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# MONETARY POLICY STATEMENT

*The Midterm Review*

**GOVERNOR**
**BANK OF TANZANIA**

*February 2010*

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4th February, 2010

The Hon. Mustafa H. Mkulo (MP),
Minister for Finance and Economic Affairs,
Dar es Salaam,
TANZANIA.

Honourable Minister,

## LETTER OF TRANSMITTAL

In accordance with Section 21 Subsections (3) to (7) of the Bank of Tanzania Act 2006, I hereby submit the Mid-Term Review of the Monetary Policy Statement (MPS) of the Bank of Tanzania for 2009/10.

The Statement is organised in three parts: Subsequent to the Executive Summary, Part I, reviews the implementation and challenges of monetary policy during the first half of 2009/10. Part II presents recent economic developments in Tanzania Mainland and Zanzibar, covering economic growth, inflation, government budgetary operations, and the external sector. Lastly, Part III puts forward the monetary policy stance for the remaining half of 2009/10.

Yours Sincerely,

**Prof. Benno J. Ndulu**
**GOVERNOR**
**BANK OF TANZANIA**

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# EXECUTIVE SUMMARY

## Objectives of Monetary Policy and Performance up to December 2009

The objectives of monetary policy for 2009/10, which were set in conformity with the broad macroeconomic objectives of the Government, were: to attain growth of broad money supply M3 and M2 not exceeding 20.0 percent by June 2010; provide a room for credit to the private sector to grow at an annual rate of 28.7 percent; maintaining gross official reserves sufficient to cover not less than 5 months of imports of goods and services; continuing to exercise strong regulation and supervision of banks and maintaining stability of the financial market.

In line with the monetary policy objectives for 2009/10, targets for December 2009 were drawn, which included: attaining annual growth rates of M3 and M2 not exceeding 21.7 percent; annual growth of credit to private sector not exceeding 26.7 percent; and stock of gross official reserves sufficient to cover not less than 5 months of imports of goods and services.

The outturns for December 2009 fell within all monetary policy targets as well as the targets agreed between the Government and the IMF under the Policy Support Instrument (PSI) Program. Given the performance in the first half of 2009/10 and developments in the global economy, monetary policy objectives for June 2010 are still consistent with the broad macroeconomic objectives of the Government and therefore, they will remain unchanged.

## Economic Growth

Tanzania sustained strong economic growth over the past decade, with real GDP growing at 7.4 percent in 2008, despite the adverse impact of the global financial crisis in the last quarter of the year. The strong performance has been associated with efficiency gains coming from the concerted and wide ranging economic reforms that have been implemented by the government for more than two decades. A range of indicators of economic activity in the first two quarters of 2009 confirm that the economy has been affected by the global financial crisis, though to a much lesser extent than the advanced and middle income economies. Prospects are bright that the real GDP growth of 5 percent projected earlier for 2009 will be achieved, as evidenced by good performance in traditional export crops, whose value increased by 12.5 percent to USD 470.8 million in 2009, and an increase of 7.4 percent in production of cement, which serves as an indicator of strong performance in construction.

## Inflation Developments

The economy continued to experience inflationary pressures coming from food supply shortage in the neighbouring countries and some parts of Tanzania, as well as from a rebound in the world oil price. Given that the bulk of inflation is still driven by food prices, the challenge of attaining low inflation remains in the factors related to food supply, particularly weather and the state of food supply in the neighbouring countries. Transport bottlenecks from some food production areas in Tanzania do also exert pressure on food prices.

The annual headline inflation average rate for January – December 2009 was 12.1 percent, compared with 10.3 percent recorded in a similar period of 2008. The relatively higher inflation rate in 2009 was mainly explained by higher food inflation, associated with food shortages in the neighbouring countries and some parts of the country, and high domestic transportation costs.

## Monetary Policy Stance

The Bank adopted a relatively easy monetary policy stance as a countercyclical action to mitigate the adverse impact of the global financial crisis. The Bank aimed at higher growth rates of money supply in 2010, while at the same time lowering the interest rates on its Lombard and discount windows. The average reserve money—the working target of the Bank—grew by an average annual rate of 25.5 percent in the first half of 2009/10, almost at the same rate as the average of 25.3 in the corresponding period of 2008/09. Even as the growth of average reserve money edged up, the growth of broad money supply slowed to an average of 18.3 percent from 20.8 percent for M3, and 19.7 percent from 28.2 percent for M2. The slowdown in the growth rate of broad money supply was a reflection of the second round adverse effects of the global financial crisis on activity which led to a slowdown of credit growth.

As the export sector continued to face low global demand, banks took a cautious lending stance, which slowed the annual growth of credit to the private sector to an average of 19.7 percent from an average of 39.7 percent in the first half of 2008/09. The annual growth rate of credit to the private sector reached 9.6 percent in December 2009.

## Financial Markets and Interest Rate Developments

As the Bank pursued a stimulant monetary policy, aimed at warding-off the downside effects of the global financial crisis, it reduced the volume of most monetary policy instruments sold. This, coupled with weak lending confidence among banks, led to a sturdy build-up of demand for the safer money market assets. Treasury bills were oversubscribed by 68.4 percent in the first half of 2009/10 compared to an oversubscription of 15.0 percent in the corresponding period of 2008/09. Consistent with the easy policy stance, the Bank allowed repo transactions to make a net injection of TZS 111.0 billion into the economy in the first half of 2009/10 compared to a net mop up of TZS 13.8 billion that occurred in the corresponding period of 2008/09.

In line with these developments, the overall weighted average yield on Treasury bills declined to an average of 5.4 percent in the first half of 2009/10, compared with an average of 9.9 percent in the first half of 2008/09, while the overall repo rate declined to an average of 1.43 percent in the first half of 2009/10, compared with an average of 4.36 percent in the corresponding period of the preceding year. Developments in the interbank cash market echoed those of the other money markets, with the overall interbank cash market rate dropping to an average of 1.97 percent in the period under review, compared with an average of 4.59 percent in the corresponding period of 2008/09.

## Financial Intermediation

The slackening of credit growth and the relative good performance in deposit mobilization nudged the ratio of credit to deposits slightly down to an average of 69.2 percent in the first half of 2009/10, from 69.9 percent in the first half of 2008/09. Meanwhile, financial deepening, as measured by the ratio of money supply (M3) to GDP, echoed the cautious lending stance taken by banks, as it declined slightly to an estimated average of

27.5 percent in 2009 from 27.8 percent registered in the corresponding period of 2008.

## Government Budgetary Operations

The fiscal performance during the period July – December 2009 was characterized by a shortfall in revenue collection. Total domestic revenue collection reached TZS 2,291.2 billion, equivalent to 90.2 percent of the target for the period. Likewise, Government Budget Support (GBS) amounted to TZS 785.3 billion, being 78.7 percent of the budget estimates for the period, while projects and basket funds received during the period amounted to TZS 721.3 billion, equivalent to 85.1 percent of the budget estimates for the period.

Government expenditure in the first half of 2009/10 reached TZS 4,282.3 billion, equivalent to 88.0 percent of the target for the period. Recurrent and development expenditures in the same period were TZS 3,035.4 billion and TZS. 1,246.9 billion, respectively.

## External Sector Developments

Tanzania exports continued to face low global demand caused by the global financial crisis. As a result, the average prices of all traditional exports except tea and tobacco declined in 2009 compared to 2008. Nevertheless, the volume of all traditional exports, except tea and tobacco increased during the same period. Large volume increase was also registered in gold exports, which gained from price increase as well. Consequently, exports of goods and services rose to USD 4,693.6 million in 2009 from USD 4,687.7 million in the year 2008. The increase came from services receipts which rose to USD 2,059.6 million from USD 1,998.8 million in 2008, despite a decline of travel (which is mainly tourism) to USD 1,260.1 million from USD 1,288.7 million. Export of goods however declined to USD 2,634.0 million from USD 2,688.9 million recorded in 2008, mainly on account of decline in manufactured goods and fish products exports.

On the imports side, the decline in the average global commodity prices contributed to a fall in the value of goods imported in 2009. The value of goods and services imported during the period was USD 7,514.0 million, being lower than USD 8,089.2 million recorded in 2008. The decline was mainly explained by substantial drop in the average price of oil products. The value of oil imports declined by 28.9 percent to USD 1,307.5 million, even though the volume of imported oil increased from 2,316,481 tons recorded in 2008 to 2,916,484 tons.

Meanwhile, the first tranche of the Balance of Payments Support from the IMF under the Exogenous Shock Facility (ESF) was disbursed and the allocation of Special Drawing Rights (SDR) made. Transfers and loans from various development partners nearly doubled to USD 816.8 million from USD 432.0 million. The overall Balance of Payments recorded a surplus of USD 428.9 million in 2009 compared to a surplus of USD 148.2 million recorded during the previous year.

The gross official reserves went up to USD 3,551.3 million in December 2009, from USD 2,872.6 million recorded in the corresponding period in 2008. This level of reserves was enough to cover about 5.7 months of import of goods and services.

# Economic Developments in Zanzibar

## Zanzibar Economic Growth

Zanzibar's economy grew strongly at an average rate of 6.0 percent over the past five years to 2007, but slowed to 5.4 percent in 2008, owing to lagged effects of high and volatile world oil and food prices in 2007/08 and the global financial crisis towards the end of 2008.

In addition to the adverse impact of the global financial crisis, Zanzibar was hit by power blackout in December 2009 caused by electric fault in the main power station. Notwithstanding these shocks, provisional statistics for the first three quarters indicate that, real GDP is estimated to grow above 6.0 percent during 2009 compared to the earlier target of 4.9 percent. The increased optimism is supported by better than anticipated performance in tourism, huge increase in the volume of cloves exported and low inflation.

## Zanzibar Inflation Developments

Annual headline inflation in Zanzibar declined significantly to an average of 4.7 percent over the period July – December 2009 compared to an average of 23.7 percent registered during the corresponding period in 2008. The decline in inflation was largely accounted for by the global decline of prices of rice and petroleum products. The rate of inflation is expected to increase in the coming months, reflecting the rebound in the prices of petroleum products in the world market, but is expected to remain in single digit.

## Zanzibar Government Budgetary Operations

In the first half of 2009/10, budgetary operations on cheques issued basis recorded a deficit of TZS 0.2 billion after grants, compared with a deficit of TZS 8.1 billion registered during the corresponding period in 2008/09. The budgetary operations after adjustment to cash amounted to a deficit of TZS 10.3 billion. Total resources during the period under review amounted to TZS 130.9 billion, out of which TZS 72.2 billion was from domestic sources and TZS 58.7 billion from grants.

Revenue collections during the first half of 2009/10 amounted to TZS 72.2 billion, and accounted for 45.2 percent of the annual target of TZS 159.7 billion. Tax revenue collection was less than estimated due to decline in taxable imports. Total government expenditure during July – December 2009, amounted to TZS 131.0 billion, and accounted for 31.7 percent of the target of TZS 412.6 billion for fiscal year 2009/10. The less than estimated expenditure occurred in development and other expenditure categories.

## Zanzibar External Sector Development

During 2009, the current account recorded a surplus of USD 24.3 million, compared to a deficit of USD 22.8 million registered in 2008. The improvement was mainly a result of increases in current transfers and receipts from exports. During the period, donor disbursements were USD 63.6 million, significantly higher than USD 41.3 million received in the preceding year.

Exports of goods and services were USD 127.6 million, being 18.5 percent higher than USD 107.7 million recorded in 2008, mainly due to a notable rise in the volume of cloves exports to 4,100 tons, up from 1,500 tons, even as average export price declined from USD 3,909.6 to USD 3,523.7 per ton. The recorded volume increase was associated with crop harvest cycle and government anti-smuggling measures. Meanwhile, service receipts increased by 10.9 percent to USD 99.0 million compared to USD 89.3 million recorded in 2008.

Total goods imports (c.i.f) to Zanzibar declined to USD 94.6 million in 2009, from USD 124.8 million recorded in 2008, mainly on account of the general decline in global commodity prices particularly oil, whose value declined to USD 26.3 million, down from USD 34.9 million registered in 2008. Meanwhile, the volume of oil imports increased by 10.0 percent from 45,054 tons in 2008 to 49,558 tons in 2009 partly due to increased use of petroleum products particularly in December 2009 following the power blackout.

# PART I
# REVIEW OF MONETARY POLICY IMPLEMENTATION DURING JULY – DECEMBER, 2009

According to the Bank of Tanzania Act 2006, Section 7 (1) and (2):

"(1) The primary objective of the Bank shall be to formulate, define and implement monetary policy directed to the economic objective of maintaining price stability conducive to a balanced and sustainable growth of the national economy.

