MONETARY
POLICY STATEMENT

GOVERNOR
BANK OF TANZANIA

June 2003

LETTER OF TRANSMITTAL

Dear Minister,

In accordance with Section 6 Subsection (1) to (4) of the Bank of Tanzania Act 1995, I hereby submit Monetary Policy Statement for the year 2003/2004.

Yours sincerely,

The Hon. Basil P. Mramba (MP)
Minister for Finance
Dar es Salaam

Daudi. T.S.Ballali
Governor
Bank of Tanzania

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BANK OF TANZANIA'S INFLATION CONTROL STRATEGY

- *The primary objective of the Bank of Tanzania is* ***price stability****. The Bank therefore, has the responsibility of ensuring that it establishes monetary conditions that are consistent with low and stable inflation.*

- *Low inflation allows the economy to function more effectively, thereby contributing to better economic performance over time.*

- *Central Bank controls inflation by controlling money supply. The Bank of Tanzania targets broad money, M2, which is defined as total deposit liabilities held by commercial banks, excluding foreign currency deposits, because it is the monetary aggregate, estimated to have closest relationship with the rate of inflation.*

- *To influence the chosen monetary aggregate, i.e. M2, the Central Bank normally controls the base money (reserve money, or central bank money) which is directly related to money supply.*

- *Inflation control is not an end in itself, but rather, the means by which monetary policy contributes to overall economic performance*

MONETARY POLICY IMPLEMENTATION

- *The Bank of Tanzania sets annual monetary policy targets in its Monetary Policy Statement at the beginning of every fiscal year. The targets are reviewed at mid-year.*

- *The Monetary Policy Statement is submitted to the Minister for Finance, who tables it in the Parliament.*

- *The same procedure is followed in the submission of half-year review of monetary policy implementation.*

- *The Monetary Policy Committee of the Board, chaired by the Governor, closely monitors monetary policy implementation on monthly basis.*

- *The Monetary Policy sub-committee discusses, on weekly basis, progress on monetary policy implementation and plan for the subsequent week.*

- *A technical committee meets daily to review liquidity developments and agree on market intervention strategies.*

THE MONETARY POLICY INSTRUMENTS

- *The Bank of Tanzania uses indirect instruments of monetary policy to influence the level of money supply.*

- *The main instrument is Open Market Operations (OMO). OMO takes place when the Central Bank sells or buys Government securities, e.g. Treasury bills, in open market in order to influence the monetary base.*

- *Other indirect instruments include Foreign Exchange Market Operations (FEMO), the discount rate, statutory reserve requirements, and moral suasion.*

CONTROLLING THE RATE OF INFLATION

- *The objective of monetary policy is to achieve a low and stable rate of inflation.*

- *The Bank of Tanzania focuses on the Consumer Price Index (CPI) as the measure of inflation.*

- *The Bank of Tanzania also monitors food prices and the food prices index. This is because food prices are sometimes affected by non-monetary factors like drought and floods, which can affect food prices substantially regardless of the stance of monetary policy.*

- *The inflation rate excluding food prices is often referred to as the NON-FOOD INFLATION RATE, while the overall CPI is referred to as the HEADLINE INFLATION RATE.*

- *Thus the Non-food Inflation rate is a measure of price movements, largely caused by policy factors, but frequently affected by external factors as well.*

1.0 INTRODUCTION

During 2002/2003 the country witnessed a strong economic performance. Provisional statistics indicate a real GDP growth of 6.2 percent in 2002, compared with another good outturn of 5.7 percent in 2001. The 2002 recorded growth for was above the 5.9 percent growth rate targeted for the year. This was achieved despite the continued worsening of terms of trade, emanating from slowdown of the global economy, and the slump in tourism activities due to the current global security situation. The increase in growth rate came from strong performance in agriculture, mining, manufacturing, as well as wholesale and retail trade.

The annual inflation continued to decline, despite increases in prices of fuel, electricity and drinks and above average liquidity expansion during the year under review. The rate of headline inflation fell from 4.9 percent at the end of December 2001 to 4.4 percent at end-December 2002, on account of favourable supply of food crops, and the continuation of prudent fiscal and monetary policies.

During the period under review, monetary aggregates growth rates were in line with the end-June 2003 Poverty Reduction and Growth Facility (PRGF) targets. On annual basis, broad money (M2) and extended broad money grew by 18.1 percent and 19.3 percent in April 2003, compared with end June 2003 target growth rates of 12.0 and 13.0 percent, respectively. The achievements in macroeconomic stability were also reflected in increased exports, official and private capital inflows and a build-up in foreign exchange reserves. Gross reserves of the Bank of Tanzania reached the equivalent of 7.3 months of imports of goods and non-factor services at end-April 2002. Government revenues also performed extremely well. Revenue amounted to TZS 1,000.2 billion and was 17.9 percent over the same period last year and 3.9 percent higher than the estimated amount of TZS 962.5 billion for the first ten months of the financial year. The strong revenue performance emanated from Value Added Tax (VAT) on domestic goods and Income tax collections following improvements in tax administration and expansion of the economy. Government expenditure for the ten months was 4.6 percent above the planned level of TZS 1,309.2 billion. This performance was due to improvement in recording the direct to project financing.

2.0 MACROECONOMIC OBJECTIVES FOR 2002/2003

The main focus of government policy objectives for 2002/2003 was directed towards promotion of growth and strengthening poverty reducing policies, while enhancing the sustainability and robustness of macroeconomic stability. To attain these objectives, the government pursued the following targets:

(i) a real GDP growth rate of 5.9 percent in 2002 and 6.3 percent in 2003;
(ii) an inflation rate of 4.5 percent by end-June 2003;
(iii) a limit on the fiscal deficit (before grants) at TZS 1,073.5 billion;

(iv) maintaining official reserves of not less than four months of imports of goods and non factor services.

2.1 MONETARY POLICY OBJECTIVES FOR 2002/2003

The monetary policy objectives of the Bank focused on supporting the broader macroeconomic objectives of the government. In this regard, the Bank of Tanzania aimed at:

(i) Containing the expansion of broad money supply (M2) within a band of 10.0 percent to 12.0 percent and extended broad money supply (M3) within a band of 11.0 percent to 13.0 percent between end-June 2002 and end-June 2003;

(ii) Attaining an inflation rate of 4.5 percent by June 2003;

(ii) Allowing credit to private sector to grow by not less than 21.5 percent at end-June 2003 from the level attained in June 2002; and

(iii) Maintaining official reserves of external assets of at least four months of imports of goods and non- factor services during the year to end June- 2003.

Central Bank Broader Policy Objectives

Monetary policy objectives of the Bank of Tanzania aim at supporting the broader macroeconomic policy objectives of the Government. In conducting monetary policy and enhancing financial stability, the Bank of Tanzania seeks to achieve:

(i) *a rate of increase in the money supply, consistent with the inflation target;*

(ii) *a rate of increase in domestic bank credit that would not place undue pressure on resources and that is consistent with the money supply objectives;*

(iii) *an increase in the level of official foreign reserves geared towards achieving the requirements of the Bank of Tanzania Act with a view to enabling the Bank to meet unexpected foreign exchange demands in the event of balance of payments difficulties while maintaining a realistic exchange rate;*

(iv) *stability in the banking and financial system, through effective enforcement of prudential regulations, promoting well functioning financial markets and an efficient payments system.*

3.0 REVIEW OF MONETARY POLICY IMPLEMENTATION DURING 2002/2003

3.1 Liquidity Management

During 2002/2003, the Bank of Tanzania's monetary policy continued to be directed towards provision of appropriate level of liquidity in the economy, so as to maintain macroeconomic stability. Reserve money remained the operating variable of the Bank, with open market operations as the main instrument.

