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MONETARY
POLICY STATEMENT

GOVERNOR
BANK OF TANZANIA

JUNE 2004

June 2004

LETTER OF TRANSMITTAL

Dear Minister,

I hereby submit the Monetary Policy Statement (MPS) of the Bank of Tanzania for the year 2004/05 in accordance with Section 6 Subsection (1) to (4) of the Bank of Tanzania Act, 1995. The Report also covers the conduct of the monetary policy and review of economic performance during the period from July 2003 to April 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.*

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

- *Low inflation allows the economy to function more efficiently, thereby contributing to a better overall economic performance.*

- *Central Banks control inflation by controlling the growth of money supply. The Bank of Tanzania targets broad money, M2, which is defined as currency in circulation outside banks, and total deposits held by commercial banks, excluding foreign currency deposits. M2 is chosen because it is the monetary aggregate that is estimated to have closest relationship with the rate of inflation.*

- *To influence the growth of M2, Central Banks normally control reserve money (base money, or central bank money), which is directly related to money supply. Reserve money is defined as the liabilities of a Central Bank, which include currency held outside banks and banks' reserves held by the Central Bank.*

MONETARY POLICY IMPLEMENTATION

- *At the beginning of every fiscal year, the Bank of Tanzania sets annual monetary policy targets in its Monetary Policy Statement. 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 a monthly basis.*

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

- *A technical committee meets daily to review liquidity developments and agrees 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 involves the sale or purchase of securities, e.g. treasury bills, by the Central Bank to withdraw or inject liquidity into the system, 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) to measure inflation. The rate of change in the overall CPI is referred to as the HEADLINE INFLATION RATE.*

- *The inflation rate excluding food prices is often referred to as the NON-FOOD INFLATION RATE. It is a measure of price movements, which are largely influenced by policy factors, but can also be frequently affected by external factors.*

- *The Bank of Tanzania also monitors food prices and their index. This is because food prices are sometimes affected by non-monetary factors like drought and floods, which can affect inflation substantially regardless of the stance of monetary policy. The rate of change in food price index is referred to as the FOOD INFLATION RATE.*

1.0 INTRODUCTION

The overall performance of the economy during 2003/04 was generally satisfactory, despite the severe drought that adversely affected food supplies and hydroelectricity generation. Preliminary National Account Statistics indicate that real GDP grew at 5.6 percent in 2003, slightly above the revised projected growth of 5.5 percent, and below the 6.2 percent recorded during 2002.

Despite the pressure from food prices, the overall annual inflation rate increased marginally from 4.4 percent as at June 2003 to a peak of 6.5 percent in April 2004. The increase in inflation was a result of the dampening effect from non-food inflation that maintained a declining trend throughout the period under review. The pressure on food prices was minimized through government interventions that were aimed at bridging the food supply gap, namely waiving of import taxes on cereals, mobilization of food aid, and distribution of Strategic Grain Reserve (SGR) stocks at subsidized prices to food deficit areas.

Developments in monetary aggregates were broadly in line with the monetary targets set by the Bank for 2003/04. The extended broad money supply (M3) grew at an annual rate of 17.2 percent while the broad money supply (M2) grew at 15.5 percent. Reserve money (M0), on the other hand, registered an annual growth rate of 15.8 percent at the end of April 2004 and was also within the targets set under the Poverty Reduction and Growth Facility (PRGF) program.

During the period under review, the Bank continued to support the Government in its efforts to remove the remaining structural impediments to bank lending. In addition, the Bank initiated a review of a broad range of prudential regulations, including single borrower ceilings and collateral requirements for loans, with a view to improving access to bank credit. Moreover, the Bank continued to manage, on behalf of the Government, the Export Credit Guarantee Scheme (ECGS), and finalized preparations for the establishment of the pilot scheme for Small and Medium Enterprises (SMEs), with a view to improving access to export finance and guarantee commercial bank credit to SMEs, respectively, in line with the SME policy launched in August 2003.

The average interest rates on local currency deposits improved slightly during the period under review, with the overall time deposits rate rising from 3.5 percent in June 2003 to 4.0 percent in April 2004. Interest rates on local currency denominated loans continued to decline, with the overall lending rate falling from 14.1 percent in June 2003 to 13.3 percent in April 2004. Thus the margin between overall time deposit rate and the overall lending rate declined from 10.6 percentage points to 9.3 percentage points.

The external sector as reflected by the current account of the balance of payments deteriorated during the period under review mainly due to substantial growth in imports, particularly imports of food and oil prompted by the drought, and decline in traditional exports. However, gross official reserves increased by USD 235.6 million, reflecting the large inflows of foreign aid. Gross official reserves reached seven months of imports of goods and services at the end of April 2004.

The performance of the current government budget was also affected by the drought, which necessitated the Government to provide financial resources for food imports, which were distributed to the food deficit areas at subsidized prices, and to TANESCO to enable it import oil to generate thermal electricity. Despite the drought, revenue collections surpassed their targets; coupled with donor assistance, the overall budget deficit was contained within the target.

2.0 MACROECONOMIC OBJECTIVES FOR 2003/04

The main focus of government policies during 2003/04 as set out in the Poverty Reduction Strategy (PRS), was to promote growth and strengthen poverty reduction policies, while consolidating and maintaining macroeconomic stability. To attain these objectives, the Government aimed at:

(i) A real GDP growth of 6.3 percent in 2003 and 6.6 percent in 2004.
(ii) A revised inflation rate objective of 5.0 percent by end-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 services.

2.1 Monetary Policy Objectives for 2003/04

The monetary policy objectives of the Bank of Tanzania focused on maintaining low and stable inflation, while supporting the broader macroeconomic objectives of the Government. Considering the potential inflationary pressures emanating from anticipated food shortages in 2003/04, expected large foreign exchange inflows and an increase in credit to private sector, the Bank of Tanzania aimed at:

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

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

(iii) Attaining an inflation rate of 4.0 percent by end-June 2004.

(iv) Allowing credit to private sector to grow by not less than 24.5 percent at end-June 2004, from the stock of end June 2003.

(v) Maintaining adequate official foreign reserves of not less than six months of imports of goods and services.

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:

a) A rate of increase in the money supply, consistent with the inflation target.

b) A rate of increase in domestic bank credit that is consistent with money supply objectives and which would not place undue pressure on resources.

c) An increase in the level of official foreign reserves, geared towards achieving the requirements of the Bank of Tanzania Act, as well as enabling the country to meet unexpected foreign exchange demands in the event of balance of payments difficulties, while allowing the market to establish a realistic exchange rate.

d) 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 2003/04

3.1 Liquidity Management

Maintenance of an appropriate level of liquidity in the economy, consistent with general macroeconomic stability remained the central objective of monetary policy during 2003/04. The Bank of Tanzania continued to use reserve money as the operating target and open market operations (OMO) as its main policy instrument, complemented by foreign exchange market operations (FEMO). With a view to further improve liquidity management and the conduct of monetary policy, the Bank of Tanzania introduced an intra-day and Lombard facilities in December 2003. These credit facilities are accessible to commercial banks, which have signed the master repurchase agreements.

During the period under review, monetary policy was relatively tightened with reserve money broadly in line with the indicative monthly targets. As at end May 2004, reserve money grew by 16.8 percent. With the current monetary policy stance, it is expected that the targeted growth of 20 percent by June 2004, will be achieved (Appendix 1).

3.2 Credit Policy

During 2003/04, the Bank of Tanzania anticipated that commercial banks credit to the private sector would expand by 24.5 percent by end June 2004, from the level recorded at end June 2003. On the other hand, the Government was expected to reduce its domestic debt with commercial banks, thus releasing more resources for lending to the private sector. As at the end of April 2004, the Government had made a substantial repayment of credit to the banking system, while commercial banks' credit to the private sector grew by 30.5 percent, well above the projected level.