(2) Without prejudice to subsection (1), the Bank shall ensure the integrity of the financial system and support the general economic policy of the Government and support sound monetary, credit and banking conditions conducive to the development of the national economy"

## General Overview

During the first half of 2009/10, a relatively high level of liquidity was experienced in the banking system, as the pace of credit growth slowed, notwithstanding easy monetary policy stance. The slowdown in credit growth was an indication of the banks' cautious approach to lend, in the wake of the global financial crisis.

However, the financial sector and the payment system in Tanzania remained safe and sound partly due to strong supervision by the Bank of Tanzania. Surveillance of the banks was heightened since September 2008 to ensure that the system remains healthy and the payment system is protected against possible contagion effect from the global financial crisis. The Bank also continued to run an "Early Warning System" on financial institutions and stood ready to support banks in need of liquidity through its windows, namely, the intraday loan facility, the Lombard window, reverse repos and the re-discount window.

To protect the economy from the adverse effects of the global financial crisis, the government put in place an economic rescue plan, which was aimed at protecting employment and incomes, ensuring food security, and protecting investment in infrastructure and key social service programs. Significant progress has been made in implementing the rescue plan. This has contributed to the observed positive expansion of credit, even as some key borrowing entities found themselves in dire financial conditions, caused by the global financial crisis.

Inflation remained high during most part of the year. Although non-food inflation remained low during the period, averaging 4.3 percent, partly in response to the decline in world commodity prices, food inflation continued to be stubbornly high, averaging 17.1 percent during the period, on account of food shortages in some parts of the country and neighbouring countries, thus keeping the headline inflation above the target for the whole period. However, signs of improved food supply have began to emerge giving prospects of return to low inflation in the coming months.

## Global Developments

The decline in activity caused by the global financial turmoil has begun to give way to gradual growth, particularly in emerging Asian economies, as well as in some of the advanced economies. Having contracted in the quarter ending December 2008 and the quarter ending March 2009, the global activity showed positive growth in the second and third quarters of 2009. This upswing was driven by the monetary and fiscal policy stimuli put in place by governments since the beginning of the recession, as well as improvements in both consumer and business confidence. The return to growth in the global economic activity has happened together with a revival of world trade.

Within the OECD countries, annual inflation turned positive in October 2009 after having remained negative in the preceding four months. Nevertheless, the rate was still subdued, mainly due to low commodity prices, and the relative increase in spare capacity as a result of the reduction in economic activity. The downward inflationary pressures have however begun to be counteracted, albeit marginally, by the rebound of oil prices throughout 2009.

## Review of Monetary Policy Implementation

### Macroeconomic Objectives of the Government

The main thrust of government policy in fiscal year 2009/10 was to make use of the collective force of fiscal and monetary policies to limit the severity of the global economic downturn on domestic economic activity, and set the economy on a firm footing for returning to its medium-term growth path, as the global economic and financial conditions normalize. To mitigate the adverse impact of the global financial crisis on the economy, sustain the initiatives that commenced in the second half of 2008/09, the government put in place a countercyclical stimulus, with monetary policy providing ample liquidity to dampen possible slowdown in credit growth and economic activity, following the global economic recession and subsequent weak demand for our exports. The Bank also undertook to continue with daily monitoring of the banking system to ensure financial stability, which is key in attaining broader macroeconomic objectives of the government. Specifically, during 2009/10, the government intended to achieve the following objectives:

(i) To attain a real GDP growth rate of 5.0 percent in 2009 and 5.7 percent in 2010;
(ii) To attain an annual inflation rate of not more than 6.0 percent by June 2010;
(iii) To collect TZS 5,096.0 billion in domestic revenue, equivalent to 16.4 percent of GDP in 2009/10;
(iv) To limit expenditure to TZS 9,513.7 billion, equivalent to 27.5 percent of GDP; and
(v) To attain official foreign exchange reserves sufficient to cover not less than 5 months of imports of goods and services in 2009/10.

## Monetary Policy Objectives

In line with the objectives of the Government, the Bank of Tanzania undertook to provide more fiscal space to the Government by financing part of the Government's 1.6 percent of GDP net domestic borrowing planned for 2009/10. This would be in addition to 1.2 percent of GDP (equivalent to TZS 323 billion) government net domestic financing, which was financed by borrowing from the Bank in the last quarter of 2008/09. This was done while ensuring that the Bank's primary mission of ensuring price stability is not compromised.

Specifically the Bank aimed at achieving the following objectives in 2009/10:

(i) Attaining an annual growth of broad money supply (M2) and extended broad money supply (M3), not exceeding 20 percent each by end June 2010.
(ii) Providing a room for credit to the private sector to grow at an annual rate of 28.7 percent by June 2010.
(iii) Maintaining a level of international reserves adequate to cover not less than 5 months of imports of goods and services.
(iv) Continuing to exercise strong regulation and supervision of banks in order to ensure that all indicators of financial stability remain strong, and to steer the financial sector clear of the adverse impact of the global financial crisis.
(v) Maintaining stability of financial markets by strengthening:
    (a) Rules and regulations in the payments and settlement infrastructure,
    (b) Enhancing oversight and observance of ethics and,
    (c) Improving efficiency and effectiveness of the payment system to shore up its resilience to contagion effects.

In line with the monetary policy objectives outlined above, targets for December 2009 were drawn. All targets were achieved as presented in **Table 1.1**.

## Table 1.1: Mid-Year Performance of Monetary Aggregates Against Targets

| Mid-year Target | Outturn |
|---|---|
| (i) M3 and M2 annual growth rate not exceeding 21.7 percent | M3 and M2 registered an annual growth of 18.4 percent, and 20.8 percent respectively |
| (ii) Annual growth of credit to private sector not exceeding 26.7 percent. | Credit to private sector grew at an annual rate of 9.6 percent, far below the ceiling reflecting the cautious approach to lending taken by banks, following the global financial crisis. |
| (iii) Stock of gross official reserves sufficient to cover not less 5 months of imports of goods and services | The stock of gross official reserves at the end of December 2009 was sufficient to cover 5.7 months of imports of goods and services |

In addition, the targets agreed between the Government and the IMF under the PSI program for December 2009 were met as presented in **Table 1.2** below:

## Table 1.2: Performance Against the PSI Program Targets

| | December 2009 Target | Outturn |
|---|---|---|
| Net domestic financing of the Government of Tanzania - billion of TZS (ceiling – cumulative from July 2009) | 95 | 11.9 |
| Average reserve money - billions of TZS (ceiling) | 3,009 | 2,936 |
| Net international reserves of the Bank of Tanzania - millions of USD (floor) | 2,648 | 3,223 |

Meanwhile, the banking system remained strong and the financial markets remained stable in the period under review.

## Liquidity Management

Average reserve money, which constitutes commercial banks' deposits at the Bank of Tanzania and currency in circulation outside the central bank, remains the monetary policy operating target for 2009/10 with government securities, repurchase agreements and foreign exchange transactions being the major instruments of achieving the target.

In managing liquidity, the Bank strived to balance the instrument mix so as to ensure that they reflect the economic fundamentals and minimize volatility in the exchange rate and interest rates. The Bank also continued to promote transparency in monetary policy, through various regular publications, through meetings with the media and through its monthly meetings with chief executive officers of commercial banks.

## Interest Rate Policy

During the period, the Bank reviewed the Lombard and discount rates, with a view to making them more active instruments of monetary policy and to enhance flexibility in provision of liquidity to the economy. Beginning July 2009, the margins applied on the base rates to determine the Lombard rate and the discount rate were changed from fixed percentage points to proportions of the base rates, implying that the points added to the base rates in order to arrive at both Lombard and discount rates would change according to the size of the base.

In addition, the margins were made subject to frequent reviews by the Monetary Policy Committee to make them more reflective of the monetary policy stance. These changes led to a decline of the Lombard rate from 7.35 percent in June to 4.13 percent in July 2009, and a drop in the discount rate from 10.31 percent to 6.95 percent in the same period. Both rates remained low, at an average of 3.7 percent for Lombard and 4.6 percent for discount rate, in the first half of 2009/10. To depict the more active role taken by the discount rate as an instrument of monetary policy, its name was changed to Bank Rate. The Bank Rate is now subject to change bi-weekly, whenever necessary.

These measures were taken to facilitate availability of credit to productive sectors of the economy in 2009/10, while aligning monetary expansion to levels consistent with targeted inflation. Other interest rates remained market determined, and were expected to decline in conformity with the relatively easy monetary policy stance adopted by the Bank.

## Exchange Rate Policy

The exchange rate remained freely determined in the inter-bank foreign exchange market (IFEM) and the Bank, in its pursuit of monetary policy objectives, structured its sale of foreign exchange to reduce volatility in the exchange rate and dampen speculative tendencies. A watchful eye was kept on developments in the market, with a view to warding-off such tendencies, which could potentially arise from the prevailing global financial crisis.

## Money Supply

Monetary developments in the first half of 2009/10 were characterised by slowdown in the rate of expansion of the major aggregates, largely reflecting the second round effects of the global financial crisis on credit availability. The average annual growth of the extended broad money supply (M3), which includes foreign currency deposits, was 18.3 percent in the first half of 2009/10, down from an average of 20.8 percent in the first half of 2008/09. The annual growth of M2 slowed down to an average of 19.7 percent in the first half of 2009/10 from an average of 28.2 percent in the first half of 2008/09, while that of narrow money supply (M1) decelerated to 13.2 percent from 27.2 percent, in the same period. M3 registered much less decline in its growth when compared to M2 and M1 because of the weakening of the shilling against the US dollar.

Meanwhile, the annual growth rate of average reserve money for the first half of 2009/10 averaged 25.5 percent, nearly the same as the average of 25.3 percent in the corresponding period of 2008/09, while the annual growth of the stock of reserve money averaged 27.0 percent compared to 29.2 percent in the same period. The relatively faster expansion of reserve money compared with credit and the broader aggregates of money supply was reflected by accumulation of liquidity in the banking system, which manifested itself in low money market interest rates. This development translated to a shrinkage in money multiplier from an average of 3.2 in the first half of 2008/09 to an average of 2.9 in the first half of 2009/10. The build up of liquidity among banks provides an adequate base for resumption of high credit growth as soon as economic activity returns to normalcy.

## Financial Intermediation

Financial intermediation has developed robustly in the recent past with the ratio of credit to deposits picking up from an average of 53.5 percent in the first half of 2003/04 to an average of 69.9 percent in the first half of 2008/09. The recent slackening of credit growth and the relative good performance in deposit mobilization nudged the ratio slightly down to an average of 69.2 percent in the first half of 2009/10. Meanwhile, financial deepening, as measured by the ratio of money supply (M3) to GDP, echoed the cautious lending stance taken by banks, as it declined slightly to an estimated average of 27.5 percent in 2009 from an average of 27.8 percent registered in 2008. Likewise, deposit to GDP ratio declined marginally to an average of 22.5 percent from 22.6 percent in the same period.

### Deposit Mobilization

A strong adjustment in the public's portfolio preference has been taking place as manifested by a drastic reduction of average contribution of currency in circulation outside the banking system to M3 growth to 9.3 percent, in the first half of 2009/10, from an average of 21.2 percent in the first half of 2008/09. Currency in circulation seems to be flowing into non-transferable bank deposits, whose average contribution to M3 growth picked up to an average of 48.4 percent from an average of 40.4 percent in the same period.

The shift of growth from currency in circulation to non-transferable deposits is consistent with the ongoing efforts by banks to mobilize deposits, particularly by introducing new products. This could also be an indication of public's growing confidence in the banking system, as well as a reversal of the outflow of cash from banks, following the collapse of a pyramid scheme towards the end of 2008.

### Domestic Credit

The cautious lending stance taken by banks, which was triggered by the effects of the global financial crisis, caused the annual expansion of credit to the private sector to decelerate to an average of 19.7 percent in the first half of 2009/10 from 39.7 percent recorded in the first half of 2008/09. The annual growth rate of credit to the private sector reached 9.6 percent in December 2009.

It deserves to mention however, that the observed slowdown in expansion of credit is also related to the fact that the corresponding period of the preceding year was a period of above normal average credit growth. Credit had grown by 43.9 percent in the year to December 2009, being the highest rate since 2002. The slowdown in credit growth also helped to dampen the inflationary pressure coming from food items in the consumer basket.

