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# MONETARY POLICY STATEMENT

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GOVERNOR  
BANK OF TANZANIA

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*June 2006*





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**The Hon. Zakia Hamdani Meghji (MP),  
Minister for Finance,  
United Republic of Tanzania,  
Dar es salaam.**

Dear Hon. Minister,

### **LETTER OF TRANSMITTAL**

I hereby submit the Monetary Policy Statement (MPS) of the Bank of Tanzania in accordance with the Bank of Tanzania Act, 1995, Section 6 Subsections (1) to (4), as amended.

The Report reviews macroeconomic developments and monetary policy implementation during 2005/06. It then outlines the monetary policy and the measures that the Bank of Tanzania intends to pursue during the fiscal year 2006/07, aimed at consolidating and maintaining price stability and promoting a high and sustainable rate of economic growth for the country.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Daudi T.S. Ballali", enclosed within a hand-drawn oval.

**Daudi. T.S. Ballali  
Governor  
Bank of Tanzania**





## CONTENTS

LETTER OF TRANSMITTAL .....	i
LIST OF CHARTS AND TABLES .....	iv
1.0 INTRODUCTION .....	1
2.0 MACROECONOMIC POLICY FRAMEWORK FOR 2005/06.....	4
2.1 Macroeconomic Objectives Of The Government For 2005/06.....	4
2.2 Monetary Policy Objectives For 2005/06.....	4
2.3 Monetary Policy Implementation During 2005/06.....	7
3.0 REVIEW OF MACROECONOMIC DEVELOPMENTS DURING 2005/06.....	11
3.1 Gross Domestic Product (Gdp).....	11
3.2 Inflation Developments.....	12
3.3 Monetary Developments.....	14
3.4 Government Budgetary Operations .....	17
3.5 Foreign Exchange Operations And Reserve Management.....	19
3.6 External Sector Developments.....	20
3.7 National Payment Systems (Nps) .....	24
3.8 Economic Developments In Zanzibar .....	25



4.0	MACROECONOMIC POLICY FRAMEWORK FOR 2006/07 .....	30
4.1	Macroeconomic Objectives Of The Government.....	30
4.2	Monetary Policy Objectives 2006/07 .....	31
4.3	Monetary Policy Implementation Outlook.....	32
5.0	CONCLUSION.....	35
	APPENDICES.....	36
	GLOSSARY.....	45



## LIST OF CHARTS AND TABLES

<b>Table 1:</b> Annual Growth Rates of Real GDP by Sectors and their Contributions (2003- 2005).....	11
<b>Chart 1:</b> Tanzania – Annual Growth Rates of Monetary Aggregates.....	15
<b>Chart 2:</b> Tanzania – Commercial Banks Financial Intermediation.....	16
<b>Chart 3:</b> Interest Rate Margin.....	17
<b>Chart 4:</b> Tanzania: Revenue Performance.....	19
<b>Table 2:</b> Tanzania: Current Account Balance.....	21
<b>Chart 5:</b> Zanzibar Government Revenue Performance.....	26
<b>Table 3:</b> Trade Account Balance.....	27
<b>Table 4:</b> Zanzibar Imports by Major Categories.....	29



## PART I

### 1.0 INTRODUCTION

The annual Monetary Policy Statement stipulates the primary mission of the Bank of Tanzania in conducting monetary policy, and describes the modalities of monetary policy implementation.

In this Monetary Policy Statement, Part II of the report presents the macroeconomic policy framework, and reviews the monetary policy implementation during 2005/06, while Part III covers macroeconomic developments during the period between July 2005 and April 2006. However, wherever data is available, the analysis is extended to May 2006.

Part IV of the report presents the macroeconomic policy framework for 2006/07, and outlines the monetary policy measures that the Bank of Tanzania, intends to implement during the year in order to consolidate and maintain price stability, with the objective of promoting a high and sustainable rate of economic growth.

#### 1.1 The Mission of the Bank of Tanzania

The Bank's mission is:

*"To maintain price stability that is conducive to the attainment of financial and macroeconomic stability, with the objective of promoting a high and sustainable rate of economic growth".*





In conducting monetary policy, the Bank of Tanzania seeks to achieve the following specific goals:

- A gradual and acceptable rate of increase in the money supply, which will bring about price stability and meet the demands of the economy;
- A rate of increase in domestic bank credit which is consistent with the monetary policy objectives;
- Market determined interest rates;
- A level of official foreign reserves sufficient to enable the country to meet import requirements, and external payment obligations for a comfortable period of time, during the unexpected balance of payments difficulties;
- Market determined exchange rates that are consistent with macroeconomic fundamentals; and
- Consolidate and maintain stability in the banking and financial system, through effective enforcement of prudential regulations, promoting well functioning financial markets and an efficient national payments system.



## **THE MODALITIES OF MONETARY POLICY IMPLEMENTATION**

- *At the beginning of every fiscal year, the Bank of Tanzania prepares Monetary Policy Statement, which states annual monetary policy targets.*
- *The Statement is approved by the Board of Directors of the Bank of Tanzania, and submitted to the Minister for Finance who tables it in the Parliament at its subsequent session.*
- *The same procedure is followed in the submission of half-year review of monetary policy implementation.*
- *The Monetary Policy Committee – a Standing Committee of the Board - chaired by the Governor, closely monitors monetary policy implementation on a monthly basis on behalf of the Board of Directors.*
- *The Monetary Policy sub-committee discusses, on weekly basis, progress on monetary policy implementation and plans for the subsequent week.*
- *A technical committee reviews liquidity developments daily within the framework of monetary targets.*



## PART II

### 2.0 MACROECONOMIC POLICY FRAMEWORK FOR 2005/06

#### 2.1 Macroeconomic Objectives of the Government for 2005/06

The Government policies for 2005/06 focused on the promotion of broad based economic growth and poverty reduction, while consolidating the gains from macroeconomic stability. In 2005/06, the government had the following macroeconomic objectives.

- A real GDP growth of 6.9 percent in 2005 and 7.0 percent in 2006;
- To maintain inflation rate at 4.0 percent until end June 2006;
- Domestic recurrent revenue equivalent to 13.8 percent of GDP;
- Overall budget deficit of 7.2 percent of GDP, with Government domestic borrowing targeted at 1.1 percent of GDP; and
- Maintaining minimum official foreign reserves equivalent to six months of imports of goods and services.

#### 2.2 Monetary Policy Objectives for 2005/06

The monetary stance for a given year is formulated in line with the macroeconomic objectives of the Government. The Bank of Tanzania set out to achieve the following objectives during 2005/06:





- Containing the expansion of reserve money (M0) at 26.6 percent between end June 2005 and end June 2006;
- Limiting the annual growth rates of both broad money supply, M2 and extended broad money, M3 at 27 percent by end June 2006;
- Allowing commercial banks credit to the private sector to grow at an annual rate of 33 percent by end-June 2006; and
- Maintaining an adequate level of foreign reserves to cover not less than six months of imports of goods and services.

### **Credit Policy**

The credit policy of the Bank of Tanzania aims at increasing the flow of credit to the private sector in order to support the anticipated economic growth during the year. Accordingly, credit to the private sector was projected to grow by 33 percent between June 2005 and June 2006 being an increase of TZS 402.4 billion. Meanwhile, the Government was expected to reduce its borrowing from the banking system to allow the release of more resources to the private sector.

### **Interest Rate Policy**

Interest rates are market determined in Tanzania, although interest rates applied by commercial banks are still influenced by the remaining structural impediments in the economy that contribute





to risks in providing banking services. Although the gap between the deposit and lending rates is narrowing, the spread is still wide due to structural bottlenecks in the economy. However, the situation is expected to improve owing to the implementation of on-going reforms related to financial intermediation under the second generation financial sector reforms.

### **Foreign Exchange Policy**

The Bank of Tanzania exercises a free floating exchange rate policy, and intervenes in the market as a buyer or seller of last resort, without comprising the target on foreign exchange reserves. Also, the Bank ensures that external sector competitiveness is maintained, without prejudice to the primary objective of price stability.





## 2.3 Monetary Policy Implementation During 2005/06

### An Overview

Significant progress has been recorded on the conduct of monetary policy over the period under review, which helped to maintain the momentum of macroeconomic stability in the economy. Nevertheless, the persistent increase of oil prices in world market, coupled with the delayed and below average rainfall in most areas of the country during the period under review posed a threat for meeting the real GDP growth and inflation targets for 2005/06.

The impact of drought on agricultural production and hydropower generation is estimated to have slowed down economic growth from the earlier projection of 6.9 percent for 2005 to 6.8 percent, and caused a revision of real GDP growth for 2006 to 5.9 percent from 7.0 percent projected earlier.

The annual inflation rate, which has been around 4 percent for the past three years, began to move-upwards from 4.2 percent in June 2005 to 5.0 percent in December 2005, and increased further to 6.9 percent in April 2006. The inflationary pressure emanated from a continuous rise in world oil prices, food prices resulting from food shortages, and excess liquidity in the economy which pushed prices up. The excess liquidity was mainly on account of fiscal operations notably higher than projected government expenditure, mainly on account of payment to the pensioners of the East Africa Community,





delayed general elections, and purchase of thermal electricity from IPTL.

In response to excess liquidity in the economy above the desired levels, the Bank of Tanzania tightened its monetary policy stance in order to dampen inflationary pressure.

### **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.*
- *The Bank of Tanzania controls inflation by influencing the growth of money supply. The Bank of Tanzania focuses on the growth of broad money-M2, which is defined as currency in circulation outside banks, and total private 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, the Bank targets reserve money, which is directly related to money supply through the money multiplier. Reserve money is defined as the liabilities of central bank, which include currency outside the central bank and deposit money banks' reserves held by the central bank.*



## Liquidity Management

During July 2005 to April 2006, the Bank scaled up its efforts to reduce the excess liquidity in the economy through increased sales of Treasury bills and bonds, repurchase agreements with commercial banks, and sales of foreign exchange to complement mopping up efforts when necessary.

