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MONETARY POLICY STATEMENT

**GOVERNOR
BANK OF TANZANIA**

June 2008



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12th June 2008

**The Hon. Mustafa Mkulo (MP),
Minister for Finance and Economic Affairs,
United Republic of Tanzania,
Dar es Salaam.**

Dear Hon. Minister,

LETTER OF TRANSMITTAL

In accordance with Section 21, Subsections (1) to (7) of the *Bank of Tanzania Act, 2006*, I hereby submit the ***Monetary Policy Statement*** (MPS) of the Bank of Tanzania for 2008/09.

The *Statement* outlines the macroeconomic policy framework for 2007/08, and reviews implementation of monetary policy and macroeconomic developments during 2007/08. Finally, it provides a summary of macroeconomic policy objectives for 2008/09 and monetary policy measures of the Bank of Tanzania during 2008/09.

The *Statement* is organised in five parts. Part I is devoted to modalities for monetary policy implementation. Part II outlines the macroeconomic policy framework for 2007/08, while Part III explains how the Bank of Tanzania implemented its monetary policy during 2007/08. Part IV reviews macroeconomic developments during the year



under review, while Part V outlines the macroeconomic policy framework and the direction of monetary policy for 2008/09.

A handwritten signature in black ink, appearing to read "B. Ndulu".

Prof. Benno J. Ndulu
GOVERNOR
BANK OF TANZANIA



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EXECUTIVE SUMMARY

Economic Growth

Economic performance and prospects for Tanzania remain strong. Real GDP grew at 7.1 percent in 2007 up from 6.7 percent recorded in 2006. This was partly underpinned by recoveries in agriculture and electricity in the wake of improved weather condition, and continued strong performance in communication, transport, trade, financial intermediation, real estate and business services. The economy is expected to maintain its strong growth momentum in the medium term. It is estimated that for 2008, the growth rate will reach about 7.8 percent and rise further to 8.1 percent in 2009. However, this outlook is not without risks. The global economic slowdown and the rising oil and food prices will most likely impact negatively on domestic growth as well as inflation.

Inflation Developments

In the recent past, inflation has remained above the country's medium term target of 5.0 percent, reaching an average of 8.2 percent during July 2007 to April 2008, mainly on account of rising global oil and food prices. However, with the current prudent monetary and fiscal policies, coupled with government initiatives to ensure adequate domestic food availability, year on year inflation is projected to be not more than 7.0 percent by June 2009.

Monetary Policy Stance

Monetary policy was fairly tight during the first three quarters of 2007/08, with money supply growing below program targets. Despite the tight monetary policy stance, credit to the private sector remained robust, growing at an average of 40.5 percent during the first ten months of 2007/08. This was possible following sizeable foreign official inflows coupled with careful government expenditure management and improvement in revenue



collection. This enabled the government to make a net repayment to the banking system over the period. A reduction in the frequency of Treasury bill auctions starting January 2008, led to a significant decline in Treasury bill yields, also contributing to increased banks' lending to the private sector. During 2008/09, the monetary policy will remain tight while ensuring a reasonable level of growth in credit to the private sector.

Financial Intermediation

Commercial banks' credit to the private sector continued to maintain a strong growth momentum, recording an average growth rate of 40.5 percent during the first ten months of 2007/08, compared with the target of 39.5 percent for the year. In terms of credit concentration, the main activities that benefited from the robust growth in credit were trade activities, which accounted for 18.8 percent, manufacturing 18.0 percent, agriculture 7.9 percent, and transport and communication 8.6 percent. The ratio of private sector loans to deposits improved to 61.8 percent during the year to April 2008, compared with 54.6 percent recorded in June 2007.

Liquidity Management

In an effort to contain liquidity, the Bank increased its foreign exchange sales to complement government securities in containing reserve money growth, while repurchase agreements continued to be used mainly for fine tuning liquidity in the economy. This helped to reduce unnecessary volatilities in Treasury bill interest rates as well as the exchange rate of the shilling. The shilling exchange rate appreciated from an average of TZS 1,267.16 per US dollar in June 2007 to an average of TZS 1,217.06 in April 2008.

Government Budgetary Operations

The government continued with its efforts to raise revenue through improvements in tax administration and monitoring of taxpayers





compliance, while structuring its expenditure in line with pro-growth initiatives, poverty reduction, and infrastructural development. Revenue performance reached 13.3 percent of GDP during the first ten months of 2007/08, while expenditure was 19.9 percent of GDP. Consequently, a deficit equivalent to 6.7 percent of GDP (excluding grants) and 2.0 percent of GDP (including grants) were recorded during the period under review. It is worth noting that the government made a net repayment of 1.2 percent of GDP. During 2008/09, improvements in public expenditure management, domestic revenue collection, and operational efficiency will continue to top the priority list of the government. Relying on effective utilization of domestic revenue (18.5 percent of GDP) and foreign assistance (at 9.6 percent of GDP), the government aims to spend 28.2 percent of GDP on development and recurrent activities. Domestic financing of the budget will be limited to 0.1 percent of GDP.

External Sector Developments

In the external sector, the current account deficit during the first ten months of 2007/08 increased by 20.7 percent to USD 1,595.6 million, compared with a deficit of USD 1,321.5 million in a similar period of the preceding year. This development is largely due to higher import costs, attributed mainly to rising global prices of oil and food products. Despite the weak current account balance, and frequent sale of foreign exchange by the Bank for liquidity management, official reserves remained stable above USD 2.5 billion in the first ten months of 2007/08. At the end of April 2008, official reserves amounted to USD 2.7 billion.

Economic Developments in Zanzibar

Zanzibar's GDP is estimated to have grown by 6.5 percent in 2007, up from 6.0 percent attained in 2006. The growth was driven mostly by tourism and trade sub-sectors as well as infrastructure (mainly roads) and communication sectors. The economy is expected to maintain its strong



growth momentum in the medium-term, in response to growth enhancing policies that the government continues to implement. Real GDP is projected to grow by 6.8 percent in 2008 and increasing to 7.2 percent in 2009.

Inflation Developments

In Zanzibar, the annual headline inflation remained double digit at an average of 14.0 percent during the first ten months of 2007/08, driven mainly by the rise in prices of rice and wheat, and global price of fuel.

Government Budgetary Operations

Zanzibar's fiscal performance in the first ten months of the year 2007/08 improved considerably. Total revenue amounted to TZS 92.4 billion accounting for 94.6 percent of the targeted TZS 97.7 billion. Government expenditure on the other hand, amounted to TZS 150.2 billion, falling short of the planned TZS 161.2 billion by TZS 11.0 billion. This level of government expenditure is equivalent to 29.3 percent of GDP. During 2008/09 the strategic thrust of the government of Zanzibar will be towards consolidation of the gains from poverty reduction through MKUZA and further achievements of the Zanzibar Development Vision 2020.

External Sector Developments

During the period July 2007 to April 2008, Zanzibar's current account balance remained positive but declined to a surplus of USD 14.0 million, compared with a surplus of USD 44.3 million recorded in the corresponding period in 2007. The decline in the current account surplus was largely caused by a fall in services receipts and a fast growing import bill. The external sector performance of Zanzibar is poised to improve during 2008/09, as the government continues to take measures to further promote tourism and enhance its investment in physical infrastructure.



PART I

1.0 MODALITIES FOR MONETARY POLICY IMPLEMENTATION

The primary Mission of the Bank of Tanzania is to maintain price stability that is conducive to the attainment of macroeconomic stability and achievement of a sustainable rate of real economic growth. In conducting monetary policy, the Bank of Tanzania follows the modalities stipulated in the *Bank of Tanzania Act, 2006*. The Bank uses a combination of indirect instruments to contain liquidity within desired levels. This includes the sale of Treasury bill and Treasury bond; and sale of foreign exchange. Also, the Bank actively uses repurchase agreements (REPOs) to manage short term liquidity movements. The liquidity management effort is further supplemented by periodic adjustments in the pricing of the liquidity windows at the central bank - namely the *discount rate* and the *Lombard rate*, to ensure a consistent level of liquidity in the economy.

The Modalities of Monetary Policy Implementation

- i. At the beginning of every fiscal year, the Bank of Tanzania sets annual monetary policy targets in its *Monetary Policy Statement*, in line with the broader macroeconomic policy objectives of the government. The targets are reviewed at mid-year.
- ii. The *Monetary Policy Statement* is submitted to the Minister for Finance and Economic Affairs, who submits it to Parliament.
- iii. The same procedure is followed in the submission of the half-year review of monetary policy implementation.



- iv. The *Monetary Policy Committee* of the Board of Directors of the Bank of Tanzania, chaired by the Governor, closely monitors monetary policy implementation on a monthly basis.
- v. At the operational level, the *Liquidity Management Committee* monitors progress on monetary policy implementation on a weekly and daily basis and draws plans for the week or the day, respectively.



PART II

2.0 MACROECONOMIC POLICY FRAMEWORK FOR 2007/08

2.1 Macroeconomic Policy Objectives of the Government

The thrust of government policies during 2007/08 were to promote broad-based growth, through enhanced investment in infrastructure, increasing resource allocation to poverty reduction initiatives, and improving the business environment to ensure that the private sector continues to be the engine of growth.

Specifically, the government aimed at achieving the following policy targets:-

- i. Real economic growth rate of 7.3 percent in 2007;
- ii. Inflation rate of 7.0 percent by June 2008 (revised upwards from 4.5 percent targeted earlier mainly due to unforeseen persistent rise in international oil and food prices);
- iii. Domestic recurrent revenue of TZS 3,517.0 billion, equivalent to 18.0 percent of GDP;
- iv. Total expenditure of TZS 6,066.8 billion, equivalent to 31.3 percent of GDP; and
- v. Official foreign exchange reserves, sufficient to cover 5 months of imports of goods and services in 2007/08.

2.2 Monetary Policy Targets

In support of the above macroeconomic policy objectives of the government and in light of the observed inflationary pressures, monetary



policy continued to target low and stable prices by maintaining an appropriate level of liquidity in the economy. The strategy used by the Bank in controlling inflation is summarized in **Appendix I**. Specifically, the Bank of Tanzania aimed at achieving the following monetary targets by end of 2007/08:-

- i. An annual growth rate of money supply of 21.0 percent by end June 2008;
- ii. Maintaining an adequate level of international reserves, sufficient to cover a minimum of 5 months of imports of goods and services; and
- iii. Allowing commercial banks' credit to the private sector to grow at an annual rate of 39.5 percent by June 2008, consistent with the projected GDP growth for 2007/08.

2.3 Interest Rate Policy

Interest rates continued to be market-determined, with Treasury bill rates providing an anchor. In an effort to reduce the level and volatility of Treasury bill yields, the Bank intends to continue to improve the current structure of primary auctions of government securities, and other measures to enhance competition and efficiency in market operations.

2.4 Credit Policy

The credit policy of the Bank of Tanzania aims at promoting an environment for increased flow of credit to the private sector, commensurate with the requirements of a growing economy. To facilitate the achievement of this objective, the reduction in net domestic financing of the budget by banks will be necessary, so that more resources from banks could be channelled to the productive sectors of the economy.



2.5 Exchange Rate Policy

Tanzania is operating under a free-floating exchange rate policy since 1994. In this respect, the shilling exchange rate against any foreign currency is determined by the market forces—demand and supply of the currencies being traded in the market. The Bank participates in the market with an objective of promoting an orderly foreign exchange market and for liquidity management objectives, without any specific target on the level of the exchange rate.



PART III

3.0 REVIEW OF MONETARY POLICY IMPLEMENTATION DURING 2007/08

3.1 Liquidity Developments

During the first ten months of 2007/08, the economy experienced growing liquidity pressure, emanating mostly from donor inflows. The inflows were frontloaded, most of them being realized in the first quarter of the year under review. This exerted pressure on reserve money, resulting in missing the target for the first quarter of 2007/08.