Most of the economic activities experienced significant slowdown of credit growth from banks, except transport and communication and hotels and restaurants, which sustained strong growth. Personal loans registered slowdown in annual growth but maintained their dominant share in total credit, accounting for 20.4 percent of the total stock of outstanding loans in December 2009, down from 21.2 percent recorded in December 2008. Personal loans are mostly made to salary earners for purchase of consumer durables.

With the pace of expansion of credit to the private sector declining, banks increased their preference for safer money market instruments namely Treasury securities, repurchase agreements as well as foreign currency. Even as the banks' preference changed in favour of money market instruments, the supply of government securities did not match their demand, as the Bank of Tanzania continued to maintain moderate tender sizes in line with the adopted easy monetary policy stance. The stock of government securities in the hands of banks rose by TZS 202.7 billion in the year ending December 2009 compared to a decline of TZS 137.5 billion in the year to December 2008. Even sharper increase of TZS 599.9 million was registered in foreign assets of banks in 2009, compared to a decline of TZS 138.8 million in 2008.

## Financial Sector Soundness

Tanzania's financial sector has remained sound over the period under review, despite the global financial turmoil. By December 2009, all major financial soundness indicators of the banking sector, namely capital adequacy ratio (CAR), asset quality, liquidity ratio and profitability level were strong. According to provisional statistics, the banking system was adequately capitalized against any potential financial risk. The CAR, which is measured as a ratio of core capital to total risk weighted assets was at 18.0 percent, compared to the legal minimum requirements of 10 percent.

With regard to asset quality of the banking system, the level of non-performing loans (NPLs) is one of the measures that reflect the strength of the financial system. In times of financial crisis, asset quality tends to deteriorate requiring banks to make additional provisions, which in turn reduce banks' capital. During the year ending December 2009, the ratio of NPLs to total loans remained relatively stable and below the prudential limit of 10 percent, as it moved from 6.3 percent in November 2008 to 6.4 percent, partly on account of the rescue plan which, among others dampened the impact of the second round effects of the global financial crisis on the banking system. Meanwhile, the ratio of non-performing loans (net of provisions) to total capital declined to 15.2 percent in December 2009 from 19.6 percent in December 2008.

Furthermore, throughout the year under review, the banking system had enough liquidity to operate smoothly and cover their liabilities without much recourse to liquidity windows at the Bank of Tanzania, thus reflecting its high capacity to absorb liquidity shocks. The overall liquidity of the banking sector continued to be high, as the ratio of liquid assets to demand liabilities rose to 46.6 percent in December 2009 from 41.7

percent at the end of December 2008 - which was very much above the regulatory minimum limit of 20.0 percent. At the same time, gross loans to total deposits ratio declined to 61.8 percent from 68.4 percent, which was within the maximum regulatory limit of 80 percent required for each individual institution.

The banking business continued to be profitable, although profitability level declined slightly during 2009. During the year ending December 2009, the Return on Equity, which is a measure of banking institutions' efficiency in using capital, was recorded at 20.1 percent compared with 22.7 percent recorded in the previous year. Similarly, Return on Assets, which is a measure of efficiency in using assets, declined to 2.85 percent in the first half of 2009/10 from 3.45 percent in the same period of 2008/09. The decline in the sector's overall profit is partly attributed to slower increase in returns from investments such as government securities, compared to the growth of in interest expenses and staff benefits.

## Financial Markets and Interest Rate Developments

As the Bank pursued a relaxed monetary policy, aimed at warding-off the downside effects of the global financial crisis, it reduced the volume of most monetary instruments sold. This was met by the weak lending confidence among banks that saw a sturdy build up of demand for the safer money market assets. In the first half of 2009/10 the Bank supplied a total of TZS 1,518.3 billion worth of Treasury bills against a demand of TZS 2,557.3 billion, an oversubscription of 68.4 percent. This contrasts with the situation in a similar period of 2008/09, where the Bank supplied TZS 1,445.9 billion worth of Treasury bills against a demand of TZS 1,662.2 billion, an oversubscription of only 15.0 percent. In line with these developments, the overall weighted average yield on Treasury bills declined to an average of 5.4 percent in the first half of 2009/10, from 9.9 percent in the first half of 2008/09.

Similar developments were observed in the Treasury bond market, where the Bank supplied TZS 182.8 billion worth of Treasury bonds against a demand of TZS 462.1 billion, which was again in contrast to a supply of TZS 169 billion that was almost matched with demand in the first half of 2008/09. Similar to the case of Treasury bills, yields in Treasury bonds fell across all maturities.

The Bank continued to use repurchase agreements as a fine tuning instrument of monetary policy. Consistent with the easy monetary policy stance, the Bank allowed repo transactions to make a net injection of TZS 111.0 billion into the economy in the first half of 2009/10, compared to a net mop up of TZS 13.8 billion that occurred in the corresponding period of 2008/09. In line with these developments the overall repo rate declined to an average of 1.43 percent in the first half of 2009/10, down from an average of 4.36 percent in the corresponding period of the preceding year.

Meanwhile, transactions in the interbank cash market continued to be moderate. In the period under review, the value of transactions reached TZS 1,597.7 billion, down from TZS 2,036.0 billion recorded in the corresponding period of the preceding fiscal year. Overnight placements remained dominant during the period, accounting for about 47.9 percent of the total interbank transactions. Developments of interest rates in the interbank cash market were consistent with other money market rates, as the overall interbank cash market rate dropped to an average of 1.97 percent in the period under review, compared with an average of 4.59 percent in the corresponding period of 2008/09.

The overall deposit and lending interest rates manifested a general downward trend, albeit sluggishly, when compared with developments in money market rates. The overall time deposit rate declined to 6.36 percent in December 2009, notably lower than the recent peak of 7.10 percent that was registered in April 2009. Likewise, the overall lending rates declined to 14.38 percent in December 2009 from a recent peak of 15.48 percent in June 2009.

At the same time, substantial progress was registered in the development of secondary market for Treasury bonds. The value of Treasury bonds traded in the secondary market rose more than threefold to TZS 185.3 billion in 2009 from TZS 56.6 billion in 2008.

## Foreign Exchange Operations

The Bank of Tanzania participated in the foreign exchange market with the main objective of liquidity management. The Bank continued to structure its participation in the manner that promotes stability of the market determined exchange rates, and maintenance of adequate levels of foreign reserves, without compromising price stability. An eye was kept on the potential adverse impact of the global financial crisis on the exchange rate. The Bank maintained a steady sale of foreign exchange in the foreign exchange market, which added to USD 560.0 million in the first half of 2009/10 compared to USD 368.5 million sold in the corresponding period of 2008/09.

During the period under review the exchange rate averaged TZS 1,308.0 per USD, representing depreciation of 8.4 percent from an average of TZS 1,206.9 per USD in the corresponding period of the preceding year. Nonetheless, significant calmness was observed in the exchange rate in the first half of 2009/2010, as the difference between the highest and lowest

TZS to USD exchange rate was only TZS 12.6, compared to a difference of TZS 113.9 in the corresponding period in the preceding year. The relative stability in the period under review suggests that the market has become more confident about foreign exchange position, after showing signs of panic at the emergence of the global financial crisis, in the corresponding period of the preceding year.

## Progress on Implementation of Second Generation Financial Sector Reforms

Implementation of the Second Generation Financial Sector Reforms continued during the period under review and progress was made on various fronts. The consultant engaged to study the Tanzania Investment Bank (TIB) transformation into a Development Financial Institution (DFI) completed the assignment, and the recommendations there of are in the being reviewed by the Government.

Regarding the Credit Reference System, draft regulations for the Credit Reference System were sent to Ministry of Finance for review and gazetting by the Attorney General's Chambers. The process of procuring a Consultant (Long-term Advisor) to set up a Credit Reference Databank at the BOT is ongoing, and the World Bank has already granted a 'No Objection' for opening financial proposals.

A consultant to develop a legal and regulatory framework for bancassurance has already been engaged and is expected to complete the assignment by end of February 2010. The objective is to produce a draft Legal and Regulatory Framework for bancassurance.

Concerning housing finance, the government is negotiating with the World

Bank for a line of credit worth USD 40 million to cater for three components namely: developing the mortgage market; development of housing microfinance; and expansion of affordable housing supply. Progress has been made on the first component, whereby three banks have committed to be founder shareholders of a Tanzania Mortgage Refinance Company (TMRC) to be formed soon; while other Banks that showed interest are in the process of getting their Boards' approval. A consultant has been hired to fast track TMRC incorporation and is expected to complete the assignment in February 2010.

A consultant engaged to develop a draft national financial literacy strategy has already submitted a draft report and draft strategy. It is expected that once the stakeholders' views are incorporated in the final report, the strategy will go through internal reviews and after clearance by the Inter Institutional Committee (IIC) will be submitted to the government for approval and implementation. Efforts to establish a regulator for the Social Security Regulatory Authority (SSRA) is in progress, while leasing regulations are in the final stages of preparation.

# PART II
# REVIEW OF OTHER MACROECONOMIC DEVELOPMENTS

## Economic Growth

Tanzania recorded strong economic performance in 2008, with real GDP growing at 7.4 percent, despite the adverse impact of the global financial crisis towards the end of 2008. Based on the macroeconomic outlook for the period 2009/10 – 2011/12, real GDP growth is estimated to slow down to 5.0 percent in 2009 and begin to recover in 2010. Several indicators of economic activity during the first two quarters of 2009 suggest that growth has been affected by the global financial crisis, although at a much lesser extent when compared with advanced and middle income economies. This is evidenced by the good performance in traditional exports, cement production and the index of manufacturing industry.

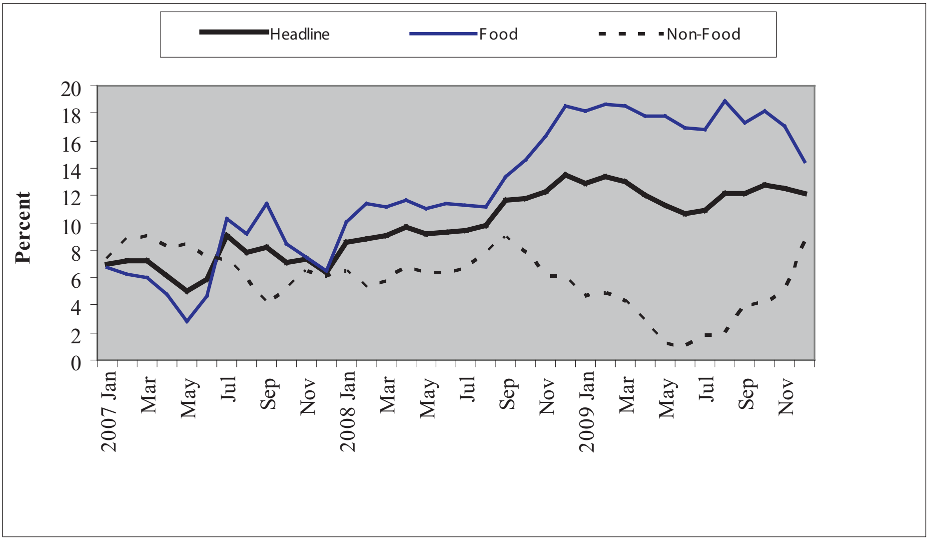
Traditional exports increased to USD 470.8 million in 2009 from USD 418.4 million in 2008, on account of a bumper harvest in 2008/09 crop season, while cement production increased by 7.4 percent in the first three quarters of 2009 to 1.38 million tons compared with 1.28 million tons recorded during a similar period in 2008, suggesting strong performance in construction. Likewise, the production index for the manufacturing industry for the first three quarters of 2009 increased substantially by 27.3 percent compared to the corresponding period in 2008. Higher production was recorded in food, beverages and tobacco; paper and paper products; non-metallic products; basic metal products; and fabricated metal products. The implementation of the rescue plan together with front loading of inflows from development partners are expected to lessen the magnitude of the impact of global financial crisis and speed up the return of the economy to a strong growth path.

## Inflation Developments

The economy continued to experience inflationary pressures that originated from the lagged effects of soaring world commodity prices earlier in the year, compounded by food supply shortages in the region, and poor short rains in some parts of Tanzania in the last quarter of 2008. As a result, the economy experienced double digit headline inflation of 11.6 percent in September 2008 increasing to 13.5 percent in December 2008. By June 2009 annual headline inflation had slowed to 10.7 percent and then increased further in the second half of 2009 reaching 12.2 percent in the year ending December 2009.