The Bank of Tanzania continued to support the Government in implementing measures to remove the remaining structural impediments to commercial banks' lending to the private sector, in order to enhance economic growth. Steps were taken to review a broad range of prudential regulations, including single borrower ceilings and collateral requirements for loans, with a view to improving access to bank credits. Monitoring of the restructuring and/or privatization of the remaining state-owned banks continued. It is expected that the amendments to the Land Act would address the weaknesses that obstructed realization of land based collateral and the improved mortgage legal framework could motivate banks to extend pronounced credit to the private sector.

The Bank of Tanzania continued to manage, on behalf of the Government, the Export Credit Guarantee Scheme (ECGS) and finalized preparations for the establishment of the pilot scheme for Small and Medium Scale Enterprises (SMEs), with a view to improving access to export finance and to guarantee commercial banks credit to SMEs, respectively. The scheme for SMEs will become operational during 2004/05.

ECGS was established with a capital of TZS 6.5 billion during 2002/03. The capital base of ECGS was enhanced by TZS 13.0 billion during 2003/04, in order to boost its activities. During the period under review, 19 guarantees amounting to TZS 3.9 billion were offered. Since its inception, 35 guarantees have been issued and all of them were discharged in line with the requirements of the scheme.

3.3 Interest Rate Policy

The narrowing of the deposit-lending margin and realization of positive interest rates were the most important aspects of interest rate policy during 2003/04, with a view to increasing savings and credit to the private sector. Moreover, the treasury bills market was to continue to be the anchor for market determined interest rates. During the period under review, the Bank in collaboration with the Government implemented measures to promote efficiency in the money markets, including addressing the legal procedures governing the collection of collateral through amendments to the Land Act. However, interest rates applied by commercial banks and non-bank financial institutions did not move in tandem with developments in yields in the treasury bills market. The interest rates are still influenced by the remaining structural rigidities in the banking system, and hence the spread between lending and deposit rates is still large, although narrowing steadily. The margin between the overall time deposits and overall lending rates declined from 10.6 percentage points in June 2003 to 9.3 percentage points in April 2004.

3.4 Foreign Exchange Operations and Reserve Management

The Bank of Tanzania continued to exercise a free-floating exchange rate policy, with limited interventions for liquidity management and to smoothen wide fluctuations in the exchange rate. In addition, foreign exchange operations ensured the attainment of the official foreign reserve target of a minimum of six months of imports of goods and services by June 2004. As at the end of May 2004, the official foreign reserves reached around seven months of imports of goods and services, a level that will be maintained up to the end of June 2004.

4.0 REVIEW OF MACROECONOMIC DEVELOPMENTS IN 2003/04

4.1 Output Developments

During 2003, the performance of the economy of Tanzania was adversely affected by drought and global security concerns. As a result, real Gross Domestic Product (GDP) growth was revised downwards from 6.3 percent to 5.5 percent. According to preliminary statistics, the impact of global insecurity, which affected international travel and therefore tourism, was less pronounced than feared. On the other hand, drought resulted into a decline in agricultural output and therefore slowed down the rate of growth of agriculture from 5.0 percent in 2002 to 4.0 percent. Moreover, the severe drought adversely affected food supplies and hydro-electricity generation leading to a sharp increase in food and oil imports. Growth rates in other sectors, namely; trade, mining and quarrying, financial services, transport and communication are also estimated to be lower than in the previous year. Hence, real GDP, according to preliminary National Accounts grew by 5.6 percent in 2003, which was slightly higher than the revised GDP projection.

Table 1: Annual Growth Rates of Real GDP by Sectors and their Contributions (2001 - 2003)

Percent

Economic Activity	2001 Growth Rate	2001 Contribution	2002 Growth Rate	2002 Contribution	2003 Growth Rate	2003 Contribution
Agriculture	5.5	48.0	5.0	47.5	4.0	46.8
Mining and Quarrying	16.6	2.5	15.0	2.7	14.3	2.9
Manufacturing	5.0	8.3	8.0	8.4	8.6	8.7
Electricity and Water	3.0	1.7	3.1	1.6	4.9	1.6
Construction	8.7	4.8	11.0	5.0	11.0	5.2
Wholesale and Retail Trade Hotel and Restaurants	6.7	16.5	7.0	16.6	6.5	16.8
Transport and Communication	6.3	5.4	6.4	5.5	5.1	5.4
Financial and Business Services	3.3	10.2	4.8	10.0	4.4	9.9
Public Administration and Other Services	3.5	7.5	4.1	7.3	4.1	7.2
less Financial Services Indirectly Measured	2.5	-4.8	2.8	-4.7	3.5	-4.6
TOTAL GDP	**5.8**	**100.0**	**6.2**	**100.0**	**5.6**	**100.0**

Source: National Bureau of Statistics

4.2 Price Developments

4.2.1 Headline Inflation

The overall annual inflation rate increased from 4.4 percent in June 2003 to 6.5 percent in April 2004. The increase resulted from the pressure on food prices following protracted drought in 2003 that led to acute food shortages, particularly in April 2004. However, in view of the good weather conditions experienced in the first half of 2004, and the setting in of the harvest season, the food supply situation is expected to return to normal and hence the overall inflation is also expected to slow down significantly, making it possible to attain the revised inflation target of 5 percent by end-June 2004.

4.2.2 Food Inflation

For most of the period, the pressure on food prices was moderated by imports of cereals and other foodstuffs, facilitated by government interventions that included waiver of import taxes on cereals, mobilization of food aid, and distribution of subsidized food from the Strategic Grain Reserve (SGR). During the period, a total of 69,562 tons of food grains were distributed to food deficit areas. The rate of increase in the annual food inflation was therefore gradual, moving from 4.3 percent in June 2003 to 5.8 percent in December 2003, rising to 6.1 percent in January through March 2004. However, in April 2004, the annual food inflation jumped to 8.8 percent, partly as a result of hoarding by traders who anticipated continued food shortages, and also because of anticipated increase in transportation costs associated with the increase in oil prices.

4.2.3 Non-Food Inflation

Non-food inflation, however, maintained a declining trend throughout the period under review that dampened the inflationary pressures emanating from food prices. The annual non-food inflation dropped from 4.9 percent in June 2003 to 1.1 percent in December 2003, and further to a negative 0.2 percent in April 2004. The decline in non-food inflation was mainly attributed to a fall in average prices of clothing, footwear, drinks, tobacco, personal care, furniture and household equipments.

4.3 Monetary and Credit Developments

4.3.1 Money Supply

Liquidity management measures taken by the Bank of Tanzania through OMO and FEMO contributed substantially to the containment of monetary expansion. During the period from end-June 2003 to April 2004, M3 increased by TZS 244.5 billion to TZS 2,450.4 billion, compared with an increase of TZS 292.1 billion, registered in the corresponding period of the preceding year. Similarly, M2 rose by TZS 171.7 billion to reach a stock of TZS 1,730.5 billion. Despite the increase in money supply, the growth rate of M3 was contained to 17.2 percent in April 2004, down from 22.7 percent in June 2003, while that of M2 decelerated from 16.9 percent to 15.5 percent, well within the projected June 2004 target of 17 percent and 15 percent, respectively.

The increase in money supply during the period under review was mainly explained by the expansion of net foreign assets of the banking system and commercial banks' credit to the private sector. Net foreign assets of the banking system increased by TZS 270.3 billion, due to inflows of donor funds and the effect of the exchange rate depreciation that increased the shilling value of foreign currency deposits (FCD). Meanwhile, private sector credit increased in view of the increasing level of investments in the economy, the decline in lending rates and gradual removal of structural impediments.