During the year, liquidity management was complicated by the high level of liquidity arising mainly from increase in donor fund inflows and domestic deposits, following the licensing of new banks and opening of new bank branches by commercial banks, especially beginning July 2002. The Bank utilised its indirect instruments to sterilise the excess liquidity, and mopped up TZS 77.6 billion by October 2002. However, owing to the nature and magnitude of the liquidity in the economy, these ordinary instruments proved inadequate. To complement the instruments, the Government agreed with the Bank to securitize TZS 80.0 billion of hitherto dormant government stock held by the Bank. This was securitised in form of Treasury bills, which were to be converted into long term Treasury bonds (5-year, 7-year and 10-year Treasury bonds)[1]. The process of converting the Treasury bills into Treasury bonds could not be completed during the year under review due to unanticipated low demand in the Treasury bonds market, following diversification of investment portfolios by major institutional investors in favour of real estates.

[1] The bonds are listed in the Dar Es Salaam Stock Exchange (DSE)

3.2 Credit Policy

During 2002/2003, the Bank of Tanzania's credit policy aimed at increasing the flow credit to the private sector, in order to enhance economic growth. Accordingly, credit to the private sector was projected to grow by 21.5 percent between end-June 2002 and end-June 2003. The Government was expected to achieve a net borrowing of TZS 64.0 billion from the banking system depending on donor fund inflows. During the period, the government realized a net borrowing of TZS 55.7 billion, thereby releasing more resources to the private sector.

The Bank of Tanzania and the government continued to take measures to address impediments to bank lending. The micro-finance bill was passed by the Parliament in February 2003, to pave way for micro finance institutions to provide credit and other financial services to rural and urban micro-enterprises. In light of the inadequate bank credit to agriculture and the need to promote agricultural exports, the Export Credit Guarantee Scheme (ECGS) was established to cater for traditional exports. Up to end-April 2003, the Government and the Bank had contributed TZS 6.5 billion to the scheme.

3.3 Interest Rate Policy

During the period under review, the Bank in collaboration with the Government continued to implement measures directed towards improving financial intermediation and further developing the financial sector. In particular, efforts were directed towards streamlining the financial sector, with a view to creating a competitive business environment that would lead to the removal of the impediments to bank lending and reduce the wide gap between deposits and lending rates. Notable in this endeavour is the ongoing restructuring of the remaining state owned banks and non-bank financial institutions as well as the state owned utilities. Amendments to the Land Act, which continues to hamper the use of land as collateral will be presented to Parliament in October 2003. In the meantime, the proposed draft amendments will be reviewed jointly by the Ministry of Lands, the Attorney General Chambers, the Bank of Tanzania and the Tanzania Bankers Association to ensure that they are consistent with the Government's objective of increasing access to bank credit by a wider range of borrowers in the population.

3.4 Foreign Exchange Operations and Reserve Management

Among the policy objectives of the Bank for 2002/03 was to strengthen and sustain official reserves position and realize a stable market determined exchange rate without prejudice to the primary objective of price stability. Adequate reserve levels would enhance investor's confidence, contribute to country's creditworthiness, provide a cushion against speculation in view of capital account liberalisation, and add to financial sector deepening. Reflecting increased donor and debt relief inflows and purchases in the Inter bank Foreign Exchange Market (IFEM), gross reserves of the Bank of Tanzania at end-April 2003 reached USD 1,532.7 million, equivalent to 7.3 months of imports of goods and non-factor services.

During the period, the Bank intervened passively in the IFEM to smoothen out short-term fluctuations in the exchange rate, which were large and inconsistent with economic fundamentals. Developments in the domestic as well as the external sector, resulted into a nominal depreciation of the exchange rate by 9.7 percent, from TZS 946.9 per USD at end-June 2002 to TZS 1,038.9 per USD at end-April 2003.

In an effort to strengthen and widen financial markets, the Government introduced a partial liberalization of the capital account of the balance of payments in April 2003, by allowing foreigners to participate in the Dar es Salaam Stock Exchange (DSE).

4.0 REVIEW OF MACROECONOMIC DEVELOPMENTS DURING 2002/2003

4.1 Output Developments

Overall, the country's macroeconomic performance was buoyant during 2002/03 despite adverse developments in the terms of trade and a slowdown in tourism, attributable to the current adverse global security situation affecting travel. Preliminary statistics indicate that Gross Domestic Product (GDP) grew by 6.2 percent in 2002 against the target of 5.9 percent for the period. The impressive performance in GDP stemmed from strong performance in agriculture, mining, manufacturing, as well as wholesale and retail trade following increased private sector participation.

According to preliminary statistics, aggregate supply as measured by GDP at constant 1992 prices, grew at a higher rate of 7.0 percent during the second half of 2002, compared with a growth rate of 6.4 percent recorded in the similar period a year ago. Higher growth rates were recorded in primary economic activities such as mining and manufacturing. While increased value added in the mining sector was a result of increased gold production due to commencement of activities by Afrika Mashariki Gold Mines in September 2002, the increase in value added in manufacturing was a result of an overall increase in the production of industrial commodities, particularly cement and textiles. Also, higher growth rates in both the secondary and tertiary economic activities were recorded in the second half of 2002, particularly in construction, trade, hotels and restaurants (including tourism), transport and communication, financial and business services, and public administration and other services. The higher growth in construction is attributed to increased construction of primary schools, road construction, and land improvement, including estate developments.

Table 1: Semi-Annual Growth Rates of GDP by Sectors (July-December) Annual basis

Percent

Economic Activity	2000	2001	2002
Agriculture	4.8	6.2	5.4
Mining and Quarrying	17.1	15.9	18.7
Manufacturing	5.0	5.2	11.2
Electricity and Water	3.5	5.8	4.1
Construction	8.9	10.4	12.5
Trade, Hotels and Restaurants	7.0	7.3	7.4
Transport and Communication	6.2	7.5	7.2
Others	5.6	3.2	6.0
TOTAL GDP	**5.8**	**6.4**	**6.2**

Source: National Bureau of Statistics

The good performance in GDP was on account of increased economic activity in all sectors, particularly in construction and provision of services such as financial, transport and communication services.

It is noteworthy that GDP grew at a higher rate of 7.0 percent during the second half of the calendar year (July – December 2002) compared with the rate of 5.2 percent in the first half of 2002. The improved performance in almost all other sectors of the economy in the second half of 2002 led to overall GDP growth of 6.2 percent in 2002. However, this growth still remains modest for significant poverty reduction, which requires higher and sustained economic growth rates.

4.2 Price Developments

4.2.1 Headline Inflation

As a result of prudent fiscal and monetary policies and the favourable food supply situation, the annual rate of inflation declined from 4.5 percent in June 2002 to 4.4 percent in December 2002 and further to 4.3 percent in April 2003. This is a decline of 50 basis points when compared to an inflation rate of 4.8 percent recorded in April 2002. Despite the upward adjustment of electricity tariffs, increases in prices of fuel and drinks, the firm anti inflationary stance kept inflation subdued. It is worthy noting that, in addition to the policy stance, overall inflation was kept on check by the substantial slowdown in food prices occasioned by good weather conditions and improved marketing of agricultural commodities.

4.2.2 Non-Food Inflation

The annual non-food inflation rate increased persistently after April 2002, following an upward adjustment in electricity tariffs and increases in fuel prices. Non-food inflation rose from 6.6 percent in June 2002 to 9.8 percent in January 2003. However, non-food inflation decreased to 5.9 percent in April 2003, after the impact of the electricity tariff adjustments came to an end.

4.2.3 Food Inflation

The annual food inflation declined consistently over the whole period under review, declining from 3.8 percent in June 2002 to 2.5 percent in February 2003, on account of favourable food supply situation. However, it increased to 2.6 percent in March 2003 and further to 3.8 percent in April 2003, following increases in basic food prices, brought about by the poor food harvests on some parts of the country this season..

4.3 Monetary and Credit Developments

During July 2002 and April 2003, monetary developments remained in line with the programme targets. Broad money supply (M2) edged up by TZS 165.2 billion or 12.4 percent, from TZS 1,333.5 billion at end-June 2002 to TZS 1,498.7 billion at end-April 2003 due to strong growth in net foreign assets of the banking system, increased flow of credit to private sector by commercial banks, as well as a rise in net claims on government by banks (**Chart 2**). Comparing with the end-June 2003 program target of TZS 1,494.4 billion, M2 was above the target by TZS 4.3 billion. On annual basis, M2 grew by 22.9 percent in April 2003 compared with 21.3 percent recorded in the year ended June 2002 and the raised annual growth target of 13.0 percent for June 2003.