The annual headline inflation average rate for January – December 2009 was 12.1 percent, compared with 10.3 percent recorded in a similar period of 2008. The relatively higher inflation rate in 2009 was mainly explained by higher food inflation, associated with food shortages in the neighbouring countries and some parts of the country, and high domestic transportation costs (**Chart 2.1**). Food inflation increased from 13.4 percent in September 2008 to 18.6 percent and remained above 17 percent until December 2009, when it declined sharply to 14.5 percent. The annual non-food inflation had taken a declining trend, from 8.9 percent in September 2008, and stayed below 5.0 percent until December 2009, when it rose sharply to 8.5 percent. This was, in part, consistent with the falling commodity prices world wide. The increase in non-food inflation towards the end of 2009 is mainly associated with rising fuel prices. It is noteworthy that the price of crude oil rose from USD 36 per barrel in December 2008 to around USD 73 per barrel in December 2009; a doubling in its price.

## Chart 2.1: Tanzania: Annual Headline, Food and Non-food Inflation




# Government Finance

The fiscal performance during the period July – December 2009 was characterized by a shortfall in revenue collections. Total domestic revenue collections reached TZS 2,291.2 billion, equivalent to 90.2 percent of the target for the period.

Meanwhile, foreign assistance in the form of Government Budget Support (GBS) amounted to TZS 785.3 billion, equivalent to 78.7 percent of the budget estimates for the period, or 66.0 percent of the total budget estimate for 2009/10. In addition, projects and basket funds received during the period amounted to TZS 721.3 billion, equivalent to 85.1 percent of the projected resources for the period.

During the period under review, government expenditure reached TZS 4,282.3 billion, equivalent to 88.0 percent of the target for the period. Recurrent and development expenditures in the same period were TZS 3,035.4 billion and TZS 1,246.9 billion, respectively.

## External Sector Developments

Tanzania exports continued to face low global demand caused by the global financial crisis. As a result, the average prices of all traditional exports except tea and tobacco declined in 2009 compared to 2008. Nevertheless, the volume of all traditional exports, except tea and tobacco increased during the same period, owing to favourable weather condition, timely accessibility of agricultural inputs and extension services. Large volume increase was also registered in gold exports, which gained from price increase as well. Consequently, exports of goods and services rose to USD 4,693.6 million in 2009 from USD 4,687.7 million in the year 2008. The increase came from services receipts, which rose to USD 2,059.6 million from USD 1,998.8 million in 2008, despite a decline of travel (which is mainly tourism) to USD 1,260.1 million from USD 1,288.7 million. Export of goods also declined to USD 2,634.0 million from USD 2,688.9 million in 2008, mainly on account of manufactured goods and fish products.

On the imports side, the decline in the average global commodity prices contributed to a fall in the value of goods imported in 2009. The value of goods and services imported during the period was USD 7,514.0 million, being lower than USD 8,089.2 million in 2008. The decline occurred in goods imports, which amounted to USD 5,775.7 million, being lower than USD 6,483.4 million recorded in the preceding year, owing mainly to a substantial drop in the average price of oil products. The value of oil imports declined by 28.9 percent to USD 1,307.5 million, even though the volume of imported oil increased from 2,316,481 tons recorded in 2008 to 2,916,484 tons. On the contrary, import of services increased to USD 1,738.2 million in 2009 from USD 1,605.8 million in the preceding year.

Meanwhile, disbursements of the first tranche of the balance of payments support from the IMF under the Exogenous Shock Facility (ESF) and the allocation of Special Drawing Rights (SDR)[1] were made, while transfers and loans from various development partners, nearly doubled to USD 816.8 million from USD 432.0 million, disbursed in 2008.

Following these developments, the overall Balance of Payments recorded a surplus of USD 428.9 million in 2009 compared to a surplus of USD 148.2 million recorded during the previous year. This led to a notable increase in the stock of gross official reserves Gross reserves that reached USD 3,551.3 million at the end of December 2009 from USD 2,872.6 million recorded in the corresponding month in 2008. This level of reserves was sufficient to cover about 5.7 months of imports of goods and services.

In managing foreign reserves, the Bank took a conservative stance by focusing on safety and preservation of capital. To this end, investments were made in highly rated instruments issued by selected sovereign governments in the OECD and supranational institutions. The instruments included government and supranational bonds and money market deposits as well as treasury bills as opposed to commercial banks money market deposits, which were highly prone to credit risk.

## National Debt Developments

During the period July-December 2009, the national debt stock[2] increased

1 ESF disbursed in June 2009, while SDR allocations were released in August and September 2009.

2 This includes private sector external debt and interest arrears

by USD 852.5 million compared to an increase of USD 191.1 million during the corresponding period in 2008. The increase was mainly on account of new external disbursements and a relatively large amount of domestic debt issuances compared to maturing obligations. The stock of debt at the end of December stood at USD 9,730.8 million out of which 79.8 percent was external and 20.2 percent domestic.

## External Debt

External debt disbursements received and recorded during the period amounted to USD 408.9 million compared to USD 551.1 million received in the corresponding period in 2008. External debt service amounted to USD 43.0 million, out of which, USD 21.3 million was principal and USD 21.3 million was interest. Actual external debt payments during the corresponding period in 2008 amounted to USD 23.6 million.

## Domestic Debt

During the period under review domestic debt increased by 11.1 percent from TZS 2,262.3 billion to TZS 2,512.8 billion. The increase was on account of large amount of new issuances of Government debt compared to maturing obligations.

Newly issued domestic debt amounted to TZS 587.9 billion; accounting for 54.3 percent of TZS 1,082.7 billion budgeted for year 2009/10. Out of domestic debt issuance, TZS 157.5 billion was Treasury bills and TZS 434.4 billion government bonds. The increase in domestic debt issuance reflected the expansion of fiscal space adopted to address the revenue shortfall associated with the global financial crisis.

Domestic debt service amounted to TZS 459.2 billion, equivalent to about 19.5 percent of domestic revenue collected during the same period. Out of domestic debt payments, interest amounting to TZS 165.5 billion (7.0 percent of domestic revenue) was paid out of government revenue; while principal amounting to TZS 293.7 billion (12.5 percent of domestic revenue) was rolled over.

## Economic Developments in Zanzibar

### Economic Growth

Zanzibar's economic growth averaged 6.0 percent over the past five years to 2007, but slowed down to 5.4 percent in 2008. High and volatile oil and food prices coupled with the global financial and economic crisis were the main reasons for the slowdown in growth during 2008. The services sector, which is dominated by tourism and related activities was the most adversely affected. As a result, the growth of the services sector, decelerated to 6.4 percent from 10.4 percent registered in 2007, with the number of tourist arrivals falling to 128,440 in 2008 from 143,265 in 2007.

The provisional data for the first three quarters indicates that, notwithstanding the effects of global financial crisis and power crisis in December 2009 caused by electric fault in the main power station, real GDP is estimated to grow by more than 6.0 percent during 2009 compared to the earlier projection of 4.9 percent. The increase in optimism is based on better than anticipated performance in tourism and cloves. The number of tourist arrivals increased by 5.1 percent from 128,440 in 2008 to 134,954 in 2009, while the export of cloves increased significantly from 1,500 tons to 4,100 tons in 2009.

## Inflation Developments

Annual headline inflation in Zanzibar declined significantly to an average of 4.7 percent over the period July – December 2009 compared to an average of 23.7 percent registered during the corresponding period in 2008. The decline in inflation was largely accounted for by the global decline of prices of rice and petroleum products. The rate of inflation is expected to increase in the coming months, reflecting the rebound in the prices of petroleum products in the world market, but remain in single digit.

## Financial Services in Zanzibar

For the year ending December 2009, the number of banks operating in Zanzibar increased to 9 from 6 at the end of December 2008 with one of the banks being based in Zanzibar and the rest being branches from Tanzania Mainland. This has improved accessibility to financial services in Zanzibar by reducing the number of people served per bank from 195,166 people to 130,111, in one year period. Lending to the private sector amounted to TZS 82.4 billion, and the largest proportion of outstanding loans was personal loans, which accounted for 51.0 percent of total loans. This was followed by lending to trade and tourism activities, which accounted for 17.0 percent and 13.0 percent, respectively.

## Zanzibar Government Budgetary Developments

### Fiscal Performance

In the first half of 2009/10, budgetary operations on cheques issued basis recorded a deficit of TZS 0.2 billion after grants, compared with a deficit of TZS 8.1 billion registered during the corresponding period in 2008/09.

The budgetary operations after adjustment to cash amounted to a deficit of TZS 10.3 billion. Total resources during the period under review amounted to TZS 130.9 billion, out of which TZS 72.2 billion was from domestic sources and TZS 58.7 billion from grants.

Revenue collections during the first half of 2009/10 amounted to TZS 72.2 billion, and accounted for 45.2 percent of the annual target of TZS 159.7 billion. Underperformance was registered in collections from tax on imports on account of decline in taxable imports.

Total government expenditure during July – December 2009, amounted to TZS 131.0 billion, and accounted for 31.7 percent of the target of TZS 412.6 billion for fiscal year 2009/10. The less than estimated expenditure occurred in development and other expenditure categories.

During 2009, the current account recorded a surplus of USD 24.3 million, compared to a deficit of USD 22.8 million registered in 2008 (**Table 2.1**). The improvement was mainly a result of increases in current transfers and receipts from exports. During the period, donor disbursements were USD 63.6 million, significantly higher than USD 41.3 million received in preceding year.

Exports of goods and services were USD 127.6 million, being 18.5 percent higher than USD 107.7 million recorded in 2008. The increase in export receipts was mainly explained by a notable rise in the volume of cloves exports to 4,100 tons, up from 1,500 tons, even as average export price declined from USD 3,909.6 to USD 3,523.7 per ton. The recorded volume increase was associated with crop harvest cycle and government anti-smuggling measures. Meanwhile, service receipts increased by 10.9 percent to USD 99.0 million compared to USD 89.3 million in 2008.

## Table 2.1: Zanzibar Current Account Balance

*Millions of USD*

| ITEM | Year Ending December | | | % Change |
|---|---|---|---|---|
| | 2007 | 2008 | 2009p | Annual |
| **Goods Account (net)** | **-71.5** | **-95.3** | **-57.5** | **-39.7** |
| Exports | 14.1 | 18.3 | 28.6 | 56.3 |
| Imports (fob) | 85.6 | 113.6 | 86.0 | -24.3 |
| **Services Account (net)** | **38.7** | **32.4** | **25.2** | **-22.2** |
| Receipts | 87.4 | 89.3 | 99.0 | 10.9 |
| Payments | 48.7 | 56.9 | 73.8 | 29.7 |
| **Goods and Services (net)** | **-32.9** | **-62.8** | **-32.3** | **-48.6** |
| Exports of Goods and Services | 101.5 | 107.7 | 127.6 | 18.5 |
| Imports of Goods and Services | 134.3 | 170.5 | 159.9 | -6.2 |
| **Income Account (net)** | **-0.1** | **-1.3** | **-7.0** | **438.5** |
| Receipts | 0.1 | 0.4 | 0.4 | 0.0 |
| Payments | 0.2 | 1.6 | 7.3 | 356.3 |
| **Current Transfers (net)** | **64.4** | **41.3** | **63.6** | **54.0** |
| Inflows | 64.4 | 41.3 | 63.6 | 54.0 |
| Outflows | 0.0 | 0.0 | 0.0 | - |
| **Current Account Balance** | **31.4** | **-22.8** | **24.3** | **206.6** |

p = provisional
**Source**: Tanzania Revenue Authority and BOT computations.

Total goods imports (c.i.f) to Zanzibar declined to USD 94.6 million in 2009, from USD 124.8 million, recorded in 2008, mainly on account of the general decline in global commodity prices. Capital goods imports decreased to USD 39.5 million, from USD 53.3 million, while intermediate goods declined to USD 33.2 million, from USD 46.7 million. Importation of oil, which accounted for 27.8 percent of total goods imports, was USD 26.3 million, down from USD 34.9 million, registered in 2008. Meanwhile, the volume of oil imports increased by 10.0 percent from 45,054 tons in 2008 to 49,558 tons in 2009, partly due to increased use of petroleum products particularly in December 2009 following the power blackout.

# PART III
# MONETARY POLICY STANCE FOR JANUARY – JUNE 2010

As the global economy recovers gradually, and demand for exports improves, economic activity is expected to pick up leading to resurgence of credit growth. These developments, together with the policy measures, are expected to strengthen activity and return the economy to high growth path in 2010 and beyond.

While maintaining enough liquidity to support increase in credit growth, the main concern of monetary policy for the remaining part of the fiscal year 2009/10 will continue to be maintenance of macroeconomic stability, including achievement of low and stable inflation. Given the performance in the first half of 2009/10 and developments in the global economy, monetary policy objectives for June 2010 are still consistent with the broad macroeconomic objectives of the Government and therefore they will remain unchanged.