4.3.2 Credit Developments

During July 2003 to April 2004, commercial banks deposits increased by 11.3 percent or TZS 195.1 billion, from TZS 1,732.2 billion in June 2003 to TZS 1,927.3 billion in April 2004. Likewise, domestic credit to the private sector went up by 30.5 percent or TZS 201.1 billion. The strong growth in private sector credit was fuelled in part by corporate clients switching from borrowing abroad to domestic borrowing. The switching was driven by the need to avoid exchange rate risks and to take advantage of reduced costs of borrowing, stemming from increased competition among commercial banks. As a result of this increase, the share of private sector credit to total credit improved significantly from 76.7 percent at end June 2003 to 86.9 percent, while the ratio of lending to deposits increased from 38.0 percent as at end-June 2003 to 44.6 percent as at end-April 2004.

The sectors that benefited from domestic lending include manufacturing (25.0 percent), trading (24.0 percent), agricultural production (12.0 percent), transportation (10.0 percent), building and construction (5.0 percent), and tourism (2.5 percent).

4.4 Interest Rate Developments

The average interest rates on local currency deposits improved slightly during the period under review, with the overall time deposits rate rising from 3.5 percent in June 2003 to 4.0 percent in April 2004, somewhat consistent with developments in the treasury bills market, where the average weighted yields of all maturities increased from 5.9 percent in June 2003 to

7.9 percent in April 2004. However, some banks offered negotiated deposit rates to their prime customers, which are normally higher than the posted rates. These stood at 7.8 percent in April 2004, up from 5.5 percent recorded in June 2003.

Interest rates on local currency denominated loans exhibited a declining trend, with the overall lending rate falling from 14.1 percent in June 2003 to 13.3 percent in April 2004. Likewise, the average negotiated lending rate dropped from 9.4 percent in June 2003 to 8.4 percent in April 2004.

The decline in lending rates and the improvement in deposit rates combined to reduce the margin between the overall time deposit rate and the overall lending rate from 10.6 percentage points in June 2003 to 9.3 percentage points in April 2004 and that of negotiated rates from 3.9 percentage points to 0.6 percentage points (Appendix 2). However, the wide interest rate spread remains as a challenge to the Bank. The challenge is being addressed by reducing the risks associated with lending to the private sector through the ongoing financial sector reform initiatives.

4.5 Government Budgetary Operations

The performance of the government budget during 2003/04 was also affected by the drought, which raised the need to replenish food supplies through imports and provide financial resources to enable TANESCO import oil to generate thermal electricity to supplement hydroelectricity generation affected by the drought. Notwithstanding the unexpected additional expenditures, the budget recorded an overall deficit of TZS 251.5 billion after grants, which was less than the projected deficit of TZS 340.6 billion.

Despite the drought, revenue collections have surpassed their targets. Total revenue collected from July 2003 to April 2004 amounted to TZS 1,205.3 billion, exceeding the target by TZS 39.0 billion, and represented 11.5 percent of GDP. Therefore, the revenue target of 13.3 percent of GDP for 2003/04 is likely to be achieved.

The main factors that contributed to the good revenue performance during 2003/04, included improvements in tax administration, particularly with regard to income tax and VAT. Most significant was the effect of measures adopted during the period under review to curb tax evasion in the petroleum sectors and the abolition of 100 percent allowable tax deductions on capital assets by firms and businesses.

Total government expenditure during the period under review was lower than budgeted by TZS 201.4 billion, partly due to the time lag involved in recording actual expenditures relating to projects. Total government expenditures, excluding amortization, amounted to TZS 1,936.3 billion, compared with the projected expenditure of TZS 2,137.7 billion, representing 18.5 percent of GDP. The budgeted expenditure for 2003/04 is pegged at 24.4 percent of GDP and is likely to be realized.

The budget deficit was financed by foreign resources amounting to TZS 298.5 billion, and the balance was used to reduce domestic indebtedness.

4.6 Debt Developments

The overall total debt stock (external and domestic) as at end April 2004, was USD 8,746.3 million, comprising of USD 7,908.8 million in external debt and USD 837.5 million (TZS 937.6 billion) in domestic debt. The total debt stock increased by USD 636.6 million from USD 8,109.7 million, as at end-June 2003, mainly due to new disbursements of the committed external loans.

4.6.1 External Debt Position

As at end-April 2004, total external debt committed was USD 8,123.9 million, representing an increase of USD 517.3 million from USD 7,606.6 million recorded at end-June 2003, of which disbursed outstanding debt was USD 6,734.0 million and the un-disbursed debt was USD 1,389.9 million. Interest arrears increased by USD 139.7 million, from USD 1,035.1 million recorded at end-June 2003 to USD 1,174.8 million. Overall, the external debt stock increased by USD 640.7 million from USD 7,268.1 million recorded at end-June 2003 to USD 7,908.8 million.

4.6.1.1 Bilateral Debt

During July 2003 to April 2004, the Government concluded bilateral agreements with the Government of Russian Federation and the Japanese Bank for International Co-operation (JBIC), within the context of the Paris Club VII Agreed Minutes signed in January 2002. In the previous years, bilateral agreements had been concluded with Austria, Belgium, Norway, USA, Canada, Italy, France, United Kingdom, the Netherlands and Germany, bringing the total amount of debts cancelled under the arrangement to USD 858.7 million as at end April 2004. Only a few of non Paris Club countries have so far provided relief under the HIPC framework. These include Bulgaria, which provided debt relief amounting to USD 15.1 million during the period under review, and Kuwait which had previously offered debt relief amounting to USD 31.8 million in the form of debt service reduction arrangement, whereby the debt was rescheduled at concessional terms. China cancelled debt worth USD 37.7 million outside the HIPC Framework, as well as India, which cancelled all intergovernmental loans amounting to USD 19.7 million. The Government is currently in dialogue with Abu Dhabi Fund, Libya and Iran regarding further debt relief.

4.6.1.2 Multilateral Debt

Multilateral creditors including, the World Bank, International Monetary Fund, African Development Bank, European Investment Bank and Nordic Development Fund, have been offering debt relief in the form of debt service reduction since 2000/01, resulting in lower debt service payments for the country. As at end April 2004, total savings made from multilateral creditors under the HIPC arrangement stood at USD 272.5 million.

4.6.1.3 Debt Buy back

The second and final closing of the debt buyback scheme took place on March 31st 2004. Debts worth USD 43.8 million, comprising of both principal and interest, were retired at a price of 12.0 cents on a dollar of principal amount tendered. On June 6th 2001, the first closing of the debt buy back scheme took place with debts worth USD 155.7 million retired, bringing the total debt retired under the scheme to USD 199.5 million. The scheme was launched on October 25th 1999 and was financed by a grant of USD 40.2 million given under the Debt Reduction Facility for IDA-only Countries, which is funded by IDA and the Governments of Germany and Switzerland.

4.6.2 Domestic Debt Position

Domestic debt owed by the Government stood at TZS 937.6 billion, representing an increase of 6.4 percent or TZS 56.1 billion from TZS 881.5 billion registered in June 2003. The increase in domestic debt resulted from new NMB recapitalisation bonds and the conversion of external debt into domestic debt.

4.7 External Sector Developments

During July 2003 to April 2004, the current account of the balance of payments deteriorated to a deficit of USD 409.5 million, from a deficit of USD 170.9 million recorded during a similar period in 2002/03. The deterioration in the current account was mainly attributed to a substantial growth in imports and a decline in traditional exports.

4.7.1 Exports

Export of goods increased by 17.4 percent to USD 998.3 million during the period under review, from USD 850.2 million recorded in the corresponding period in 2002/03, mainly due to a strong growth in non-traditional exports.