Specifically, between end-June 2002 and April 2003 net foreign assets of the banking system grew by TZS 381.3 billion or 29.5 percent to TZS 1,674.9 billion. Net international reserves of BoT, increased by TZS 347.5 billion, or 47.6 percent, from TZS 730.4 billion at end-June 2002 to TZS 1,077.9 billion at end-April 2003. The increase was due to donor funds inflows, Bank of Tanzania's net purchase of foreign exchange in the IFEM, and exchange rate variations. Reflecting this development, official foreign reserves of BoT rose from USD 1,212.7 million at end-June 2002 to USD 1,532.7 million at end-April 2003, representing a growth of USD 319.9

million or 26.4 percent. This level of reserves was equivalent to 7.3 months of imports of goods and non-factor services. Similarly, net foreign assets of commercial banks rose by TZS 33.8 billion or 6.0 percent, from TZS 563.2 billion at end-June 2002 to TZS 596.9 billion, largely due to inflows of export proceeds and variations in exchange rate.

Domestic credit grew by TZS 231.9 billion, from TZS 684.9 billion in June 2002 to TZS 916.7 billion in April 2003, representing a 33.8 percent growth. The increase in domestic credit was attributed to both government and private sector credit demand. In particular, net claims on government by the banking system grew by TZS 92.8 billion or 45.7 percent between end-June 2002 and April 2003, largely on account of securitization of the External Payments Arrears (EPA) stock. Net claims on government by commercial banks constituted 86.5 percent of the upsurge in net claims on government, while the remaining 13.5 percent was accounted for by BoT. It is noteworthy that the growth in net claims on government by commercial banks was largely attributed to open market operations carried out to contain liquidity arising from foreign exchange inflows, while claims on Government by BoT was mainly due to a draw down of government deposits.

During the period under review, commercial banks' credit to the private sector increased by TZS 139.0 billion or 28.8 percent to TZS 621.1 billion at end-April 2003. This trend compares with the end-June 2003 target of 21.5 percent and 28.6 percent annual growth rate recorded at end-June 2002. The sustained growth in bank lending to private sector reflects the ongoing government efforts in removing impediments to bank lending, which has led to growth in private sector credit demand. Despite the increased private sector credit demand, the proportion of private sector credit to total domestic credit dropped to 67.8 percent in April 2003, from 70.4 percent recorded in June 2002, due to increase in credit to Government, which rose to 32.2 percent from 29.6 percent **(See Appendix Chart 3).** This increase was attributed to securitization of the non-tradable EPA stock into long-term bonds of 5-year, 7-year, and 10-year Treasury bonds in order to mop up part of excess liquidity and lengthen the maturity profile for government debt.

On the other hand, extended broad money supply, (M3), a measure of money supply, which includes foreign currency deposits, grew by TZS 292.1 billion or 16.2 percent to TZS 2,089.9 billion at end-April 2003. This growth in M3 was close to the envisaged growth target of 14.0 percent for the year ending June 2003. On annual basis, M3 grew by 19.3 percent in the year ended April 2003 compared with 22.7 percent growth in the year ended April 2002 and 22.1 percent in the year ended June 2002.

Commercial banks' foreign currency deposits rose by TZS 126.8 billion or 27.3 percent to TZS 591.2 billion over the review period. As a result, the proportion of foreign currency deposits to M3, which also reflects the degree to which foreign currency affects money supply, reached 28.3 percent in April 2003, higher than 25.8 percent recorded at end-June 2002. Similarly, the proportion of foreign currency deposits to total deposits, a measure of assets substitution, went up to 35.7 percent, from 33.9 percent recorded in June 2002, indicating a rise in public preference to hold foreign currency deposits.

Total deposits of commercial banks rose by 21.1 percent between June 2002 and April 2003, compared with an increase of 24.6 percent recorded in the year ended June 2002. The steady growth in deposits is attributed to recent technological developments in banking system, in particular, the introduction of new banking products such as Automatic Teller Machines and debit cards, improved payments system, and opening of new branches by commercial banks. Following these developments, the currency to deposit ratio, which indicates public preference to hold cash, fell to 0.26 in April 2003 from 0.31 in June 2002. This development reflects increasing public confidence in the banking system, a situation that is necessary for the efficacy of monetary policy.

Reserve money (M0) accelerated to TZS 695.3 billion in April 2003, up by TZS 122.2 billion or 21.3 percent from TZS 573.1 billion recorded in June 2002. This level was higher than the end-June 2003 PRGF target of TZS 692.7 billion by TZS 2.6 billion. On annual basis, reserve money grew by 19.1 percent in the year ended April 2003 compared with 15.2 percent registered in the year ended April 2002 and 13.1 percent in June 2002 **(****See Appendix Chart 4****).**

The growth in reserve money was caused by an upsurge in net foreign assets of the Bank of Tanzania by TZS 376.5 billion to TZS 1,072.4 billion in April 2003. This was largely brought about by donor funds inflows and net purchase of foreign exchange in the IFEM. However, the impact of net foreign assets on reserve money was reduced by net domestic credit and other items net, which declined by TZS 77.4 billion and TZS 176.9 billion, respectively. The decrease in net domestic credit was mainly attributed to securitisation of EPA stock originally held by BoT, while the fall in other items net was due to sale of liquidity papers and increase in other assets of the Bank.

4.4 Interest Rate Developments

During 2002/03, the Bank continued to strengthen financial markets to ensure that domestic interest rates are realistic and consistent with the aim of promoting resource flows to the private sector. Interest rates on domestic currency denominated deposits declined across the board during the period under review. Specifically, saving deposit rate fell from 3.5 percent in June 2002 to 2.6 percent in April 2003, while overall time deposits rate dropped from 4.0 percent to 3.5 percent. These rates were negative in real terms when compared with the April 2003 inflation rate of 4.3 percent.

On the other hand, the bank lending rates exhibited a mixed trend over the review period. In particular, short-term lending (up to 1 year) and medium-term lending (1-2 years) rates rose from 14.8 percent and 16.6 percent in June 2002 to 16.5 percent and 16.9 percent in April 2003, respectively. Conversely, the rates for 2-3 year, 3-5 year and long- term (over 5 years) loans dropped from 15.0 percent, 17.2 percent and 18.4 percent to 12.7 percent, 13.9 percent and 15.8 percent, respectively. Consequently, the overall lending rate dropped from 16.4 percent in June 2002 to 15.2 percent in April 2003. The interest rate spread, measured by the difference between savings deposit and 1-year lending rates remained wide, increasing from

11.6 percentage points in June 2002 to 13.9 percentage points in April 2003 (**See Appendix Chart 5**).

4.5 Budget Performance

Fiscal performance during the first ten months of 2002/2003 was fairly impressive. The budget (on cheques issued basis) recorded an overall deficit of TZS 369.0 billion before grants, against a projected deficit of TZS 796.4 billion. However, the deficit improved to TZS 50.0 billion after considering grants amounting to TZS 319.0 billion.

During the period July 2002-April 2003, revenue collection reached TZS 1,000.2 billion compared with the target of TZS 962.5 billion. Out of the total collection, tax revenue amounted to TZS 909.2 billion, while non-tax revenue was TZS 91.0 billion. The Tanzania Revenue Authority (TRA) reached collection targets for almost all categories, largely on account of enhanced tax administration measures. These measures include the accelerated pace of selective and planned control verification audits and monitoring of special relief granted to mining companies and non-government organizations. For income tax, there was effective implementation of Taxpayer Identification Number (TIN) registration, with more taxpayers being brought into the tax base.

Total government expenditure, excluding amortization, amounted to TZS 1,369.2 billion, representing 4.6 percent above the planned expenditure of TZS 1,309.2 billion for the period. Recurrent expenditure amounted to TZS 1,108.9 billion, while development expenditure was TZS 260.4 billion. The higher than planned expenditure is explained by improvements in recording direct to project financing.