During the second quarter of 2007/08, the Bank revised its monetary policy strategy by introducing a better mix of its instruments. Sale of Treasury bill was complemented with almost daily sales of small amounts of foreign exchange in the interbank market and more active use of repurchase agreements. Also, effective January 2008, the Bank reduced the frequency of Treasury bill auctions from weekly to fortnightly, and bonds to once a month. The improved strategy succeeded to contain reserve money growth within the targeted path, while at the same time, encouraging competitive bidding in the Treasury bill and bond market. This move, apart from reducing interest rate volatilities in the money markets, allowed the overall weighted average Treasury bill yields to fall sharply, to single digits.

Transparency in monetary policy has improved significantly, whereby the Bank continues to issue public statements on monthly basis within a day or two of the conclusion of the monthly meetings of the *Monetary Policy Committee* (MPC). The statements explain explicitly the decisions arrived at by the MPC, and they have helped to inform market players on the stance of monetary policy at any particular time. The Bank has also introduced **quarterly press conferences** to inform the general



public on economic developments, and solicit feedback on the Bank's performance.

It is also noteworthy that, the improved expenditure management by the Governments, coupled with improved revenue collections, has also contributed significantly to recent success by the Bank to contain the level of liquidity within desired levels.

3.2 Interest Rates

Treasury Bill Rates

Interest rates obtained in the Treasury bill market continued to provide an anchor for market-determined interest rates. As already explained above, with effect from the second quarter of 2007/08, the Bank of Tanzania took measures to improve its monetary policy instrument mix for mopping up excess liquidity, consequently minimizing the impact of high interest rates on domestic credit and on the cost of liquidity management. The overall Treasury bill rate dropped from 16.42 percent in October 2007 to 11.40 percent in December 2007 and by April 2008, the rate was down to 7.05 percent. On average during July–April 2007/08, the Treasury bill rate stood at 12.01 percent, down from 13.13 percent in 2006/07.

Commercial Banks' Interest Rates

Interest rates applied by commercial banks are still significantly influenced by the remaining structural impediments in the economy and the perceived high risk. Despite significant decline in Treasury bill rates, the overall commercial banks' interest rate structure has not responded in tandem. However, some improvements have been recorded on both deposits as well as on lending rates. During July–April 2007/08, the time deposit rate increased to 8.03 percent from 7.28 percent in the same period



of the preceding financial year. On the other hand, the average negotiated deposit rate stood at 10.39 percent in the first ten months of 2007/08, up from 9.15 percent in 2006/07. In April 2008, the negotiated deposit rate reached 11.20 percent. Lending rates eased from 15.82 percent in June 2007 to 15.25 percent in December 2007, and 14.09 percent in April 2008. On average during the first ten months of 2007/08, the overall lending rate declined to 15.48 percent from an average of 16.45 percent in the first ten months of the preceding year. Meanwhile, the negotiated lending rate rose slightly to an average of 12.01 percent in the first ten months of 2007/08 from 11.34 percent in the corresponding period of last financial year. At the end of April 2008, the negotiated lending rate reached 12.77 percent.

The margin (between 1-year average lending rate and 1-year average deposit rate) narrowed to 4.41 percentage points in the first ten months of 2007/08 from 6.83 percentage points in the same period of the preceding financial year, reflecting some improvements in the efficiency in providing banking services during the period under review.

**Table 1: Tanzania: Selected Interest Rate Structure
(In percent)**

| | Jun-07 | Jul-07 | Aug-07 | Sep-07 | Oct-07 | Nov-07 | Dec-07 | Jan-08 | Feb-08 | Mar-08 | Apr-08 | Jul 06- Apr 07 | Jul 07- Apr 08 |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------------|----------------|
| Overall Interbank Cash Market Rate | 7.24 | 10.46 | 12.11 | 12.27 | 18.92 | 9.67 | 5.83 | 6.74 | 4.81 | 4.24 | 4.12 | 9.75 | 8.92 |
| <i>Overnight interbank cash market</i> | 6.67 | 9.79 | 12.05 | 12.07 | 18.64 | 10.19 | 5.37 | 6.47 | 4.52 | 4.11 | 3.85 | 9.65 | 8.71 |
| REPO Rate | 6.25 | 9.10 | 11.02 | 11.56 | 11.34 | 7.36 | 5.13 | 6.60 | 4.79 | 3.82 | 3.67 | 6.93 | 7.44 |
| Discount Rate | 21.42 | 21.05 | 20.11 | 20.59 | 21.42 | 17.44 | 16.40 | 15.89 | 13.36 | 12.39 | 12.08 | 18.02 | 17.07 |
| Overall Treasury Bill Rates | 17.07 | 15.41 | 15.11 | 15.59 | 16.42 | 12.45 | 11.40 | 10.89 | 8.37 | 7.39 | 7.05 | 13.13 | 12.01 |
| <i>35 days</i> | 6.47 | 6.07 | 6.32 | 6.27 | 6.35 | 4.94 | 5.46 | 5.96 | 5.99 | 5.36 | 4.77 | 8.48 | 5.75 |
| <i>91 days</i> | 12.62 | 12.88 | 13.76 | 14.78 | 15.14 | 11.31 | 9.90 | 9.54 | 7.05 | 5.69 | 5.12 | 12.48 | 10.52 |
| <i>182 days</i> | 16.74 | 16.23 | 15.83 | 16.37 | 16.62 | 12.96 | 10.15 | 10.33 | 8.02 | 7.03 | 6.90 | 13.31 | 12.04 |
| <i>364 days</i> | 18.39 | 15.84 | 15.95 | 16.98 | 17.86 | 13.68 | 12.95 | 12.80 | 9.82 | 9.40 | 9.43 | 14.00 | 13.47 |
| Treasury Bond Rates | | | | | | | | | | | | | |
| <i>2-years</i> | 18.25 | 17.67 | 18.91 | 20.07 | 17.29 | 14.99 | 14.97 | 14.97 | 14.97 | 12.23 | 16.07 | 16.10 | 16.10 |
| <i>5-years</i> | 18.37 | 17.31 | 19.43 | 20.54 | 18.69 | 17.60 | 16.81 | 16.81 | 16.81 | 14.49 | 16.30 | 17.38 | 17.38 |
| <i>7-years</i> | 18.58 | 18.50 | 20.43 | 19.25 | 18.80 | 17.90 | 18.15 | 18.15 | 17.18 | 17.18 | 17.18 | 17.51 | 18.27 |
| <i>10-years</i> | 17.48 | 17.52 | 19.63 | 19.92 | 20.28 | 17.87 | 17.68 | 17.68 | 17.68 | 17.68 | 17.68 | 17.57 | 18.36 |
| Overall Time Deposits Rate | 7.83 | 7.57 | 7.76 | 8.21 | 8.24 | 8.15 | 8.28 | 8.17 | 8.23 | 8.04 | 7.61 | 7.28 | 8.03 |
| <i>One year time deposit rate</i> | 9.25 | 9.04 | 9.42 | 9.64 | 10.22 | 9.85 | 10.08 | 10.10 | 9.97 | 9.41 | 8.95 | 8.67 | 9.67 |
| Negotiated Deposit Rate | 8.65 | 8.91 | 9.82 | 9.83 | 10.61 | 10.96 | 11.04 | 10.72 | 10.52 | 10.29 | 11.20 | 9.15 | 10.39 |
| Overall Lending Rate | 15.82 | 16.07 | 16.27 | 15.95 | 15.78 | 15.94 | 15.25 | 15.24 | 15.08 | 15.09 | 14.09 | 16.45 | 15.48 |
| <i>Short-term lending rate (up to 1 year)</i> | 13.95 | 14.12 | 14.30 | 14.06 | 13.85 | 14.06 | 14.70 | 13.96 | 14.19 | 13.58 | 12.63 | 15.50 | 13.94 |
| Negotiated Lending Rate | 12.20 | 12.14 | 12.63 | 11.91 | 11.89 | 11.68 | 11.98 | 11.50 | 11.76 | 11.82 | 12.77 | 11.34 | 12.01 |
| Margin between short-term lending and one-year time deposit rates | 4.70 | 5.07 | 4.89 | 4.43 | 3.63 | 4.21 | 4.62 | 3.85 | 4.22 | 4.18 | 3.68 | 6.83 | 4.28 |



Further improvements in the interest rates are foreseen in the short to medium term, as the ongoing *Second Generation Financial Sector Reforms* advance. The reforms are expected to improve delivery of financial services, increase competitiveness in the banking sector through, among other measures, establishing an information sharing framework between commercial banks. With reduced structural impediments, the setting of lending and deposit rates is expected to reflect the real intermediation cost, risk premium, and reasonable bank profit margins.

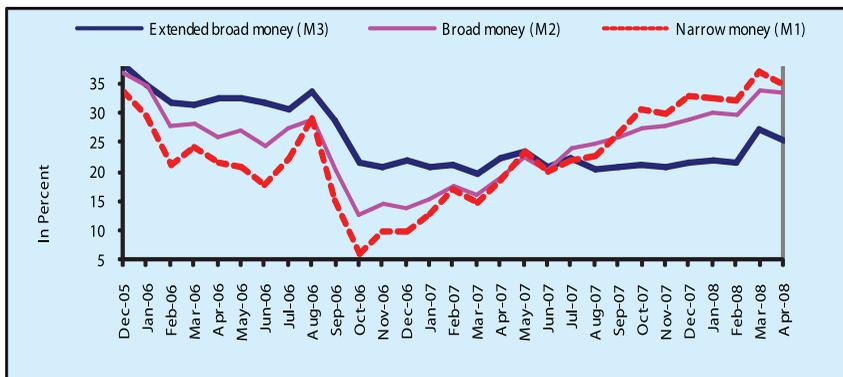
3.3 Money Supply

During 2007/08, the Bank continued to implement measures aimed at containing the growth of money supply consistent with price stability objectives. The measures succeeded in containing average reserve money growth broadly within targets, except for the first quarter of 2007/08, where average reserve money grew at 28.5 percent against the target of 24.2 percent.

During the first ten months of 2007/08, annual growth rate of extended broad money supply (M3) grew below program targets, except for March 2008, where it recorded a slightly higher growth rate of 27.1 percent against the target of 23.7 percent. However, on average during July 2007–April 2008, M3 grew at 22.3 percent, compared with the targeted annual growth rate of 21.0 percent for the year ending June 2008.



Chart 1: Tanzania: Annual Growth Rate of Money Supply



The moderation in expansion of monetary aggregates was explained by a sharp deceleration in the annual growth rate of net foreign assets (NFA) of the banking system, from an annual growth rate of 16.0 percent in June 2007 to only 6.5 percent in the year ending April 2008. On average, NFA grew at 7.5 percent during July 2007 to April 2008, which is far below the average growth rate of 32.8 percent registered in the corresponding period of the previous financial year. This development mirrored the Bank of Tanzania’s frequent sale of foreign exchange for liquidity management and strengthening of the shilling. On the other hand, net domestic assets of the banking system recorded an annual growth rate of 47.8 percent in April 2008, largely due to expansion of credit to the private sector. The continued expansion of credit to the private sector is partly associated with strong economic performance and increased competition in the financial sector, coupled with improvements in government revenue collections, and expenditure management which has made the government less dependent on bank borrowing. Likewise, the recent decline in Treasury bill yields partly contributed to the increase in credit to the private sector.



Financial deepening has continued to improve during the first ten months of 2007/08. The ratio of money supply (M3) to GDP expanded to 26.5 percent from an average of 24.8 percent registered during July 2006 to April 2007. Private sector deposits to GDP ratio expanded to an average of 21.2 percent in the first ten months of 2007/08, up from 19.8 percent in the corresponding period of 2006/07. The proportion of private sector loans to deposits has improved as well, reaching 60.2 percent compared with 52.5 percent recorded in the same period under review.