Over the past four years, the value of non-traditional exports has more than doubled from USD 358.0 million in 2000/01 to USD 797.2 million in the year ending April 2004, largely as a result of the increase in gold exports, and to some extent manufactured products. However, traditional exports have been on the decline over the same period from USD 244.4 million to USD 201.1 million. The main factors contributing to the unsatisfactory performance include: unpredictable weather conditions and the collapse of world market prices for cotton, coffee, sisal and cashewnuts. Moreover, increased costs of production due to high oil prices, transportation costs and imported inputs discouraged use of appropriate technology in farming leading to low productivity.

In a bid to promote exports, the Government is in the process of removing all nuisance taxes affecting agriculture. To begin with, a ceiling for local government taxes was set at 5 percent of farm-gate prices. The Government is also strengthening the export credit guarantee scheme so as to encourage investments in the export sector by ensuring availability of export finance. It also continues to encourage potential investors to invest in the Export Processing Zones (EPZ), where special privileges are given to stimulate production in manufacturing and agro-processing for exports targeting AGOA and EBA markets. As at present, there are seven companies licensed to operate under the EPZ arrangement, out of which three are already operational.

4.7.2 Imports

During the period under review, total imports (f.o.b.) went up by 30.3 percent to USD 1,749.3 million compared with the corresponding period in 2002/03, largely due to increase in oil and food imports. Imports of intermediate goods rose by 38.1 percent or USD 173.2 million above the level recorded in the corresponding period of the previous year, with oil imports increasing by 69.2 percent, partly as a result of increased demand for thermal power generation. The surge in consumer goods imports was more pronounced in food imports, which increased by 75.7 percent to USD 201.7 million, reflecting the impact of the drought on domestic food supply. Capital goods imports also went up by 20.6 percent during the period under review, in view of the increase in investment activities. Machinery imports in particular, picked up by 35.5 percent from USD 279.8 million in 2002/03 to USD 379.1 million, while building and construction equipments imports went up by 21.0 percent from USD 132.1 million to USD 159.8 million.

4.8 Foreign Exchange Operations and Reserve Management

During the period under review, there was an exceptional increase in demand for foreign exchange that emanated from low supply of foreign exchange in the Inter-bank Foreign Exchange Market (IFEM) and high demand for imports. As a result, the Bank of Tanzania made a record sale of USD 253.1 million in the IFEM. Despite this sale of foreign exchange, gross official reserves increased by USD 235.6 million from USD 1,670.4 million at end-June 2003 to USD 1,906.0 million at end April 2004 (equivalent to over seven months of imports of goods and services), reflecting the large inflows of foreign aid. The nominal exchange rate depreciated by 6.9 percent from TZS 1,046.5 per US dollar to TZS 1,119.5 per US dollar between June 2003 and April 2004.

5.0 REVIEW OF FINANCIAL SECTOR DEVELOPMENTS DURING 2003/04

5.1 Financial Sector Assessment Program (FSAP)

During 2003/04, a review of the financial system of Tanzania was undertaken. The assessment indicated that Tanzania's financial system is liquid, well capitalized, and resilient to shocks. The system has also achieved significant improvements in recent years, including the establishment of a competitive financial structure through the entry of a large number of new banks, a reduction in interest rate spreads, a substantial increase in private sector credit, and a reduction in credit to the government as a percent of overall assets of the financial system. Furthermore, favourable indicators of bank soundness including a declining trend in non-performing assets underpin these developments. However, the review concluded that the financial system plays a limited role in the economy and therefore its current depth and efficiency must be improved to support economic growth.

Building on this assessment, the Bank of Tanzania, in collaboration with the Government, will review the Banking and Financial Institutions Act, 1991 and the Bank of Tanzania Act, 1995 in a bid to consolidate the on-going economic reforms to deepen financial intermediation, modernize the financial system, and enhance the contribution of the financial sector to economic growth.

5.2 Banking Supervision

In line with the technological developments and product innovations in the banking industry and the increasing number of licensed banks and non-bank financial institutions, the Bank of Tanzania continued to strengthen the overall supervision of the financial sector in order to enhance the stability of the financial system.

In this regard, in order to ensure a strong capital base of the banking system, the Banking and Financial Institutions Act, 1991 was amended to raise the minimum paid up capital of commercial banks from TZS 1.0 billion to TZS 5.0 billion. Under the Act, commercial banks have been given a five-year grace period from April 2003 to comply with the new legal capital requirement. The law was also amended to facilitate the provision of long-term finance to the productive sectors, for example by allowing operation of housing finance companies.

During the period under review, the Bank of Tanzania also continued to monitor the restructuring and/or privatisation of state owned banks including the National Microfinance Bank (NMB), the Peoples Bank of Zanzibar Limited (PBZ), Tanzania Postal Bank Limited (TPB) and Tanzania Investment Bank Limited (TIB). The process towards the privatisation of NMB has begun and the restructuring of PBZ is at an advanced stage, while diagnostic studies for the restructuring of TPB and TIB have been completed.

The Federal Bank of the Middle East Ltd, that acquired the Delphis Bank, which was under the Bank of Tanzania statutory management since March 2003, started its banking business in September 2003. In January 2004, Savings and Finance Limited was approved to convert into a fully-fledged commercial bank, while in February 2004, the Bank of Tanzania approved the merger of African Banking Corporation (T) Limited with Capital Finance Limited.

Given the need to strengthen measures against anti-money laundering and financing of terrorism, the Bank is supporting the Government in implementing the recommendations of the Financial Action Task Force (FATF) under the East and Southern African Anti-Money Laundering Group (ESAAMLG) and the UN Resolutions on anti-money laundering and combating of terrorism.

5.3 Micro-finance

During the period under review, the Bank of Tanzania continued to coordinate the development of the regulatory and supervisory framework for micro-finance operations in Tanzania. The amendments to the Banking and Financial Institutions Act, 1991 and the Bank of Tanzania Act, 1995, empowered the Bank to regulate and supervise micro-finance institutions. The draft micro-finance regulations, based on international best practices, are expected to get Government's approval by end June 2004, and will facilitate the creation of an environment that is conducive to the development of micro businesses in the country. The Bank also initiated the development of operational guidelines for Government and donor support to the micro-finance sector.

5.4 National Payment Systems (NPS)

During the period under review, the Bank of Tanzania continued with the implementation of National Payment Systems (NPS) modernization project, which aims at improving efficiency in payments, clearing and settlement operations in the country, in line with regional harmonization initiatives agreed in regional forums.

A giant step in the automation of the payment system in Tanzania was reached on April 8, 2004, when the Inter-bank Settlement System (TISS) was launched. TISS functions include online real time account management and inter-bank high value and time sensitive fund transfers. The system has improved efficiency in the payment system by eliminating the settlement time lag for high value and time sensitive payments, and minimizing settlement risks.

6.0 MACROECONOMIC POLICY FRAMEWORK FOR 2004/05

6.1 Government Macroeconomic Objectives for 2004/05

The Government policies during 2004/05 will continue to focus on the promotion of growth and reduction of poverty reduction, whilst consolidating and maintaining macroeconomic stability. The Government intends to attain the following macroeconomic objectives during 2004/05:

(i) Real GDP growth of 6.3 percent during 2004/05 and 6.5 percent in 2005.

(ii) Annual inflation rate of 4.0 percent by the end of June 2005.

(iii) Domestic recurrent revenue equivalent to 13.8 percent of GDP.

(iv) Maintaining official foreign reserves at current level of about 7 months of imports of goods and services.

6.2 Monetary Policy Objectives for 2004/05

The monetary policy objectives of the Bank of Tanzania will continue to be directed towards maintaining low and stable inflation, to ensure macroeconomic stability while supporting the broad macroeconomic objectives of the Government. Given the projected increase in demand for credit to the private sector, and the expected large inflows of foreign exchange, monetary policy will endeavor to maintain the appropriate level of liquidity, by mopping-up any excess liquidity in the economy. This will be achieved through:

(i) Containing the expansion of reserve money (M0) within a band of 20 to 23 percent between end-June 2004 and June 2005.