During the period under review, the Government registered an overall deficit (adjusted for float and other items) amounting to TZS 130.1 billion. The deficit was financed by net foreign loans amounting to TZS 74.6 billion and TZS 55.5 billion from domestic creditors.

4.6 Debt Developments

The overall total debt stock, (external and domestic debt) as at end April 2003, stood at USD 7,954.6 million, out of which, external debt was USD 7,117.7 million or 89.5 percent and domestic debt was USD 836.9 million or 10.5 percent. Total debt stock fell by USD 373.9 million or 4.5 percent when compared with USD 8,328.5 million registered at end-June 2002. Implementation of Paris Club VII bilateral agreements, exchange rate variations and debt data validation explain the recorded decline in the external debt stock position.

During July 2002 to April 2003, the government implemented the Paris Club VII Agreed minutes, whereby bilateral agreements were concluded with the governments of Austria, Belgium, Norway, USA, Canada, Italy, France, United Kingdom, the Netherlands and Germany, culminating into cancellation of debt worth USD 675.5 million. As regards non Paris Club countries, only Kuwait provided debt relief under the HIPC framework and rescheduled debt amounting to KWD 9.4 million. China and India have offered debt relief by cancelling some of the debts.

The second and final closing of the Debt Buyback Scheme is anticipated to take place in the third quarter of the calendar year 2003 and it is expected to retire debts worth USD 31.5 million (principal and interest) at a discount cost of USD 1.7 million, that is, 12.0 percent of the principal tendered, amounting to USD 14.3 million.

4.6.1 External Debt Position

Total external debt committed as at end-April 2003 was USD 7,648.4 million, a decrease of USD 384.4 million or 4.8 percent from USD 8,032.8 million recorded at end-June 2002. Out of the total amount committed, disbursed outstanding debt (DOD) was USD 6,131.1 million and committed undisbursed debt (CUB) was USD 1,517.3 million.

Interest arrears increased by USD 82.3 million or 9.1 percent, from USD 904.3 million at end-June 2002 to USD 986.6 million at end-April 2003. The external debt stock decreased by USD 346.3 million or 4.6 percent from USD 7,464.0 million at end June 2002 to USD 7,117.7 million at end- April 2003.

During the period under review, the Parliament approved amendments to the Government Loans and Guarantees Act, 1974 so as to provide for an effective debt management in line with the National Debt Strategy (NDS). The amendments were aimed at introducing strict controls over domestic and foreign loans and guarantees taken on behalf of the government. The measures give the Minister for Finance sole authority in soliciting both domestic and foreign loans and guarantees on behalf of the government. The Bill also provided for the creation of the National Debt Management Committee to advise the Minister for Finance on loans and guarantees.

4.6.2 Domestic Debt Position

Total domestic debt stock owed by the Government of the United Republic of Tanzania as at end-April 2003, stood at TZS 870.6 billion. This represents an increase of TZS 52.0 billion or 6.4 percent when compared with TZS 818.6 billion, registered at end-June 2002. Borrowing through Treasury bills and government bonds caused the increase in domestic debt. The Government continued with the sale of the 7- year and 10 year fixed rate marketable treasury bonds.

4.7 External Sector Developments

During the first ten months of 2002/03, the current account of the balance of payment improved by recording a 29.6 percent decrease in deficit to USD 259.1 million, from USD 367.9 million recorded during the same period a year earlier. The development was attributed to the improvement in the trade account and increased donor inflows. During the past four years, significant improvement was recorded in the export sector mainly because of the developments in the mining sector, particularly gold exports. Total goods exports increased from USD 564.7 million during the ten months of 2001/02 to USD 827.3 million during the review period.

4.7.1 Exports

During the period under review, export of goods increased by 21.0 percent to USD 827.3 million, from USD 683.5 million recorded during the same period a year earlier, mainly on account of an increase in both traditional and non-traditional exports. Traditional exports increased by 12.8 percent to USD 205.0 million compared with the levels recorded in the corresponding period in 2001/02, following increased volumes and unit prices. However, the performance is still low when compared to the traditional export levels of 1999/2000 and 2000/01 that reached USD 318.6 million and USD 244.4 million, respectively. The main driving force of growth in the export sector has been the non-traditional exports that increased by 24.0 percent to USD 622.3 million during the review period. Mineral exports continued to dominate the exports basket accounting for about 52.2 percent and 39.2 percent of non-traditional exports and total exports, respectively. The increase in mineral exports is partly attributed to the opening of Afrika Mashariki mining company in September 2002 and the expansion by Ashanti Gold Fields Limited. The substantial increase in other exports is largely associated with increase in exports of maize to Zimbabwe, Malawi and Zambia, countries that were hit hard by drought during the review period.

However, it is worth-noting that performance of traditional exports that employs significant proportion of the Tanzanian population has been deteriorating over the years. In response to this, in 2002/03, the government took deliberate policy measures to revive traditional exports by, among other measures, establishing an export credit guarantee scheme. The aim of the scheme is to provide partial guarantee to selected traditional exports, namely coffee and cotton. It is expected that coverage will be extended as additional funds are injected in the scheme.

In addition, the government started licensing companies to operate in the Exports Processing Zones (EPZ), geared towards promoting investments in exports.

4.7.2 Imports

During the period under review, total imports (f.o.b.) increased by 1.9 percent to USD 1,342.4 million compared with the corresponding period in 2002. This development was attributed to an increase in importation of intermediate goods and consumer goods that went up by 5.1 percent and 5.8 percent, respectively. Intermediate goods import increased due to a surge in industrial raw materials and fertilizers. Despite the increase in oil prices in the world market to US 255.2 per ton of white products during the review period, from USD 198.9 per ton in 2001/02, following disruption of oil supply from Venezuela, Nigeria and Iraq, the value of oil imports decreased marginally due to a 5.2 percent decrease in imported oil volumes to 761,534 tons, from 803,281 tons.

On the other hand, capital goods imports decreased by 2.7 percent to USD 558.6 million, from USD 474.3 million recorded during the same period a year earlier. This development was attributed to 14.7 percent decrease in importation of machinery that was partly associated with the completion of major construction phase in big mining projects.

4.8 Foreign Exchange Operations and Exchange Rate Developments.

During July 2002-April 2003, the Bank continued to intervene in the Inter-bank Foreign Exchange Market (IFEM) to smoothen short-term fluctuations in the exchange rate, and to build reserves without prejudice to the primary objective of achieving an inflation rate of 4.5 percent by end-June 2003. Accordingly, the Bank sold USD 166.6 million in the IFEM, equivalent to 21.0 percent of USD 792.1 million traded in the IFEM, while purchases amounted to USD 225.4 million or 28.5 percent of the total volume traded. On net basis, the Bank purchased USD 58.8 million, which emanated from seasonal export proceeds.

Responding to market speculations, increase in seasonal demand for foreign exchange particularly in the second quarter of 2002/03 and the Iraq war, the shilling depreciated against the US dollar from TZS 946.9 per USD at end-June 2002 to TZS 1,038.9 per USD at end-April 2003, representing a nominal depreciation of 9.7 percent. This compares with a nominal depreciation of 8.8 percent during corresponding period in 2002.

4.9 National Payment Systems (NPS)

During the year under review, the Bank continued with the implementation of National Payment System (NPS) modernization project, which aims to improve efficiency in payments, clearing and settlement operations in the country. The main operations included implementation of Electronic Clearing House (ECH) within the Bank of Tanzania Electronic Clearing House (BOTECH) system to facilitate the normal inter-bank electronic transactions, promote efficiency by enhancing the processing speed, and minimize errors and acts of fraud in inter-bank transactions.

Likewise, the Bank continued to oversee operations of the Magnetic Ink Character Recognition (MICR) equipment for processing paper instruments, a program which facilitates the processing of paper based instruments and the generation of electronic files to be used by the Electronic Clearing House and the Central Banking System (CBS). Other developments in the NPS included development of the Electronic Funds Transfer system (EFT) to increase efficiency in the transfer of bulk payments, Electronic Data Interchange Facility, and the development of Tanzania Inter-bank Settlement System (TISS).