## Inflation

The gradual return of food supply to normal in the region is expected to calm down food inflation and facilitate return to low headline inflation in the coming months. The ongoing rains across the country are also expected to improve food supply and thus bring down food inflation. Nonetheless, downside risks the renewed increase in oil prices poses a downside risk on attainment of the inflation target. In addition, the ongoing rains pose risk to attainment of the target, in case they become widely excessive and cause damage to crops and transport infrastructure.

With supportive fiscal policy and good weather in Tanzania and the neighbouring countries, it is expected that inflation will slowdown towards the target in the second half of 2009/10. The current decision by the government to form a task force to explore possibility of using grain reserves to stabilize food prices, is a welcome move towards reducing the inflation rate coming from food component of the consumer basket. Speedy restoration of the transport network where damages have been caused by the ongoing rains is important in attaining the inflation target. In the medium term, addressing the rigidities in marketing and distribution of food across the country will be crucial for sustainable price stability.

## Liquidity Management

As the Bank pursues reserve money targets for June 2010, it remains aware of the potential risk posed by high liquidity among banks to inflation, and therefore it will remain vigilant—closely monitoring credit growth, and early signs of a possible upturn in non-food inflation or exchange rate pressure—and take appropriate policy measures to contain any adverse effects.

The smoothness in implementation of monetary policy in the first half of 2009/10 was facilitated by improvements in liquidity forecasting associated with the change in the compliance to statutory minimum reserve requirements (SMR) adopted in January 2009. The Bank of Tanzania will continue to strengthen coordination with the Ministry of Finance and Economic Affairs, with a view to improving the forecasting of government budgetary flows and improve further the efficiency of its policy actions.

In addition, the Bank will continue to promote transparency in monetary policy through its monthly meetings with the chief executive officers of depository institutions and meetings with the press.

## Financial Sector Soundness

The Bank of Tanzania will remain vigilant in safeguarding the prevailing financial stability as the adverse effects of the global financial turmoil subside. The Bank will maintain strict surveillance over all banks operating in Tanzania on daily basis and the early warning systems which have already been put in place will be enhanced to ensure that all financial indicators remain sound.

The Bank's liquidity windows, including the intraday loan facility (ILF) and its overnight refinancing facility, i.e. the Lombard window, will remain open for banks in need of liquidity to square their positions. The Bank of Tanzania will maintain its foreign exchange policy, including its presence in the foreign exchange market and strengthen its oversight role in the market. Measures will be taken to sustain an orderly payment system to protect the market from possible contagion effect.

## Interest Rate Policy

Monetary policy remains committed to the assurance of availability of sufficient liquidity necessary to provide credit to the private sector, hence spur economic growth. In this regard, the Bank will continue to collaborate with the government in implementing measures to remove the remaining structural and institutional limitations, and deepen financial intermediation within the framework of the Second-Generation Financial Sector Reform Program. Interest rates will remain market-determined and the Bank will continue to structure its use of instruments in a manner that will sustain stability in financial markets.

## Foreign Exchange Policy

The exchange rate will continue to be freely determined in the inter-bank foreign exchange market (IFEM), with the Bank of Tanzania's involvement in the market being primarily to meet its monetary policy objectives. The Bank's intervention in the market will also be structured with a view to smoothen transitory volatilities, while maintaining an adequate level of international reserves.

# PART IV
# CONCLUSION

Signs of recovery of the global economy from the recession have begun to show, with the strongest performance happening in the emerging Asian economies. As the global economy continues to recover and demand strengthens, earnings from exports are expected to improve in the second half of 2009/10, and accordingly the growth of credit is expected to pick up.

While food supply shortage in parts of the country and the neighbouring countries has kept food inflation high in the first half of 2009/10, prospects for the remainder of the year are bright as indicated by the recent deceleration of food inflation in the country and in most of the neighbouring countries. In addition, the subdued global commodity prices present an upside benefit of reducing pressure on inflation and boost activity, particularly in the non-tradable sector, from the supply side.

Meanwhile, the Bank of Tanzania foresees major challenges in restoration of low inflation, posed by the rebound of world oil prices; the ongoing—potentially excessive—rains that may cause destruction to transport network and crops; and uncertainties in power supply. In addition, the Bank is aware of the potential risk caused by high liquidity among banks to inflation—and therefore stands ready to take appropriate action to contain any adverse effects. Continued coordination between fiscal and monetary policies will be crucial in addressing these challenges.

Monetary policy measures will focus on maintaining sufficient liquidity among banks to support credit growth, while preserving the primary objective of attaining and maintaining low and stable inflation. Close surveillance over all banks operating in the country will be continued and the early warning systems which are now in place will be strengthened.

Given successful implementation of the policy outlined in this review, coupled with the expected support from the fiscal side, the Bank of Tanzania is confident that the policy achievements recorded so far will be upheld over the remaining period of the fiscal year 2009/10.

# APPENDICES

## Table A1: Gross Domestic Product at Constant 2001 Prices by Economic Activity

*Millions of TZS*

| Economic Activity | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007r | 2008p |
|---|---|---|---|---|---|---|---|---|
| **Agriculture, Hunting and Forestry** | **2,636,193** | **2,766,479** | **2,850,956** | **3,017,988** | **3,148,384** | **3,268,238** | **3,399,648** | **3,554,488** |
| Crops | 1,945,945 | 2,055,634 | 2,122,361 | 2,262,725 | 2,361,930 | 2,457,373 | 2,567,955 | 2,698,921 |
| Livestock | 459,448 | 472,500 | 483,001 | 503,000 | 525,109 | 537,498 | 550,398 | 564,708 |
| Forestry and hunting | 230,800 | 238,345 | 245,594 | 252,263 | 261,345 | 273,367 | 281,295 | 290,859 |
| **Fishing** | **153,660** | **164,049** | **173,892** | **185,543** | **196,676** | **206,510** | **215,734** | **226,521** |
| **Industry and construction** | **1,638,459** | **1,792,024** | **1,988,081** | **2,204,619** | **2,433,261** | **2,639,902** | **2,889,519** | **3,138,241** |
| Mining and quarrying | 159,979 | 187,000 | 219,000 | 254,000 | 295,000 | 341,000 | 377,559 | 386,998 |
| Manufacturing | 762,400 | 819,200 | 893,000 | 977,000 | 1,071,000 | 1,162,000 | 1,263,435 | 1,388,515 |
| Electricity, gas | 196,860 | 209,000 | 223,953 | 240,708 | 263,218 | 258,347 | 286,507 | 301,978 |
| Water supply | 43,840 | 45,084 | 47,128 | 49,557 | 51,700 | 54,905 | 58,474 | 62,333 |
| Construction | 475,380 | 531,740 | 605,000 | 683,354 | 752,343 | 823,650 | 903,544 | 998,416 |
| **Services** | **4,139,962** | **4,460,699** | **4,806,587** | **5,182,094** | **5,596,784** | **6,035,932** | **6,527,561** | **7,085,136** |
| Trade and repairs | 1,182,797 | 1,281,544 | 1,405,698 | 1,486,931 | 1,585,906 | 1,736,631 | 1,906,821 | 2,097,503 |
| Hotels and restaurants | 250,978 | 267,162 | 275,836 | 285,732 | 301,873 | 314,921 | 328,859 | 343,658 |
| Transport | 487,062 | 516,000 | 541,901 | 588,574 | 627,951 | 661,000 | 703,965 | 752,539 |
| Communications | 112,783 | 124,549 | 144,039 | 169,158 | 200,900 | 239,537 | 287,684 | 346,659 |
| Financial intermediation | 140,000 | 154,108 | 170,643 | 184,775 | 204,694 | 228,000 | 251,280 | 281,120 |
| Real estate and business services | 936,440 | 1,003,260 | 1,068,732 | 1,141,014 | 1,226,790 | 1,316,000 | 1,408,120 | 1,508,097 |
| Public administration | 640,649 | 699,561 | 766,760 | 871,169 | 970,786 | 1,033,488 | 1,102,951 | 1,180,158 |
| Education | 188,733 | 202,000 | 207,606 | 215,910 | 224,547 | 235,774 | 248,742 | 265,905 |
| Health | 118,972 | 129,229 | 140,437 | 151,370 | 163,572 | 177,520 | 193,142 | 210,525 |
| Other social and personal services | 81,548 | 83,286 | 84,935 | 87,461 | 89,765 | 93,061 | 95,998 | 98,974 |
| **Gross value added before adjustments** | **8,568,274** | **9,183,251** | **9,819,516** | **10,590,244** | **11,375,105** | **12,150,582** | **13,032,462** | **14,004,385** |
| *less* FISIM | -80,000 | -87,000 | -97,154 | -106,931 | -119,497 | -137,287 | -158,292 | -175,704 |
| **Gross value added at 2001 basic prices** | **8,488,274** | **9,096,251** | **9,722,362** | **10,483,313** | **11,255,608** | **12,013,295** | **12,874,170** | **13,828,681** |
| *Add* Taxes on products | 612,000 | 655,926 | 701,372 | 756,422 | 812,482 | 867,868 | 927,751 | 999,664 |
| **Gross Domestic Product at 2001 market prices** | **9,100,274** | **9,752,177** | **10,423,734** | **11,239,735** | **12,068,090** | **12,881,163** | **13,801,921** | **14,828,345** |

r = revised

p = provisional

**Source:** NBS and BOT computations

## Table A2: Gross Domestic Product Growth by Economic Activity

*In Percent*

| Economic Activity | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007r | 2008p |
|---|---|---|---|---|---|---|---|---|
| **Growth rates** | | | | | | | | |
| **Agriculture and Fishing** | 4.9 | 4.9 | 3.1 | 5.9 | 4.3 | 3.8 | 4.0 | 4.6 |
| Crops | 5.3 | 5.6 | 3.2 | 6.6 | 4.4 | 4.0 | 4.5 | 5.1 |
| Livestock | 4.0 | 2.8 | 2.2 | 4.1 | 4.4 | 2.4 | 2.4 | 2.6 |
| Forestry and hunting | 3.6 | 3.3 | 3.0 | 2.7 | 3.6 | 4.6 | 2.9 | 3.4 |
| Fishing | 4.8 | 6.8 | 6.0 | 6.7 | 6.0 | 5.0 | 4.5 | 5.0 |
| **Industry and construction** | 6.6 | 9.4 | 10.9 | 10.9 | 10.4 | 8.5 | 9.5 | 8.6 |
| Mining and quarrying | 13.9 | 16.9 | 17.1 | 16.0 | 16.1 | 15.6 | 10.7 | 2.5 |
| Manufacturing | 5.0 | 7.5 | 9.0 | 9.4 | 9.6 | 8.5 | 8.7 | 9.9 |
| Electricity, gas | 5.9 | 6.2 | 7.2 | 7.5 | 9.4 | -1.9 | 10.9 | 5.4 |
| Water supply | 3.5 | 2.8 | 4.5 | 5.2 | 4.3 | 6.2 | 6.5 | 6.6 |
| Construction | 7.6 | 11.9 | 13.8 | 13.0 | 10.1 | 9.5 | 9.7 | 10.5 |
| **Services** | 6.4 | 7.7 | 7.8 | 7.8 | 8.0 | 7.8 | 8.1 | 8.5 |
| Trade and repairs | 6.4 | 8.3 | 9.7 | 5.8 | 6.7 | 9.5 | 9.8 | 10.0 |
| Hotels and restaurants | 4.8 | 6.4 | 3.2 | 3.6 | 5.6 | 4.3 | 4.4 | 4.5 |
| Transport | 4.9 | 5.9 | 5.0 | 8.6 | 6.7 | 5.3 | 6.5 | 6.9 |
| Communications | 8.7 | 10.4 | 15.6 | 17.4 | 18.8 | 19.2 | 20.1 | 20.5 |
| Financial intermediation | 6.9 | 10.1 | 10.7 | 8.3 | 10.8 | 11.4 | 10.2 | 11.9 |
| Real estate and business services | 4.2 | 7.1 | 6.5 | 6.8 | 7.5 | 7.3 | 7.0 | 7.1 |
| Public administration | 10.5 | 9.2 | 9.6 | 13.6 | 11.4 | 6.5 | 6.7 | 7.0 |
| Education | 11.4 | 7.0 | 2.8 | 4.0 | 4.0 | 5.0 | 5.5 | 6.9 |
| Health | 5.6 | 8.6 | 8.7 | 7.8 | 8.1 | 8.5 | 8.8 | 9.0 |
| Other social and personal services | 3.1 | 2.1 | 2.0 | 3.0 | 2.6 | 3.7 | 3.2 | 3.1 |
| **Gross value added excluding adjustments** | **6.0** | **7.2** | **6.9** | **7.8** | **7.4** | **6.8** | **7.3** | **7.5** |
| *less* FISIM | 2.5 | 8.7 | 11.7 | 10.1 | 11.8 | 14.9 | 15.3 | 11.0 |
| **Gross value added at basic prices** | **6.0** | **7.2** | **6.9** | **7.8** | **7.4** | **6.7** | **7.2** | **7.4** |
| *Add* Taxes on products | 6.0 | 7.2 | 6.9 | 7.8 | 7.4 | 6.8 | 6.9 | 7.8 |
| **Gross domestic product at market prices** | **6.0** | **7.2** | **6.9** | **7.8** | **7.4** | **6.7** | **7.1** | **7.4** |