## Open Market Operations

The Bank sold Treasury bills and bonds worth TZS 2,382.7 billion during the period under review, compared to TZS 2,193.3 billion during the same period of 2004/05, being an increase of 8.6 percent.

Demand for Treasury bills, as measured by the amount tendered, amounted to TZS 3,165.0 billion during July 2005 to May 2006, compared with TZS 1,994.9 billion registered in the corresponding period of previous year. As a result of excess liquidity in the economy, the weighted average yield for all Treasury bills maturities rose from 10.3 percent in July 2005 to the highest level of 14.9 percent in January 2006, but declined back to 10.2 percent in May 2006.

Between July 2005 and May 2006, the Bank conducted repurchase agreements worth TZS 512 billion with commercial banks to complement mopping up efforts, being an increase of 31.6 percent over the previous year.





In a bid to encourage public participation, widen the circle of direct investors in the Treasury bills market, and thus increase competition, the Bank reduced substantially the minimum bid amount from TZS 50.0 million to TZS 5.0 million since March 2006.



## PART III

### 3.0 REVIEW OF MACROECONOMIC DEVELOPMENTS DURING 2005/06

#### 3.1 Gross Domestic Product

Preliminary statistics indicate that, real Gross Domestic Product (GDP) grew by 6.8 percent in 2005, compared with the growth of 6.7 percent in 2004. Agriculture sector contributed 45.6 percent of GDP (at constant price) in 2005. The sector grew at slower rate of 5.2 percent compared to 5.8 percent recorded in the preceding year, mainly due to drought conditions experienced towards the end of 2005. However, all other sectors recorded higher growth rates compared with the rates recorded in the preceding year (**Table 1**).

**Table 1: Annual Growth Rates of Real GDP by Sectors and their Contributions (2003- 2005)**  
(In Percent)

Economic Activity	2003		2004		2005	
	Growth Rate	Contribution	Growth Rate	Contribution	Growth Rate	Contribution
Agriculture	4.0	46.8	5.8	46.3	<b>5.2</b>	45.6
Mining and Quarrying	17.0	3.0	15.4	3.2	<b>15.7</b>	3.5
Manufacturing	8.6	8.6	8.6	8.8	<b>9.0</b>	9.0
Electricity and Water	4.9	1.6	4.5	1.6	<b>5.1</b>	1.6
Construction	11.0	5.2	11.0	5.5	<b>11.9</b>	5.7
Trade, Hotel and Restaurants	6.5	16.7	7.8	17.0	<b>8.2</b>	17.2
Transport and Communication	5.1	5.5	6.0	5.4	<b>6.4</b>	5.4
Financial and Business Services	4.4	10.0	4.4	9.7	<b>5.3</b>	9.6
Public Administration and Other Services	4.1	7.2	4.3	7.1	<b>5.1</b>	7.0
Less Financial Services Indirectly Measured	3.5	-4.6	4.1	-4.5	<b>4.9</b>	-4.4
Total GDP	5.6	100.0	6.7	100.0	<b>6.8</b>	100.0



## 3.2 Inflation Developments

The drought conditions experienced during the last quarter of 2005 has adversely affected food production and hydropower generation. This resulted into high food prices and high cost of power generation. The situation was worsened by the persistent increase in oil prices, and excess liquidity in the economy that exerted upward pressure on domestic prices. As a result headline inflation increased to 6.9 percent in April 2006 from 5.0 percent in December 2005.

The rate of inflation was more pronounced in food items, which rose sharply from 7.2 percent in December 2005 to 11.2 percent in April 2006, while a slow down was registered in non-food inflation, which moved from 3.6 percent to 1.8 percent during the same period.

The upward trend of inflationary pressure necessitated the Bank of Tanzania to adopt a tighter monetary policy stance during the period under review, in order to safeguard the macroeconomic stability so far achieved.



## 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. 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.*

Meanwhile, the government has taken a number of measures aimed at averting famine and dampening the impact of drought on inflation. These measures include provision of temporary import tax waiver on maize as well as temporary reduction of import duty on rice.



In addition, the government has also been distributing subsidized food from its strategic grain reserves and food relief to the needy population.

### 3.3 Monetary Developments

#### Money Supply

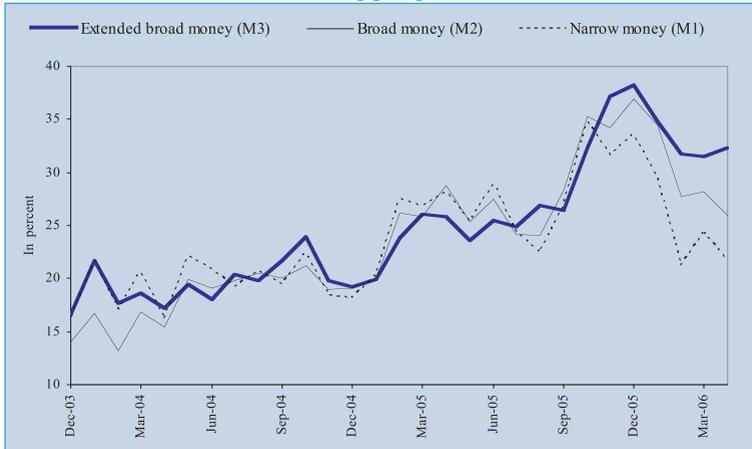
Liquidity management measures taken by the Bank through open market operations and sterilization through sales of foreign exchange contributed to the containment of monetary expansions.

During July 2005 to April 2006, extended broad money (M3) increased by TZS 814.7 billion to TZS 4,081.1 billion, while broad money supply (M2), which excludes foreign currency deposits, rose by TZS 439.9 billion to TZS 2,806.3 billion. During the corresponding period of 2004/05, M3 increased by TZS 480.8 billion and M2 by TZS 372.9 billion.

The growth rates of M3 and M2 registered in the year ending April 2006, were 32.3 percent and 25.9 percent, respectively, compared to the target of 26 percent each. The increase in money supply during the year to April 2006, was mainly explained by higher commercial banks credit to the private sector and the accumulation of net foreign assets of the banking system. The net foreign assets of the banking system increased by TZS 812.3 billion, mainly on account of IMF debt cancellation.



**Chart 1: Tanzania – Annual Growth Rates of Monetary Aggregates**



### Private Sector Credit Developments

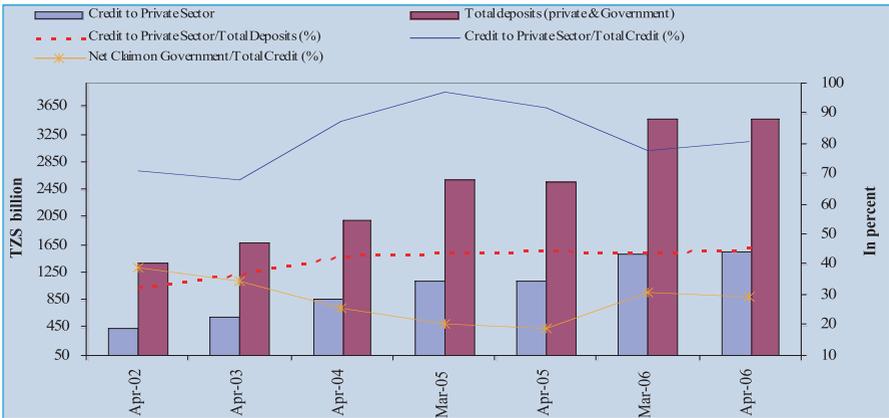
Commercial banks total deposits increased by 34.6 percent during the year ending April 2006 to reach a stock of TZS 3,473.9 billion, while domestic credit expanded by 55.5 percent to a stock of TZS 1,951.7 billion. Credit to private sector grew at an annual rate of 36.8 percent, which was well above the target of 33 percent. By end April 2006, the outstanding stock of private sector credit was TZS 1,574.8 billion, which accounted for 80.7 percent of the domestic credit.

The major factors behind the strong growth of credit to private sector include, the strong economic expansion during 2005 at 6.8 percent coupled with an increase in the number of credit worthy clients following improvement in the business environment, and privatisation of state owned firms. The existence of credit guarantee



schemes for exporters has enhanced the flow of credit to private businesses.

**Chart 2: Tanzania – Commercial Banks Financial Intermediation**



As at end April 2006, the sectors that benefited from domestic lending include trade, which was holding 25.7 percent of total private sector credit, manufacturing 19.3 percent, agriculture 8.2 percent, transport 8.2 percent, while building and construction held 4.8 percent.

### Interest Rate Developments

During the period under review, improvements were noted in interest rate structure of the banking system. The weighted average interest rate on fixed (time) deposits improved from 4.48 percent in July 2005 to 5.71 percent in April 2006, while lending rates declined though marginally, from an average of 14.97 percent in July 2005 to 14.65 percent in April 2006. Meanwhile, 12-month deposit rate improved



significantly from 5.69 percent to 7.63 percent in the same period, whereas the 1-year lending rate rose slightly from 16.14 percent in July 2005 to 16.29 percent in April 2006. Although, the margin between 12 - month time deposit rate and 1 - year lending rate shrunk from 10.45 percentage points in July 2005 to 8.66 percentage points in April 2006, it is still large. The factors behind the wide interest rate margin include high cost of lending, lengthy litigation procedures and non-repayment culture of most borrowers.