In the process of creating a robust regulatory framework for the national payment system which is capable of supporting and creating conducive environment for the operations and regulations of payment systems, the Bank of Tanzania Act, 1995 was amended in February 2003, for the purposes of providing the Bank with explicit powers over the national payment system. These include, among others, powers to oversee, supervise, establish and regulate the payment, clearing and settlement systems. In stepping up efforts to enhance the legal framework, the Bank has been in liaison with the government on the amendments of the Evidence Act to incorporate therein admissibility of electronic evidence. Similarly, as a member of SADC and EAC, the Bank continued to implement Payment Systems Harmonisation Initiatives as agreed in various regional fora. The Bank in collaboration with other SADC member Central Banks completed the development of a common business and technical specification for a SADC suitable Settlement System. With regards to EAC, the Bank continued to implement harmonisation initiatives issued by the East African Monetary Affairs Committee (MAC).

4.10 Banking Supervision

To preserve the soundness of the financial system, in March 2003, the Bank of Tanzania took over the management of the Delphis Bank following poor financial performance of the bank and the inability of its shareholders to inject additional capital to cover losses incurred in its operations. While under the administration of the Bank of Tanzania, all the bank's operations have been prescribed. Discussions are underway for new shareholders to capitalize the bank and re-open it under new management. At the same time, the Government is implementing a comprehensive restructuring plan to address the long-standing problems of the Peoples Bank of Zanzibar. To strengthen the capital base of the banking system, the Bank of Tanzania has adopted a phased increase in the minimum paid up capital of commercial banks. The Government is cognizant of the need to strengthen measures against anti-money laundering and financing of terrorism. In this regard, Tanzania is implementing the recommendations of the financial task force under the East and Southern African Anti-Money Laundering Group.

4.11 Microfinance

During the period under review, the Bank of Tanzania continued to play its advisory and supervisory roles in support of the development of a viable and sustainable microfinance system as a strategy to alleviate poverty. Notable in this endeavour was the legal framework for microfinance, which was passed into law in February 2003. The amended financial laws include the Banking and Financial Institutions Act, 1991, Cooperatives Act, 1991 and Bank of Tanzania Act, 1995. The amended laws will facilitate the growth of credit and other financial services to households, rural and urban micro-enterprises. Other developments in microfinance policy included a baseline survey to establish a list of microfinance practitioners in the country and operational guidelines providing standards for government and donor support in the Microfinance Sector.

5.0 MACROECONOMIC POLICY FRAMEWORK FOR 2003/2004

5.1 Government Macroeconomic Objectives for 2003/2004

The main focus of government policies for 2003/04, as set out in the Poverty Reduction Strategy (PRS), is the promotion of growth and strengthening of poverty reduction policies, whilst consolidating and maintaining macroeconomic stability. The government intends to attain the following macroeconomic objectives during 2003/04:

(i) a 6.3 percent growth rate in real GDP during 2003 and 6.6 percent in 2004;

(ii) an inflation rate of 4.0 percent during the year ending June 2004;

(iii) raising government revenue to 13.3 percent of GDP.

(iv) maintaining official foreign reserves of not less than six months of imports of goods and non-factor services

However, owing to unsatisfactory short and long rains, and a decline in tourism as a consequence of global security concerns, GDP growth in 2003/04 could fall down the projection. Moreover, inflation could rise in the coming months, as the effects of the drought reduce the availability of foodstuffs, before the inflation declines again by June 2004.

5.2 Monetary Policy Objectives for 2003/2004

The monetary policy objectives of the Bank of Tanzania will continue to be directed towards maintaining low and stable inflation, while remaining supportive of the broad macroeconomic policy framework of the government. In the light of potential inflationary pressures resulting from food shortage in 2003/04, expected large foreign exchange inflows, and the recent increase in the demand for money by the private sector, monetary policy will be geared at ensuring that there is an appropriate level of liquidity so as to attain the following objectives:

(i) containing the expansion of reserve money (M0) within a band of 15.0 to 20.0 percent between end-June 2003 and June 2004;

(ii) containing the growth rate of broad money supply (M2) within a band of 12.0 to 15.0 percent and extended broad money (M3) within a band of 14.0 to 17.0 percent between end-June 2003 and June 2004;

(iii) attaining an inflation rate of 4.0 percent by end-June 2004;

(iv) allowing credit by banks to the private sector to grow by 24.5 percent at end-June 2004 from the stock of end June 2003 and;

(v) maintaining adequate official foreign reserves of not less than six months of imports of goods and non-factor services.

5.3 Liquidity Management

During 2003/04, the Bank of Tanzania will implement monetary policy directed towards ensuring that monetary growth is consistent with program targets, using reserve money as an operating variable. In view of the expected large foreign exchange inflows arising primarily from donor funding and the recent increase in the demand for money, daily liquidity tracking will be strengthened within the reserve money framework while avoiding market distortions, notably in the IFEM. The Bank will conduct timely and targeted sterilization operations with Treasury bills, supplemented by foreign exchange market interventions and repos operations. Similarly, the Bank in collaboration with the government will increase the supply of long-term instruments in order to augment substantially the supply of instruments to mop up excess liquidity while simultaneously widening the financial market and prolonging the maturity profile of government debt. In addition, the inter-bank money market will continue to be strengthened with a view to deepen the financial market thus providing a channel through which liquidity could be managed appropriately. While these measures are expected to contain liquidity at desirable level, the Bank will observe closely the demand for long-term instruments and developments in exchange rate, which appear to have taken precedence in liquidity expansion in 2002/03.

5.4 Credit Policy

The Bank will continue collaborating with the government to implement measures directed towards removing the remaining structural and institutional impediments to bank lending and widespread interest rate so as to foster financial intermediation, investment and growth prospects. In this endeavour, the Land Act, which continues to hamper the use of land as collateral will be amended, and the Ministry of Lands and Human Settlement is expected to computerize and improve the land registry. Measures will also continue to be undertaken to facilitate the establishment of credit reference bureau, in order to provide quick reference on creditworthiness of potential borrowers from banks.

During the year, the Export Credit Guarantee Scheme, which caters for traditional exports, will be strengthened thereby augmenting government efforts towards increasing credit to agricultural exports. Efforts are underway to introduce a more diverse range of products, including putting in place an enabling environment, which will facilitate the provision of long-term finance to the productive sector. In this regard, possibilities are being explored to recapitalise the Tanzania Investment Bank (TIB) and convert it into a development bank. These institutional measures, along with supportive monetary policy and structural measures are expected to increase resource flows to the private sector.

5.5 Interest Rate Policy

The prevailing widespread between deposit and lending rates coupled with negative real interest rates on deposits are among the inhibiting factors to savings and resources flows to the private sector. Narrowing the deposit-lending margin and realising positive interest rates will continue to be a priority to the Bank during 2003/04. To this end, the Bank in collaboration with the Government will continue implementing measures directed towards increasing financial deepening and widening as well as increasing competition in the financial sector. Such measures will involve promotion of efficiency in the money market, by among others, restructuring of the remaining state owned bank and non-banks financial institutions, removing difficulties involved in the collection of the banks' loans from borrowers, and addressing the legal procedures regarding the collection of collateral. These measures will be complemented by the monetary and fiscal policy stances for 2003/04 in reducing the interest rate spread.

5.6 Foreign Exchange Operations

Consistent with the price stability objective, the Bank of Tanzania will continue to exercise a passive and neutral intervention policy to smoothen transitory fluctuations in the exchange rate, which are large and inconsistent with economic fundamentals so that market forces continue to play a greater role in determining the exchange rate. Consequently, exchange rate fluctuations, which seem to contribute to liquidity expansion thus causing deviations of monetary aggregates from targets will be one of the challenges in keeping inflationary pressures on check.

In the light of the partial liberalization of the capital account of the balance of payments and the possible drought that will necessitate import of food, the mainstay of foreign reserve management will be to maintain adequate official external reserves of above five months of imports of goods and non-factor services.