3.4 Private Sector Credit

Despite the tight monetary policy stance pursued by the Bank of Tanzania, the economy continued to experience a robust growth of credit to the private sector. This was also supported by reduced domestic borrowing by the government, which made more resources available for lending to productive sectors.

During the first ten months of 2007/08, commercial banks' credit to the private sector recorded an average growth rate of 40.5 percent. This level of growth is above the target of 39.5 percent for the year ending June 2008. Out of the total outstanding credit, trade activities accounted for 18.8 percent, manufacturing held 18.0 percent, agriculture—7.9 percent, transport and communication—8.6 percent.

During the period under review, commercial banks increased their efforts to mobilize deposits from the private sector. Between June 2007 and end of April 2008, private deposits of commercial banks rose by TZS 954.2 billion.

3.5 Financial Sector Developments

During the year under review, the Bank continued to support implementation of the *Second Generation Financial Sector Reforms*, relating to long-term finance, lease finance, pension sector, insurance



sector, mortgage finance, credit information data bank, and putting in place effective legal and regulatory framework to facilitate collateralized lending. As the Bank advances in the implementation of *Second Generation Financial Sector Reforms*, it is expected that banking services will improve further and stir up economic growth.

3.6 Foreign Exchange Operations and Reserve Management

Foreign exchange operations of the Bank of Tanzania are guided by the need to promote stable market-determined exchange rates, and maintain the targeted level of foreign reserves.

During the first ten months of 2007/08, the volume transacted in the **interbank foreign exchange market** amounted to USD 949.4 million compared with USD 982.7 million traded in a similar period last year. The Bank sold on net basis USD 319.7 million, mainly for liquidity management, slightly higher than USD 318.2 million, sold in the corresponding period of the preceding year. The Bank also signalled that it will not intervene against appreciation of the shilling, rather it would leave market conditions to determine the exchange rate. The shilling exchange rate appreciated from an average of TZS 1,267.16 per US dollar in June 2007 to an average of TZS 1,217.06 in April 2008. For the review period of ten months (July 2007—April 2008), the nominal exchange rate averaged at TZS 1,201.55 per US dollar compared with an average of TZS 1,284.52 per US dollar registered during a similar period a year earlier. This represents an average appreciation of 6.5 percent during the review period.

Despite the Bank's active sale of foreign exchange for liquidity management during the period under review, foreign exchange reserves remained above USD 2.5 billion. This level of reserves was enough to cover about five months of import of goods and services. The maintenance of sufficient foreign exchange reserves has been possible following a substantial increase in foreign official inflows from development partners.



PART IV

4.0 REVIEW OF OTHER MACROECONOMIC DEVELOPMENTS DURING 2007/08

4.1 Real Economic Growth

The National Bureau of Statistics (NBS) published a new set of *national account estimates* for Tanzania Mainland in September 2007. The estimates were made to accommodate recent collected data and to comply with the United Nations System of National Accounts (SNA 1993). The revised estimates have been compiled at *2001 prices* as opposed to *1992 prices*. The differences between the 1992 and the 2001 GDP series are in regard to the types of taxes applied to the output. The 1992 GDP series was compiled at factor cost while the 2001 series is compiled at basic prices.

The revision which is based on year 2001 prices, has resulted into a number of changes in the Gross Domestic Product (GDP) tables in terms of structure, level and share due to the use of data from new surveys as well as the adoption of the 1993 SNA in the compilation of the estimates. **The structure of the economy has changed substantially with the share of agriculture declining from 44.7 percent in the old series to 25.5 percent in the new series.** In the case of growth rate, while in the new series GDP grew by 7.8 percent in 2004 and then slowed down to 7.4 percent in 2005 and 6.7 percent in 2006; in the old series it is reported to have grown by 6.7 percent in 2004 and 2005 and then slowed down to 6.2 percent in 2006. The fastest growing sectors are now Communications, which grew by 19.8 percent in 2007, Mining (14.0 percent), Financial services (12.0 percent) and Construction (9.7 percent).



Grounded in prudent macroeconomic policies and structural reforms, the economy recorded an upturn in 2007, growing at 7.1 percent, up from 6.7 percent in 2006. The growth was underpinned by recoveries in agriculture and electricity in the wake of improved weather conditions, and continued strong performance in communication, transport, trade, financial intermediation, real estate and business services consistent with the government's commitment to reforms. The growth was also supported by prudent fiscal policy, characterized by substantial increase in revenue and assistance from development partners. This has reduced government's recourse to domestic borrowing, thereby widening the space for expansion of credit to the private sector, as reported earlier. Hitherto, the structural reforms have focused on economic liberalization, improved public financial management and revenue administration as well as financial sector development. Other reform areas include strategies and policies to improve the business environment. The economy is expected to maintain its strong growth momentum in the medium term, reaching a growth rate of about 7.8 percent in 2008 and 8.1 percent in 2009.

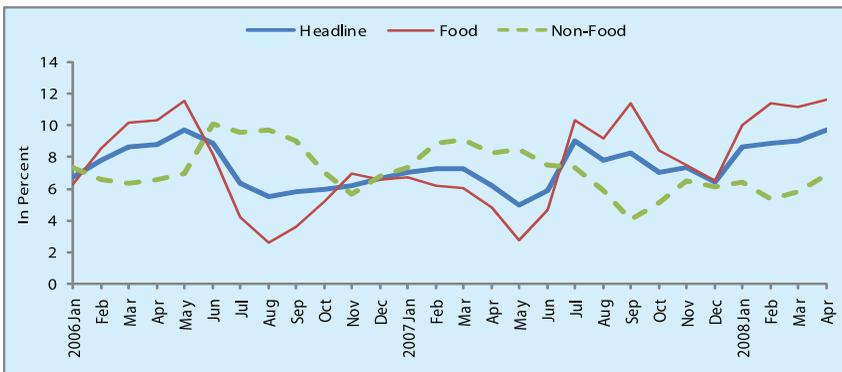
4.2 Inflation Developments

Inflation remained above the national medium term target of 5.0 percent, which reflects mainly the high inflationary expectations triggered by the rising domestic oil prices following the persistent increase in world market prices and rising food prices. During the period covering July 2007 to April 2008, headline inflation averaged at 8.2 percent, which is higher than 6.4 percent registered in the corresponding period of 2006/07. This increase in average inflation was largely on account of rising prices of fuel, power and water, furniture, household equipment, transportation costs and general food prices. This trend has been observed since July 2007 where it reached 9.0 percent from 5.9 percent in the preceding month. However, during the year ending October



2007, the annual inflation rate dropped to 7.1 percent from 8.3 percent recorded in the preceding month, largely because of a decline in food prices which was caused by improvement of domestic food supply. In the year ending April 2008, inflation remained high at 9.7 percent, following rising prices of fuel, power, water, and food.

Chart 2: Tanzania: Annual Headline, Food and Non-food Inflation



The imminent threat to the inflation outlook is the high global oil prices, which will most likely push the overall inflation above its June 2008 target, despite the expected good food harvest and the prevailing tight monetary policy stance.

4.3 Government Budgetary Performance

In 2007/08, fiscal policy focussed at strengthening revenue base, curbing tax exemptions and evasions, enhancing revenue administration, and improving expenditure management with the primary goal of empowering Tanzanians and reducing abject poverty. Moreover, government exerted more efforts on increasing public accountability, good governance, and infrastructure development.



Fiscal performance for the first ten months of 2007/08 (July–April) was impressive, whereas tax revenue collections amounted to TZS 2,744.6 billion (or 12.3 percent of GDP) (**Table 2**), exceeding the target of 11.8 percent of GDP. In the same period, total domestic revenue closed at TZS 2,963.7 billion—equivalent to 13.3 percent of GDP, slightly above the target of 13.0 percent. Meanwhile, expenditure remained moderate during the period following improved expenditure management by the governments with all outlays both central and local government units going through the *Integrated Financial Management System* (IFMS). Actual expenditure reached TZS 4,455.6 billion or 19.9 percent of GDP compared with 23.5 percent planned for July–April 2007/08.

**Table 2: Tanzania: Government Fiscal Operations
(In Percent of GDP)**

| Indicators | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08* |
|--|---------|---------|---------|---------|----------|
| Revenue to GDP ratio | 11.2 | 11.9 | 12.6 | 14.2 | 13.3 |
| Tax revenue | 10.3 | 10.8 | 11.6 | 13.1 | 12.3 |
| Expenditure to GDP ratio | 19.3 | 21.2 | 23.8 | 23.2 | 19.9 |
| Deficit to GDP ratio (excl grants) | -8.1 | -9.3 | -11.2 | -9.0 | -6.7 |
| Grants | 5.3 | 6.6 | 6.2 | 4.9 | 4.7 |
| Deficit to GDP ratio (incl grants) | -2.8 | -2.7 | -5.0 | -4.1 | -2.0 |
| Foreign borrowing to GDP ratio | 3.3 | 2.8 | 3.3 | 3.7 | 5.5 |
| Domestic bank borrowing to GDP ratio | -0.6 | 0.7 | 1.0 | 1.1 | -1.1 |
| Domestic non-bank borrowing to GDP ratio | 0.3 | 0.3 | 1.1 | 0.6 | 0.0 |

Note: * Position as at the end of April

The pattern of government budgetary operations (July – April) for five years consecutively (**Table 3**), shows a satisfactory though not sufficient increase in revenue collections as a percent of GDP. Meanwhile, the expenditure pattern remained moderate with the budget deficit declining gradually, while development expenditure improving significantly, reflecting the priority given to infrastructural development.



Table 3: Tanzania: Government Fiscal Operations for July-April (In Percent of GDP)

| Indicators | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08* |
|-------------------------|---------|---------|---------|---------|----------|
| Total Revenue | 9.2 | 9.7 | 10.1 | 11.5 | 13.3 |
| Tax Revenue | 8.5 | 8.8 | 9.3 | 10.6 | 12.3 |
| Non-tax Revenue | 0.7 | 0.9 | 0.8 | 0.9 | 1.0 |
| Total Expenditure | 15.7 | 17.0 | 19.7 | 18.0 | 19.9 |
| Recurrent Expenditure | 10.7 | 10.2 | 12.8 | 11.9 | 12.0 |
| Development Expenditure | 5.1 | 6.8 | 6.8 | 6.2 | 7.9 |
| Deficit before Grants | -6.5 | -7.3 | -9.6 | -6.5 | -6.7 |
| Grants | 5.0 | 6.1 | 5.4 | 4.7 | 4.7 |
| Deficit after grants | -1.5 | -1.2 | -4.2 | -1.8 | -2.0 |
| Financing | 1.8 | 2.5 | 4.3 | 2.9 | 4.2 |
| Foreign Net | 2.7 | 2.6 | 3.2 | 3.3 | 5.5 |
| Domestic Net | -0.9 | -0.1 | 1.2 | -0.4 | -1.2 |

Note: * Position as at the end of April

4.4 External Sector Developments

The current account deficit widened by 20.7 percent, reaching USD 1,595.6 million in the first ten months of 2007/08, compared with a deficit of USD 1,321.5 million recorded in a similar period of the preceding year (**Table 4**). This development is largely due to slower growth in exports of goods and services, compared to imports. During the first ten months of 2007/08, exports earnings amounted to USD 2,887.6 million, while imports amounted to USD 5,836.9 million. Weak performance in cloves, tobacco, sisal, and tea exports, were the key driving factors behind weak export performance during the year under review. Meanwhile, the increase in imports was largely on account of substantial increase in imports of capital goods and raw materials, particularly, transport equipments and oil and partly due to rising import prices. However, the overall balance was in surplus as this deficit was more than covered by the inflow of foreign direct investment, foreign loans and other forms of capital.