r = revised
p = provisional
**Source:** NBS and BOT computations

# Table A3: Contribution to Gross Domestic Product by Economic Activity

*In Percent*

| Economic Activity | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007r | 2008p |
|---|---|---|---|---|---|---|---|---|
| **Agriculture, Hunting and Forestry** | **29.0** | **28.4** | **27.4** | **26.9** | **26.1** | **25.4** | **24.6** | **24.0** |
| Crops | 21.4 | 21.1 | 20.4 | 20.1 | 19.6 | 19.1 | 18.6 | 18.2 |
| Livestock | 5.0 | 4.8 | 4.6 | 4.5 | 4.4 | 4.2 | 4.0 | 3.8 |
| Forestry and hunting | 2.5 | 2.4 | 2.4 | 2.2 | 2.2 | 2.1 | 2.0 | 2.0 |
| **Fishing** | **1.7** | **1.7** | **1.7** | **1.7** | **1.6** | **1.6** | **1.6** | **1.5** |
| **Industry and construction** | **18.0** | **18.4** | **19.1** | **19.6** | **20.2** | **20.5** | **20.9** | **21.2** |
| Mining and quarrying | 1.8 | 1.9 | 2.1 | 2.3 | 2.4 | 2.6 | 2.7 | 2.6 |
| Manufacturing | 8.4 | 8.4 | 8.6 | 8.7 | 8.9 | 9.0 | 9.2 | 9.4 |
| Electricity, gas | 2.2 | 2.1 | 2.1 | 2.1 | 2.2 | 2.0 | 2.1 | 2.0 |
| Water supply | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Construction | 5.2 | 5.5 | 5.8 | 6.1 | 6.2 | 6.4 | 6.5 | 6.7 |
| **Services** | **45.5** | **45.7** | **46.1** | **46.1** | **46.4** | **46.9** | **47.3** | **47.8** |
| Trade and repairs | 13.0 | 13.1 | 13.5 | 13.2 | 13.1 | 13.5 | 13.8 | 14.1 |
| Hotels and restaurants | 2.8 | 2.7 | 2.6 | 2.5 | 2.5 | 2.4 | 2.4 | 2.3 |
| Transport | 5.4 | 5.3 | 5.2 | 5.2 | 5.2 | 5.1 | 5.1 | 5.1 |
| Communications | 1.2 | 1.3 | 1.4 | 1.5 | 1.7 | 1.9 | 2.1 | 2.3 |
| Financial intermediation | 1.5 | 1.6 | 1.6 | 1.6 | 1.7 | 1.8 | 1.8 | 1.9 |
| Real estate and business services | 10.3 | 10.3 | 10.3 | 10.2 | 10.2 | 10.2 | 10.2 | 10.2 |
| Public administration | 7.0 | 7.2 | 7.4 | 7.8 | 8.0 | 8.0 | 8.0 | 8.0 |
| Education | 2.1 | 2.1 | 2.0 | 1.9 | 1.9 | 1.8 | 1.8 | 1.8 |
| Health | 1.3 | 1.3 | 1.3 | 1.3 | 1.4 | 1.4 | 1.4 | 1.4 |
| Other social and personal services | 0.9 | 0.9 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 |
| **Gross value added before adjustments** | **94.2** | **94.2** | **94.2** | **94.2** | **94.3** | **94.3** | **94.4** | **94.4** |
| less FISIM | -0.9 | -0.9 | -0.9 | -1.0 | -1.0 | -1.1 | -1.1 | -1.2 |
| **Gross value added at 2001 basic prices** | **93.3** | **93.3** | **93.3** | **93.3** | **93.3** | **93.3** | **93.3** | **93.3** |
| Add Taxes on products | 6.7 | 6.7 | 6.7 | 6.7 | 6.7 | 6.7 | 6.7 | 6.7 |
| **Gross Domestic Product at 2001 market prices** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

r = revised
p = provisional
**Source:** NBS and BOT computations

## Table A4: Percentage Change in National Consumer Price Index

| | Year-on-Year Inflation | | | Mont-on-MonthInflation | | |
|---|---|---|---|---|---|---|
| | Headline | Food | Non-Food | Headline | Food | Non-Food |
| Weight (%) | 100.0 | 55.9 | 44.1 | 100.0 | 55.9 | 44.1 |
| 2008 Jan | 8.6 | 10.1 | 6.5 | 3.4 | 5.2 | 0.9 |
| Feb | 8.9 | 11.4 | 5.2 | 1.4 | 1.9 | 0.5 |
| Mar | 9.0 | 11.2 | 5.8 | 0.9 | 0.9 | 0.8 |
| Apr | 9.7 | 11.6 | 6.8 | 0.5 | 0.3 | 0.9 |
| May | 9.1 | 11.0 | 6.3 | 0.1 | -0.6 | 1.1 |
| Jun | 9.3 | 11.4 | 6.29 | 0.2 | -0.3 | 1.0 |
| Jul | 9.5 | 11.2 | 6.8 | 0.3 | -0.1 | 0.8 |
| Aug | 9.8 | 11.1 | 7.9 | -0.7 | -1.6 | 0.8 |
| Sep | 11.6 | 13.4 | 8.9 | 2.2 | 3.7 | 0.1 |
| Oct | 11.8 | 14.6 | 7.9 | 0.6 | 1.0 | 0.0 |
| Nov | 12.3 | 16.3 | 6.3 | 1.5 | 3.1 | -0.8 |
| Dec | 13.5 | 18.6 | 6.0 | 2.3 | 4.0 | -0.2 |
| 2009 Jan | 12.9 | 18.2 | 4.7 | 2.9 | 4.8 | -0.4 |
| Feb | 13.3 | 18.6 | 4.9 | 1.7 | 2.3 | 0.7 |
| Mar | 13.0 | 18.5 | 4.3 | 0.6 | 0.8 | 0.2 |
| Apr | 12.0 | 17.8 | 2.8 | -0.4 | -0.3 | -0.5 |
| May | 11.3 | 17.8 | 1.3 | -0.5 | -0.6 | -0.4 |
| June | 10.7 | 17.0 | 1.0 | -0.4 | -1.0 | 0.7 |
| Jul | 10.9 | 16.9 | 1.8 | 0.5 | -0.2 | 1.6 |
| Aug | 12.1 | 18.9 | 2.0 | 0.4 | 0.1 | 1.0 |
| Sep | 12.1 | 17.3 | 4.0 | 2.2 | 2.3 | 2.2 |
| Oct | 12.7 | 18.1 | 4.2 | 1.1 | 1.6 | 0.2 |
| Nov | 12.5 | 17.1 | 5.0 | 1.4 | 2.2 | -0.1 |
| Dec | 12.2 | 14.5 | 8.5 | 2.1 | 1.6 | 3.1 |

**Note:** (1) Before August 2006, Base year June 2001=100, Afterwards Base year December 2001=100
**Source:** National Bureau of Statistics

## Table A5: Tanzania – Central Government Operations

*Millions of TZS*

| Item | BUDGET 2009/10 | July 2009 - December 2009 | | |
|---|---|---|---|---|
| | | Estimate | Actual | Act / Est % |
| **Resources** | | | | |
| Domestic Revenue | 5,096,016 | 2,540,770 | 2,291,155 | 90.2 |
| LGA Own Sources | 138,053 | 69,026 | 0 | 0.0 |
| Govt Budget Support (GBS) | 1,193,909 | 997,264 | 785,324 | 78.7 |
| Bank borrowing (Drawdown of deposits) | 506,193 | -112,822 | 78,380 | -69.5 |
| Non-Bank borrowing (rolling over) | 576,476 | 339,262 | 323,982 | 95.5 |
| MDRI (IMF) | 130,635 | 65,317 | 13,532 | 20.7 |
| Privatization Proceeds | 15,000 | 15,000 | 0 | 0.0 |
| **Sub-Total** | **7,656,282** | **3,913,817** | **3,492,373** | **89.2** |
| | | | | |
| MCA(T)-USA | 211,308 | 105,654 | 68,675 | 65.0 |
| Basket Loans and Grants | 572,925 | 310,613 | 264,021 | 85.0 |
| Project Loans and Grants | 1,073,170 | 536,585 | 457,229 | 85.2 |
| **Sub-Total** | **1,857,403** | **952,852** | **789,925** | **82.9** |
| **Total Resources** | **9,513,685** | **4,866,669** | **4,282,298** | **88.0** |
| | | | | |
| **Recurrent Expenditure** | | | | |
| Wages and Salaries | 1,766,388 | 875,427 | 840,854 | 96.1 |
| Other Goods and Services | 3,419,842 | 1,746,226 | 1,762,136 | 100.9 |
| Interest | 407,826 | 160,164 | 111,200 | 69.4 |
| Amortization (domestic & foreign debt) | 651,412 | 375,130 | 345,255 | 92.0 |
| Other Charges | 442,786 | 237,253 | 166,301 | 70.1 |
| Adjustment | 0 | 0 | -190,388 | |
| **Sub-Total** | **6,688,254** | **3,394,200** | **3,035,358** | **89.4** |
| | | | | |
| **Development Expenditure** | | | | |
| Development - Local | 968,028 | 519,617 | 455,712 | 87.7 |
| Development - Foreign | 1,857,403 | 952,852 | 791,228 | 83.0 |
| o/w MCA(T)-usa | 211,308 | 105,654 | 68,675 | 65.0 |
| **Sub-Total** | **2,825,431** | **1,472,469** | **1,246,940** | **84.7** |
| **Total Expenditure** | **9,513,685** | **4,866,669** | **4,282,298** | **88.0** |

1/ Exclude amortization and Expenditure Float, includes Road fund and Retention expenditures