5.7 Banking Supervision

Recent technological advancement in the banking industry and increasing number of licensed banks and non-bank financial institutions require an effective and efficient supervisory capacity. The Bank of Tanzania intends to strenghtern the regulatory and supervisory framework for microfinance institutions and generally strengthen the overall supervision of the financial sector in order to enhance the stability of the financial system.

6.0 CONCLUSION

The monetary policy implemented during 2002/03 succeeded in establishing monetary conditions that reduced inflation to the lowest level since Independence and was supportive of macroeconomic objectives of the Government. The reserve money expansion remained within the program target, while broad money was aligned within the envisaged growth rate target. Likewise, credit to the private sector by banks firmed up throughout 2002/03 reflecting the sustained recovery in private sector demand, driven by the steady improvement in real estate, manufacturing, transport and telecommunications, business services, and wholesale and retail trade. Official foreign reserves position remained above six months of imports of goods and non-factor services.

Reflecting increased private sector participation in economic activities driven by progress in macroeconomic stabilization, annual real GDP grew by 6.2 percent in 2002 higher than the projected growth of 5.9 percent. However, this growth still remains modest for significant poverty reduction, which requires higher and sustained economic growth rates.

Overall inflation, which is projected to reach 4.5 percent at end-June 2003, remained low at 4.3 percent in April 2003. The budget recorded a deficit (before grants) of TZS 369.0 billion against the projected deficit of TZS 796.0 billion for the period under review. Furthermore, the current account of the balance of payments improved by recording a 29.6 percent decrease in deficit. Nevertheless, lending rates and interest rate spread remained high reflecting remaining structural and institutional impediments.

Looking ahead, the economy has greater growth potential and the government is expected to consolidate the progress that has been achieved in the macroeconomic area. However, in the light of effects from a possible drought and adverse terms of trade, the real GDP growth rate could slow down in 2003 while inflation is expected to reach 4.0 percent at end-June 2004.

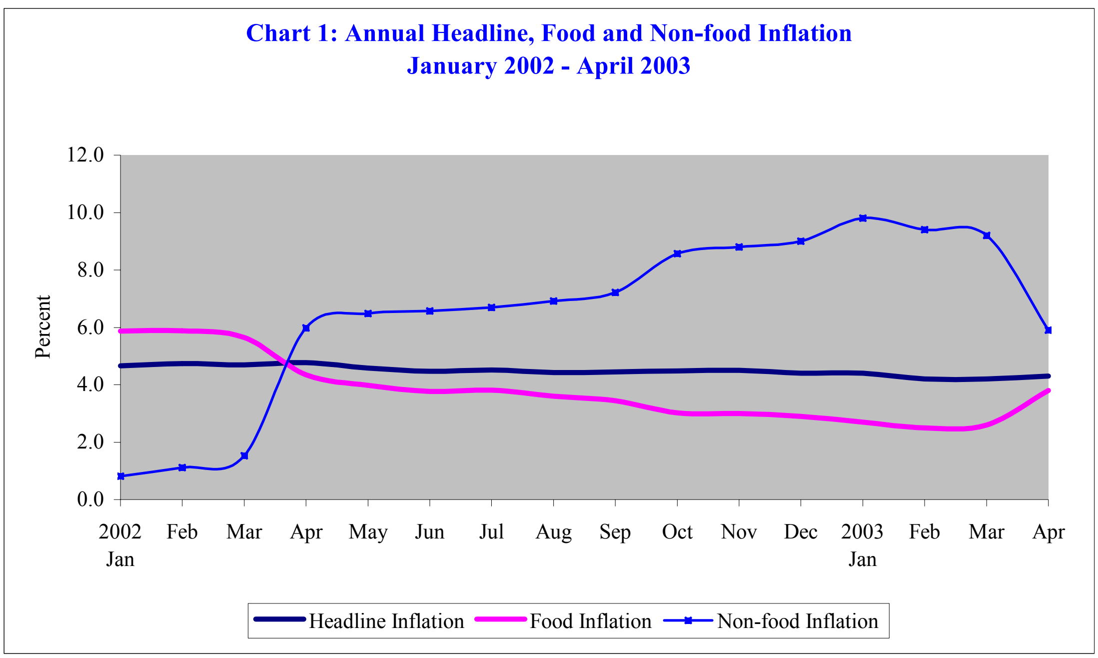
In the light of expected inflationary pressures and expected foreign exchange inflows, the Bank will maintain its vigilance in keeping monetary aggregates and other financial indicators on track. Open market operations complemented by fine tuning measures will be employed to ensure appropriate level of liquidity in the economy. This will be enhanced by close coordination with the government to ensure a credible anti-inflationary stance of the Bank. The remaining structural and institutional deficiencies to bank lending will continue to be addressed by the Bank in collaboration with the government.

Appendix 1: Performance against PRGF Benchmarks During 2002/03

	March 2003 Benchmarks			June 2003 Indicative targets	
	Program	Adjusted	Actual	Target	Actual-end May, 2003
IMF performance criteria					
Net domestic assets of BoT (TZS bn)	-383.5	-224.4	- 02.5	- 453.4	- 382.2
Net domestic financing of the government (TZS bn)	16.0	175.1	28.4	64.0	55.7*
Net international reserves of BoT ($ mn)	1,110.3	950.2	1,061.9	1,131.4	1,058.1
Accumulation of external payment arrears (ceiling)	0.0	0.0	0.0	0.0	0.0
Contracting of guaranteeing of external debt on non-concessional terms	0.0	0.0	0.0	0.0	0.0
IMF Benchmarks					
Central government recurrent revenue (TZS bn)	862.0	862.0	901.8	1,183.7	1,062.2
Increase in extra-budgetary expenditure	0.0	0.0	0.0	0.0	0.0
Accumulation of budgetary arrears	0.0	0.0	0.0	0.0	0.0
Reserve money (TZS bn)	666.4	666.4	649.6	692.7	681.3
Memorandum item:					
Foreign program assistance (grants and loans)	405.7		245.6		

***End-April 2003 position**

Appendix 2: Graphical Presentations



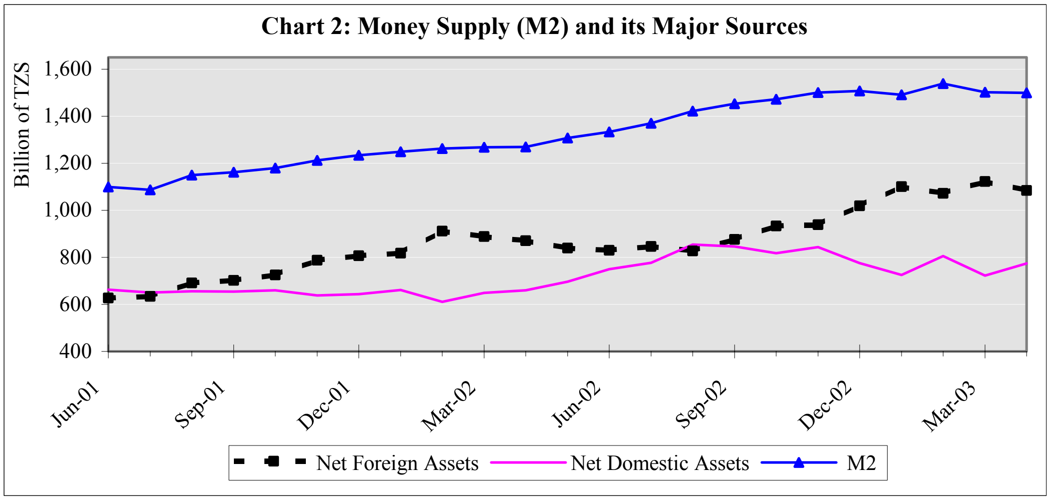


Chart 2: Money Supply (M2) and its Major Sources
Billion of TZS
1,600
1,400
1,200
1,000
800
600
400
Jun-01
Sep-01
Dec-01
Mar-02
Jun-02
Sep-02
Dec-02
Mar-03
Net Foreign Assets
Net Domestic Assets
M2