Table 4: Tanzania: Current Account Balance

Millions of USD

| | July - April | | Year Ending April | |
|---------------------------------|-----------------|-----------------|-------------------|-----------------|
| | 2006/07 | 2007/08 | 2007 | 2008p |
| Goods Account (net) | -2,000.7 | -2,583.4 | -2,414.5 | -2,766.9 |
| Exports | 1571.7 | 1,937.5 | 1,848.1 | 2,151.0 |
| Imports | 3572.5 | 4520.9 | 4,262.5 | 4,917.9 |
| Services Account (net) | 256.8 | 306.6 | 145.8 | 91.5 |
| Receipts | 1363.7 | 2072.9 | 1,463.6 | 1,651.4 |
| Payments | 1106.8 | 1766.3 | 1,317.9 | 1,559.9 |
| Goods and Services (net) | -1,743.9 | -2,276.8 | -2,268.7 | -2,675.4 |
| Exports of goods and services | 2,935.4 | 4,010.4 | 3,311.7 | 3,802.4 |
| Imports of goods and services | 4,679.3 | 6,287.2 | 5,580.4 | 6,477.8 |
| Income Account (net) | -91.5 | -56.4 | -64.1 | -66.6 |
| Receipts | 29.1 | 107.1 | 87.4 | 118.2 |
| Payments | 120.5 | 163.5 | 151.6 | 184.8 |
| Current Transfers (net) | 513.9 | 737.6 | 560.2 | 600.9 |
| Inflows | 573.6 | 795.9 | 631.2 | 669.9 |
| o/w General Government | 495.3 | 711.9 | 537.4 | 573.3 |
| Outflows | 59.8 | 58.3 | 71.0 | 69.0 |
| Current Account Balance | -1,321.5 | -1,595.6 | -1,772.6 | -2,141.2 |

Note: p = Provisional data.

Source: Bank of Tanzania

4.5 Economic Developments in Zanzibar

Economic Growth

During 2007, the Zanzibar economy posted a modest growth by registering real GDP growth of 6.5 percent, which was higher than a growth rate of 6.0 percent attained in 2006. However, the growth was marginally below the target of 6.6 percent, mainly due to underperformance in the agricultural sector. Growth was driven largely by tourism and trade sub-sectors; infrastructure (mainly roads) and communication sector. The economy is expected to sustain a reasonable level of growth at 6.8 percent in 2008 and increasing to 7.2 percent in 2009, given the current growth enhancing policies under the *Zanzibar*



Strategy for Growth and Reduction of Poverty (MKUZA), Zanzibar Growth Strategy, investment policy and improved infrastructure (specifically rehabilitation of port and airport facilities). The challenge will be to attain and maintain the desired 8 – 10 percent growth rates, required to have significant impact on the overall poverty reduction objective, as stipulated in the *Zanzibar Vision 2020*.

Inflation Developments

The Office of the Chief Government Statistician Zanzibar, compiled revised CPI series using new weights from January 2006, with a view of establishing updated new basket of goods and services. The revised weights and the new basket were based on Zanzibar's 2004/05 *Household Budget Survey*, replacing the index and weights, which were based on the 1991 survey.

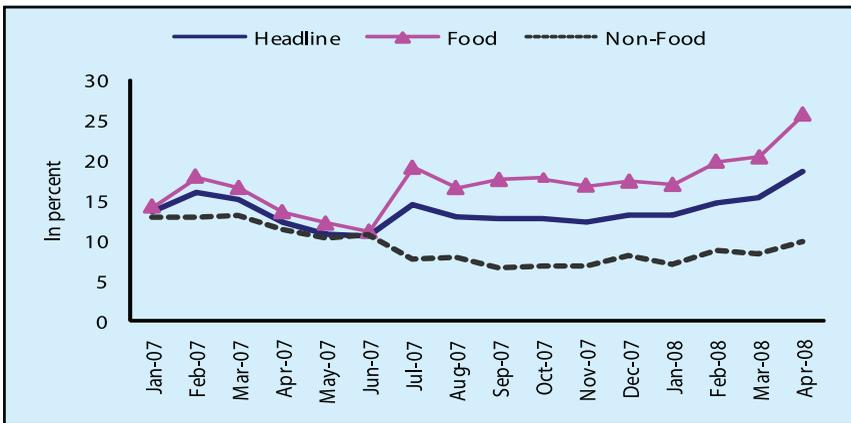
During the first ten months of 2007/08, annual headline inflation in Zanzibar remained double digit, averaging at 14.0 percent, up from an average of 12.8 percent recorded during December 2006 to June 2007. The increase was mainly driven by food inflation, which averaged at 18.8 percent up from 13.9 percent in the same period. The rise in food prices was mainly associated with a surge in prices of rice and wheat flour following the rise of world food and oil prices. On average the price of rice increased from TZS 641 per kilogram in April 2007 to more than TZS 1,000 per kilogram in April 2008, while average wheat prices increased from TZS 641 per kilogram in April 2007 to TZS 1,002. Other items which recorded price increases include bread, tomatoes, coco yams, cowpeas, dried beans, cooking oil, meat, cement, cereal, green yam and fish.

On the other hand, average annual non-food inflation remained moderate at 7.9 percent during July 2007 to April 2008, compared with



average inflation of 11.8 percent registered during December 2006 to June 2007. The decrease was noted in the fall in prices of items under transportation, communication, education, and housing, water, electricity, gas and other fuels sub-groups.

Chart 3: Zanzibar: Annual Headline, Food and Non-food Inflation



Zanzibar Government Budgetary Developments

During the first ten months from July 2007 to April 2008, government budgetary operations on cheques cleared basis generated a deficit amounting to TZS 1.9 billion against the estimated deficit of TZS 20.9 billion. This impressive performance was on account of improved expenditure management by the Zanzibar government, coupled with enhanced tax administration measures effected by the *Zanzibar Revenue Board (ZRB)*. During the period, total resources amounted to TZS 148.3 billion against total expenditure of TZS 150.2 billion.



During the period under review, total revenue collection reached TZS 92.4 billion, equivalent to 18.0 percent of GDP. Revenue collections were slightly below the target of TZS 97.7 billion, but accounted for 80.6 percent of an annual target of TZS 114.6 billion. Tax revenue remained the dominant source accounting for 95.0 percent of the total revenue. On the other hand, grants amounted to TZS 55.9 billion, or 10.9 percent of GDP, against the target of TZS 42.6 billion.

During the period July – April 2007/08, the government continued with its strict adherence to the cash budget system. Total expenditure reached TZS 150.2 billion equivalent to 29.3 percent of GDP compared with 31.5 percent planned for the period. Recurrent expenditure amounted to TZS 97.2 billion, which was below the target of TZS 108.8 billion and accounted for 64.7 percent of the total expenditure. Development expenditure reached TZS 53.0 billion, slightly exceeding the target of TZS 52.4 billion, due to front loaded donor inflows.

External Sector Development

During the first ten months of 2007/08, the current account balance remained positive but declined to a surplus of USD 14.0 million, compared with a surplus of USD 44.3 million recorded in the previous corresponding period in 2006/07. The underperformance was largely on account of decreased service receipts, moderate growth in goods exports and a high import bill.

The trade account has been exhibiting weak performance in recent years, recording an annual average deficit of about USD 32.7 million for the first ten months of 2007/08, compared with an average deficit of USD 1.3 million in a similar period of the preceding year. Similarly, in the year ending April, 2008 the trade deficit reached USD 44.1 million, exceeding USD 15.1 million recorded in a similar period of the preceding year,



largely due to increase in goods imports. The trade deficit has been accommodated mainly by services receipts and official grants (**Table 5**).

Table 5: Zanzibar Current Account Balance

Million of USD

| | July - April | | Year Ending April | |
|---------------------------------|--------------|--------------|-------------------|--------------|
| | 2006/07 | 2007/08 | 2007 | 2008p |
| Goods Account (net) | -41.8 | -59.9 | -58.4 | -74.1 |
| Exports | 14.3 | 13.8 | 14.8 | 15.4 |
| Imports | 56.1 | 73.7 | 73.2 | 89.5 |
| Services Account (net) | 40.4 | 27.2 | 43.2 | 30.0 |
| Receipts | 82.3 | 58.5 | 94.3 | 80.1 |
| Payments | 41.8 | 31.3 | 51.0 | 50.0 |
| Goods and Services (net) | -1.3 | -32.7 | -15.1 | -44.1 |
| Exports of goods and services | 96.6 | 72.3 | 109.1 | 95.4 |
| Imports of goods and services | 97.9 | 105.0 | 124.2 | 139.5 |
| Income Account (net) | 0.3 | -0.8 | 0.3 | -0.8 |
| Receipts | 0.3 | 0.1 | 0.3 | 0.1 |
| Payments | 0.1 | 1.0 | 0.1 | 0.9 |
| Current Transfers (net) | 45.3 | 47.5 | 51.7 | 58.6 |
| Inflows | 45.3 | 47.5 | 51.7 | 58.6 |
| Outflows | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Account Balance | 44.3 | 14.0 | 36.9 | 13.7 |

Note: p = Provisional;

Source: Tanzania Revenue Authority.



PART V

5.0 MACROECONOMIC POLICY FRAMEWORK FOR 2008/09

5.1 Macroeconomic Objectives of the Government

Improvements in public expenditure management and domestic revenue collection have been top priorities of the government, as it positions itself to realize poverty reduction targets. During 2008/09, the government plans to enhance strategic resource allocations for poverty reduction and strengthen operational efficiency. On the other hand, the government intends to continue with reforms in the tax system in order to modernize, broaden and enhance domestic revenue collection. The government is committed to play its role in facilitating the projected increase in economic growth over the medium term through improving physical infrastructure and reducing other structural impediments to growth and trade. The fiscal stimulus and the implementation of infrastructure projects earmarked for 2008/09 will also have a multiplier impact on a number of sectors, thus increasing the overall growth of the economy. Furthermore, the government will continue to minimize domestic borrowing so as to provide room for increased credit to the private sector.

Specifically, the government intends to attain the following macroeconomic targets during 2008/09:-

- i. A real GDP growth of 7.8 percent in 2008 and 8.1 percent in 2009;
- ii. An annual inflation rate of not more than 7.0 percent by June 2009;
- iii. Domestic revenue of TZS 4,728.6 billion, equivalent to 18.5 percent of GDP in 2008/09;



- iv. Total expenditure of TZS 7,216.1 billion, equivalent to 28.2 percent of GDP; and
- v. Official foreign exchange reserves, sufficient to cover 5 months of imports of goods and services in 2008/09.

5.2 Monetary Policy Objectives

In 2008/09, the Bank of Tanzania will align its monetary policy stance to support the achievement of the macroeconomic objectives of the government. Thus, taking into account economic prospects, targeted inflation and various challenges encountered in 2007/08, the Bank will make consistent efforts to pursue sound policies in the monetary and banking sectors, as well as continue to spearhead the implementation of the remaining areas of the *Second Generation Financial Sector Reforms*-all with the aim of facilitating strong economic growth.

The tighter monetary policy stance that was adopted in 2007/08 will continue in 2008/09 in order to contain inflationary pressures and rising domestic demand, particularly in an environment of rapid growth in credit to the private sector. The main focus of the monetary policy of the Bank of Tanzania will be to contain liquidity, hence dampening inflationary pressures in the economy. Operationally, the strategy of monetary policy will centre on optimising the available monetary instruments, including the use of *open market and foreign exchange operations*.

Specifically, the Bank aims at achieving the following policy targets for 2008/09:-

- i. Reducing money supply (M2) and (M3) growth from 33.4 percent and 25.2 percent, respectively, recorded at the end of April 2008 to



18 percent each by end June 2009;

- ii. Allowing credit to the private sector to increase by about TZS 732 billion, implying an annual growth rate of 22 percent by June 2009, which is deemed sufficient to facilitate the anticipated GDP growth of 7.8 percent for 2008;
- iii. Maintaining a level of international reserves adequate to cover 5 months of imports of goods and services;
- iv. Maintaining financial stability by strengthening risk-based supervision, effective surveillance and monitoring, and crisis resolution. During 2008/09, the Bank intends to further reinforce its capacity for risk-based supervision and begin preparing financial stability reports to inform stakeholders and build public confidence on the Tanzanian financial system. Furthermore, the Bank will continue to improve its *Banking Supervision Information System* (BSIS) to match international standards and develop new prudential regulations in areas of cross border supervision, credit reference system, and microfinance, consistent with best practices; and
- v. Strengthening the payments system through the promotion of efficiency and the elimination of payment system risk. During 2008/09, the Bank will continue to modernize the national payments systems in line with international standards and best practice, while ensuring that regional harmonization initiatives are also met.