**Source:** Ministry of Finance, Bank of Tanzania and National Bureau of Statistics

# Table A6: Zanzibar – Central Government Operations

*Millions of TZS*

| | 2008/2009 | Budget 2009/2010 | July - December 2009 Estimates | July - December 2009 Actual | Actual vs Estimate |
|---|---|---|---|---|---|
| **Total Revenue** | **134,160.1** | **159,697.5** | **78,592.2** | **72,230.0** | **91.9** |
| **Tax Revenue** | **122,763.8** | **148,932.5** | **73,461.9** | **66,815.2** | **91.0** |
| Tax on Imports | 29,946.1 | 38,834.4 | 19,524.0 | 16,813.5 | 86.1 |
| VAT and Excise Duties (local) | 43,104.4 | 49,710.0 | 25,293.9 | 21,888.6 | 86.5 |
| Income Tax | 19,274.8 | 24,325.0 | 10,584.5 | 11,520.8 | 108.8 |
| Other Taxes | 30,438.4 | 36,063.0 | 18,059.5 | 16,592.3 | 91.9 |
| Non-Tax Revenue | 11,396.4 | 10,765.0 | 5,130.3 | 5,414.8 | 105.5 |
| **Total Expenditure** | **341,709.0** | **412,605.0** | **138,883.3** | **131,046.4** | **94.4** |
| Recurrent Expenditure | 149,435.0 | 172,692.0 | 79,929.5 | 75,563.2 | 94.5 |
| Wages and Salaries | 70,521.0 | 73,763.0 | 33,218.0 | 33,510.1 | 100.9 |
| Interest Payment | 0.0 | 2,350.0 | 788.5 | 788.5 | 100.0 |
| Local | 0.0 | 0.0 | 788.5 | 788.5 | 100.0 |
| Foreign | 0.0 | 0.0 | 0.0 | 0.0 | |
| Other Expenditure | 32,358.0 | 96,579.0 | 45,923.1 | 41,264.6 | 89.9 |
| **Development Expenditure** | **192,274.0** | **239,913.0** | **58,953.8** | **55,483.2** | **94.1** |
| local | 18,522.0 | 40,725.0 | 29,879.4 | 19,435.8 | 65.0 |
| foreign | 173,752.0 | 199,188.0 | 24,224.4 | 32,797.4 | 135.4 |
| Others | | | 4,850.0 | 3,250.0 | 67.0 |
| **Overall (surplus) Deficit before grants** | **-207,548.9** | **-252,907.5** | **-60,291.1** | **-58,816.4** | **97.6** |
| **Grants** | **136,932.0** | **147,093.0** | **50,837.8** | **58,690.3** | **115.4** |
| 4.5% Budget Support | **27,607.0** | **50,214.0** | 33,654.4 | 32,930.0 | 97.8 |
| Program Grant | **9,100.0** | **0.0** | 0.0 | 0.0 | |
| Debt relief | **101,325.0** | **96,879.0** | 17,183.4 | 25,760.3 | 149.9 |
| **Overall Deficit after grants** | **-70,616.9** | **-105,814.5** | **-9,453.4** | **-126.1** | **1.3** |
| Adjustment to cash and other items | -6,664.9 | 0.5 | 5,845.9 | 10,162.0 | 173.8 |
| **Overall Deficit cheques cleared** | **-63,952.0** | **-105,815.0** | **-15,299.3** | **-10,288.1** | **67.2** |
| **Financing** | **63,952.0** | **105,815.0** | **15,299.3** | **10,288.1** | **67.2** |
| Foreign | 72,427.0 | 102,309.0 | 15,299.3 | 10,288.1 | 67.2 |
| Import Support | 0.0 | 0.0 | 0.0 | 0.0 | |
| Program Loans | 72,427.0 | 102,309.0 | 15,299.3 | 10,287.1 | 67.2 |
| Amortization (foreign) | | | 0.0 | 0.0 | |
| Domestic (net) | 2,000.0 | 3,506.0 | 0.0 | 0.0 | |
| Bank | 0.0 | 0.0 | 0.0 | 0.0 | |
| Non-bank | 2,000.0 | 3,506.0 | 0.0 | 0.0 | |
| Amortization (local) | -10,475.0 | 0.0 | 0.0 | 0.0 | |

**Source:** Ministry of Finance, Bank of Tanzania and National Bureau of Statistics

## Table A7: Tanzania – Depository Corporations Survey

*Billions of TZS*

| | Nov-08 | Jun-09 | Jul-09 | Aug-09 | Sep-09 | Oct-09 | Nov-09 | Dec-09 |
|---|---|---|---|---|---|---|---|---|
| FOREIGN ASSETS (NET) | 3,810.23 | 4,196.79 | 4,637.70 | 4,717.43 | 4,864.24 | 4,914.74 | 5,040.46 | 4,937.96 |
| Bank of Tanzania | 3,354.69 | 3,395.13 | 3,792.43 | 3,843.06 | 3,897.12 | 3,857.55 | 3,896.05 | 3,843.45 |
| Net International Reserves | 3,417.21 | 3,457.70 | 3,855.09 | 4,206.02 | 4,288.10 | 4,251.51 | 4,298.51 | 4,232.94 |
| Net Foreign Assets( ODCs) | 455.54 | 801.65 | 845.27 | 874.37 | 967.12 | 1,057.19 | 1,144.41 | 1,094.51 |
| DOMESTIC ASSETS (NET) | 3,713.60 | 3,669.24 | 3,623.54 | 3,633.43 | 3,611.93 | 3,649.41 | 3,691.89 | 3,893.81 |
| Domestic Credit | 4,369.60 | 4,771.74 | 4,660.56 | 4,797.95 | 4,744.39 | 4,930.65 | 5,089.29 | 5,067.97 |
| Claims on Government (net) | -29.06 | 61.51 | -32.42 | 25.85 | -79.99 | 94.67 | 154.97 | 75.80 |
| Claims on Government BOT (net) | -1,484.72 | -778.80 | -737.66 | -831.63 | -1,063.91 | -992.37 | -962.06 | -1,017.82 |
| Claims on Government BOT | 677.39 | 908.55 | 1,011.64 | 1,123.90 | 1,018.46 | 1,022.58 | 1,029.39 | 1,006.25 |
| Government Deposits BOT | 2,162.11 | 1,687.35 | 1,749.29 | 1,955.54 | 2,082.37 | 2,014.95 | 1,991.45 | 2,024.06 |
| Claims on Government DMBs (net) | 1,455.66 | 840.31 | 705.24 | 857.48 | 983.92 | 1,087.04 | 1,117.03 | 1,093.62 |
| Claims on government DMBs | 1,725.24 | 1,406.94 | 1,377.71 | 1,544.15 | 1,638.24 | 1,735.36 | 1,773.58 | 1,756.24 |
| Deposits | 269.58 | 566.63 | 672.48 | 686.67 | 654.31 | 648.32 | 656.56 | 662.62 |
| Claims on other public sector | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Marketing Boards | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cooperatives | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Ind & Comm Parastatals | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Claims on the private sector | 3,745.71 | 4,042.87 | 4,023.31 | 4,085.31 | 4,106.76 | 4,110.13 | 4,193.41 | 4,225.92 |
| Other Items Net | 4.42 | 124.26 | -115.51 | 42.71 | 126.75 | 87.95 | 133.85 | 32.31 |
| EXTERNAL ARREARS COUNTERPART | | | | | | | | |
| M3: MONEY AND QUASI MONEY = M2+5 | 7,523.82 | 7,866.03 | 8,261.24 | 8,350.86 | 8,476.17 | 8,564.15 | 8,732.35 | 8,831.77 |
| M2: BROAD MONEY = M1+3+4 | 5,606.85 | 5,772.39 | 6,105.40 | 6,209.14 | 6,313.46 | 6,418.39 | 6,589.68 | 6,603.97 |
| M1: NARROW MONEY = 1+2 | 3,235.60 | 3,149.05 | 3,341.99 | 3,434.12 | 3,578.76 | 3,531.99 | 3,656.58 | 3,591.37 |
| 1.Currency in circulation (outside the Banking system) | 1,452.23 | 1,424.06 | 1,494.14 | 1,543.66 | 1,519.36 | 1,539.02 | 1,553.59 | 1,567.32 |
| 2.Transferable Deposits | 1,783.37 | 1,724.99 | 1,847.85 | 1,890.45 | 2,059.40 | 1,992.97 | 2,102.99 | 2,024.05 |
| 3.Non Transferrable Deposits (Time and Savings Deposits) | 2,371.25 | 2,623.34 | 2,763.41 | 2,775.02 | 2,734.71 | 2,886.39 | 2,933.10 | 3,012.61 |
| 5.Foreign currency deposits | 1,916.97 | 2,093.64 | 2,155.84 | 2,141.72 | 2,162.71 | 2,145.77 | 2,142.67 | 2,227.79 |
| Memorandum Item: | | | | | | | | |
| MO: RESERVE MONEY | 2,302.41 | 2,678.96 | 2,874.56 | 2,887.30 | 2,890.68 | 2,861.45 | 2,895.47 | 3,009.96 |
| **Annual growth rates in percent** | | | | | | | | |
| Extended broad money (M3) | 22.69 | 18.96 | 22.04 | 19.39 | 19.50 | 14.58 | 16.06 | 18.41 |
| Broad money (M2) | 29.97 | 19.50 | 23.92 | 19.01 | 19.86 | 17.04 | 17.53 | 20.76 |
| Narrow money (M1) | 28.30 | 11.28 | 14.60 | 10.81 | 16.33 | 10.61 | 13.01 | 13.71 |
| Reserve money (M0) | 28.30 | 26.69 | 31.33 | 30.11 | 21.11 | 20.66 | 23.01 | 26.66 |
| Claims on the private sector | 43.86 | 33.21 | 28.50 | 23.20 | 26.65 | 17.84 | 12.18 | 9.57 |
| The ratio of FCD to M3 | 25.48 | 26.62 | 26.10 | 25.65 | 25.52 | 25.06 | 24.54 | 25.22 |
| M3 multiplier | | | | | | | | |
| M2 multiplier | | | | | | | | |
| TZS/USD exchange rate (end of period) | 1,258.71 | 1,299.38 | 1,313.34 | 1,301.84 | 1,302.72 | 1,307.55 | 1,314.73 | 1,313.29 |
| **In millions of USD** | | | | | | | | |
| FCD | 1,522.97 | 1,611.25 | 1,641.49 | 1,645.15 | 1,660.15 | 1,641.06 | 1,629.74 | 1,696.34 |
| NIR | 2,714.85 | 2,661.03 | 2,935.33 | 3,230.83 | 3,291.65 | 3,251.50 | 3,269.50 | 3,223.14 |
| Gross official reserves | 2,732.46 | 2,925.08 | 3,199.50 | 3,497.20 | 3,560.34 | 3,521.88 | 3,543.79 | 3,551.32 |

**Source:** Bank of Tanzania

# Table A8: Tanzania Financial Market – Interest Rate Structure

*In Percent*

| | Dec-08 | Jun-09 | Jul-09 | Aug-09 | Sep-09 | Oct-09 | Nov-09 | Dec-09 | Average Jul - Dec 2008 | Average Jul - Dec 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| **1 Interbank Cash Market Rates** | | | | | | | | | | |
| Overnight | 6.27 | 4.46 | 2.44 | 0.82 | 1.04 | 1.21 | 1.19 | 1.46 | 4.41 | 1.36 |
| 2 to 7 days | 6.60 | 5.38 | 4.06 | 1.44 | 1.28 | 1.55 | 1.81 | 1.64 | 4.60 | 1.96 |
| 8 to 14 days | 6.21 | 5.30 | 4.43 | 1.90 | 1.55 | 1.41 | 1.67 | 1.72 | 4.79 | 2.11 |
| 15 to 30 days | 5.90 | 5.75 | 4.19 | 1.54 | 2.28 | 3.28 | 3.28 | 3.25 | 4.38 | 2.97 |
| 31 to 60 days | 8.75 | 5.30 | 4.58 | 2.82 | 2.69 | 3.04 | 3.91 | 3.43 | 5.99 | 3.41 |
| 61 to 90 days | 11.00 | 12.15 | 12.15 | 12.15 | 12.15 | 12.15 | 5.00 | 5.00 | 5.93 | 9.77 |
| 91 to 180 days | 11.69 | 8.60 | 9.17 | 3.27 | 3.68 | 4.00 | 4.00 | 4.00 | 9.16 | 4.69 |
| 181 and above | 13.00 | 12.00 | 5.56 | 7.05 | 6.47 | 9.00 | 5.47 | 5.47 | 9.87 | 6.50 |
| **Overall Interbank cash market rate** | **6.54** | **5.03** | **3.86** | **1.42** | **1.34** | **1.63** | **1.62** | **1.57** | **4.59** | **1.91** |
| **2 Lombard Rate** | **10.32** | **7.35** | **4.13** | **3.18** | **2.48** | **3.61** | **4.00** | **4.55** | **8.75** | **3.66** |
| **3 REPO Rate** | **6.42** | **4.90** | **2.23** | **1.21** | **1.12** | **1.32** | **1.28** | **1.26** | **4.36** | **1.40** |
| **4 Treasury Bills Rates** | | | | | | | | | | |
| 35 days | 6.88 | 4.81 | 3.45 | 2.65 | 2.07 | 3.01 | 3.33 | 3.80 | 5.83 | 3.05 |
| 91 days | 11.20 | 5.56 | 4.14 | 3.53 | 2.97 | 3.38 | 5.29 | 6.06 | 9.61 | 4.23 |
| 182 days | 12.13 | 7.86 | 6.27 | 5.46 | 4.84 | 4.90 | 5.28 | 6.59 | 10.19 | 5.56 |
| 364 days | 12.79 | 9.11 | 8.28 | 7.72 | 7.79 | 8.22 | 8.60 | 8.83 | 11.55 | 8.24 |
| **Overall Treasury bills rate** | **10.99** | **6.97** | **5.81** | **5.16** | **4.52** | **5.17** | **6.36** | **6.91** | **9.94** | **5.65** |
| **5 Treasury Bonds Rates** | | | | | | | | | | |
| 2-years | 14.35 | 11.51 | 11.51 | 11.51 | 11.51 | 10.89 | 10.89 | 10.89 | 13.30 | 11.20 |
| 5-years | 16.39 | 16.58 | 16.58 | 16.58 | 13.45 | 13.45 | 13.45 | 13.45 | 15.25 | 14.49 |
| 7-years | 17.04 | 17.06 | 17.06 | 14.14 | 14.14 | 14.14 | 14.15 | 14.15 | 17.04 | 14.63 |
| 10-years | 19.47 | 19.92 | 16.95 | 16.95 | 16.95 | 16.95 | 16.95 | 16.73 | 18.99 | 16.91 |