(ii) Limiting the growth rate of broad money supply (M2) within a band of 20 to 24 percent and extended broad money (M3) within a band of 20 to 23 percent between end-June 2004 and June 2005.

(iii) Attaining an inflation rate of 4.0 percent by end-June 2005.

(iv) Allowing commercial banks' credit to the private sector to grow by an annual rate of 34 percent by end-June 2005.

(v) Maintaining an adequate level of foreign reserves to cover not less than seven months of imports of goods and services.

6.2.1 Liquidity Management

During 2004/05, the Bank of Tanzania will maintain the appropriate level of liquidity through a combination of open market and foreign exchange market operations. The capacity to forecast bank liquidity on a daily basis, including developing a framework for projecting government operations, will be strengthened with a view to improving overall liquidity management. The launching of the Tanzania Inter-bank Settlement System (TISS), in April 2004, which also enables all large taxpayers to make payments electronically and directly into government accounts at the Bank of Tanzania is expected to substantially improve forecasting of liquidity.

The money markets will continue to be widened by introduction of new instruments to enhance liquidity management. The Bank will also use the information gathered in the market leaders forum to tailor the money market instruments to the demand of market players and hence improve market absorptive capacity.

6.2.2 Credit Policy

The Bank of Tanzania, in collaboration with the Government will continue to follow-up on the restructuring and/or privatization of the remaining state-owned banks, including NMB, the Peoples' Bank of Zanzibar (PBZ), Tanzania Post Bank (TPB) and Tanzania Investment Bank (TIB), particularly with a view to further improving the availability of credit to key sectors of the economy. Moreover, after the amendment of the Land Act in February 2004, the Government has been accelerating land surveys and modernizing the land registry to enable the commercialization of land leases and to facilitate their use as collateral for bank loans. The Bank will also continue to facilitate establishment of credit information bureau by the Tanzania Bankers Association, which is expected to provide reference on creditworthiness of potential borrowers from banks and hence make it easy for the banks to assess credit risk of potential borrowers.

6.2.3 Interest Rate Policy

The Treasury bills market will continue to be the anchor for market determined interest rate during 2004/05. It is expected that as the inflation rate continues to decline and competition in the financial sector continues to intensify and risks of lending to private sector are reduced, following structural reforms, the interest rates applied by commercial banks will move in tandem with Treasury bill yields. Moreover, the spread between the deposit and lending rates will continue to decline.

6.2.4 Foreign Exchange Operations

Consistent with the price stability objective, the Bank of Tanzania will continue to exercise a limited intervention policy in the IFEM for the purpose of liquidity management, smoothening transitory fluctuations in the exchange rate, and for reserve build-up.

6.2.5 Financial Sector Developments

6.2.5.1 Banking Supervision

The Bank of Tanzania will embark on preparations that will lead to adoption of a risk based supervisory framework that will enhance its supervisory effectiveness and efficiency. In line with this move, the Bank will enhance and improve its Banking Supervision Information System (BSIS). To further improve bank regulation and supervision, the Bank will continue to review all prudential regulations and circulars with a view to relax unduly constraining regulations and tighten loopholes. The Bank will also continue to develop new prudential regulations on areas of cross border supervision, consolidated supervision, anti-money laundering and combating financing of terrorism.

6.2.5.2 Micro-finance

During 2004/05, the Bank of Tanzania will put in place the regulatory and supervisory framework for micro-finance institutions, in accordance with the government micro-finance policy and the expected amendments of the Banking and Financial Institutions Act, 1991 and the Bank of Tanzania Act, 1995.

7.0 CONCLUSION

The relatively tight monetary policy implemented during 2003/04, coupled with a prudent fiscal policy succeeded to contain inflation to an average of 4.8 percent during the 10-month period starting in July 2003, despite the drought and food shortages experienced during the year. Although the annual inflation for April 2004 peaked at 6.5 percent, the estimated annual inflation of 5.0 percent by end-June 2004 is achievable, given the improvement in food supply emanating from favourable weather conditions, and so is the target of 4.0 percent by the end of 2004/05.

The Bank will continue to use open market operations complemented by foreign exchange operations and repurchase agreements to manage liquidity in the economy, in order to achieve both the macroeconomic objectives of the Government and the Bank’s monetary policy objectives for 2004/05.

Looking ahead, the economy has great potential for higher and sustainable growth. Based on the expected recovery in agriculture, following good weather, and the foreseeable developments in mining, construction and manufacturing, including manufacturing for exports under EPZ arrangements, as well as the general increase in private sector investments, real GDP is projected to grow at 6.3 percent in 2004 and 6.5 percent in 2005.

The growth in agriculture is expected to be driven by the measures specified in the Agricultural Sector Development Strategy (ASDS) which include: strengthening of research institutions and extension services to agriculture, provision of attractive incentives for agro-processing, and implementation of small and large-scale irrigation projects.

In light of the expected foreign exchange inflows, the level of gross international reserves is expected to increase by USD 216 million during the fiscal year to USD 2,113.4 million by end June 2005, equivalent to 7.2 months of imports of goods and services.

The performance of exports has been characterised by strong growth of non-traditional exports, largely as a result of gold exports. Traditional exports have remained stagnant. In order to realise high economic growth rates, and reduce poverty, production of agricultural commodities for export must be emphasized. This implies that all stakeholders must work towards eliminating all impediments in agriculture, including ensuring availability of credit to the sector, reducing dependence on rain-fed agriculture, strengthening the markets, promoting agro processing industries, extending extension services and providing appropriate inputs.

Following successful implementation of the economic reform programme, lending rates have gradually declined and as a result credit to the private sector is increasing at a reasonably good rate. Recent amendment to the Land Act is among the measures that the Government has taken to motivate banks to extend further credit to the private sector. Together with, the guarantee schemes that are being established for the SMEs and the Development Finance Guarantee Facility for export projects that are employment intensive, the business environment should now be conducive for investments, particularly in the exports sector, and thus contribute to accelerate economic growth.

APPENDICES

Appendix 1: Summary of Performance Against PRGF Targets During 2003/04

Item	March 2004			June 2004 Benchmark	
	Program	Adjusted	Actual	Target	Actual 31st May 2004
Net domestic assets of BoT (TZS bn) (ceiling)	-703	-644	-726	-656.8	-800.0
Net domestic financing of the government (TZS bn) (Ceiling)	-118	-60	-148	83.0	-46.59*
Reserve money (TZS bn)	808	808	803	812.5	794.8
Net international reserves of BoT ($ mn) (floor)	1438	1385	1454	1,354.1	1,393.5

Source: Ministry of Finance and Bank of Tanzania

Note: * Estimate for end-May 2004

Appendix 2: Interest Rates Structure (Percent per annum)