**Chart 3: Interest Rate Margin**



### 3.4 Government Budgetary Operations

The performance of the government budget during the ten months of 2005/06 was also affected by the drought, which raised the need to facilitate food supplies through waiver and reduced import duties



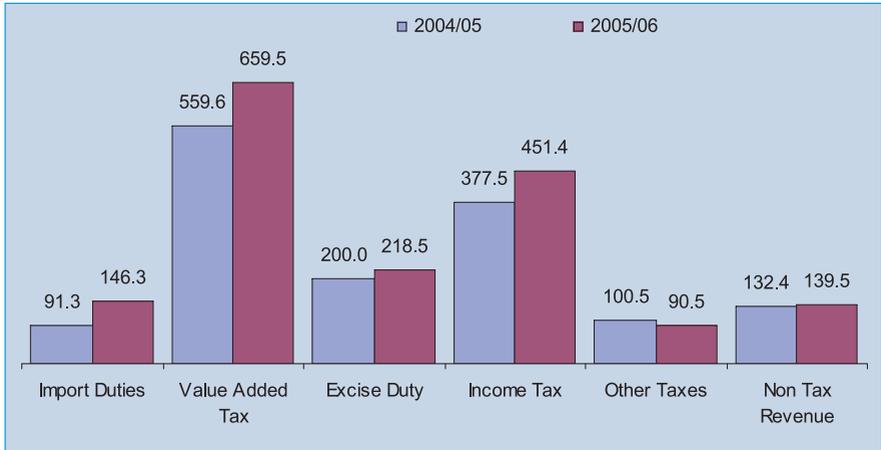
on maize and rice, respectively. Also the Government provided funds to enable TANESCO import oil for thermal power generation and purchase of electricity from IPTL, in order to supplement the meagre hydroelectricity generated after the drought.

As a result, budgetary operations resulted into an overall deficit before grants (on cheques issued basis) of TZS 1,602.7 billion by end of April 2006. However, the overall deficit was reduced to TZS 792.1 billion after considering grants amounting to TZS 810.6 billion. The budget deficit was financed by foreign borrowing amounting to TZS 599.0 billion, and domestic borrowing of TZS 193.1 billion.

Despite the drought impact, revenue collections surpassed their targets. Total revenue collections amounted to TZS 1,705.7 billion, being above the target by TZS 7.5 billion, and represented 13.6 percent of GDP. Therefore, the revenue target of 13.8 percent of GDP for 2005/06 is likely to be achieved. The improved revenue collections during the year is mainly attributed to tax reform measures and close monitoring of tax payers' compliance.



**Chart 4: Tanzania: Revenue Performance  
July - April 2004/05 vs 2005/06  
(Billions of TZS)**



With regard to expenditure, the Government continued to give priority to projects that facilitate the achievement of the National Strategy for Growth and Reduction of Poverty (NSGRP) objectives. Government expenditure reached TZS 3,289.5 billion by April 2006, compared with the target of TZS 4,035.1 billion, for the year.

### **3.5 Foreign Exchange Operations and Reserve Management**

During July 2005 to April 2006, there was a sharp increase in the demand for foreign exchange in market, associated with the increased importation of oil for thermal power generation, generators, food, as well as construction and transport equipments. This demand was in excess of supply of foreign exchange by the private sector. As a result,



the Bank of Tanzania had to meet the demand by selling USD 423 million on net basis, which was more than twice the amount of USD 149.0 million sold in 2004/05. Despite the substantial sale of foreign exchange, gross international reserves increased from USD 1,914 million in July 2005 to USD 2,187.4 million in April 2006, mainly on account of the improvement in total exports. The exchange rate of the shilling against the US dollar depreciated by 2.7 percent between July and December 2005, owing to the sharp increase in imports by 15.7 percent, while exports of goods and services increased by only 10.7 percent. The high demand for imports continued through May 2006, causing the Tanzania shilling to depreciate more between January and May 2006.

### **3.6 External Sector Developments**

During the year ending April 2006, the overall Balance of Payments improved to a surplus of USD 365.8 million from a deficit of USD 49.8 million recorded in the corresponding period in 2005. The improvement resulted from good performance of capital and financial account, particularly on Foreign Direct Investments (FDI) and Project grants. During the review period, FDI increased to USD 482.9 million from USD 471.1 million recorded in the previous year, while project grants rose by 30.8 percent to USD 422.6 million over the same period.

On the other hand, the current account of the balance of payments deteriorated on account of the decline in current transfers, coupled with a sharp increase in the value of imports of goods and services.



The current account recorded a deficit of USD 806.7 million compared to a deficit of USD 321.6 million during a similar period in 2004/05. During the period under review, the Bank of Tanzania's Stock of gross international official reserves stood at US\$ 2,380.4 million from USD 2,116.2 million recorded in April 2005. The level of reserves was enough to cover for about 4.5 months of imports of goods and services compared with 6.1 months realised in the previous year.

**Table 2: Tanzania: Current Account Balance**

**Million**

	April				Year Ending April		
	2003	2004	Mar-06	Apr-06	2005 <sup>P</sup>	2006 <sup>P</sup>	% Change
<b>Goods Account (net)</b>	<b>-67.1</b>	<b>-60.6</b>	<b>-119.9</b>	<b>-101.2</b>	<b>-902.9</b>	<b>-1,068.5</b>	<b>18.3</b>
Exports	95.5	102.2	124.8	127.2	1,559.8	1,724.9	10.6
Imports	162.6	162.9	244.7	228.4	2,462.7	2,793.4	13.4
<b>Services Account (net)</b>	<b>0.8</b>	<b>9.4</b>	<b>3.4</b>	<b>-9.3</b>	<b>71.9</b>	<b>-24.1</b>	<b>-133.5</b>
Receipts	62.2	72.6	89.6	82.1	1,077.3	1,194.9	10.9
Payments	61.4	63.2	86.3	91.5	1,005.3	1,219.0	21.2
<b>Goods and services (net)</b>	<b>-66.3</b>	<b>-51.2</b>	<b>-116.6</b>	<b>-110.5</b>	<b>-831.0</b>	<b>-1,092.6</b>	<b>31.5</b>
Exports of goods and services	157.7	174.8	214.4	209.4	2,637.1	2,919.8	10.7
Imports of goods and services	224.0	226.1	331.0	319.9	3,468.0	4,012.4	15.7
<b>Income Account (net)</b>	<b>-12.7</b>	<b>-15.4</b>	<b>-15.0</b>	<b>-9.8</b>	<b>-188.5</b>	<b>-228.4</b>	<b>21.2</b>
Receipts	2.8	3.1	6.2	9.0	75.7	83.2	9.8
Payments	15.5	18.5	21.2	18.8	264.2	311.6	17.9
<b>Current Transfers (net)</b>	<b>16.8</b>	<b>30.2</b>	<b>9.0</b>	<b>27.3</b>	<b>697.9</b>	<b>514.3</b>	<b>-26.3</b>
Inflows	22.1	35.8	16.6	35.4	764.3	597.4	-21.8
o/w General Government	16.5	30.2	10.3	29.3	695.9	526.3	-24.4
Outflows	5.3	5.6	7.5	8.2	66.4	83.2	25.2
<b>Current Account Balance</b>	<b>-62.2</b>	<b>-36.4</b>	<b>-122.6</b>	<b>-93.1</b>	<b>-321.6</b>	<b>-806.7</b>	<b>-</b>

*Source: Bank of Tanzania*

*P = Provisional. Totals may not add up due to rounding of numbers*



## Exports Performance

During the year ending April 2006, Tanzania exported goods and services worth USD 2,919.8 million, representing an improvement of 10.7 percent over the previous year's performance. Travel and gold remained the dominant export categories accounting for about 51 percent of the total export earnings followed by traditional exports which contributed to about 12 percent.

Goods exports increased by 10.6 percent to USD 1,724.9 million compared to the level recorded in the previous corresponding period. Traditional exports grew but at a decreasing rate, largely due to a significant fall in export volumes of coffee, tea and sisal. Conversely, manufactured goods recorded improved performance with its share to total exports increasing to 10.5 percent from a share of 7.5 percent during the year ending April 2005.

In a bid to promote exports, the Government continues to encourage and attract potential investors to invest in the Export Processing Zones (EPZ), Special Economic Zones (SEZ), where special incentives are given to stimulate manufacturing and agro-processing for exports targeting first AGOA and EBA markets, as well as the rest of the world.

Services receipts increased by 10.9 percent to USD 1,194.9 million during the review period, mainly due to the rise in travel (tourism)



and transportation receipts. The surge in travel receipts from USD 670.9 million in the year ending April 2005 to USD 758.0 million, is consistent with the increased investments in the tourism sector. On the other hand, the surge in transportation receipts is largely attributed to the improved services at the Dar es Salaam port that has led to increase in transit cargo to and from the neighboring countries.

## Imports

During the period under review, import bill of goods and services stood at USD 4,012.4 million, representing an increase of 15.7 percent over the previous year's imports.

Import of goods went up by 13.4 percent to USD 2,793.4 million, largely due to increase in importation of capital, intermediate and consumer goods. Capital goods imports went up by 19.2 percent to USD 1,135.3 million following a huge increase in importation of transport, building and construction equipment; and machinery. Likewise, importation of intermediate goods increased by 14.4 percent from USD 762.2 million last year to USD 872.0 million. The increase in capital and intermediate goods is largely attributed to the expansion of manufacturing, construction and tourism activities. In addition, the notable increase in intermediate goods imports was also attributed to a surge in oil prices in the world market. As a result, oil imports went up substantially from USD 473.8 million in 2004/05 to USD 940.1 million in 2005/06. Likewise, consumer goods imports



recorded a 5.1 percent increase to USD 786.2 million following a rise in imports of food and foodstuff to address food shortage in the country.

Services payments also increased by 21.2 percent to USD 1,219.0 million, largely on account of the increase in payments for construction fees abroad, freight charges, travel and insurance services. While the increase in freight payments is in line with the increase in merchandise imports, the surge in insurance payments is partly due to the increase in Foreign Direct Investment (FDI), which resulted into the growth of re-insurance activity. On the other hand, the rise in construction payments is largely associated with the expansion in construction activities in the country.

### **3.7 National Payment Systems (NPS)**

During the period under review, the Bank of Tanzania continued with the implementation of measures aimed at modernization of National Payment Systems with a view to further improve and sustain efficiency in payments, clearing and settlement operations in the country in line with best practices. Specifically, the Bank continued to maintain and support the existing payment systems, including the Tanzania Inter-bank Settlement System (TISS), cheques clearing system, and the inter-bank electronic fund transfer system. Also, the Bank facilitated development of new non-cash payment instruments and services being introduced in the market. Currently, commercial



banks have installed 123 Automatic Teller Machines (ATMs) in the country, serving over 400,000 customers.