It is worth noting that the monetary policy stance for 2008/09 is in line with efforts to encourage banks' intermediation and the desire to raise public confidence in the prospects for strong economic growth. In addition, this stance is expected to encourage investors to take advantage



of the available financing from the banking system to raise investment in productive capacity.

5.3 Economic Performance

Evaluation of economic performance in 2007/08 indicates that a number of positive developments provide hope for a stronger economy in 2008/09. The gains in monetary indicators and macroeconomic stability will be consolidated in 2008/09, which is expected to increase optimism of economic players concerning economic prospects.

The potential for Tanzania's economic growth remains strong. Real GDP growth has averaged 7 percent during the past seven years to 2007 and is projected to grow at 7.8 percent in 2008, and increasing to 8.1 percent in 2009. However, this positive outlook is not without risks. The economy still faces a number of external factors and structural problems, which cause the real sector to respond slowly to the improved macroeconomic indicators. Such factors include:-

- i. A prolonged global economic slowdown that could have a negative impact on Tanzania's fast-growing tourism sector and also on foreign direct investments.
- ii. Rising global food and oil prices pose potential shocks to the macroeconomic stability so far achieved, as inflationary pressures will be heightened.
- iii. In the medium and long term, the primary challenge for Tanzania is to accelerate economic growth to levels that will achieve durable poverty reduction. Fiscal and monetary policies for 2008/09 aim at seizing opportunities for strong economic performance and macroeconomic stability, respectively, while addressing both external and internal risks and challenges.



5.4 Liquidity Management

During 2008/09, the Bank intends to continue with monetary policy implementation through appropriate mix of monetary instruments for liquidity management. Efficiency in the use of the existing monetary policy instruments (Treasury bill, Treasury bond, and repurchase agreements) will be enhanced, including frequent use of foreign exchange sales. In the medium term, efforts will be directed at developing secondary market infrastructure for government securities, mainly to enhance effective use of monetary policy instruments. Furthermore, the Bank will strengthen its communication with the financial sector and the general public with the objective of enhancing monetary policy predictability and effectiveness.

5.5 Credit Policy

The monetary policy stance for 2008/09 facilitates provision of adequate credit to the productive sector of the economy, while restricting monetary expansion to levels consistent with targeted inflation. Recently, access to credit for small and medium enterprises and the informal sector has been limited by high lending rates, stringent collateral requirements and limited proximity to formal financial services by borrowers in these areas. Efforts to improve accessibility to credit and other financial services will continue to be given emphasis under the on-going *Second Generation Financial Sector Reforms*. Efforts will be directed mainly at improving borrower information, and contract enforcement, particularly reducing the cumbersome processes of realizing collateral, so as to increase banks' propensity to lend to these areas.



5.6 Interest Rate Policy

The Treasury bill market will continue to provide an anchor for market-determined interest rates. As such, the bank will continue to improve the structure of primary auctions of government securities with the aim of enhancing competition and efficiency in the market. In so doing, the Bank expects to be able to minimize volatility in yields and influence realistic interest rates in the market. With a view to increase transparency in monetary policy and to promote orderly financial markets, the Bank will continue to communicate with market players via monthly meetings with CEOs of financial institutions.

5.7 Foreign Exchange Operations

In general, the exchange rate is forecasted to remain stable in 2008/09 in line with economic fundamentals. Stability in the exchange rate will be driven by improved liquidity management as well as the strong balance of payments position projected for 2008/09. In addition, the market's positive views regarding the Bank's commitment to maintaining exchange rate stability is expected to continue and therefore supporting the stability of the shilling.

During 2008/09, the Bank will continue to participate in the foreign exchange market mainly for liquidity management purposes, while remaining neutral on the path of the exchange rate. The Bank will also build and maintain an adequate level of international reserves to accommodate short term balance of payments demands. In the process, the Bank will monitor closely exchange rate movements to ensure that the movements reflect economic fundamentals. The Bank's intervention will only be limited to the objective of smoothing transitory variations in the exchange rate, which are not consistent with fundamentals.



So far, recent analysis on the real exchange rate of the shilling against the US dollar shows that the shilling is modestly undervalued relative to its equilibrium, thus mitigating concerns about the real appreciation of the shilling, following the nominal appreciation of the shilling recorded since mid-2007.

In addition to playing its role in foreign exchange operations as indicated above, the Bank will review during 2008/09, the existing regulatory framework governing capital account transactions, with the objective of adapting it to the changing needs of the Tanzanian economy and the requirements for regional integration.

5.8 Financial Sector Development

The on-going broad based financial sector reforms are addressing impediments that limit the role of commercial banks and other financial institutions, namely, microfinance institutions, pension funds, insurance companies, etc; in the economy. While substantial progress has been made in broadening financial institutions product base and deepening lending, more needs to be done, if the Tanzania financial sector is to contribute optimally to poverty reduction. The Bank of Tanzania is committed to spearhead decisive efforts to remove obstacles and address challenges of achieving a vibrant, competitive, and efficient financial sector that reaches the majority of the people of Tanzania.

6.0 Conclusion

Tanzania's economic growth prospects remain strong, having recorded a real GDP growth averaging 7 percent over the past seven years to 2007. However, this positive outlook faces a number of external as well as domestic risks, including a prolonged global economic slowdown,



rising global food¹ and oil prices. The primary challenge for Tanzania is how to deal with these risks and achieve durable poverty reduction.

Fiscal and monetary policies for 2008/09 will aim at seizing the opportunities created by the recent strong economic performance and macroeconomic stability of the domestic economy to maximize future growth.

Monetary policy implementation will continue to be strengthened, particularly, through appropriate mix of monetary instruments for liquidity management, to bolster efficiency in the market. In the medium term, efforts will be directed at developing a durable secondary market infrastructure for government securities, to enhance effective use of monetary policy instruments, while strengthening policy communication for greater monetary policy predictability and effectiveness.

The Bank will also strengthen the coordination between fiscal and monetary policy, especially under the anticipated circumstances of greater global challenges and uncertainties. In the meantime, **the Bank of Tanzania will continue with its internal transformation which aims at refocusing its mission on the core functions, which will include repositioning the role of the Bank in the maintenance of price stability and financial system development.**

The Bank of Tanzania is optimistic that given the continued prudent fiscal policies of the government and its commitment to the reform agenda, the 2008/09 monetary policy stance will meet its objectives and hence, contribute towards the attainment of the broader macroeconomic objectives of the government.

¹Rising global food prices are both a challenge and an opportunity. To benefit, an economy needs to modernize its agriculture, raise its yield per acre via increased per capita productivity and keep attention to quality. The *Sasakawa Global 2000 Project* in Tanzania demonstrated the feasibility of achieving a green revolution in Tanzania. The challenge is to replicate these results.



APPENDICES

APPENDIX I: THE BANK OF TANZANIA INFLATION CONTROL STRATEGY

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

- i. Low inflation allows the economy to function more efficiently, thereby contributing to a better overall economic performance.
- ii. The Bank of Tanzania focuses on the Consumer Price Index (CPI) as a measure of inflation. The rate of change in the overall CPI is referred to as the HEADLINE INFLATION RATE.
- iii. However, the inflation rate that excludes food prices, which is referred to as NON-FOOD INFLATION or UNDERLYING INFLATION is used as a measure of policy induced inflation and to some extent as a measure of long-run inflation.

Underlying inflation, which is also sometimes referred to as CORE INFLATION, is normally obtained by excluding from the headline measures the prices of certain items that are thought to be volatile enough to obscure long-term movements of inflation. The price index "excluding food and energy" is one well-known example. Several countries compute such indices and consider them in the setting of policy.



- iv. In Tanzania, the underlying inflation traditionally excludes food prices because of their volatility, which depends on the supply side factors and believed to be short lived.
- v. The Bank of Tanzania also monitors food prices and their index. This is because food prices are sometimes affected by non-monetary factors like drought and floods, which can affect inflation substantially, regardless of the stance of monetary policy. The rate of change in food price index is referred to as the FOOD INFLATION RATE.
- vi. The Bank further believes that inflation control is not an end in itself, but rather, the means by which monetary policy contributes to overall economic performance.
- vii. Central banks control inflation by influencing the growth of money supply. The Bank of Tanzania focuses on the growth of broad money-M2, which is defined as currency in circulation outside banks, and total deposits held by commercial banks, excluding foreign currency deposits. M2 is chosen because it is the monetary aggregate that is estimated to have the closest relationship with the rate of inflation.
- viii. To influence the growth of M2, the Bank targets reserve money, which is directly related to money supply through the money multiplier. Reserve money is defined as the liabilities of central bank, which include currency outside the central bank and deposit money banks' reserves held by the central bank.



APPENDIX II

Table A1: Tanzania: Gross Domestic Product in 2001 Prices by Kind of Economic Activity (Millions of TZS)

| Economic Activity | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006r | 2007p | % change |
|---|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------|
| Agriculture, Hunting and Forestry | 2,512,170 | 2,636,193 | 2,766,479 | 2,850,956 | 3,017,988 | 3,148,384 | 3,268,238 | 3,399,648 | 4.0% |
| Crops | 1,847,572 | 1,945,945 | 2,055,634 | 2,122,361 | 2,262,725 | 2,361,930 | 2,457,373 | 2,567,955 | 4.5% |
| Livestock | 441,860 | 459,448 | 472,500 | 483,001 | 503,000 | 525,109 | 537,498 | 550,398 | 2.4% |
| Hunting and Forestry | 222,738 | 230,800 | 238,345 | 245,594 | 252,263 | 261,345 | 273,367 | 281,295 | 2.9% |
| Fishing | 146,675 | 153,660 | 164,049 | 173,892 | 185,543 | 196,676 | 206,510 | 215,734 | 4.5% |
| Industry and construction | 1,536,952 | 1,638,459 | 1,792,024 | 1,988,081 | 2,204,619 | 2,433,261 | 2,639,902 | 2,889,519 | 9.5% |
| Mining and quarrying | 140,400 | 159,979 | 187,000 | 219,000 | 254,000 | 295,000 | 341,000 | 377,559 | 10.7% |
| Manufacturing | 726,358 | 762,400 | 819,200 | 893,000 | 977,000 | 1,071,000 | 1,162,000 | 1,263,435 | 8.7% |
| Electricity, gas | 185,847 | 196,860 | 209,000 | 223,953 | 240,708 | 263,218 | 258,347 | 286,507 | 10.9% |
| Water supply | 42,363 | 43,840 | 45,084 | 47,128 | 49,557 | 51,700 | 54,905 | 58,474 | 6.5% |
| Construction | 441,984 | 475,380 | 531,740 | 605,000 | 683,354 | 752,343 | 823,650 | 903,544 | 9.7% |
| Services | 3,890,050 | 4,139,962 | 4,460,699 | 4,806,587 | 5,182,094 | 5,596,784 | 6,035,932 | 6,527,561 | 8.1% |
| Trade and repairs | 1,111,165 | 1,182,797 | 1,281,544 | 1,405,698 | 1,486,931 | 1,585,906 | 1,736,631 | 1,906,821 | 9.8% |
| Hotels and restaurants | 239,528 | 250,978 | 267,162 | 275,836 | 285,732 | 301,873 | 314,921 | 328,859 | 4.4% |
| Transport | 464,481 | 487,062 | 516,000 | 541,901 | 588,574 | 627,951 | 661,000 | 703,965 | 6.5% |
| Communications | 103,716 | 112,783 | 124,549 | 144,039 | 169,158 | 200,900 | 239,537 | 287,684 | 20.1% |
| Financial intermediation | 131,000 | 140,000 | 154,108 | 170,643 | 184,775 | 204,694 | 228,000 | 251,280 | 10.2% |
| Real estate and business services | 898,961 | 936,440 | 1,003,260 | 1,068,732 | 1,141,014 | 1,226,790 | 1,316,000 | 1,408,120 | 7.0% |
| Public administration | 580,000 | 640,649 | 699,561 | 766,760 | 871,169 | 970,786 | 1,033,488 | 1,102,951 | 6.7% |
| Education | 169,462 | 188,733 | 202,000 | 207,606 | 215,910 | 224,547 | 235,774 | 248,742 | 5.5% |
| Health | 112,629 | 118,972 | 129,229 | 140,437 | 151,370 | 163,572 | 177,520 | 193,142 | 8.8% |
| Other social and personal services | 79,108 | 81,548 | 83,286 | 84,935 | 87,461 | 89,765 | 93,061 | 95,998 | 3.2% |
| Gross value added before adjustments | | | | | | | | | |
| | 8,085,847 | 8,568,274 | 9,183,251 | 9,819,516 | 10,590,244 | 11,375,105 | 12,150,582 | 13,032,462 | 7.3% |
| less FISIM | -78,049 | -80,000 | -87,000 | -97,154 | -106,931 | -119,497 | -137,287 | - | 158,292 |
| Gross value added at current basic prices | 8,007,798 | 8,488,274 | 9,096,251 | 9,722,362 | 10,483,313 | 11,255,608 | 12,013,295 | 12,874,170 | 7.2% |
| add Taxes on products | 577,542 | 612,000 | 655,926 | 701,372 | 756,422 | 812,482 | 867,868 | 927,751 | 6.9% |
| GDP at current market prices | 8,585,340 | 9,100,274 | 9,752,177 | 10,423,734 | 11,239,735 | 12,068,090 | 12,881,163 | 13,801,921 | 7.1% |