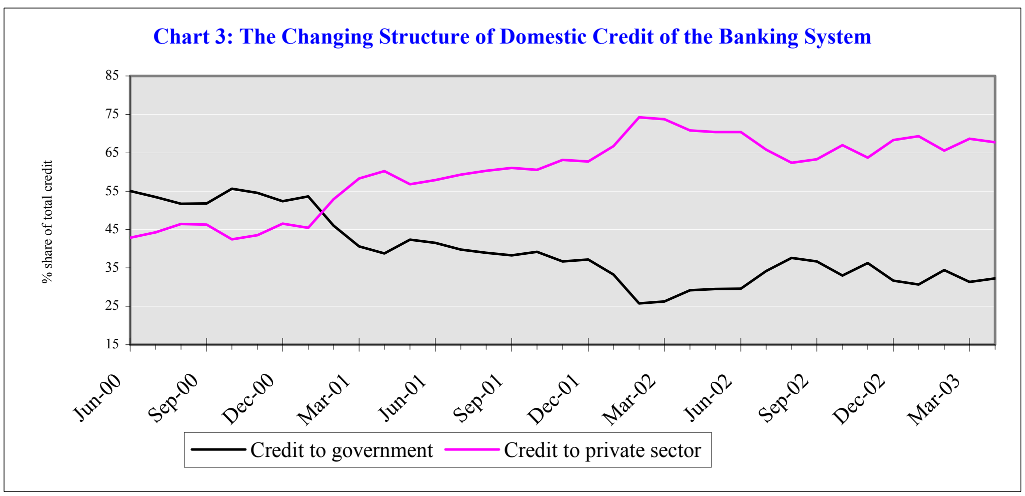


Chart 3: The Changing Structure of Domestic Credit of the Banking System
% share of total credit
85
75
65
55
45
35
25
15
Jun-00
Sep-00
Dec-00
Mar-01
Jun-01
Sep-01
Dec-01
Mar-02
Jun-02
Sep-02
Dec-02
Mar-03
Credit to government
Credit to private sector

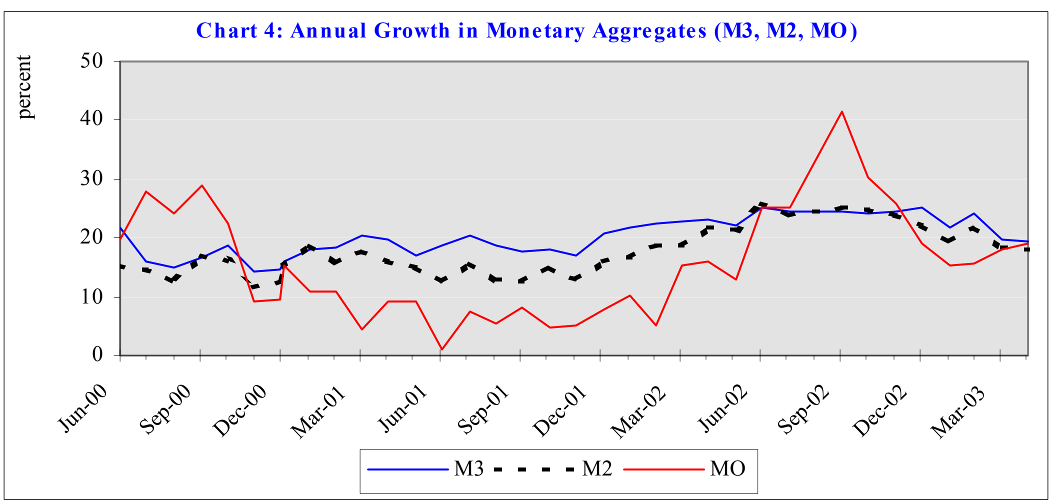


Chart 4: Annual Growth in Monetary Aggregates (M3, M2, MO)
percent
50
40
30
20
10
0
Jun-00
Sep-00
Dec-00
Mar-01
Jun-01
Sep-01
Dec-01
Mar-02
Jun-02
Sep-02
Dec-02
Mar-03
M3
M2
MO

Chart 5: Interest and Inflation Rates Developments

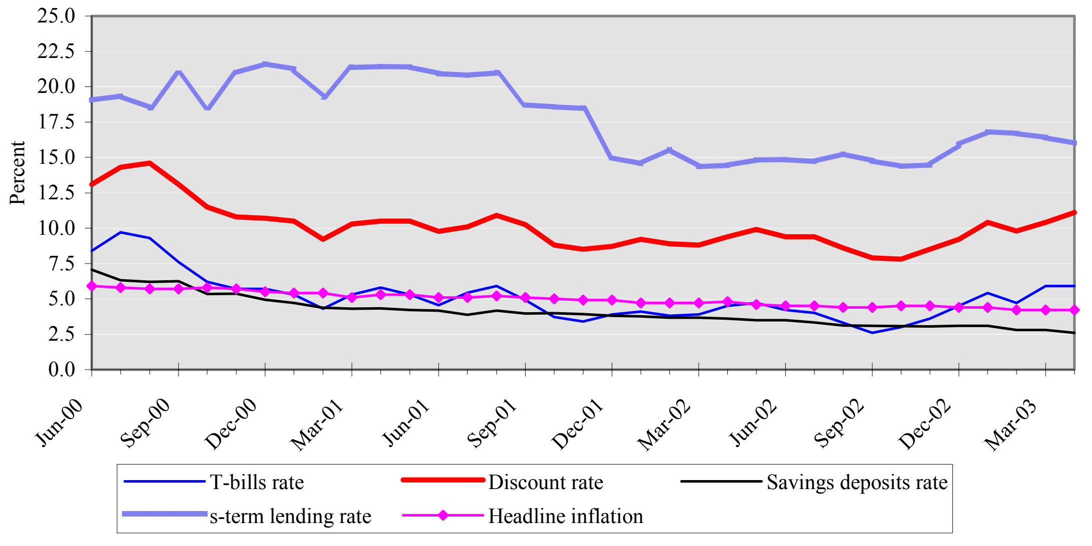
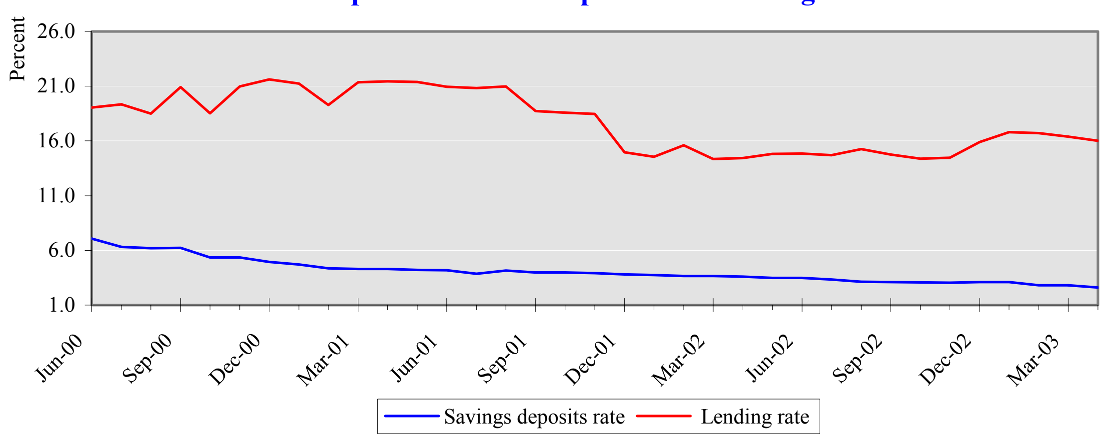