### 3.8 Economic Developments in Zanzibar

#### Zanzibar Government Budgetary Developments

During July 2005 to April 2006, Zanzibar Government budgetary performance on cheques issued basis recorded an overall deficit before grants of TZS 53 billion. However, considering grants amounting to TZS 14.8 billion, the deficit was reduced to TZS 38.2 billion. This deficit was financed by foreign resources amounting to TZS 25.0 billion, and the balance was from domestic non-banks.

#### Revenue Performance

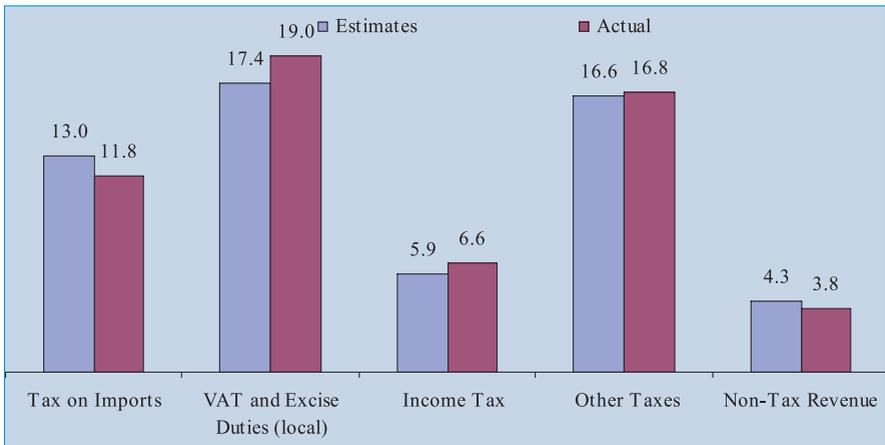
Revenue collections between July 2005 and April 2006 amounted to TZS 58.0 billion slightly above the target of TZS 57.2 billion. The performance was mainly attributed to enhanced tax collection measures undertaken by ZRB and TRA.

Tax revenue amounted to TZS 54.2 billion, accounting for 93.4 percent of the total revenue, while non -tax revenue was TZS 3.8 billion or 6.6 percent of total revenue. Import duties amounted to TZS 11.8 billion, being below the target of TZS 13.0 billion, mainly on account of a decline in imports. VAT and exercise duty (local) collections amounted to TZS 19.0 billion, which is above the target of TZS 17.4 billion. Income tax collections amounted to TZS 6.6 billion against the target of TZS 5.7 billion (**Chart 5**).





**Chart 5: Zanzibar Government Revenue Performance  
July - April 2005/06 in TZS Billion**



### Expenditure Performance

During the period July 2005 to April 2006, government expenditure was TZS 111.0 billion, well above the target of TZS 89.7 billion. This outcome was made possible on account of more than expected donor funds inflows for development projects. Recurrent expenditure amounted to TZS 74.8 billion; accounting for 67.3 percent of total expenditure, and the balance was incurred for development projects. Wages and salaries amounted to TZS 39.3 billion.



## Trade Developments

During the year ending April 2006, the deficit in the trade balance deteriorated by 12.1 percent to USD 48.6 million from USD 43.4 million, registered in the corresponding period in 2005. The deterioration was associated mainly with a hike in foreign services payments (Table 3).

**Table 3: Trade Account Balance**  
Millions of USD

ITEM	2005			2006p				Year Ending April			Monthly %Change	Annual % Change
	March	April	Dec	Jan	Feb	March	April	2004	2005	2006p		
Exports	5.185	4.801	6.654	8.874	6.806	6.871	6.494	52.331	60.443	91.151	-5.5	50.8
Goods	0.265	0.202	0.520	2.234	0.415	0.483	0.243	14.071	9.010	12.505	-49.7	38.8
Services	4.920	4.598	6.134	6.639	6.391	6.388	6.251	38.259	51.434	78.646	-2.1	52.9
Imports	8.870	9.606	7.578	10.313	10.918	9.508	10.230	92.751	103.827	139.798	7.6	34.6
Goods (f.o.b)	6.401	6.507	3.589	5.801	6.393	5.166	5.787	64.585	75.600	78.060	12.0	3.3
Services	2.469	3.099	3.989	4.512	4.526	4.342	4.444	28.166	28.228	61.738	2.3	118.7
Trade Balance	-3.685	-	-	-1.440	-4.112	-2.637	-3.736	-	-43.384	-48.647	41.7	12.1
		4.805	0.924					40.420				

*Source: Tanzania Revenue Authority.*

*P = Provisional*

## Exports Performance

During the period under review, exports of goods and services improved substantially by 50.8 percent, to USD 91.2 million compared to USD 60.4 million registered in the corresponding period in 2005.



The increase was attributed to increased receipts from services sector; mainly from tourism activities, which accounted for 86.3 percent of total export receipts. Services realised USD 78.6 million from USD 51.4 million recorded in corresponding period in the previous year due to increase of tourism - oriented services. Cloves exports fetched USD 9.5 million or 10.4 percent of total exports of goods and services. Seaweeds exports amounted to USD 1.9 million, representing 2.1 percent of total exports. Other exports including manufactured goods and fish & fish products amounted to USD 1.1 million.

## Imports

During the period under review, Zanzibar imports of goods and services grew by 34.6 percent to USD 139.8 million from USD 103.8 million recorded in corresponding period in 2005. The increase was attributed to increased importation of capital and intermediate goods largely machinery, construction materials to cater for booming construction activities; and increase of oil import bill following the persistent increase of world oil prices (**Table 4**).



**Table 4: Zanzibar Imports by Major Categories**

**Millions of USD**

IMPORT CATEGORY	2005			2006p				Year Ending April			Monthly	Annual
	March	April	Dec	Jan	Feb	March	April	2004	2005	2006p	%Change	%Change
<b>CAPITAL GOODS</b>	3.5	3.1	1.1	2.0	2.7	1.9	2.2	24.4	30.6	33.2	15.2	8.4
Transport Equipments	1.8	0.9	0.4	0.7	1.1	0.6	0.8	11.4	8.7	9.0	44.0	3.2
Building and Constructions	0.5	0.5	0.2	0.5	0.4	0.5	0.5	2.6	7.5	8.0	-11.5	6.8
Machinery	1.2	1.7	0.5	0.8	1.2	0.8	0.9	10.4	14.3	16.1	12.6	12.5
<b>INTERMEDIATE GOODS</b>	1.6	2.1	1.3	2.9	2.7	2.2	2.6	16.0	24.4	28.3	18.2	16.1
Oil imports	1.4	1.7	1.0	2.5	2.1	1.8	2.2	11.6	17.9	23.8	17.7	33.0
Fertilizers	0.0	0.0	0.0	...	...	...	...	...	...	...	...	...
Industrial raw materials	0.2	0.4	0.3	0.5	0.6	0.4	0.5	4.4	6.4	4.5	20.9	-30.8
<b>CONSUMER GOODS</b>	1.9	2.0	1.5	1.4	1.6	1.5	1.5	30.6	28.1	24.3	-1.1	-13.5
Food and food stuffs	1.3	1.1	0.8	0.2	0.9	0.6	0.6	20.2	15.5	13.4	-0.8	-13.3
All other consumer goods	0.6	0.8	0.7	1.2	0.7	1.0	0.9	10.4	12.7	10.9	-1.2	-13.8
<b>GRAND TOTAL (CIF)</b>	<b>7.0</b>	<b>7.2</b>	<b>3.9</b>	<b>6.4</b>	<b>7.0</b>	<b>5.7</b>	<b>6.4</b>	<b>71.0</b>	<b>83.1</b>	<b>85.8</b>	<b>12.0</b>	<b>3.3</b>
<b>GRAND TOTAL (FOB)</b>	<b>6.4</b>	<b>6.5</b>	<b>3.6</b>	<b>5.8</b>	<b>6.4</b>	<b>5.2</b>	<b>5.8</b>	<b>64.6</b>	<b>75.6</b>	<b>78.1</b>	<b>12.0</b>	<b>3.3</b>

*Source: Tanzania Revenue Authority*

*P = provisional*

*... = Very small value*

## Services Account Balance

The service account recorded a lower surplus of USD 16.9 million during the year ending April 2006, compared to USD 23.2 million registered in a corresponding period in 2005. The slide was attributed to a hike in foreign payments, mainly travel-oriented payments, which amounted to USD 39.7 million accounting for 64.3 percent of total foreign payments. Foreign service receipts increased by 52.9 percent to USD 78.6 million compared with USD 51.4 million registered in corresponding period in 2005.



## PART IV

### 4.0 MACROECONOMIC POLICY FRAMEWORK FOR 2006/07

#### 4.1 Macroeconomic Objectives of the Government

During 2006/07, the Government of the United Republic of Tanzania will continue to focus at achieving the objectives of the National Strategy for Growth and Reduction of Poverty or MKUKUTA in Kiswahili.

The Government policies during 2006/07 are therefore geared towards maintaining fiscal discipline through strengthening tax administration and expenditure efficiency. During 2006/07, priority will be given to improving domestic revenue mobilization by broadening the tax base, curbing or eliminating tax exemptions and enhancing revenue administration.

On the expenditure side, the Government aims at strengthening the linkage between MKUKUTA and the budget, and improving aid effectiveness by balancing the allocation of donor funds on social sectors and on infrastructure and productive sectors. Specifically, the Government intends to attain the following macroeconomic objectives during 2006/07:

- A real GDP growth of 5.9 percent in 2006, revised from 7.0 percent projected earlier, following drought experienced in some parts of the country towards the end of 2005. In the year



2007, however, real GDP growth is expected to recover to 7.3 percent;

- With improved food supply and prudent fiscal and monetary policies, the annual rate of inflation is projected to decline from 6.9 percent recorded in April 2006 to 4.0 percent in June 2007;
- Domestic recurrent revenue equivalent to 14.5 percent of GDP;
- Total expenditure equivalent to 28.3 percent of GDP, out of which about 2.0 percent of GDP will be financed by resources obtained from the IMF, World Bank, and the African Development Bank, under the Multilateral Debt Relief Initiatives; and
- Net domestic financing of the budget is targeted at 1.0 percent of GDP.

