well as in invisibles (financial and other services). It distinguishes between restrictions on residents (receipts for exports) and on non-residents (payments for imports). Although the index measures restrictions on the proceeds from transactions, rather than on the underlying transactions, many countries in practice use restrictions on trade proceeds as a type of trade restriction. The index is scored between zero and 8 in half-integer units, with 8 indicating full compliance.	*Quinn (1997)*, and *Quinn and Toyoda (2007*; forthcoming).	1960	2005	50	65
Product Markets						
Telecom and Electricity Industries	Simple average of the electricity and telecom markets sub-indices, which are constructed, in turn, from scores along three dimensions. For electricity, they capture: (i) the degree of unbundling of generation, transmission, and distribution; (ii) whether a regulator other than government has been established; and (iii) whether the wholesale market has been liberalized. For telecom, they capture: (i) the degree of competition in local services; (ii) whether a regulator other than government has been established; and (iii) the degree of liberalization of interconnection changes. Indices are coded with values ranging from zero (not liberalized) to two (completely liberalized).	Based on legislation and other official documents.	1960	2003	106	108

(continued next page)

Table 1.C1 (continued)

Measure	Description	Source	Coverage			
			Start Year	End Year	MIN # of countries in any year	MAX # of countries in any year
Real Indices						
Agriculture	Given that developing countries constitute most of our sample, the degree of regulation in agriculture, which continues to account for a large part of many of these economies, is an essential aspect of product market competition. Index aims to capture intervention in the market for the main agricultural export commodity in each country. As data limitations preclude coding separate dimensions of intervention, the index provides a summary measure of intervention. Each country-year pair is assigned one of four degrees of intervention: (i) maximum (public monopoly or monopsony in production, transportation, or marketing); (ii) high (administered prices); (iii) moderate (public ownership in relevant producers, concession requirements); and (iv) no intervention.	Based on legislation and other official documents.	1960	2003	96	104
Financial Indices						
Capital Account Opennes: Aggregate	Qualitative indicators of restrictions on financial credits and personal capital transactions of residents and financial credits to nonresidents, as well as the use of multiple exchange rates. Index coded from zero (fully repressed) to three (fully liberalized).	Abiad and others (2008), which follows the methodology in Abiad and Mody (2005). The original sources are mostly various IMF reports and working papers, but also central bank websites, etc. Resident/nonresident-specific indices are based on Quinn (1997), and Quinn and Toyoda (2007).	1973	2005	72	91

Capital Account Openness: Residents (nonresidents) only	Measures the extent to which residents (nonresidents) are free from legal restrictions to move capital into and out of a country.
Domestic Financial Liberalization	The index of domestic financial liberalization is an average of six subindices. Five of them relate to *banking*: (i) interest rate controls, such as floors or ceilings; (ii) credit controls, such as directed credit, and subsidized lending; (iii) competition restrictions, such as limits on branches and entry barriers in the banking sector, including licensing requirements or limits on foreign banks; (iv) the degree of state ownership; and (v) the quality of banking supervision and regulation, including power of independence of bank supervisors, adoption of a Basel I capital adequacy ratio, and framework for bank inspections. The sixth subindex refers to the regulation of *securities markets,* including policies to encourage the development of bond and equity markets, and to permit access of the domestic stock market to foreigners. The subindices are aggregated with equal weights. Each subindex is coded from zero (fully repressed) to three (fully liberalized).

Source: Prati, Onorato, and Papageorgiou (2010).

Table 1.C2 Description of Reform Indices

Reform indices	Description	Source	Coverage			
			Start year	End year	MIN # of countries in any year	MAX # of countries in any year
Financial Sector						
Domestic Financial Sector Liberalization	The index of domestic financial liberalization is an average of six subindices. Five of them relate to *banking*: (i) interest rate controls, such as floors or ceilings; (ii) credit controls, such as directed credit and subsidized lending; (iii) competition restrictions, such as limits on branches and entry barriers in the banking sector, including licensing requirements or limits on foreign banks; (iv) the degree of state ownership; and (v) the quality of banking supervision and regulation, including power of independence of bank supervisors, adoption of Basel capital standards, and a framework for bank inspections.	Abiad and others (2008), following the methodology in Abiad and Mody (2005), based on various IMF reports and working papers, central bank websites, and others.	1973	2005	72	91
	The sixth subindex relates to *securities markets* and covers policies to develop domestic bond and equity markets, including (i) the creation of basic frameworks such as the auctioning of T-bills, or the establishment of a security commission; (ii) policies to further establish securities markets such as tax exemptions, introduction of medium and long-term government bonds to establish a benchmark for the yield curve, or the introduction of a primary dealer system; (iii) policies to develop derivative markets or to create an institutional investor's base; and (d) policies to permit access to the domestic stock market by nonresidents. The subindices are aggregated with equal weights. Each subindex is coded from zero (fully repressed) to three (fully liberalized).					