Chart 6: Spread Between Deposit and Lending Rates



APPENDIX 3: TANZANIA MONETARY SURVEY

	Jun-01	Jun-02	Dec-02	Apr-03
Foreign assets of the banking system (net)	**1,001,411.74**	**1,293,644.98**	**1,558,627.15**	**1,674,904.89**
BoT Net International Reserves	**513,659.52**	**730,488.29**	**1,022,247.56**	**1,077,973.06**
Foreign Assets	872,887.83	1,148,306.12	1,492,748.54	1,592,209.30
O/w:Gold	28,028.10	24,076.90	26,926.36	27,912.30
Foreign Liabilities	359,228.31	417,817.83	470,500.98	514,236.24
O/w: Use of Fund Credit	287,779.58	352,921.44	392,046.17	425,319.41
Commercial banks foreign assets (net)	**487,752.23**	**563,156.68**	**536,379.59**	**596,931.83**
Net Foreign Exchange	492,022.41	586,607.90	566,029.78	597,130.58
Foreign assets	500,417.28	589,844.08	571,572.63	598,662.88
Foreign Liabilities	8,394.87	3,236.18	5,542.85	1,532.30
Domestic assets (net)	**662,472.90**	**750,101.52**	**775,290.82**	**774,309.75**
Domestic Credit	647,341.88	684,920.37	835,276.87	916,701.66
Claims on Government (net)	268,919.65	202,878.96	264,608.62	295,633.30
Claims on Govt BoT (net)	-1,102.26	-35,023.04	-69,209.25	-22,599.44
Claims on Govt BoT	146,618.10	145,595.94	141,265.57	147,392.24
Govt deposits at BoT	147,720.36	180,618.98	210,474.82	169,991.68
Claims on govt by DMBs (net)	270,021.91	237,902.00	333,817.87	318,232.74
Claims on govt by DMBs	300,498.52	267,025.33	364,637.63	352,704.21
Govt. deposits	30,476.61	29,123.33	30,819.76	34,471.47
Claims on other public sector	3,644.36	0.02	0.00	0.00
Claims on the private sector	374,777.87	482,041.39	570,668.25	621,068.36
Other Items Net	15,131.02	65,181.15	-59,986.05	-142,391.91
Valuation account	**148,808.46**	**203,962.10**	**244,411.44**	**317,459.88**
Money Supply				
Extended broad money (M3) = M2+5	1,472,904.00	1,797,889.89	2,047,683.06	2,089,952.27
Broad money (M2) = M1+3+4	**1,099,036.08**	**1,333,524.18**	**1,507,386.54**	**1,498,745.21**
Narrow money (M1) = 1+2	**691,254.56**	**815,576.26**	**958,786.56**	**941,951.55**
1.Currency outside the banking system	375,044.94	429,383.90	495,445.63	432,855.77
Currency outside the BoT	406,657.59	466,480.14	546,615.39	491,337.18
Vault cash with DMBs	31,612.64	37,096.24	51,169.76	58,481.41
2.Demand Deposits	316,209.62	386,192.36	463,340.93	509,095.78
Quasi Money	781,649.43	982,313.63	1,088,896.49	1,148,000.72
3.Time deposits	171,597.72	218,602.12	223,898.73	230,242.13
4.Savings Deposits	236,183.80	299,345.80	324,701.25	326,551.53
5.Foreign currency deposits	373,867.92	464,365.71	540,296.52	591,207.06
Reserve money (M0)	506,847.82	573,087.98	695,701.24	695,283.11
Money supply: Annual growth rates				
M3	16.99	22.06	25.11	19.26
M2	14.90	21.34	22.19	18.12
M0	9.27	13.07	19.05	19.12
TZS/USD exchange rate	**888.03**	**946.90**	**976.65**	**1,038.86**
In millions of USD				
Net International Reserves	578.43	771.45	1,046.69	1,037.65
Foreign currency deposits	421.01	490.41	553.21	569.09
NIR (without IMF liabilities)	902.49	1,144.16	1,448.11	1,447.06
Gross Reserves (BOT)	982.95	1,212.70	1,528.44	1,532.65
Gross Reserves (DMBs)	563.51	622.92	585.24	576.27

GLOSSARY

Average Rate of Inflation

This is calculated as the average of the inflation rates during the fiscal year, or the calendar year.

Non-Food Inflation Rate

This is a measure of price movements caused by factors other than food prices. It is an important measure, which monitors the effectiveness of Monetary Policy on Inflation since price movements in these items are caused largely by Monetary Policy factors.

Seasonally Adjusted Indicators

To enhance the vigilance of monetary policy, it is necessary to carry out seasonal adjustment, so that variations on a time series caused by seasonal factors are eliminated. Seasonal movements or seasonal variations, refer to identical, or almost identical, patterns, which a time series appears to follow during corresponding months (quarters) of successive years. Such movements are due to recurring events, which take place annually, as for example, the harvest season. Seasonally adjusted indicators show the impact of non-seasonal influences on a time series, thus showing more closely the impact of Monetary Policy.

Base Money, Monetary Base, or Reserve Money (M0)

The Central Bank's liabilities in the form of (1) Currency in Circulation Outside Bank of Tanzania, and (2) Banks' Reserves (deposit money banks' domestic cash in vaults plus their required and free deposits with the Central Bank) is referred to as Base money, or the monetary base or reserve money.

Money Supply, M

The sum of Currency in Circulation Outside the Banks and deposits are defined in various concepts of Money Supply in the narrower and broader sense, i.e., Narrow Money (M1), Broad Money (M2), and Extended Broad Money (M3).

Narrow Money, M1

It consists of Currency in Circulation Outside Banks and demand deposits.

Broad Money, M2

It is equivalent to Narrow Money (M1) plus time deposits plus savings deposits.

Extended Broad Money, M3

It consists of Broad Money (M2) plus foreign currency deposits.

Currency in Circulation Outside Banks

Notes and coin accepted as legal tender in the domestic economy, excluding amounts held by the banking system.

Discount Rate

The rate of interest the Central Bank charges on loans it extends to commercial banks. At present, it is also the interest rate charged on government overdraft from the Bank of Tanzania. It is derived from the weighted average yield of treasury bills of all maturities plus five-percentage points.

International Reserves, or Reserve Assets

They consist of those external assets that are readily available to and controlled by Central Banks for direct financing of balance of payments imbalances, for indirectly regulating the magnitude of such imbalances through intervention in exchange markets to affect the currency exchange rate, and/or for other purposes. Included are monetary gold, SDRs, reserve position in the Fund, foreign exchange assets (consisting of currency, deposits, and securities), and other claims.

Reserve Money Program

It is an Operational Framework used by the Central Bank to achieve Money Supply Growth Targets, through monitoring Reserve Money, which is the Operational Variable.

Reserve Requirement

These are balances which banks are required to hold as a specified percentage of their liabilities (minimum reserve ratio) arising from demand deposits, savings deposits, time deposits, and foreign currency deposits, as well as from short-and medium-term borrowing, as balances on current accounts with the Central Bank.

Repurchase Agreement (Repo)

These are agreements to purchase/sale by the Bank government securities from/to financial institutions at agreed rate for a specified period, with an understanding that the financial institutions will repurchase/resell the securities to the Bank at the end of the period. The Bank introduced Repo operations in July 1997. This new monetary policy instrument has enhanced the efficacy of monetary policy, since it can be applied in a flexible manner depending on short term liquidity developments in the economy.

Weighted Annualised Yields of Treasury Bills of all Maturities

This is the average yield of Treasury Bills, which is weighted by the volume, sold of 91-, 182-, and 364 - day Treasury Bills, expressed in percent per annum.

Exchange Rate

This is the price at which one currency can be purchased with another currency, e.g. TZS per USD.

Nominal Exchange Rate

It is the price at which actual transactions in foreign exchange markets occur.

Nominal Effective Exchange Rate (NEER)

This is the measure of the value of a currency against a weighted average of several foreign currencies, usually from the main trading partners. The NEER is often expressed as an index of the change in the exchange rate, relative to some base period.

Real Effective Exchange Rate

Is the nominal exchange rate index divided by measures of relative price change or other measures of relative competitiveness. Under this approach, Consumer Price Indices (CPI) of our main trading partners relative to Tanzania's CPI are used to construct relative prices. The REER is commonly used as a general analytical tool for measuring relative over-valuation or under-valuation of a currency.