#### **4.2 Monetary Policy Objectives 2006/07**

In support of the broader macroeconomic objectives of the Government for the fiscal year 2006/07, monetary policy of the Bank of Tanzania will remain focused on sustaining price stability, through maintaining the appropriate level of liquidity in the economy. Given the projected increase in demand for credit to private sector and the expected large inflows of foreign exchange, monetary policy



measures will endeavour to mop up excess liquidity in the economy above the desired levels. This will be achieved through:

- Containing the annual growth rate of reserve money within 24 percent;
- Limiting the growth rates of broad money supply, M2 to 23.4 percent and extended broad money, M3 to 24.2 percent so as to bring down inflation rate from the current 6.9 percent in April 2006 to 4.0 percent by end June 2007;
- Providing room for commercial banks credit to the private sector to grow at an annual rate of 37 percent by end June 2007; and
- Maintaining an adequate level of foreign reserves to cover not less than 6 months of imports of goods and services.

### **4.3 Monetary Policy Implementation Outlook**

#### **Liquidity management**

The Bank of Tanzania will continue to implement monetary policy that is consistent with the Government's macroeconomic objectives for 2006/07. Thus, the major objective during the coming fiscal year will be to ensure that growth of monetary aggregates is within the desired levels. The control of reserve money will remain central in monitoring monetary policy implementation.



In view of the expected large foreign exchange inflows from development partners during the year, and the projected increase in the demand for credit to private sector of about 37 percent, daily liquidity tracking will be strengthened within the reserve money framework and in closer collaboration with the Ministry of Finance for monitoring the budgetary flows. The Bank will conduct timely and targeted sterilization operations by selling government securities and repurchase agreement.

### **Inflation Outlook**

The improved rains currently experienced in key agricultural growing areas have increased the prospects of a good crop harvest including food crops. According to the recent survey results, the Ministry of Agriculture expects the harvest for 2006 to be about 15 percent higher than the seasonal average output, and therefore the country expects to be about 110 percent self sufficient in food for 2006/07. Long term average trends show that food prices, particularly of maize, rise from May through June, but begin to drop from July as the harvest enters the market. Given the above expectations and the measures taken by the Government on improving the availability of food to deficit areas, combined with a tight monetary policy stance adopted by the Bank, the overall inflation is expected to drop significantly in the second half of 2006.



## **Credit Policy**

The Bank's policy on credit will continue to be directed towards providing conditions for delivering sufficient credit to the private sector so as to support the projected GDP growth in 2006 and 2007. To ensure the achievement of this objective, the fiscal program of the Government calls for improvement of fiscal management aimed at reducing government borrowing from the banking system in order to give room for the envisaged growth of credit to private sector.

## **Interest Rate Policy**

The Bank of Tanzania will continue to promote market determined interest rates. The implementation of the on-going second generation financial sector reforms under the chairmanship of the Bank of Tanzania, aim at, among others, removing the remaining obstacles to lending, and improving access to financial services. It is therefore expected that as efficiency increases in the financial system, and risks to lending to the private sector minimized, the interest rates applied by commercial banks will reflect the true opportunity cost of funds in the economy.

## **Foreign Exchange Policy**

The Bank of Tanzania will exercise a free floating exchange rate policy during 2006/07. At the same time, the Bank will ensure that foreign



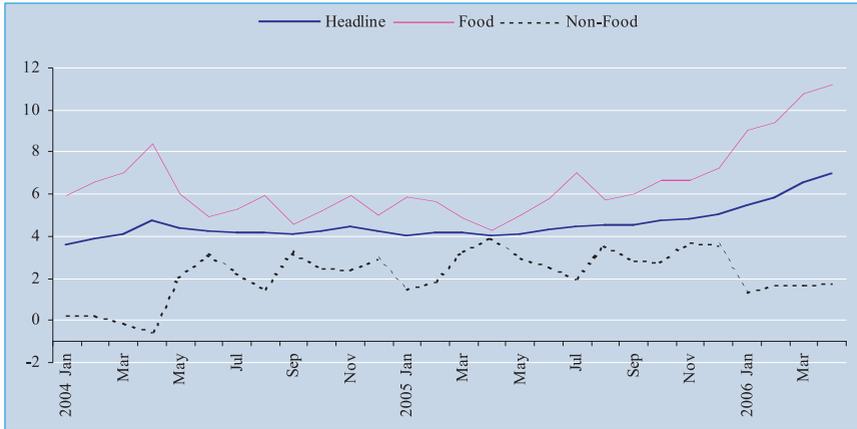
exchange operations are conducted in a manner that would facilitate the accumulation of foreign reserves equivalent to the target of 7 months of import of goods and services, and maintaining external competitiveness, and macroeconomic stability.

## 5.0 CONCLUSION

Substantial progress has been attained in maintaining macroeconomic stability. To consolidate these achievements, the Bank of Tanzania will maintain prudence in monetary policy so as to achieve the broader macroeconomic objectives set for 2006/07. However, the challenges ahead are significant and call for concerted efforts in formulation and implementation of prudent fiscal and monetary policies. The expected increase in foreign exchange inflows in a low absorptive capacity of the economy, coupled with inflationary pressure emanating mainly from rising oil prices in the world market, and increase in government expenditure, call for increased vigilance in monetary policy. Similarly, the lagging behind of reforms in legal and judicial infrastructure have hindered access to credit and other financial services to a wider population. Also, the causes of the wide interest rate spread will be addressed under the second generation financial sector reforms, so that financial intermediation is improved and credit flow to the productive sectors of the economy is enhanced.

## APPENDICES

**Chart A1: Tanzania: Annual Headline, Food, and Non-food inflation**



**Chart A2: Tanzania: Credit to Private Sector and Net Claims on Government by Banks (Billions of TZS)**

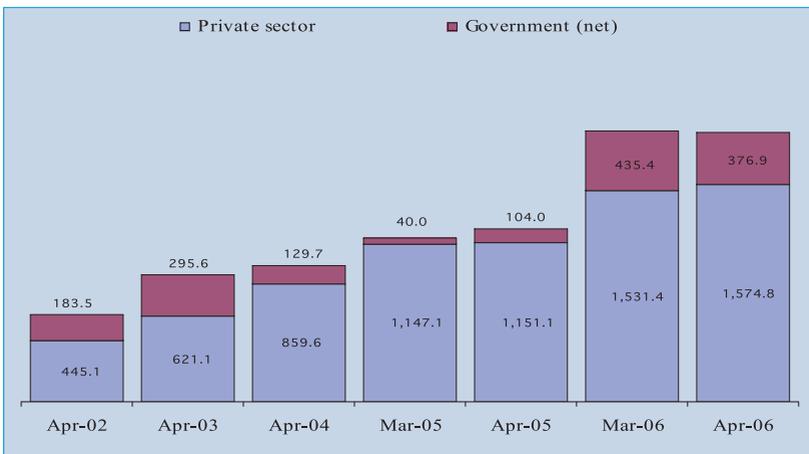


Table 1a: GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY (At constant 1992 prices)

Economic Activity	Million shs					
	2001	2002	2003	2004r	2005p	
Agriculture	840,275	882,107	917,395	970,378	1,020,497	
Crops	625,927	658,960	682,751	723,867	761,508	
Livestock	109,588	113,424	119,095	124,838	130,073	
Forestry and Hunting	52,761	54,344	56,626	58,791	61,437	
Fishing	51,999	55,379	58,923	62,882	67,479	
Mining and Quarrying	43,293	49,787	58,749	67,798	78,443	
Manufacturing	144,647	156,219	169,653	184,218	200,797	
Electricity and Water	29,297	30,200	31,688	33,123	34,815	
Electricity	26,229	27,016	28,367	29,708	31,282	
Water	3,068	3,185	3,321	3,415	3,533	
Construction	83,494	92,678	102,872	113,994	127,533	
Wholesale and Retail Trade	288,718	308,928	329,009	354,726	383,814	
Restaurants	95,154	101,244	106,294	112,648	119,833	
Transport and Communication	59,082	62,547	66,050	69,997	74,197	
Transport	36,072	38,697	40,245	42,651	45,636	
Communication	177,911	186,485	194,711	203,222	213,961	
Financial and Business Services	66,212	68,860	71,064	74,156	78,368	
Finance and Insurance	106,156	111,782	117,483	122,562	128,690	
Real Estate	5,543	5,842	6,164	6,504	6,904	
Business Services	130,987	136,307	141,880	147,950	155,490	
Public Administration and Other Services	76,401	78,158	80,112	82,376	86,247	
Education	20,226	21,844	23,373	24,920	26,490	
Health	11,068	11,732	12,495	13,247	14,002	
Other services	23,292	24,573	25,900	27,407	28,750	
less Financial Services Indirectly Measured	□84,418 □	□86,781 □	□89,819 □	□93,541 □	□98,104 □	
<b>TOTAL GDP</b>	<b>1,749,358</b>	<b>1,857,175</b>	<b>1,962,432</b>	<b>2,094,516</b>	<b>2,237,079</b>	