Note: r = revised and p = provisional FISIM = Financial Intermediation Services Indirectly Measured

Source: National Bureau of Statistics (NBS)



Table A2: Tanzania: Gross Domestic Product in 2001 Prices by Kind of Economic Activity
Percentage Growth Rates and Sectoral Contributions

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Average 2000-2007 |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------------|
| Real GDP growth by Economic Activities (In percent) | | | | | | | | | |
| <i>Agriculture, Hunting and Forestry</i> | 4.5 | 4.9 | 4.9 | 3.1 | 5.9 | 4.3 | 3.8 | 4.0 | 4.4 |
| Crops | 4.7 | 5.3 | 5.6 | 3.2 | 6.6 | 4.4 | 4.0 | 4.5 | 4.8 |
| Livestock | 3.9 | 4.0 | 2.8 | 2.2 | 4.1 | 4.4 | 2.4 | 2.4 | 3.3 |
| Hunting and Forestry | 4.8 | 3.6 | 3.3 | 3.0 | 2.7 | 3.6 | 4.6 | 2.9 | 3.6 |
| <i>Fishing</i> | 2.9 | 4.8 | 6.8 | 6.0 | 6.7 | 6.0 | 5.0 | 4.5 | 5.3 |
| <i>Industry and construction</i> | 4.5 | 6.6 | 9.4 | 10.9 | 10.9 | 10.4 | 8.5 | 9.5 | 8.8 |
| Mining and quarrying | 14.3 | 13.9 | 16.9 | 17.1 | 16.0 | 16.1 | 15.6 | 10.7 | 15.1 |
| Manufacturing | 4.8 | 5.0 | 7.5 | 9.0 | 9.4 | 9.6 | 8.5 | 8.7 | 7.8 |
| Electricity, gas | 6.2 | 5.9 | 6.2 | 7.2 | 7.5 | 9.4 | -1.9 | 10.9 | 6.4 |
| Water supply | 3.4 | 3.5 | 2.8 | 4.5 | 5.2 | 4.3 | 6.2 | 6.5 | 4.6 |
| Construction | 0.8 | 7.6 | 11.9 | 13.8 | 13.0 | 10.1 | 9.5 | 9.7 | 9.5 |
| <i>Services</i> | 5.4 | 6.4 | 7.7 | 7.8 | 7.8 | 8.0 | 7.8 | 8.1 | 7.4 |
| Trade and repairs | 4.3 | 6.4 | 8.3 | 9.7 | 5.8 | 6.7 | 9.5 | 9.8 | 7.6 |
| Hotels and restaurants | 4.1 | 4.8 | 6.4 | 3.2 | 3.6 | 5.6 | 4.3 | 4.4 | 4.6 |
| Transport | 4.3 | 4.9 | 5.9 | 5.0 | 8.6 | 6.7 | 5.3 | 6.5 | 5.9 |
| Communications | 5.6 | 8.7 | 10.4 | 15.6 | 17.4 | 18.8 | 19.2 | 20.1 | 14.5 |
| Financial intermediation | 3.9 | 6.9 | 10.1 | 10.7 | 8.3 | 10.8 | 11.4 | 10.2 | 9.0 |
| Real estate and business services | 4.9 | 4.2 | 7.1 | 6.5 | 6.8 | 7.5 | 7.3 | 7.0 | 6.4 |
| Public administration | 10.7 | 10.5 | 9.2 | 9.6 | 13.6 | 11.4 | 6.5 | 6.7 | 9.8 |
| Education | 4.0 | 11.4 | 7.0 | 2.8 | 4.0 | 4.0 | 5.0 | 5.5 | 5.5 |
| Health | 5.1 | 5.6 | 8.6 | 8.7 | 7.8 | 8.1 | 8.5 | 8.8 | 7.7 |
| Other social and personal services | 3.1 | 3.1 | 2.1 | 2.0 | 3.0 | 2.6 | 3.7 | 3.2 | 2.8 |
| GDP at current market prices | 4.9 | 6.0 | 7.2 | 6.9 | 7.8 | 7.4 | 6.7 | 7.1 | 6.8 |
| Contribution to Real GDP by Economic Activities (In percent) | | | | | | | | | |
| <i>Agriculture, Hunting and Forestry</i> | 31.4 | 31.1 | 30.4 | 29.3 | 28.8 | 28.0 | 27.2 | 26.4 | 29.1 |
| Crops | 23.1 | 22.9 | 22.6 | 21.8 | 21.6 | 21.0 | 20.5 | 19.9 | 21.7 |
| Livestock | 5.5 | 5.4 | 5.2 | 5.0 | 4.8 | 4.7 | 4.5 | 4.3 | 4.9 |
| Hunting and Forestry | 2.8 | 2.7 | 2.6 | 2.5 | 2.4 | 2.3 | 2.3 | 2.2 | 2.5 |
| <i>Fishing</i> | 1.8 | 1.8 | 1.8 | 1.8 | 1.8 | 1.7 | 1.7 | 1.7 | 1.8 |
| <i>Industry and construction</i> | 19.2 | 19.3 | 19.7 | 20.4 | 21.0 | 21.6 | 22.0 | 22.4 | 20.7 |
| Mining and quarrying | 1.8 | 1.9 | 2.1 | 2.3 | 2.4 | 2.6 | 2.8 | 2.9 | 2.3 |
| Manufacturing | 9.1 | 9.0 | 9.0 | 9.2 | 9.3 | 9.5 | 9.7 | 9.8 | 9.3 |
| Electricity, gas | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.2 | 2.2 | 2.3 |
| Water supply | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 |
| Construction | 5.5 | 5.6 | 5.8 | 6.2 | 6.5 | 6.7 | 6.9 | 7.0 | 6.3 |
| <i>Services</i> | 48.6 | 48.8 | 49.0 | 49.4 | 49.4 | 49.7 | 50.2 | 50.7 | 49.5 |
| Trade and repairs | 13.9 | 13.9 | 14.1 | 14.5 | 14.2 | 14.1 | 14.5 | 14.8 | 14.2 |
| Hotels and restaurants | 3.0 | 3.0 | 2.9 | 2.8 | 2.7 | 2.7 | 2.6 | 2.6 | 2.8 |
| Transport | 5.8 | 5.7 | 5.7 | 5.6 | 5.6 | 5.6 | 5.5 | 5.5 | 5.6 |
| Communications | 1.3 | 1.3 | 1.4 | 1.5 | 1.6 | 1.8 | 2.0 | 2.2 | 1.6 |
| Financial intermediation | 1.6 | 1.6 | 1.7 | 1.8 | 1.8 | 1.8 | 1.9 | 2.0 | 1.8 |
| Real estate and business services | 11.2 | 11.0 | 11.0 | 11.0 | 10.9 | 10.9 | 11.0 | 10.9 | 11.0 |
| Public administration | 7.2 | 7.5 | 7.7 | 7.9 | 8.3 | 8.6 | 8.6 | 8.6 | 8.1 |
| Education | 2.1 | 2.2 | 2.2 | 2.1 | 2.1 | 2.0 | 2.0 | 1.9 | 2.1 |
| Health | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.5 | 1.5 | 1.5 | 1.4 |
| Other social and personal services | 1.0 | 1.0 | 0.9 | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 | 0.9 |

Source: National Bureau of Statistics (NBS)



**Table A3: Tanzania: Gross Domestic Product in 2001 Market Prices
by type of Expenditure
(Millions of TZS)**

| Type of Expenditure | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006r | 2007p |
|--------------------------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| GDP in constant market prices | 8,585,339 | 9,100,274 | 9,752,178 | 10,423,735 | 11,239,734 | 12,068,090 | 12,881,163 | 13,801,921 |
| Final consumption expenditure | 7,630,259 | 7,901,761 | 8,486,320 | 9,052,080 | 9,748,544 | 10,855,260 | 11,735,476 | 12,517,666 |
| Households | 6,615,765 | 6,826,396 | 7,213,608 | 7,410,284 | 7,866,521 | 8,748,590 | 9,456,059 | 10,021,704 |
| Government | 1,014,494 | 1,075,365 | 1,272,712 | 1,641,796 | 1,882,023 | 2,106,670 | 2,279,417 | 2,495,962 |
| Gross capital formation | 1,421,461 | 1,587,743 | 1,711,262 | 1,945,657 | 2,144,198 | 2,535,317 | 2,938,619 | 3,358,305 |
| Gross fixed capital formation | 1,381,486 | 1,547,100 | 1,669,823 | 1,903,295 | 2,100,914 | 2,493,633 | 2,893,604 | 3,313,177 |
| Changes in inventories | 39,975 | 40,643 | 41,439 | 42,362 | 43,284 | 41,684 | 45,015 | 45,128 |
| Exports of goods and services | 1,321,129 | 1,547,644 | 1,666,860 | 1,991,479 | 2,157,615 | 2,449,820 | 2,369,701 | 2,768,705 |
| Exports of goods fob | 596,796 | 746,080 | 814,494 | 1,049,683 | 1,120,049 | 1,256,370 | 1,004,797 | 1,089,513 |
| Exports of services | 724,333 | 801,564 | 852,366 | 941,796 | 1,037,566 | 1,193,450 | 1,364,904 | 1,679,192 |
| Imports of goods and services | -1,787,510 | -1,936,874 | -2,112,264 | -2,565,481 | -2,810,623 | -3,772,307 | -4,162,633 | -4,842,754 |
| Imports of goods fob | -1,157,440 | -1,367,474 | -1,489,051 | -1,865,350 | -2,018,283 | -2,689,212 | -3,146,854 | -3,861,190 |
| Imports of services | -630,070 | -569,400 | -623,213 | -700,131 | -792,340 | -1,083,095 | -1,015,779 | -981,564 |

Note: r = revised and p = provisional
Source: National Bureau of Statistics (NBS)