	Jun-03	Sept-03	Dec-03	Jan-04	Feb-04	Mar-04	Apr-04
Savings deposits rate	2.5	2.4	2.5	2.4	2.4	2.4	2.4
Overall Time deposits rate	**3.5**	**3.3**	**3.9**	**3.8**	**4.2**	**4.1**	**4.0**
1-month	**3.9**	**2.9**	**2.8**	**2.2**	**2.2**	**3.0**	**3.1**
35-day T-bill yield	5.8	6.7	5.7	6.7	6.4	6.8	7.4
3-months	**2.8**	**2.9**	**4.3**	**5.1**	**4.3**	**3.9**	**3.5**
91-day T-bill yield	6.1	7.3	7.6	7.1	7.2	7.5	8.0
6-months	**3.7**	**3.5**	**4.9**	**3.5**	**5.0**	**5.1**	**4.7**
182-day T-bill yield	5.8	7.3	7.6	7.6	7.6	6.5	8.1
12-months	**5.1**	**5.0**	**5.0**	**5.3**	**5.3**	**5.6**	**5.3**
364-day T-bill yield	5.9	7.4	7.9	7.8	7.6	6.4	8.1
Overall Lending rates	**14.1**	**14.5**	**13.8**	**13.9**	**13.4**	**13.5**	**13.3**
Up to 1-year	16.4	15.5	15.7	15.6	15.5	15.6	14.8
2-3 years	13.4	11.7	10.5	10.3	9.9	9.9	11.4
Negotiated rates							
Deposits	5.5	5.5	7.7	6.8	7.4	7.9	7.8
Lending	9.4	9.4	8.4	8.4	8.2	7.5	8.4

Source: Commercial banks and Bank of Tanzania computations

Appendix 3: Graphical Presentations

Chart 1: Annual Headline, Food, and Non-food Inflation

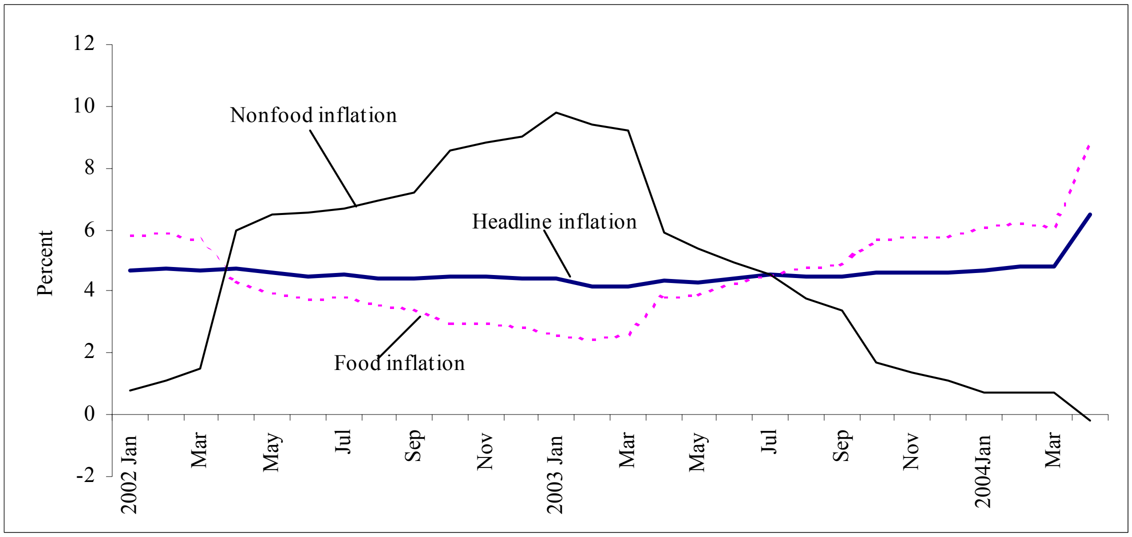


Chart 2: Money Supply (M3) and its Major Components

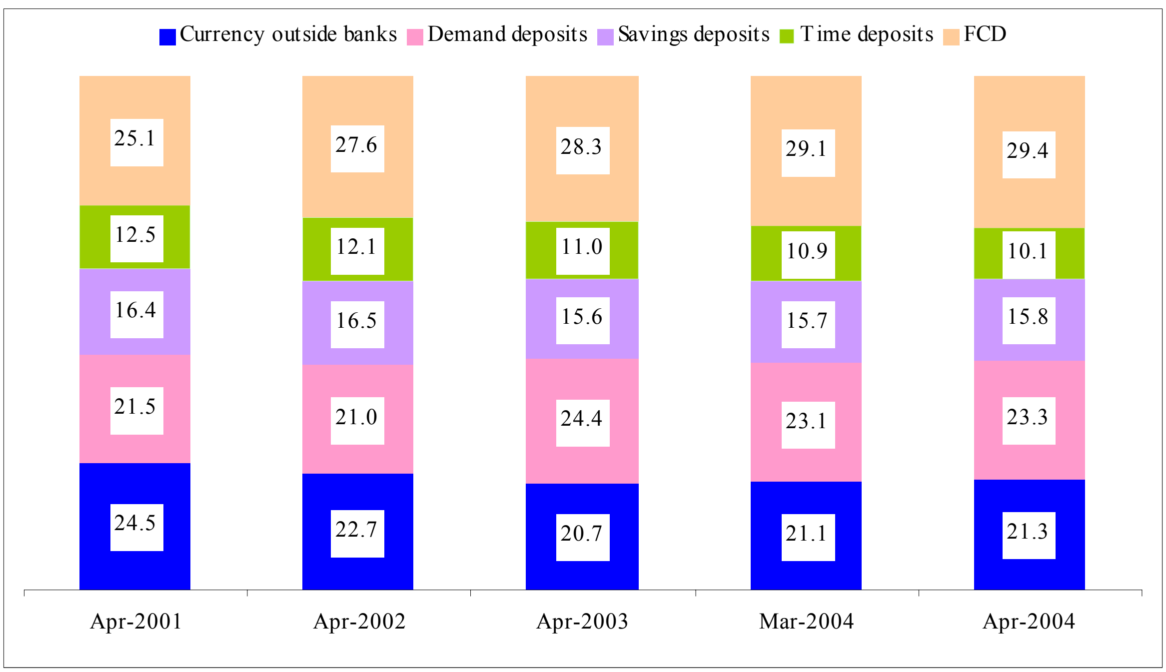


Chart 3: Credit to Private Sector and Net Claims on Government by Banks
(Billions of TZS)

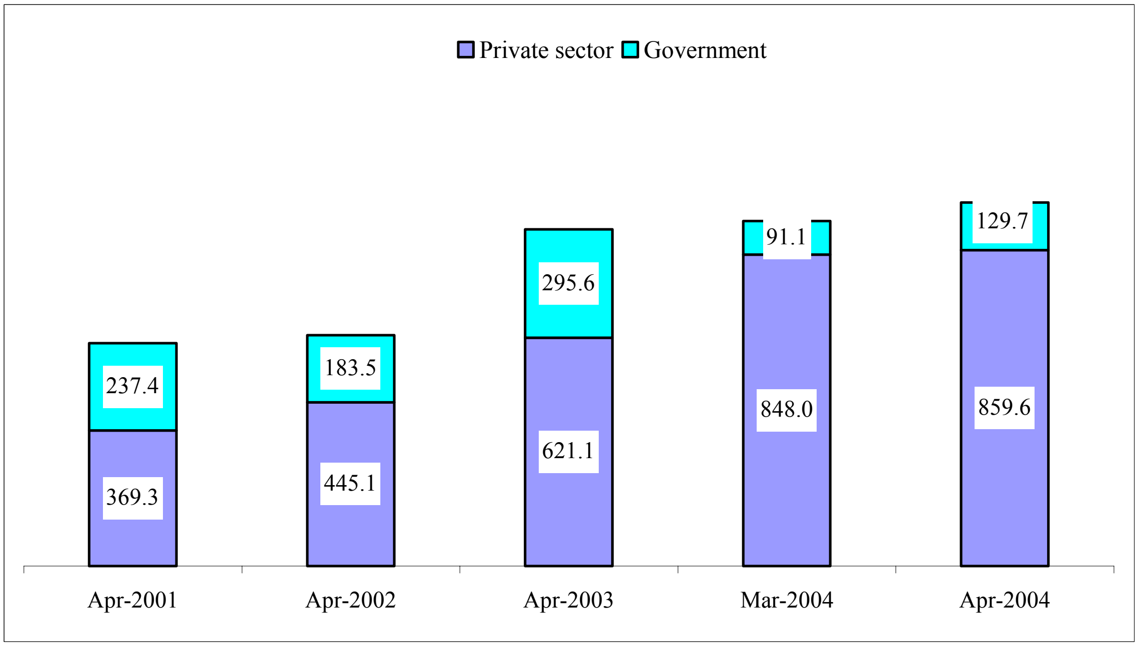


Chart 4: Annual Growth in Monetary Aggregates (M3, M2, M0)