Note: r = revised and p = provisional

**Table 1b: GROSS DOMESTIC PRODUCT BY KIND OF ECONOMIC ACTIVITY - PERCENTAGE GROWTH RATES**  
(At constant 1992 prices)

Economic Activity	2001	2002	2003	2004	2005
Agriculture	5.5%	5.0%	4.0%	5.8%	5.2%
Crops	5.9%	5.3%	3.6%	6.0%	5.2%
Livestock	3.3%	3.5%	5.0%	4.8%	4.2%
Forestry and Hunting	3.6%	3.0%	4.2%	3.8%	4.5%
Fishing	7.0%	6.5%	6.4%	6.7%	7.3%
Mining and Quarrying	16.6%	15.0%	18.0%	15.4%	15.7%
Manufacturing	5.0%	8.0%	8.6%	8.6%	9.0%
Electricity and Water	3.0%	3.1%	4.9%	4.5%	5.1%
Electricity	2.9%	3.0%	5.0%	4.7%	5.3%
Water	3.5%	3.8%	4.3%	2.8%	3.4%
Construction	8.7%	11.0%	11.0%	10.8%	11.9%
Wholesale and Retail Trade	6.7%	7.0%	6.5%	7.8%	8.2%
Restaurants	6.3%	6.4%	5.0%	6.0%	6.4%
Transport and Communication	3.3%	4.8%	4.4%	4.4%	5.3%
Financial and Business Services	1.8%	4.0%	3.2%	4.4%	5.7%
Finance and Insurance	4.1%	5.3%	5.1%	4.3%	5.0%
Real Estate	5.2%	5.4%	5.5%	5.5%	6.1%
Business Services	3.5%	4.1%	4.1%	4.3%	5.1%
Public Administration and Other Services	2.0%	2.3%	2.5%	2.8%	4.7%
Public Administration	6.1%	8.0%	7.0%	6.6%	6.3%
Education	5.6%	6.0%	6.5%	6.0%	5.7%
Health	5.4%	5.5%	5.4%	5.8%	4.9%
Other services	2.5%	2.8%	3.5%	4.1%	4.9%
less Financial Services Indirectly Measured					
<b>TOTAL GDP</b>	<b>5.8%</b>	<b>6.2%</b>	<b>5.7%</b>	<b>6.7%</b>	<b>6.8%</b>

Note: r = revised and p = provisional

**Table 1c: SECTORAL CONTRIBUTION (%) TO OVERALL GDP (At constant 1992 prices)**

Economic Activity	2001	2002	2003	2004	2005
Agriculture	48.0%	47.5%	46.7%	46.3%	45.6%
Crops	35.8%	35.5%	34.8%	34.6%	34.0%
Livestock	6.3%	6.1%	6.1%	6.0%	5.8%
Forestry and Hunting	3.0%	2.9%	2.9%	2.8%	2.7%
Fishing	3.0%	3.0%	3.0%	3.0%	3.0%
Mining and Quarrying	2.5%	2.7%	3.0%	3.2%	3.5%
Manufacturing	8.3%	8.4%	8.6%	8.8%	9.0%
Electricity and Water	1.7%	1.6%	1.6%	1.6%	1.6%
Electricity	1.5%	1.5%	1.4%	1.4%	1.4%
Water	0.2%	0.2%	0.2%	0.2%	0.2%
Construction and Retail	4.8%	5.0%	5.2%	5.4%	5.7%
Restaurants	16.5%	16.6%	16.8%	16.9%	17.2%
Transport and Communication	5.4%	5.5%	5.4%	5.4%	5.4%
Transport	3.4%	3.4%	3.4%	3.3%	3.3%
Communication	2.1%	2.1%	2.1%	2.0%	2.0%
Financial and Business Services	10.2%	10.0%	9.9%	9.7%	9.6%
Finance and Insurance	3.8%	3.7%	3.6%	3.5%	3.5%
Real Estate	6.1%	6.0%	6.0%	5.9%	5.8%
Business Services	0.3%	0.3%	0.3%	0.3%	0.3%
Public Administration and Other Services	7.5%	7.3%	7.2%	7.1%	7.0%
Public Administration	4.4%	4.2%	4.1%	3.9%	3.9%
Education	1.2%	1.2%	1.2%	1.2%	1.2%
Health	0.6%	0.6%	0.6%	0.6%	0.6%
Other services	1.3%	1.3%	1.3%	1.3%	1.3%
less Financial Services Indirectly Measured	-4.8%	-4.7%	-4.6%	-4.5%	-4.4%
<b>TOTAL GDP</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Note: r = revised and p = provisional

**Table 2: Tanzania - National Consumer Price Index (NCPI), Percentage change on the Previous year**

General Period	Headline	Food	Non-Food									
			Total	Drinks &	Clothing	Rent	Fuel, Power	Furniture	Household	Personal	Recreation	Transpor-
			Non-Food	Tobacco	& Footwear		& Water	Household Equip.	operations	care & Health	& Entertain	tation
Weight (%)	100.0	55.9	44.1	6.9	6.4	1.4	8.5	2.1	2.1	2.1	0.8	9.7
2003 Jan.	3.4	3.4	3.3	3.6	2.3	3.8	7.3	1.0	3.6	4.1	-0.6	0.5
Feb.	3.4	4.4	2.1	1.4	2.4	8.0	3.6	1.1	0.1	2.8	0.4	1.6
Mar.	3.4	3.7	2.9	1.6	1.2	8.6	7.2	3.0	1.8	3.4	3.1	1.2
Apr.	3.4	4.7	1.7	1.3	1.6	9.3	0.1	2.6	1.3	2.6	3.0	1.4
May	3.6	5.0	1.6	0.6	1.8	9.3	0.8	4.9	0.0	3.6	1.5	0.8
June	3.6	5.6	0.8	0.1	0.7	9.8	0.3	1.4	0.4	0.2	3.0	0.6
July	3.5	3.9	3.0	5.2	2.5	9.5	0.1	2.3	1.9	4.0	2.3	2.8
Aug.	3.5	4.4	2.0	0.3	2.2	0.1	5.0	2.6	0.8	3.3	1.6	0.7
Sep.	3.7	5.2	1.4	0.4	1.8	0.1	2.5	1.1	0.2	3.5	1.9	0.5
Oct.	3.6	4.6	2.2	1.2	2.8	3.4	0.7	2.4	1.0	2.0	3.7	2.9
Nov.	3.4	4.7	1.6	1.2	2.4	4.3	0.8	1.2	1.1	3.9	0.9	1.6
Dec.	3.4	4.8	1.4	1.2	2.4	4.8	1.6	1.6	0.4	1.4	4.6	0.2
2004 Jan.	3.6	6.0	0.2	-2.9	1.5	7.5	-0.7	-1.1	-0.8	5.7	5.9	0.9
Feb.	3.8	6.6	0.2	-0.6	4.8	2.9	-5.4	0.3	-0.3	-2.8	5.4	2.0
Mar.	4.0	7.0	-0.1	0.7	2.0	4.3	-2.5	-1.6	-1.4	3.0	2.2	-0.8
Apr.	4.7	8.4	-0.5	-1.0	-1.9	4.3	1.7	-1.5	-1.1	-0.4	-1.9	-1.3
May	4.4	6.0	2.0	1.2	3.3	4.3	4.9	0.3	0.5	-2.7	0.9	1.3
June	4.2	4.9	3.1	1.8	2.3	3.4	9.1	2.2	2.2	0.7	0.5	1.2
July	4.1	5.3	1.8	-4.7	-0.1	2.6	18.0	-2.0	-0.4	-5.0	0.2	-1.6
Aug.	4.1	5.9	1.5	0.0	3.1	0.4	2.4	-0.4	1.7	0.6	1.7	1.7
Sep.	4.0	4.6	3.2	0.5	4.5	0.2	6.0	2.9	4.3	1.5	3.7	3.3
Oct.	4.2	5.2	2.5	-0.8	3.2	0.1	9.3	0.8	1.9	2.7	2.2	1.0
Nov.	4.4	5.9	2.4	-0.2	1.9	-1.0	7.6	2.2	1.5	0.0	4.0	1.6
Dec.	4.2	5.1	2.9	0.6	2.5	-1.3	7.0	0.9	2.4	3.2	0.3	2.8
2005 Jan	4.0	5.9	1.5	0.6	-1.2	-2.5	5.4	1.0	0.5	-3.0	-1.5	3.3
Feb	4.1	5.7	1.8	1.8	-1.7	-2.8	5.9	0.2	2.4	6.0	-3.3	2.2
Mar	4.1	4.9	3.3	0.3	1.7	-4.6	9.4	-2.3	2.3	0.1	-2.5	5.7
Apr	4.0	4.3	3.9	2.9	3.3	-5.3	6.8	0.4	2.5	4.9	1.5	6.9
May	4.0	5.0	3.0	1.7	-0.9	-5.3	9.6	-3.2	1.4	4.4	0.9	5.0
Jun	4.2	5.8	2.5	1.4	0.9	-5.0	5.6	-2.8	0.4	6.1	-0.2	5.1
Jul	4.4	7.0	2.0	3.1	1.3	-3.9	0.3	-0.9	0.3	6.5	-2.1	5.4
Aug	4.5	5.8	3.6	2.4	-1.2	7.5	9.8	0.0	-0.6	3.5	-1.5	5.2
Sep	4.5	6.0	2.8	2.6	-2.7	7.6	10.0	-2.3	-1.9	2.7	-2.4	4.0
Oct	4.7	6.7	2.8	3.1	-1.9	4.3	9.0	-1.7	-1.1	3.6	-3.3	3.5
Nov	4.8	6.7	3.7	3.3	-1.2	4.3	10.2	-0.8	-0.5	4.4	-1.9	5.0
Dec	5.0	7.2	3.6	2.5	-2.0	4.1	10.7	-0.9	0.0	3.5	-1.1	5.5
2006 Jan	5.4	9.1	1.3	1.7	-3.1	0.4	5.2	-1.0	-1.7	-0.3	-1.2	3.1
Feb	5.8	9.4	1.7	2.5	-1.9	0.6	4.5	0.5	-1.5	0.0	0.5	3.3
Mar	6.5	10.7	1.7	2.6	-2.4	0.6	4.9	0.9	-1.8	-0.7	-0.6	3.4
Apr	6.9	11.2	1.8	2.9	-2.4	0.6	4.5	1.1	-1.2	0.3	-0.4	3.2