External Capital Account Liberalization: Aggregate	Qualitative indicators of restrictions on financial credits and personal capital transactions of residents and financial credits to nonresidents, as well as the use of multiple exchange rates. Index coded from zero (fully repressed) to three (fully liberalized).	Abiad and others (2008), following the methodology in Abiad and Mody (2005), based on various IMF reports and working papers, central bank websites, and others.	1973	2005	72	91
External Capital Account Liberalization: Residents vs. Nonresidents	Indicators measuring the intensity of legal restrictions on residents', respectively nonresidents', ability to move capital into and out of a country. Index originally coded from zero (fully repressed) to 50 (fully liberalized).	Based on the methodology in Quinn (1997) and Quinn and Toyoda (2007), drawing on information contained in the Fund's AREAER.	1960	2005	50	65
Real Sector						
Trade Liberalization						
Tariff Rates	Average tariff rates, with missing values extrapolated using implicit weighted tariff rates. Index normalized to be between zero and unity: zero means the tariff rates are 60 percent or higher, while unity means the tariff rates are zero.	Various sources, including IMF, World Bank, WTO, UN, and the academic literature (particularly Clemens and Willamson, 2004).	1960	2005	47	142
Current-Account Restrictions	An indicator of how compliant a government is with its obligations under the IMF's Article VIII to free from government restriction the proceeds from international trade in goods and services. The index represents the sum of two subcomponents, dealing with restrictions on trade in visibles, as well as in invisibles (financial and other services). It distinguishes between restrictions on residents (receipts for exports) and on nonresidents (payments for imports). Although the index measures restrictions on the proceeds from transactions, rather than on the underlying transactions, many countries in practice use restrictions on trade proceeds as a type of trade restriction. The index is scored between zero and 8 in half-integer units, with 8 indicating full compliance.	Based on the methodology in Quinn (1997) and Quinn and Toyoda (2007) drawing on information contained in the Fund's AREAER.	1960	2005	50	65

(continued next page)

Table 1.C2 (continued)

Reform Indices	Description	Source	Start Year	End Year	Coverage: MIN # of countries in any year	Coverage: MAX # of countries in any year
Product Markets						
Telecom and Electricity Industries	Simple average of the electricity and telecom markets subindices, which are constructed, in turn, from scores along three dimensions. For electricity, they capture: (i) the degree of unbundling of generation, transmission, and distribution; (ii) whether a regulator other than government has been established; and (iii) whether the wholesale market has been liberalized. For telecom, they capture: (i) the degree of competition in local services; (ii) whether a regulator other than government has been established; and (iii) the degree of liberalization of interconnection changes. Indices are coded with values ranging from zero (not liberalized) to two (completely liberalized).	Based on various existing studies and datasets as well as national legislation and other official documents.	1960	2003	106	108
Agriculture	The index captures intervention in the market for the main agricultural export commodity in each country. As data limitations preclude coding separate dimensions of intervention, the index provides a summary measure. Each country-year pair can take four values: (i) zero (public monopoly or monopsony in production, transportation, or marketing, e.g., export marketing boards); (ii) one-third (administered prices); (iii) two-thirds (public ownership of relevant producers or concession requirements); and (iv) one (no public intervention).	Based on IMF commodities data, various existing studies and datasets, and national legislation and other official documents.	1960	2003	96	104

Source: Prati, Onorato, and Papageorgiou (2010).

ANNEX 1.D NEW DATASET ON STRUCTURAL REFORMS

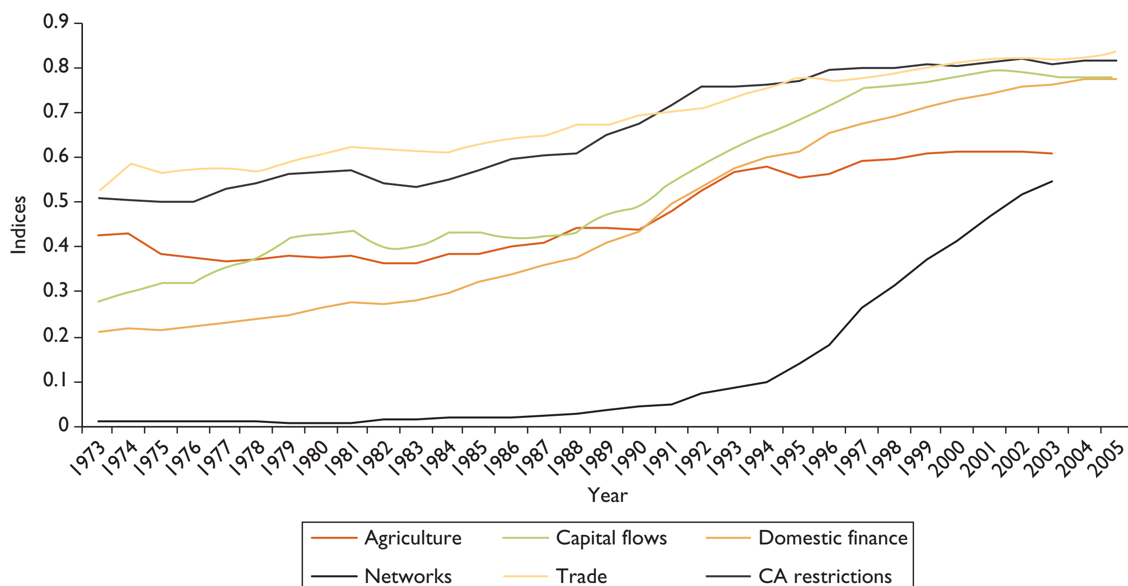
A discussion of structural reforms, their determinants, and their economic impact requires solid data on structural policies and how they have changed (IMF 2009). A new dataset was compiled by the Research Department of the IMF that brings together information on a variety of structural reforms in both the real and financial sectors of the economy. The dataset spans about 30 years (1973–2005) and 90 countries, selected on the basis of data availability. The key advantage of these new indexes over those used in previous work, such as IMF (2004), is that they cover both a long sample period and a broad range of countries, including advanced and developing economies.