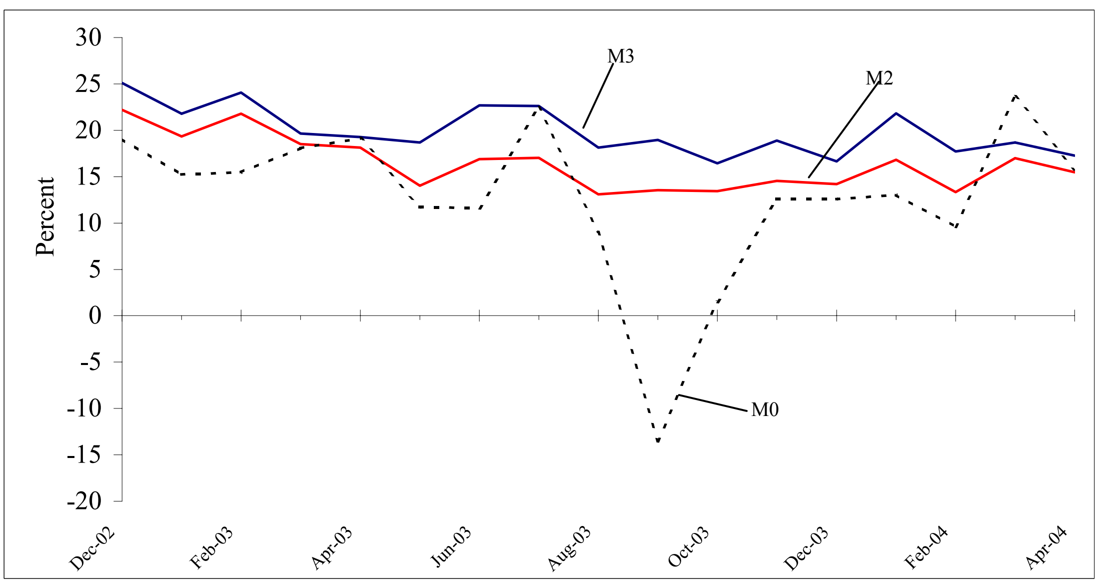


Chart 5: Selected Interest Rates and Inflation
(In Percent)

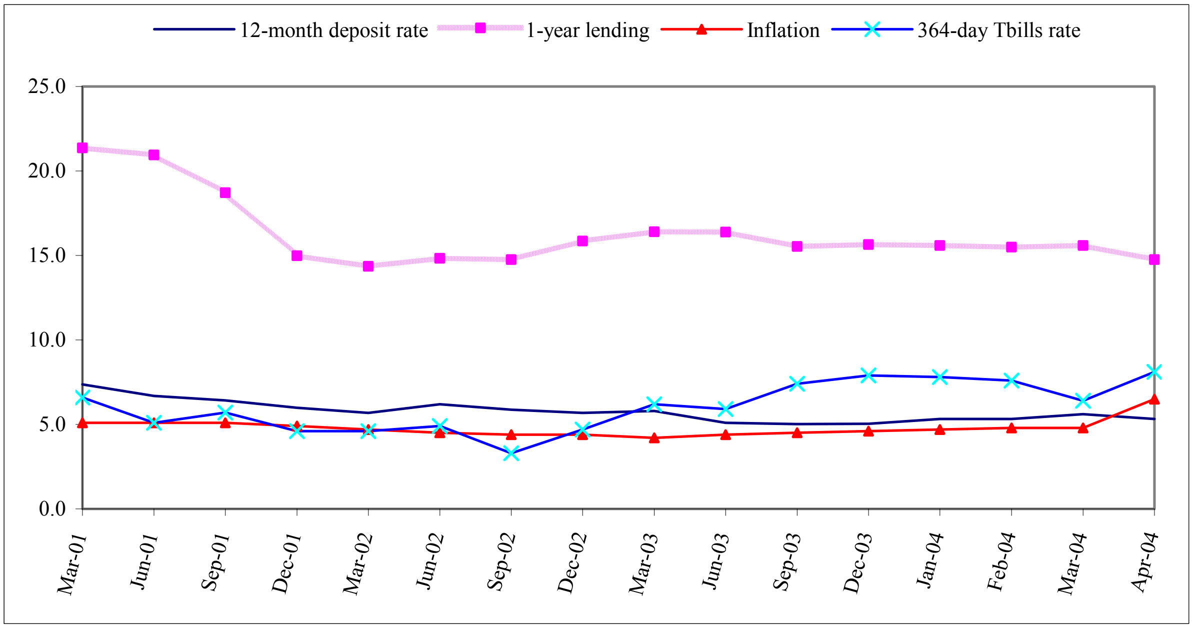
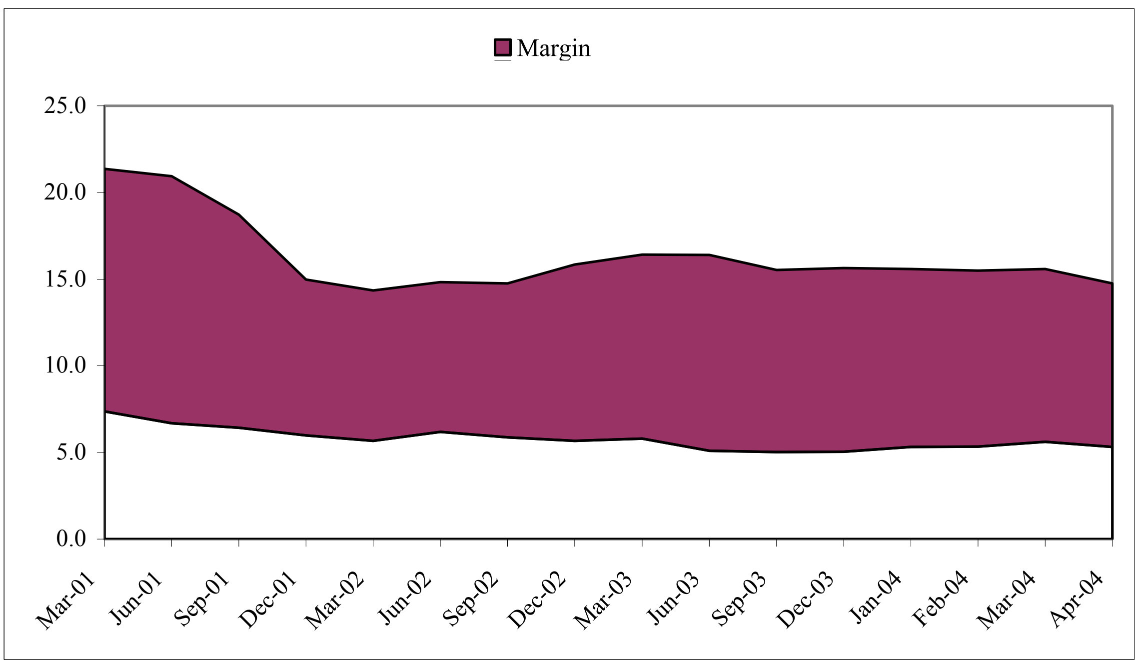


Chart 6: The Margin Between 1-Year Lending Rate and 12-Month Deposit Rate
(In percent)