Source: National Bureau of Statistics

**Table 3. Tanzania: Central Government Operations,**

	TZS millions					
	2001/02	2002/03	2003/04	2004/05	2005/06 Budget	2005/06 Jul 05 -Apr 06
<b>Total Revenue</b>	<b>1,042,955.1</b>	<b>1,217,517.0</b>	<b>1,459,303.3</b>	<b>1,773,709.4</b>	<b>2,066,751.6</b>	<b>1,705,687.7</b>
Tax Revenue	939,266.8	1,105,746.0	1,342,798.2	1,615,247.0	1,895,966.6	1,566,151.2
Taxes on Imports	402,159.1	458,285.6	575,408.5	679,992.4	790,801.9	660,888.0
Sales/VAT and Excise on Local Goods	216,066.8	259,747.2	325,483.7	402,136.1	466,369.6	398,834.9
Refunds	-33,271.7	36,105.8	-48,245.1	-64,376.4	-67,834.4	-58,093.7
Income Taxes	220,630.8	276,049.7	366,650.9	465,454.7	170,785.0	451,397.1
Other taxes	100,410.1	111,663.5	123,500.2	132,040.2	157,555.2	113,125.0
Non- tax Revenue	103,688.3	111,771.1	116,505.1	158,462.4	170,785.0	139,536.5
<b>Total Expenditure</b>	<b>1,466,136.9</b>	<b>1,989,537.8</b>	<b>2,516,943.1</b>	<b>3,164,282.3</b>	<b>4,035,113.8</b>	<b>3,289,480.2</b>
Recurrent expenditure	1,121,526.0	1,488,640.8	1,780,115.1	2,017,489.9	2,649,930.7	2,168,696.5
Wages and salaries	341,981.4	397,770.0	462,963.9	550,554.0	782,527.0	541,221.7
Interest payments	121,081.2	99,780.0	108,533.8	143,285.1	174,762.9	171,031.2
Domestic	64,605.2	57,009.3	70,231.6	87,392.8	100,178.3	126,010.6
Foreign	56,476.0	42,770.7	38,302.3	55,892.2	74,584.6	45,020.6
Other goods, services and transfers	658,463.3	991,090.8	1,208,617.3	1,323,650.9	1,793,270.4	1,456,443.6
Roadtoll fund	54,110.9	63,155.6	77,125.6	98,406.2	80,413.0	0.0
Retention fund	25,142.8	47,949.7	47,449.0	53,834.5	59,580.0	52,968.5
<b>Dev. Expenditure and net lending</b>	<b>344,610.9</b>	<b>500,897.0</b>	<b>736,828.1</b>	<b>1,146,792.4</b>	<b>1,385,183.1</b>	<b>1,120,783.7</b>
Local	50,235.9	95,661.7	133,041.3	239,651.1	370,037.8	271,100.0
Foreign	294,375.0	405,235.3	603,786.8	907,141.2	1,015,145.3	849,683.7
Overall Deficit (cheques issued) before Grants	-423,181.8	-772,020.7	-1,057,639.8	-1,390,572.9	-1,968,362.2	-1,583,792.4
Grants	379,849.4	622,302.1	696,672.5	992,975.4	1,011,345.0	810,586.1
of which: Project	183,000.2	293,927.7	278,500.1	364,280.3	340,972.4	318,501.5
Program(CIS/OGL)	140,192.0	255,516.2	248,325.9	400,314.1	345,475.6	289,740.5
MDF funds/Basket Funds	0.0	0.0	92,429.3	156,071.6	231,297.0	143,161.3
HIPC Relief	56,657.2	72,858.2	77,417.3	72,309.4	93,600.0	59,182.8
Overall deficit (cheques issued) after grants	-43,332.4	-149,718.7	-360,967.3	-397,597.5	-957,017.2	-773,206.3
Adjustments to cash	0.0	65,901.3	50,776.1	-30,848.5	0.0	138,231.0
Adjustments to cash and other items(net)	4,575.8	-13,492.3	-38,772.1	-170,990.0	0.0	-18,931.9
Overall Balance (cheques cleared)	-38,756.6	-163,210.9	-399,739.5	-568,587.5	-957,017.2	-792,138.2
<b>Financing</b>	<b>38,756.6</b>	<b>163,210.9</b>	<b>399,739.5</b>	<b>568,587.5</b>	<b>957,017.2</b>	<b>792,138.2</b>
Foreign Financing (net)	121,842.5	199,724.8	434,235.4	423,642.4	584,888.5	599,022.3
Loans	187,355.5	301,050.2	477,518.2	373,987.3	612,273.5	531,970.7
Program loans	133,171.2	151,331.0	216,388.5	65,395.6	270,689.1	257,454.9
Development Project loans	154,184.3	149,719.1	261,129.7	308,591.7	341,584.4	274,515.8
Budget Support			1,901.9	156,744.7	101,291.4	142,266.1
Amortization	-65,513.0	-101,325.3	-45,184.8	-107,089.6	-128,676.5	-75,214.6
Domestic (net)	-83,085.9	-36,513.9	-34,495.9	144,945.2	372,128.7	193,115.9
Bank borrowing	-59,180.9	-5,557.9	-83,681.2	97,313.2	100,348.2	2,814.3
Non-Bank	36,574.3	-30,705.1	39,418.4	47,632.0	269,940.3	179,992.9
Amortization	-1,614.0	-250.9	0.0	0.0	-12,260.3	-18,233.1
Privatisation proceeds	0.0	0.0	9,766.8	0.0	10,420.0	28,541.9

Source: Bank of Tanzania, Monetary and Financial Affairs Department

**Table 4. Tanzania: Monetary Survey**

	Dec-02	Dec-03	Dec-04	Dec-05	TZ\$ Million Apr-06 Prov
<b>FOREIGN ASSETS (NET)</b>	1,558,627.1	2,182,072.0	2,379,909.3	2,560,852.14	3,091,595.70
Bank of Tanzania	1,022,247.6	1,503,460.3	1,715,285.8	1,780,447.32	2,380,465.40
Net International Reserves	1,022,247.6	1,503,460.3	1,715,285.8	1,780,447.32	2,380,465.40
Foreign Assets	1,492,748.5	2,167,408.1	2,394,759.1	2,540,935.47	2,681,054.83
Of which: Gold	26,926.4	-	-	0.00	0.00
Foreign Liabilities	470,501.0	663,947.8	679,473.3	760,488.15	300,589.42
Foreign Exchange Liabilities	78,454.8	208,727.6	239,810.3	361,351.08	277,252.15
Use of Fund Credit	392,046.2	455,220.2	439,663.0	399,137.07	23,337.27
Net Foreign Assets (DMBs)	536,379.6	678,611.8	664,623.5	780,404.82	711,130.30
Net Foreign Exchange	566,029.8	679,166.4	664,623.5	808,067.99	739,683.24
Foreign assets	571,572.6	685,488.3	683,665.6	835,639.77	814,359.09
Foreign Liabilities	5,542.9	6,321.9	19,042.1	27,571.77	74,675.85
Other Foreign Liabilities	29,650.2	554.6	0.0	27,663.17	28,552.95
Borrowing from abroad	1,146.1	554.6	0.0	27,663.17	28,552.95
Foreign Liabilities	28,504.0	-	-	0.00	0.00
<b>MEDIUM TERM FOREIGN LIABILITIES</b>	41,823.5	41,672.5	39,063.7	34,746.26	34,746.26
Bank of Tanzania	32,458.9	32,458.9	32,458.9	32,458.87	32,458.87
Total Blocked Accounts	32,458.9	32,458.9	32,458.9	32,458.87	32,458.87
National Bank of Commerce	9,364.6	9,213.6	6,604.8	2,287.39	2,287.39
NBC Deposits Against EPA	9,364.6	9,213.6	6,604.8	2,287.39	2,287.39
<b>DOMESTIC ASSETS (NET)</b>	775,290.8	660,235.0	932,533.3	1,983,341.08	1,598,688.86
Domestic Credit	835,276.9	830,062.2	1,012,357.6	1,683,844.68	1,951,725.10
Claims on Government (net)	264,608.6	12,937.0	(47,719.7)	258,782.38	376,922.06
Claims on Government BOT (net)	(69,209.3)	(227,637.5)	(250,798.2)	-267,067.24	-195,223.07
Claims on Government BOT	141,265.6	142,010.9	139,019.7	174,487.57	222,467.55
Government Deposits BOT	210,474.8	369,648.4	389,817.9	441,554.82	417,690.63
Claims on Government DMBs (net)	333,817.9	240,574.4	203,078.5	525,849.62	572,145.14
Claims on government DMBs	364,637.6	322,407.4	338,541.5	713,050.85	755,121.40
Deposits	30,819.8	81,833.0	135,463.0	187,201.23	182,976.26
Claims on the private sector	570,668.3	817,125.2	1,060,077.3	1,425,062.30	1,574,803.04
Other Items Net	(59,986.1)	(169,827.1)	(79,824.3)	299,496.40	-353,036.24
M3: MONEY AND QUASI MONEY = M2+5	2,047,683.1	2,388,316.1	2,848,120.0	3,934,986.57	4,081,077.91
M2: BROAD MONEY = M1+3+4	1,507,386.5	1,721,109.9	2,050,886.0	2,808,247.63	2,806,330.75
M1: NARROW MONEY = 1+2	958,786.6	1,113,379.1	1,315,739.4	1,758,810.22	1,706,568.04
1. Current currency in circulation (outside the Banking system)	495,445.6	553,045.8	664,148.0	843,157.43	790,147.76
Current currency outside the Bank of Tanzania	546,615.4	606,592.5	727,785.3	932,815.33	870,475.72
Current cash with DMBs	51,169.8	53,546.7	63,637.3	89,657.90	80,327.96
2. Demand Deposits	463,340.9	560,333.3	651,591.3	915,652.79	916,420.28
Quasi Money	1,088,896.5	1,274,937.0	1,532,380.7	2,176,176.35	2,374,509.88
3. Time deposits	223,898.7	230,958.8	276,396.4	422,269.39	438,071.24
4. Savings Deposits	324,701.2	376,771.9	458,750.2	627,168.02	661,691.47
5. Foreign currency deposits	540,296.5	667,206.2	797,234.1	1,126,738.94	1,274,747.16
<b>Annual growth rates in percent</b>					
Extended broad money (M3)	25.11	16.64	19.25	38.18	32.34
Broad money (M2)	22.19	14.18	19.16	36.96	25.89
Narrow money (M1)	25.16	16.12	18.18	33.67	21.65
Reserve money (M0)	19.05	12.59	23.55	27.72	30.83
The ratio of FCD to M3	26.39	27.94	27.99	28.63	31.24
T: S USD exchange rate	976.65	1,063.60	1,042.96	1,165.51	1,225.70
In millions of USD					
FCD	553.21	627.31	764.40	966.73	1,040.02
NIR	1,046.69	1,413.56	1,644.63	1,527.61	1,942.13
Gross official reserves	1,528.44	2,037.80	2,296.12	2,180.11	2,187.37