**Source:** Bank of Tanzania

# Table A9: Tanzania Commercial Banks – Interest Rate Structure

*In Percent*

| | Dec-08 | Jun-09 | Jul-09 | Aug-09 | Sep-09 | Oct-09 | Nov-09 | Dec-09 | Average Jul - Dec 2008 | Average Jul - Dec 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| **A: Domestic Currency** | | | | | | | | | | |
| **1 Savings Deposit Rate** | **2.74** | **2.69** | **2.68** | **2.68** | **2.66** | **2.61** | **2.61** | **2.83** | **2.63** | **2.68** |
| **2 Overall Time Deposits Rate** | **6.63** | **6.77** | **6.94** | **6.87** | **6.72** | **6.40** | **5.78** | **6.36** | **6.29** | **6.51** |
| Call Accounts | 0.65 | 1.05 | 1.10 | 1.14 | 1.13 | 0.96 | 0.98 | 0.74 | 0.75 | 1.01 |
| 1 month | 6.82 | 6.44 | 6.44 | 6.47 | 6.08 | 5.68 | 5.71 | 5.10 | 6.11 | 5.91 |
| 2 months | 8.31 | 7.59 | 8.86 | 8.15 | 7.77 | 7.47 | 7.18 | 6.99 | 7.60 | 7.74 |
| 3 months | 7.86 | 8.64 | 8.37 | 7.79 | 8.15 | 7.43 | 7.27 | 6.67 | 7.36 | 7.61 |
| 6 months | 8.50 | 8.57 | 8.20 | 8.45 | 8.29 | 7.90 | 7.83 | 8.50 | 7.74 | 8.19 |
| 12 months | 8.48 | 9.06 | 9.04 | 9.02 | 8.82 | 8.83 | 7.36 | 8.99 | 8.13 | 8.68 |
| 24 months | 5.75 | 6.03 | 6.58 | 7.09 | 6.79 | 6.51 | 4.12 | 7.56 | 6.37 | 6.44 |
| **3 Negotiated Deposit Rate** | **10.23** | **10.13** | **10.52** | **10.47** | **10.60** | **10.11** | **9.85** | **9.94** | **9.90** | **10.25** |
| **4 Overall Lending rate** | **16.05** | **15.48** | **15.14** | **15.12** | **14.90** | **14.75** | **12.25** | **14.38** | **14.78** | **14.42** |
| Call Loans | 19.25 | 21.25 | 22.25 | 22.25 | 23.25 | 24.25 | 25.25 | 26.25 | 19.25 | 23.92 |
| Short-term (up to 1year) | 13.56 | 14.57 | 13.94 | 13.77 | 13.98 | 13.92 | 11.96 | 13.96 | 13.62 | 13.59 |
| Medium-term (1-2 years) | 16.57 | 15.63 | 15.38 | 15.74 | 15.27 | 15.11 | 11.64 | 15.01 | 15.61 | 14.69 |
| Medium-term (2-3 years) | 17.18 | 15.11 | 14.61 | 14.75 | 14.69 | 14.66 | 10.89 | 14.74 | 15.32 | 14.06 |
| Long-term (3-5 years) | 16.52 | 15.23 | 15.20 | 14.98 | 14.91 | 14.78 | 12.15 | 14.52 | 16.13 | 14.42 |
| Term Loans (over 5 years) | 16.43 | 16.87 | 16.59 | 16.36 | 15.62 | 15.31 | 14.62 | 13.67 | 13.22 | 15.36 |
| **5 Negotiated Lending Rate** | **12.05** | **14.28** | **14.26** | **14.24** | **13.81** | **11.12** | **10.76** | **13.18** | **12.24** | **12.89** |
| **B: Foreign Currency** | | | | | | | | | | |
| **1 Deposits Rates** | | | | | | | | | | |
| **Savings Deposits Rate** | **1.43** | **2.36** | **2.37** | **1.53** | **1.46** | **1.46** | **1.38** | **1.46** | **1.54** | **1.61** |
| **Overall Time Deposits Rate** | **3.87** | **2.30** | **2.36** | **2.26** | **3.68** | **2.12** | **2.13** | **1.68** | **3.34** | **2.51** |
| 1-months | 3.53 | 2.36 | 1.85 | 2.09 | 3.68 | 2.06 | 2.04 | 1.40 | 2.78 | 2.34 |
| 2-months | 3.73 | 1.80 | 2.34 | 2.49 | 3.46 | 2.03 | 2.01 | 1.64 | 3.50 | 2.33 |
| 3-months | 4.61 | 2.45 | 2.93 | 2.10 | 4.24 | 2.09 | 2.06 | 1.00 | 3.41 | 2.40 |
| 6-months | 4.14 | 2.71 | 2.55 | 2.15 | 3.95 | 1.96 | 1.98 | 1.93 | 3.37 | 2.42 |
| 12-months | 3.36 | 2.18 | 2.12 | 2.49 | 3.07 | 2.48 | 2.53 | 2.42 | 3.63 | 2.52 |
| **2 Overall Lending Rate** | **9.62** | **9.69** | **9.69** | **9.76** | **9.72** | **8.11** | **8.98** | **9.01** | **8.51** | **9.21** |
| Short-term (up to 1year) | 6.29 | 6.96 | 6.94 | 6.94 | 6.95 | 6.49 | 3.77 | 3.84 | 5.81 | 5.82 |
| Medium-term (1-2 years) | 10.53 | 10.13 | 10.77 | 11.03 | 11.03 | 8.17 | 10.96 | 11.03 | 9.08 | 10.50 |
| Medium-term (2-3 years) | 10.44 | 10.82 | 10.27 | 10.28 | 10.23 | 8.76 | 10.26 | 10.24 | 8.67 | 10.01 |
| Long-term (3-5 years) | 10.24 | 10.54 | 10.50 | 10.52 | 10.41 | 8.65 | 10.28 | 10.28 | 8.97 | 10.11 |
| Term Loans (over 5 years) | 10.60 | 10.01 | 10.00 | 10.01 | 10.01 | 8.47 | 9.63 | 9.64 | 9.99 | 9.63 |

**Source:** Bank of Tanzania

# Table A10: Tanzania - Balance of Payments

*Millions of USD*

| Item | 2004 | 2005 | 2006 | 2007[r] | 2008[p] |
|---|---|---|---|---|---|
| **A. Current Account** | **-365.9** | **-862.8** | **-1,143.2** | **-1,578.6** | **-2,542.5** |
| *Balance on Goods* | **-1,001.2** | **-1,318.5** | **-1,946.5** | **-2,634.1** | **-3,447.4** |
| Goods: exports f.o.b. | 1,481.6 | 1,679.1 | 1,917.6 | 2,226.6 | 3,036.0 |
| Traditional | 297.8 | 354.5 | 267.1 | 319.7 | 417.7 |
| Nontraditional | 1,183.9 | 1,324.6 | 1,476.2 | 1,704.5 | 2,270.6 |
| o\w Gold | 629.9 | 655.1 | 786.4 | 788.2 | 932.4 |
| Unrecorded trade | | | 174.3 | 202.4 | 347.8 |
| Goods: imports f.o.b. | -2,482.8 | -2,997.6 | -3,864.1 | -4,860.6 | -6,483.4 |
| *Balance on Services* | 158.9 | 61.8 | 278.7 | 462.1 | 392.9 |
| Services: credit | 1,133.6 | 1,269.2 | 1,528.1 | 1,875.7 | 1,998.8 |
| Services: debit | -974.7 | -1,207.3 | -1,249.3 | -1,413.7 | -1,605.8 |
| *Balance on Goods and Services* | -842.3 | -1,256.6 | -1,667.8 | -2,172.0 | -3,054.4 |
| *Balance on income* | -112.4 | -102.0 | -64.1 | -58.1 | -90.8 |
| Income: credit | 81.8 | 80.9 | 80.3 | 107.3 | 122.7 |
| Income: debit | -194.2 | -182.9 | -144.4 | -165.4 | -213.5 |
| *Balance on Goods, Services and Income* | -954.7 | -1,358.6 | -1,731.8 | -2,230.1 | -3,145.2 |
| *Balance on Current transfers* | 588.8 | 495.7 | 588.7 | 651.5 | 602.8 |
| Current transfers: credit | 653.8 | 563.3 | 654.6 | 724.0 | 682.4 |
| Current transfer: debit | -65.0 | -67.5 | -65.9 | -72.5 | -79.6 |
| **B. Capital Account** | **459.9** | **393.2** | **5,183.5** | **923.7** | **637.5** |
| Total, Groups A plus B | 94.0 | -469.7 | 4,040.3 | -654.9 | -1,905.0 |
| **C. Financial Account, excl. reserves and related items** | **306.3** | **555.6** | **-3,954.6** | **946.0** | **1,745.7** |
| Direct investment abroad | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Direct investment in Tanzania | 330.6 | 494.1 | 597.0 | 647.0 | 679.3 |
| Portfolio investment | 2.4 | 2.5 | 2.6 | 2.8 | 2.9 |
| Other investment | -26.7 | 59.0 | -4,554.2 | 296.3 | 1,063.5 |
| *Total, Groups A through C* | 400.3 | 85.9 | 85.7 | 291.1 | -159.2 |
| **D. Net Errors and Omissions** | **-116.0** | **-313.6** | **374.9** | **121.5** | **267.7** |
| *Overall balance* | 284.3 | -227.7 | 460.7 | 412.6 | 108.4 |
| **E. Reserves and Related Items** | **-284.3** | **227.7** | **-460.7** | **-412.6** | **-108.4** |
| Reserve assets | -308.5 | 253.1 | -126.5 | -419.4 | -108.2 |
| Use of Fund credit and loans | -33.8 | -50.5 | -334.2 | 6.8 | -0.3 |
| Exceptional financing | 58.0 | 25.1 | 0.0 | 0.0 | 0.0 |

r = Revised

p = Provisional

**Source:** Bank of Tanzania, International Economics Department

# GLOSSARY

### Currency in Circulation outside Banks

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

### Discount Rate also known as Bank Rate

The rate of interest the Bank of Tanzania charges on loans it extends to commercial banks and on government.

### Exchange Rate

The price at which one currency can be purchased with another currency, for instance TZS per USD.

### Inflation

Inflation is defined as the rate at which the average level of domestic prices is increasing over a period of time.

### International Reserves or Reserve Assets

International reserves consist of external assets that are readily available to, and controlled by Central Bank for direct financing of balance of payments, and for indirectly regulating the magnitude of balance of payments imbalances through intervention in foreign exchange markets. For the case of Tanzania, international reserves comprise the Bank of Tanzania's holdings of monetary gold, special drawing rights (SDRs), reserve position in the International Monetary Fund, and foreign exchange resources, available to the Bank of Tanzania for meeting external financing needs.

## Lombard Facility

An overnight facility established to enable commercial banks to borrow at their own discretion, by pledging eligible government securities as collateral.

## M—Money Supply

The sum of currency in circulation outside the banks and deposits of residents with banks are defined in various levels of aggregation as money supply narrowly and broadly defined. In Tanzania three aggregates of money supply are compiled and reported, namely: 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 the Bank of Tanzania, and (2) banks' reserves (deposit money banks' local currency in vaults plus their required and free deposits at the Bank of Tanzania). Reserve money is also referred to as Base money, or the monetary base or high-powered money.

## M1—Narrow Money

Consists of currency in circulation outside banks and demand deposits of Tanzanian residents with banks.

## M2—Broad Money

Is equivalent to narrow money (M1) plus time deposits and savings deposits of Tanzanian residents in banks.

## M3—Extended Broad Money

Consists of broad money (M2) plus foreign currency deposits of Tanzanian residents in banks.

## 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 provides a better indication of the effectiveness of monetary policy.

## Reserve Money Program

It is an operational framework used by the Bank of Tanzania to achieve money supply growth targets, through monitoring reserve money, which is the operational variable.

## Statutory Minimum Reserves

These are balances which banks are required to keep with the Bank of Tanzania, determined as a percentage of their deposit liabilities, and their short-and medium-term borrowings from the public.

### Weighted Annualized Yields of Treasury Bills for all Maturities

This is the average yield of Treasury bill, which is weighted by the volume sold of 35-, 91-, 182-, and 364 - day Treasury bill, expressed in percent per annum.