Appendix 4: Tanzania Monetary Survey

	Dec-01	Dec-02	Jun-03	Dec-03 Prov	Mar-04 Prov	Apr-04 Prov
FOREIGN ASSETS (NET)	1,209,820.45	1,558,627.15	1,871,285.97	2,182,072.03	2,178,747.39	2,141,542.38
Bank of Tanzania	686,927.54	1,022,247.56	1,215,036.04	1,503,460.28	1,505,193.01	1,466,348.23
Net International Reserves	686,927.54	1,022,247.56	1,215,036.04	1,503,460.28	1,505,193.01	1,466,348.23
Foreign Assets	1,059,767.89	1,492,748.54	1,748,059.19	2,167,408.05	2,187,064.96	2,133,804.66
Of which: Gold	29,013.31	26,926.36	28,920.35	0.00	0.00	0.00
Foreign Liabilities	372,840.35	470,500.98	533,023.15	663,947.77	681,871.95	667,456.42
Foreign Exchange Liabilities	60,795.06	78,454.81	114,331.25	208,727.61	202,007.23	193,386.34
Use of Fund Credit	312,045.28	392,046.17	418,691.91	455,220.16	479,864.72	474,070.09
External Arrears	0.00	0.00	0.00	0.00	0.00	0.00
Other Foreign Liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Net Foreign Assets(DMBs)	522,892.90	536,379.59	656,249.93	678,611.75	673,554.38	675,194.15
Net Foreign Exchange	536,012.92	566,029.78	656,448.68	679,166.39	674,038.87	675,459.82
Foreign assets	539,062.60	571,572.63	659,246.95	685,488.31	676,282.01	683,604.29
Foreign Liabilities	3,049.68	5,542.85	2,798.27	6,321.92	2,243.14	8,144.46
Other Foreign Liabilities	13,120.02	29,650.19	198.75	554.64	484.49	265.67
Borrowing from abroad	1,810.06	1,146.15	198.75	554.64	484.49	265.67
Foreign Liabilities	11,309.96	28,504.04	0.00	0.00	0.00	0.00
MEDIUM TERM FOREIGN LIABILITIES	41,911.51	41,823.46	41,801.39	41,672.46	41,220.91	41,150.74
Bank of Tanzania	32,458.87	32,458.87	32,458.87	32,458.87	32,458.87	32,458.87
Total Blocked Accounts	32,458.87	32,458.87	32,458.87	32,458.87	32,458.87	32,458.87
Less: Other Foreign Liabilities	0.00	0.00	0.00	0.00	0.00	0.00
National Bank of Commerce	9,452.64	9,364.59	9,342.52	9,213.59	8,762.04	8,691.87
NBC Deposits Against EPA	9,452.64	9,364.59	9,342.52	9,213.59	8,762.04	8,691.87
DOMESTIC ASSETS (NET)	643,344.70	775,290.82	710,282.74	660,235.05	801,794.74	814,783.57
Domestic Credit	643,713.72	835,276.87	858,204.02	830,062.16	939,053.59	989,330.75
Claims on Government (net)	239,201.43	264,608.62	199,679.43	12,936.96	91,076.17	129,701.48
Claims on Government BOT (net)	-27,181.49	-69,209.25	-117,493.57	-227,637.47	-182,571.35	-118,735.26
Claims on Government BOT	146,618.10	141,265.57	142,712.85	142,010.94	142,010.94	142,010.94
Government Deposits BOT	173,799.59	210,474.82	260,206.42	369,648.41	324,582.29	260,746.20
Claims on Government DMBs (net)	266,382.93	333,817.87	317,173.00	240,574.44	273,647.51	248,436.74
Claims on government DMBs	295,702.93	364,637.63	347,166.00	322,407.44	361,360.51	340,265.74
Deposits	29,320.00	30,819.76	29,993.00	81,833.00	87,713.00	91,829.00
Claims on other public sector	1,018.13	0.00	0.00	0.00	0.00	0.00
Marketing Boards	0.00	0.00	0.00	0.00	0.00	0.00
Cooperatives	2.50	0.00	0.00	0.00	0.00	0.00
Ind & Comm Parastatals	1,015.63	0.00	0.00	0.00	0.00	0.00
Claims on the private sector	403,494.16	570,668.25	658,524.60	817,125.19	847,977.42	859,629.27
Other Items Net	-369.02	-59,986.05	-147,921.29	-169,827.11	-137,258.86	-174,547.18
Money Supply						
M3: MONEY AND QUASI MONEY = M2+5	1,636,730.73	2,047,683.06	2,205,893.98	2,388,316.08	2,477,651.16	2,450,409.33
M2: BROAD MONEY = M1+3+4	1,233,667.02	1,507,386.54	1,558,784.86	1,721,109.85	1,757,204.81	1,730,493.78
M1: NARROW MONEY = 1+2	766,019.90	958,786.56	981,147.73	1,113,379.11	1,096,558.70	1,093,912.85
1.Currency in circulation (outside the Banking system)	411,638.86	495,445.63	473,703.53	553,045.83	523,607.80	523,110.48
Currency outside the Bank of Tanzania	456,205.59	546,615.39	522,561.65	606,592.54	576,337.71	574,271.30
Vault cash with DMBs	44,566.72	51,169.76	48,858.12	53,546.71	52,729.91	51,160.82
2.Demand Deposits	354,381.03	463,340.93	507,444.20	560,333.28	572,950.90	570,802.37
Quasi Money	870,710.83	1,088,896.49	1,224,746.25	1,274,936.97	1,381,092.46	1,356,496.48
3.Time deposits	208,101.43	223,898.73	246,719.61	230,958.84	270,684.31	248,346.71
4.Savings Deposits	259,545.69	324,701.25	330,917.53	376,771.89	389,961.80	388,234.22
5.Foreign currency deposits	403,063.71	540,296.52	647,109.12	667,206.23	720,446.35	719,915.55
VALUATION ACCOUNT (June 94 exch)	174,522.91	244,411.44	333,873.34	412,318.55	461,670.05	464,765.88
Memorandum Item:						
MO: RESERVE MONEY	584,369.10	695,701.24	639,661.82	783,309.00	802,863.94	805,102.53
VC	0.00	0.00	0.00	0.00	0.00	0.00
Annual growth rates in percent						
Extended broad money (M3)	17.10	25.11	22.69	16.64	18.68	17.25
Broad money (M2)	12.81	22.19	16.89	14.18	16.98	15.46
Narrow money (M1)	10.22	25.16	20.30	16.12	20.66	16.13
Reserve money (M0)	5.02	19.05	11.62	12.59	23.60	15.79
The ratio of FCD to M3	24.63	26.39	29.34	27.94	29.08	29.38
TZS/USD exchange rate	919.54	976.65	1,046.52	1,063.60	1,108.41	1,119.50
In millions of USD						
FCD	438.3	553.21	618.34	627.31	649.98	643.07
NIR	747.0	1,046.69	1,161.03	1,413.56	1,357.97	1,309.82
Gross official reserves	1,152.50	1,528.44	1,670.35	2,037.80	1,973.16	1,906.03

Source: Bank of Tanzania

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.

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.

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

The Central Bank's liabilities in the form of: (1) currency in circulation outside the BoT, and (2) deposit money banks' deposits with the BoT.

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

Consists of currency in circulation outside banks and demand deposits.

Broad Money, M2

Is equivalent to narrow money (M1) plus time deposits and savings deposits.

Extended Broad Money, M3

Consists of broad money (M2) plus foreign currency.

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 BoT charges on loans it extends to deposit money banks and government overdraft. It is derived from the weighted average yield of treasury bills of all maturities plus five-percentage points.

International Reserves, or Reserve Assets

Consist external assets that are readily available to and controlled by the BoT 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 BoT 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.

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.