Among the indicators of real sector reforms, two separate indexes measure trade openness. The first covers average tariff rates; the second covers restrictions on other current account transactions, including payments and receipts on exports and imports of goods and services.[9] Two separate indexes measure product market liberalization. The first covers the network industries, specifically the degree of liberalization of the electricity and telecom markets. The second covers the agriculture sector. It aims to capture public intervention in the market for the main agricultural export commodity in each country.

Among the indicators of financial sector reforms, the index of capital account openness measures restrictions on financial transactions of residents and nonresidents, as well as the use of multiple exchange rates. The index of domestic financial liberalization is an average of six subindexes, covering credit controls, such as directed credit; interest rate controls, such as floors or ceilings; entry barriers in the banking sector, such as licensing requirements or limits on foreign banks; competition restrictions, such as limits on branches; the degree of state ownership; and aggregate credit ceilings. All indicators were rescaled to range between zero and one, with higher values representing greater liberalization. Differences in the values of each index across countries and over time provide useful information on the variation in the absolute degree of economic liberalization within each sector. Instead, differences in the value of the indexes across sectors are not a precise quantitative measure of whether one sector is more liberalized than another because of the different methodology used to construct each index. For instance, a positive difference between the trade index and the financial index does not necessarily mean that trade is more liberalized than the financial sector.

As illustrated in figure 1.D1, all indexes trend upward over time toward a high degree of liberalization. At a sectoral level, the global liberalization of international trade, capital movements, and the domestic financial sector has been fairly steady and gradual over the past three decades,

Figure 1.D1 Indexes of Structural Reform, 1973–2003
(*All countries*)



Source: IMF 2009.
Note: Data are based on sample of 90 countries for which data were available.

whereas product market liberalization started only about 1990. There have been no global setbacks in the average degree of liberalization in any sector. Liberalization measures display significant differences across regions, but all sectoral indexes have converged across income levels, pointing to imitation and "catch-up" effects.

NOTES

1. This chapter draws heavily on Nord et al. (2009). The authors are grateful to Daehaeng Kim, Saul Lizondo, Roger Nord, Laure Redifer, and World Bank reviewers for helpful comments.

2. To the authors' knowledge, this is the first time Tanzania has been formally shown to have had an "up-break" in 1996. Previous studies (Hausmann, Pritchett, and Rodrik 2005; Berg, Ostry, and Zettelmeyer 2008) failed to identify a break, probably because they used shorter time series.

3. Excellent descriptions of the reforms undertaken during these periods from varying perspectives can be found in Maliyamkono and Mason (2006), Mtei (2010), Mwase and Ndulu (2008), and Nord et al. (2009).

4. A World Bank (2007) study identifies increases in higher education attainment as an important contributor to growth.

5. The tax system has not been fully predictable for investors, because of fairly frequent changes in administration—often designed to close loopholes—and the existence of a large number of tax exemptions granted to particular sectors, subcategories of investors, and specific enterprises.

6. Government programs during this period, supported by the IMF (first under the Poverty Reduction and Growth Facility, subsequently under the Policy Support Instrument), were designed in such a way that a shortfall in foreign program financing automatically triggered the possibility of resort to high domestic financing subject to a pre-agreed upper limit; in the event that foreign program financing exceeded targets, the government was unconstrained in its ability to spend the additional financing received.

7. The bank closures were Meridien Bank (in 1995), Tanzania Housing Bank (in 1995), Greenland Bank (in 1999), and Delphis Bank (in 2003). Depositors were fully compensated in all cases, with the resolutions of both Meridien Bank and Delphis Bank facilitated by the transfers of deposits to other banks operating in Tanzania.

8. The models predict tax potential through a regression of the tax to GDP ratio on observable structural characteristics of the economy, such as the size of the agricultural sector.

9. This index—measuring how compliant a country is with its obligations under the IMF's Article VIII to free from restrictions the proceeds from international trade in goods and services—captures only some nontariff barriers to trade. For other nontariff barriers, such as quotas and subsidies, there is not a sufficiently long time series to be used in the analysis.

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