**Table A4: Tanzania: Annual Growth Rates of Gross Domestic
Product in 2001 Market Prices by type of Expenditure (In percent)**

| Type of Expenditure | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006r | 2007p |
|---|------------|------------|------------|------------|------------|------------|------------|------------|
| GDP in constant 2001 market prices | 4.9 | 6.0 | 7.2 | 6.9 | 7.8 | 7.4 | 6.7 | 7.1 |
| Final consumption expenditure | 1.7 | 3.6 | 7.4 | 6.7 | 7.7 | 11.4 | 8.1 | 6.7 |
| Households | 1.7 | 3.2 | 5.7 | 2.7 | 6.2 | 11.2 | 8.1 | 6.0 |
| Government | 2.2 | 6.0 | 18.4 | 29.0 | 14.6 | 11.9 | 8.2 | 9.5 |
| Gross capital formation | 5.8 | 11.7 | 7.8 | 13.7 | 10.2 | 18.2 | 15.9 | 14.3 |
| Gross fixed capital formation | 5.9 | 12.0 | 7.9 | 14.0 | 10.4 | 18.7 | 16.0 | 14.5 |
| Changes in inventories | 2.0 | 1.7 | 2.0 | 2.2 | 2.2 | -3.7 | 8.0 | 0.3 |
| Exports of goods and services | 17.6 | 17.1 | 7.7 | 19.5 | 8.3 | 13.5 | -3.3 | 16.8 |
| Exports of goods fob | 28.1 | 25.0 | 9.2 | 28.9 | 6.7 | 12.2 | -20.0 | 8.4 |
| Exports of services | 10.1 | 10.7 | 6.3 | 10.5 | 10.2 | 15.0 | 14.4 | 23.0 |
| Imports of goods and services | 0.1 | 8.4 | 9.1 | 21.5 | 9.6 | 34.2 | 10.3 | 16.3 |
| Imports of goods fob | 2.4 | 18.1 | 8.9 | 25.3 | 8.2 | 33.2 | 17.0 | 22.7 |
| Imports of services | -3.8 | -9.6 | 9.5 | 12.3 | 13.2 | 36.7 | -6.2 | -3.4 |

Note: r = revised and p = provisional
Source: National Bureau of Statistics (NBS)



Table A5: Tanzania: Percentage Change in Consumer Price Index (All Urban)

| General Period | Headline | Food | | | | | | | Non-Food | | | | | | |
|----------------|----------|-------|------------------|---------------------|-------|---------------------|----------------------------|----------------------|------------------------|----------------------------|----------------|-----------|--------------------------|------|-----|
| | | Total | Drinks & Tobacco | Clothing & Footwear | Rent | Fuel, Power & Water | Furniture Household Equip. | Household operations | Personal care & Health | Recreation & Entertainment | Transportation | Education | Miscel. goods & services | | |
| | | 100.0 | 55.9 | 44.1 | 6.9 | 6.4 | 1.4 | 8.5 | 2.1 | 2.1 | 2.1 | 0.8 | 9.7 | 2.6 | 1.5 |
| 2003 | 5.3 | 6.6 | 3.6 | 7.6 | 1.3 | 0.7 | 4.1 | -1.2 | 0.5 | 1.7 | 2.5 | 3.7 | 5.4 | 4.9 | |
| 2004 | 4.7 | 8.3 | -0.1 | 0.3 | -6.9 | 3.7 | 7.1 | -0.7 | 0.3 | -8.5 | -8.1 | 0.8 | -4.0 | -5.8 | |
| 2005 | 5.0 | 4.7 | 5.5 | 4.1 | 2.5 | 13.0 | 12.7 | 1.9 | 2.3 | 5.7 | 7.9 | -13.6 | 0.9 | | |
| 2006 | 7.2 | 7.0 | 7.6 | 7.7 | 7.0 | 5.5 | 8.5 | 7.8 | 2.0 | 11.2 | 5.0 | 9.1 | 2.5 | 8.0 | |
| 2004 Jan | 6.8 | 12.1 | -0.4 | 2.1 | -8.6 | 2.0 | 0.2 | 1.6 | 1.1 | -6.8 | 0.0 | 3.8 | -1.9 | -3.6 | |
| Feb | 4.0 | 8.9 | -2.6 | 0.3 | -9.1 | 1.5 | 2.0 | 1.4 | 0.5 | -14.2 | -9.4 | -4.2 | -0.6 | -6.9 | |
| Mar | 4.2 | 8.7 | -1.9 | 0.1 | -7.8 | -1.3 | 1.8 | -0.3 | 2.6 | -9.0 | -4.1 | -2.5 | -2.1 | -5.5 | |
| Apr | 4.4 | 9.7 | -2.7 | 1.5 | -4.4 | 2.0 | -0.8 | -2.8 | -0.8 | -8.7 | -9.1 | -5.4 | -3.8 | -6.1 | |
| May | 3.6 | 8.0 | -2.3 | 1.7 | -5.2 | 3.2 | -1.0 | -2.2 | -2.4 | -7.0 | -10.3 | -2.4 | -4.7 | -8.3 | |
| Jun | 3.4 | 7.3 | -2.0 | 1.1 | -6.2 | 2.1 | 1.2 | -1.9 | -2.6 | -9.3 | -18.5 | -0.9 | -4.8 | -7.1 | |
| Jul | 3.9 | 7.1 | -0.5 | 0.2 | -4.7 | 5.1 | 6.4 | -3.0 | -1.7 | -10.8 | -10.1 | 0.5 | -5.5 | -6.6 | |
| Aug | 4.6 | 6.9 | 1.4 | 2.0 | -3.8 | 7.1 | 9.5 | -0.4 | -0.4 | -9.7 | -10.2 | 2.0 | -2.9 | -4.6 | |
| Sep | 5.6 | 7.8 | 2.6 | -0.3 | -7.0 | 5.2 | 15.4 | 0.8 | 6.0 | -11.4 | -10.7 | 4.9 | -1.6 | -7.5 | |
| Oct | 5.9 | 8.3 | 2.4 | -1.0 | -9.8 | 5.9 | 18.1 | -0.9 | 0.7 | -5.5 | -6.7 | 5.3 | -6.7 | -8.9 | |
| Nov | 5.9 | 8.7 | 2.0 | -3.5 | -11.3 | 8.6 | 15.9 | 0.9 | -0.4 | -1.1 | -3.5 | 5.6 | -6.9 | -1.8 | |
| Dec | 4.6 | 5.8 | 3.0 | 0.0 | -4.1 | 2.7 | 17.4 | -1.5 | 1.4 | -7.1 | -4.3 | 3.6 | -7.0 | -2.6 | |
| 2005 Jan | 3.8 | 4.6 | 2.6 | 1.0 | 0.3 | 3.3 | 14.2 | -0.5 | -0.3 | -8.2 | -4.3 | 4.1 | -18.5 | 0.7 | |
| Feb | 4.7 | 4.1 | 5.6 | 2.1 | 3.2 | 11.8 | 14.0 | 2.0 | 1.0 | 0.2 | 8.6 | 10.4 | -16.4 | 1.2 | |
| Mar | 4.1 | 3.6 | 4.8 | 1.3 | 2.8 | 15.6 | 13.2 | 0.9 | 0.7 | -3.1 | 3.2 | 8.4 | -16.5 | 2.1 | |
| Apr | 4.2 | 3.5 | 5.3 | 0.8 | -1.9 | 12.3 | 15.7 | 1.7 | 3.8 | -3.2 | 5.4 | 10.7 | -15.3 | 1.1 | |
| May | 5.4 | 5.1 | 5.9 | 1.9 | -1.8 | 11.8 | 19.0 | 2.5 | 3.3 | -4.5 | 8.6 | 9.9 | -14.7 | 0.7 | |
| Jun | 6.7 | 7.7 | 5.3 | 2.4 | -0.8 | 12.4 | 14.7 | 2.5 | 4.4 | -4.0 | 11.3 | 9.3 | -14.4 | -0.1 | |
| Jul | 6.2 | 7.0 | 5.0 | 4.3 | 0.5 | 13.2 | 11.8 | 2.4 | 2.0 | -0.7 | 7.5 | 7.7 | -13.4 | -0.5 | |
| Aug | 6.0 | 7.0 | 4.5 | 2.5 | -1.1 | 14.4 | 11.2 | 2.4 | 1.6 | -1.0 | 8.3 | 8.8 | -15.3 | -1.3 | |
| Sep | 4.8 | 4.5 | 5.2 | 7.3 | 7.4 | 14.1 | 10.2 | 0.0 | 1.7 | 11.2 | 1.3 | 3.3 | -16.9 | 1.0 | |
| Oct | 4.1 | 2.4 | 6.8 | 9.2 | 8.9 | 12.8 | 7.2 | 0.7 | 1.2 | 13.9 | 4.0 | 8.2 | -7.8 | 0.5 | |
| Nov | 4.5 | 2.3 | 8.0 | 8.7 | 7.5 | 14.7 | 12.6 | 5.2 | 2.3 | 12.5 | 8.0 | 6.9 | -5.7 | 2.6 | |
| Dec | 5.9 | 4.9 | 7.3 | 7.6 | 5.1 | 19.4 | 9.9 | 3.4 | 4.3 | 16.9 | 8.6 | 8.2 | -7.3 | 2.3 | |
| 2006 Jan | 6.7 | 6.3 | 7.3 | 4.6 | 9.6 | 16.6 | 9.0 | 4.1 | -0.5 | 19.3 | 4.5 | 6.7 | 1.3 | 8.7 | |
| Feb | 7.8 | 8.6 | 6.6 | 5.2 | 7.7 | 5.0 | 6.6 | 4.4 | -1.4 | 18.2 | 5.9 | 8.2 | -0.4 | 10.7 | |
| Mar | 8.6 | 10.2 | 6.3 | 6.9 | 6.5 | 4.5 | 6.4 | 5.4 | -1.3 | 13.4 | 4.3 | 7.6 | 0.0 | 8.7 | |
| Apr | 8.8 | 10.3 | 6.6 | 4.6 | 7.3 | 6.1 | 7.6 | 5.7 | -1.1 | 14.3 | 5.7 | 8.1 | 1.0 | 7.8 | |
| May | 9.7 | 11.5 | 7.0 | 6.3 | 7.2 | 8.0 | 5.9 | 7.3 | 0.7 | 12.7 | 5.1 | 9.6 | 2.6 | 7.6 | |
| Jun | 8.9 | 8.2 | 10.1 | 7.2 | 7.6 | 9.1 | 15.3 | 7.5 | 1.4 | 13.9 | 5.6 | 12.3 | 2.5 | 7.6 | |
| Jul | 6.4 | 4.2 | 9.5 | 8.0 | 8.8 | 5.0 | 12.7 | 8.4 | 1.5 | 12.3 | 5.1 | 11.9 | 4.2 | 7.2 | |
| Aug | 5.5 | 2.6 | 9.7 | 10.6 | 8.1 | 3.5 | 13.9 | 8.2 | 1.9 | 14.0 | 5.5 | 9.3 | 4.6 | 8.7 | |
| Sep | 5.8 | 3.6 | 9.0 | 10.7 | 3.8 | 3.2 | 9.6 | 13.5 | 4.2 | 5.3 | 10.3 | 12.3 | 6.1 | 9.9 | |
| Oct | 6.0 | 5.2 | 7.0 | 8.7 | 3.0 | 2.9 | 9.2 | 13.1 | 6.1 | 4.6 | 6.1 | 7.2 | 1.3 | 10.1 | |
| Nov | 6.2 | 7.0 | 5.7 | 9.5 | 5.4 | 2.2 | 2.6 | 6.3 | 7.1 | 5.7 | 1.2 | 7.8 | 2.2 | 4.6 | |
| Dec | 6.7 | 6.6 | 6.8 | 9.5 | 9.3 | 1.7 | 4.5 | 9.9 | 4.9 | 4.1 | 1.0 | 8.5 | 4.1 | 5.0 | |
| 2007 Jan | 7.0 | 6.7 | 7.4 | 11.9 | 6.1 | 5.0 | 4.8 | 10.3 | 9.6 | 2.0 | 5.6 | 8.8 | 9.9 | -1.7 | |
| Feb | 7.3 | 6.2 | 8.8 | 11.2 | 6.3 | 6.0 | 9.6 | 11.0 | 10.8 | 0.9 | 7.6 | 9.8 | 11.7 | -0.4 | |
| Mar | 7.2 | 6.1 | 9.1 | 11.8 | 7.2 | 5.8 | 9.3 | 10.4 | 11.1 | 3.4 | 9.2 | 9.1 | 13.0 | 1.6 | |
| Apr | 6.2 | 4.8 | 8.2 | 14.7 | 6.7 | 4.3 | 4.9 | 10.5 | 11.9 | 3.5 | 9.4 | 8.3 | 11.8 | 1.9 | |
| May | 5.0 | 2.8 | 8.5 | 13.0 | 7.5 | 4.2 | 7.5 | 8.4 | 11.1 | 4.8 | 9.4 | 8.0 | 10.2 | 2.0 | |
| Jun | 5.9 | 4.6 | 7.5 | 12.3 | 7.3 | 3.1 | 6.4 | 8.7 | 10.1 | 4.3 | 10.2 | 5.9 | 10.3 | 2.4 | |
| Jul | 9.0 | 10.3 | 7.4 | 10.8 | 5.6 | 1.7 | 7.3 | 7.7 | 10.7 | 4.5 | 10.6 | 6.8 | 8.7 | 2.0 | |
| Aug | 7.8 | 9.2 | 5.9 | 7.3 | 6.4 | 2.1 | 4.2 | 6.9 | 9.5 | 3.5 | 10.8 | 6.5 | 8.8 | 0.0 | |
| Sep | 8.3 | 11.4 | 4.1 | 6.2 | 4.5 | 2.8 | 1.4 | 4.1 | 6.5 | 2.2 | 9.7 | 4.3 | 9.2 | -0.8 | |
| Oct | 7.1 | 8.4 | 5.1 | 7.0 | 5.4 | 2.8 | 3.8 | 4.6 | 5.8 | 1.6 | 10.5 | 5.6 | 7.8 | 0.3 | |
| Nov | 7.3 | 7.5 | 6.5 | 10.0 | 5.2 | 2.8 | 6.8 | 6.6 | 4.8 | 2.1 | 7.6 | 6.2 | 7.8 | 1.7 | |
| Dec | 6.4 | 6.6 | 6.1 | 10.3 | 2.5 | 2.8 | 8.0 | 6.2 | 3.0 | 1.9 | 6.1 | 5.4 | 6.8 | 0.8 | |
| 2008 Jan | 8.6 | 10.1 | 6.4 | 10.4 | 1.1 | 2.4 | 10.1 | 4.9 | 3.6 | 3.7 | 5.9 | 5.7 | 5.6 | 2.1 | |
| Feb | 8.9 | 11.4 | 5.3 | 10.2 | 0.3 | 2.4 | 6.8 | 4.1 | 2.9 | 3.4 | 4.0 | 4.9 | 5.6 | 1.8 | |
| Mar | 9.0 | 11.2 | 5.8 | 9.1 | 1.0 | 1.7 | 8.3 | 4.9 | 2.9 | 3.1 | 3.5 | 6.0 | 5.6 | 1.0 | |
| Apr | 9.7 | 11.6 | 6.9 | 8.6 | 1.1 | 2.1 | 11.3 | 4.9 | 2.8 | 3.3 | 4.2 | 7.6 | 6.1 | 1.5 | |