Source: Bank of Tanzania, Monetary and Financial Affairs Department

**Table 5. TANZANIA: INTEREST RATE STRUCTURE**

	June-05	July-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06	Apr-06	Percent
Savings Deposit Rate	2.61	2.60	2.59	2.63	2.62	2.62	2.60	2.65	2.55	2.58	2.76	
Discount Rate	13.92	15.14	16.04	16.13	17.78	18.30	19.33	20.00	18.50	17.50	17.00	
Overall Time Deposits Rate	4.41	4.48	4.56	4.96	5.14	5.20	5.28	5.61	6.07	5.86	5.71	
1 - month Time Deposit Rate	3.25	3.19	3.34	4.29	4.89	3.62	2.60	3.39	4.66	4.99	4.14	
35 - days T-bill Yield	6.60	7.03	8.42	9.49	8.97	8.59	8.63	9.04	9.28	8.88	8.30	
3 - months Time Deposit Rate	4.45	4.90	5.17	4.13	3.70	4.20	5.50	5.92	6.10	4.91	5.34	
91 - days T-bill Yield	8.12	10.35	11.51	12.52	14.08	13.96	14.70	14.78	14.80	13.42	12.31	
6 - months Time Deposit Rate	5.63	5.72	5.78	5.62	7.14	8.06	7.17	7.06	6.54	6.70	6.58	
182 - days T-bill Yield	9.43	10.53	11.46	13.10	14.50	14.42	14.71	14.58	14.62	13.70	12.26	
12 - months Time deposit Rate	5.97	5.69	5.83	6.32	6.47	6.87	7.71	8.11	7.51	7.48	7.63	
364 - days T-bill Yield	10.51	11.93	12.64	13.70	14.95	15.61	15.72	15.64	15.82	13.89	11.92	
Overall Lending Rates	15.51	14.97	15.04	15.08	15.39	15.45	14.98	14.69	14.67	14.57	14.65	
Short-term Lending Rate (up to 1 year)	16.06	16.14	15.82	15.74	16.03	15.69	15.65	15.46	15.41	15.31	16.29	
Medium-term Lending Rate (2-3 years)	16.21	15.39	15.06	15.52	15.65	15.67	14.52	14.93	14.83	14.90	15.29	
Negotiated Rates												
Deposit	8.49	8.87	9.01	8.29	8.69	9.26	10.61	10.59	10.37	10.39	11.50	
Lending	11.01	11.51	11.39	11.37	11.47	11.46	11.14	11.35	13.39	11.60	11.24	

Source: Bank of Tanzania

**Table 6: Tanzania's Balance of Payments**

Item	Millions of US\$				
	2001r	2002r	2003r	2004r	2005p
<b>A. Current Account</b>	<b>-237.4</b>	<b>22.3</b>	<b>-111.0</b>	<b>-246.5</b>	<b>-605.8</b>
Goods: exports f.o.b.	851.3	979.6	1,216.1	1,473.1	1,676.3
Traditional	231.1	206.1	220.5	297.8	354.5
Nontraditional	620.2	773.5	995.7	1,175.3	1,321.8
o/w Gold	254.1	341.1	502.8	629.4	655.5
Goods: imports f.o.b.	-1,560.3	-1,511.3	-1,933.5	-2,339.7	-2,661.5
Balance on Goods	-709.0	-531.8	-717.3	-866.6	-985.2
Services: credit	914.6	920.1	947.8	1,117.4	1,199.0
Transportation	105.9	117.1	138.9	170.9	203.0
Travel	615.1	635.0	646.5	746.0	796.3
Other	193.6	168.0	162.3	200.4	199.6
Services: debit	-649.7	-632.5	-725.7	-965.5	-1,163.7
Transportation	-194.2	-176.9	-214.7	-257.8	-276.1
Travel	-327.3	-337.5	-353.2	-445.3	-553.8
Other	-128.1	-118.1	-157.8	-262.3	-333.8
Balance on Services	264.9	287.6	222.1	151.9	35.2
Balance on Goods and Services	-444.1	-244.2	-495.3	-714.7	-949.9
Income: credit	55.3	67.9	87.1	81.8	79.7
Income: debit	-243.8	-218.1	-249.7	-259.6	-316.9
<b>OW Direct investment income</b>	<b>-95.8</b>	<b>-123.6</b>	<b>-128.6</b>	<b>-144.5</b>	<b>-146.3</b>
Interest payments (scheduled)	-117.3	-67.6	-92.7	-80.7	-139.0
Compensation of employees	-30.7	-26.9	-28.5	-34.4	-31.6
Balance on Income	-188.5	-150.1	-162.6	-177.8	-237.2
Balance on Goods, Services and Income	-632.6	-394.3	-657.9	-892.6	-1,187.1
Current transfers	395.3	416.6	546.9	646.1	581.3
Current transfers: credit	474.8	477.9	609.9	711.1	656.3
Government	418.4	427.7	543.3	641.7	587.4
o/w Multilateral HIPC relief	71.3	68.8	68.2	73.7	79.4
Other sectors	56.4	50.2	66.6	69.4	68.9
Current transfer: debit	-79.5	-61.3	-63.0	-65.0	-74.9
<b>B. Capital Account</b>	<b>361.5</b>	<b>355.4</b>	<b>358.2</b>	<b>293.6</b>	<b>504.9</b>
Capital transfers: credit	361.5	355.4	358.2	293.6	504.9
General Government	339.2	325.3	320.9	253.7	461.8
Project	339.2	325.3	320.9	253.7	461.8
Other sectors	22.3	30.1	37.3	39.9	43.1
Capital transfers:debit	0.0	0.0	0.0	0.0	0.0
Total, Groups A plus B	124.1	377.7	247.2	47.1	-100.9
<b>C. Financial Account, excl. reserves and related items</b>	<b>-353.7</b>	<b>191.6</b>	<b>256.9</b>	<b>382.8</b>	<b>46.4</b>
Direct investment abroad	0.0	0.0	0.0	0.0	0.0
Direct investment in Tanzania	467.2	429.8	526.8	469.9	325.0
Portfolio investment	8.2	2.2	2.7	2.4	2.5
Other investment	-829.1	-240.4	-272.6	-89.5	-281.1
Assets	-76.7	2.9	-59.0	-11.0	-92.0
Currency and deposits	-76.7	2.9	-59.0	-11.0	-92.0
Banks	-76.7	2.9	-59.0	-11.0	-92.0
Other sectors	0.0	0.0	0.0	0.0	0.0
Liabilities	-752.5	-243.3	-213.6	-78.5	-189.1
Trade credits	13.0	13.2	13.3	13.3	13.3
Loans	-723.1	-289.9	-204.8	-115.8	-180.4
General government	-838.9	-243.5	-114.8	-15.0	-54.4
Drawings	199.1	310.2	413.3	273.8	174.8
Repayments	-1,038.0	-553.7	-528.1	-288.8	-229.2
Scheduled payments	-264.5	-113.6	-106.6	-122.5	-117.1
Debt forgiveness	-642.1	-430.3	-334.6	-166.3	-112.1
Rescheduled debt	-131.4	-9.8	-86.9	0.0	0.0
Banks	2.0	-0.8	-0.7	-0.5	23.7
Scheduled payments	-57.7	-62.8	-104.8	-138.8	-167.6
Currency and deposits	-42.4	33.4	-22.1	24.1	-22.0
Total, Groups A through C	-229.6	569.3	504.0	429.9	-54.5
<b>D. Net Errors and Omissions</b>	<b>-580.0</b>	<b>-681.6</b>	<b>-449.6</b>	<b>-386.6</b>	<b>-383.0</b>
Overall balance	-809.6	-112.4	54.5	43.4	-437.5
<b>E. Reserves and Related Items</b>	<b>809.6</b>	<b>112.4</b>	<b>-54.5</b>	<b>-43.4</b>	<b>437.5</b>
Reserve assets	-182.2	-372.4	-508.8	-258.4	247.7
Use of Fund credit and loans	15.6	26.0	-2.9	-33.8	-50.5
Exceptional financing	976.2	458.8	457.2	248.8	240.3
Rescheduled debt	131.4	9.8	86.9	0.0	0.0
Debt forgiveness	642.1	430.3	334.6	166.3	112.1
Interest arrears	67.4	18.4	29.5	18.2	42.1
Principal arrears	135.2	0.4	6.2	64.3	86.1

Notes: 1) Balance of Payments (BOP) statistics have changed from previous publications due to adoption of Private Capital Flows (PCF) and Tourism surveys' results and some other data sources.

2) GDP-Gross Domestic Product, mp-Market Price, CAB-Current Account Balance, p = provisional, r = revised

3) Data for direct investment are provisional

Source: Bank of Tanzania, International Economics Department



## **GLOSSARY**

### **Average Rate of Inflation**

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

### **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 Bank of Tanzania 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.

### **Exchange Rate**

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

### **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, and for indirectly regulating the magnitude of such imbalances through intervention in exchange markets. For

the case of Tanzania, international reserves comprise its holdings of monetary gold, SDRs, its reserve position in the International Monetary Fund, and foreign exchange resources, which can be made available to the Bank of Tanzania for meeting external financing needs.

### **M – Money Supply**

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).

### **M0 – Monetary Base, Base Money, or Reserve Money**

The Bank of Tanzania'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 Bank of Tanzania) is referred to as Base money, or the monetary base or reserve money.

### **M1 – Narrow Money**

It consists of currency in circulation outside banks and demand deposits.

### **M2--Broad Money**

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

### **M3 – Extended Broad Money**

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

### **Nominal Exchange Rate**

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

### **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.

### **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 35, 91, 182, and 364 - day Treasury Bills, expressed in percent per annum.