Source: National Bureau of Statistics (NBS)



Table A6: Tanzania: Central Government Operations
(Millions of TZS)

| Item | 2005/06 | 2006/07 | 2007/08 Budget | 2007/08 July - April |
|--|---------------------|---------------------|---------------------|-------------------------|
| Total Revenue | 2,124,843.7 | 2,739,022.4 | 3,502,583.0 | 2,963,728.7 |
| Tax Revenue | 1,946,432.6 | 2,529,439.4 | 3,188,415.0 | 2,744,613.7 |
| Taxes on Imports | 819,800.5 | 1,018,569.5 | 1,245,641.9 | 1,052,548.9 |
| Sales/VAT and Excise on Local Goods | 478,395.4 | 575,968.3 | 688,639.0 | 599,650.4 |
| Refunds | -69,961.0 | -69,960.0 | -124,641.4 | -108,073.9 |
| Income Taxes | 581,243.8 | 716,320.5 | 826,866.7 | 777,747.0 |
| Other taxes | 136,954.0 | 218,581.1 | 427,267.4 | 314,667.4 |
| Non- tax Revenue | 178,411.1 | 209,583.0 | 314,168.0 | 219,115.0 |
| | | | | 0.0 |
| Total Expenditure /1 | 3,873,254.8 | 4,474,680.9 | 5,998,082.5 | 4,455,624.8 |
| Recurrent expenditure | 2,661,862.5 | 3,137,469.5 | 3,796,986.2 | 2,690,546.3 |
| Roadtoll fund | 0.0 | | | |
| Retention fund | 61,260.2 | 61,261.2 | 71,706.9 | 55,643.2 |
| Wages and salaries | 656,788.5 | 976,094.3 | 1,113,134.0 | 939,581.3 |
| Interest payments | 218,861.3 | 215,562.9 | 276,000.0 | 176,083.4 |
| Domestic 2/ | 163,694.8 | 185,050.4 | 240,000.0 | 157,041.6 |
| Foreign | 55,166.5 | 30,512.4 | 36,000.0 | 19,041.8 |
| Other goods, services and transfers | 1,786,212.7 | 1,945,812.3 | 2,407,852.2 | 1,574,881.6 |
| Dev. Expenditure and net lending | 1,211,392.2 | 1,337,211.4 | 2,201,096.3 | 1,765,078.5 |
| Local | 296,100.0 | 296,101.0 | 739,203.5 | 535,421.0 |
| Foreign | 915,292.2 | 1,047,266.2 | 1,461,892.8 | 1,229,657.5 |
| | | | | 0.0 |
| Overall Balance (cheque issued) before Grants | -1,748,411.0 | -1,735,658.5 | -2,495,499.5 | -1,491,896.1 |
| Grants | 1,000,160.2 | 952,225.5 | 1,690,873.0 | 1,043,244.7 |
| Program (CIS/OGL) | 331,024.6 | 479,837.3 | 607,524.1 | 593,622.3 |
| Project | 416,771.0 | 241,826.6 | 684,438.3 | 250,159.6 |
| Basket funds | 175,975.3 | 111,559.8 | 192,874.1 | 93,119.1 |
| HIPC Relief | 76,389.3 | 119,001.7 | 206,036.6 | 106,343.7 |
| | | | | 0.0 |
| Overall defc.(cheq.issued) after Grants | -748,250.9 | -783,433.0 | -804,626.5 | -448,651.4 |
| Expenditure float | 69,713.1 | 131,315.2 | 0.0 | -283,777.2 |
| | | | | 0.0 |
| Adjustments to cash and other items (net) | -245,875.5 | 48,603.3 | 0.0 | -220,081.1 |
| Overall Balance (cheques issued) | -924,412.5 | -924,411.5 | -804,626.5 | -952,509.7 |
| | | | | 0.0 |
| Financing: | 924,412.5 | 924,413.5 | 804,626.5 | 952,509.7 |
| Foreign Financing (net) | 561,219.0 | 561,220.0 | 818,616.7 | 1,224,548.0 |
| Loans | 668,934.5 | 668,935.5 | 858,376.7 | 1,248,794.2 |
| Program loans | 257,677.1 | 257,678.1 | 273,796.2 | 362,415.4 |
| Development Project loans | 328,955.7 | 328,956.7 | 504,260.2 | 713,080.7 |
| Basket Support | 82,301.8 | 82,302.8 | 80,320.2 | 173,298.1 |
| Amortization | -107,715.5 | -107,714.5 | -39,760.0 | -24,246.2 |
| Domestic (net) | 363,193.5 | 363,194.5 | -13,990.2 | -272,038.3 |
| Domestic Financing | 348,885.7 | 348,886.7 | -0.2 | -263,093.1 |
| Bank borrowing | 129,644.6 | 129,645.6 | 0.0 | -256,222.2 |
| Non-Bank (net of amortization) | 219,241.1 | 219,242.1 | 0.0 | -6,870.9 |
| Amortization of contingent debt | -19,001.4 | -19,000.4 | -15,000.0 | -8,945.3 |
| Privatization Proceeds | 33,309.2 | 33,310.2 | -13,990.0 | 0.0 |

Source: Ministry of finance and Economic Affairs (MOFEA)



Table A7: Zanzibar: Central Government Operations
(Millions of TZS)

| | Budget | Estimates | Actual | Actual vs |
|--|--------------------|----------------------|----------------------|---------------------|
| | 2007/2008 | Jul 07 Apr 08 | Jul 07 Apr 08 | Estimate (%) |
| Total Revenue | 114,558.2 | 97,658.8 | 92,405.6 | 94.6 |
| Tax Revenue | 103,111.9 | 88,885.0 | 87,780.5 | 98.8 |
| Tax on Imports | 24,484.8 | 20,947.2 | 20,853.9 | 99.6 |
| VAT and Excise Duties (local) | 35,414.6 | 28,751.9 | 31,595.0 | 109.9 |
| Income Tax | 16,495.4 | 13,616.0 | 11,525.5 | 84.6 |
| Other Taxes | 26,717.2 | 25,569.9 | 23,806.0 | 93.1 |
| Non-Tax Revenue | 11,446.3 | 8,773.7 | 4,625.1 | 52.7 |
| Total Expenditure | 266,902.4 | 161,174.6 | 150,227.8 | 93.2 |
| Recurrent Expenditure | 131,256.0 | 108,784.9 | 97,235.7 | 89.4 |
| Wages and Salaries | 61,477.3 | 48,712.0 | 49,057.7 | 100.7 |
| Interest Payment | 2,000.0 | 927.9 | 1,031.0 | 111.1 |
| Local | 0.0 | 927.9 | 1,031.0 | 111.1 |
| Foreign | 0.0 | 0.0 | 0.0 | |
| Other Expenditure | 32,128.7 | 59,145.0 | 47,147.0 | 79.7 |
| Development Expenditure | 135,646.4 | 52,389.8 | 52,992.1 | 101.1 |
| local | 16,504.4 | 12,809.0 | 9,855.3 | 76.9 |
| foreign | 119,142.0 | 39,580.8 | 43,136.9 | 109.0 |
| Overall (surplus) Deficit before grants | (152,344.3) | (63,515.9) | (57,822.2) | 91.0 |
| Grants | 93,897.5 | 42,635.7 | 55,886.1 | 131.1 |
| 4.5% Budget Support | 27,064.0 | 18,671.5 | 27,109.5 | 145.2 |
| Program Grant | 57,733.5 | 10,158.0 | 27,643.1 | 272.1 |
| Debt relief | 9,100.0 | 13,806.2 | 1,133.6 | 8.2 |
| Overall Deficit after grants | (58,446.8) | (20,880.2) | (1,936.0) | 9.3 |
| Adjustment to cash and other items | (0.0) | (4,791.5) | 8,141.3 | (169.9) |
| Overall Deficit cheques cleared | (58,446.8) | (16,088.7) | (10,077.3) | 62.6 |
| Financing | 58,446.8 | 16,088.7 | 10,077.3 | 62.6 |
| Foreign | 61,408.5 | 15,618.6 | 14,360.2 | 91.9 |
| Import Support | 0.0 | 0.0 | 0.0 | |
| Program Loans | 61,408.5 | 15,618.6 | 14,360.2 | 91.9 |
| Amortization (foreign) | | 0.0 | 0.0 | |
| Domestic (net) | 6,138.3 | 470.1 | 470.1 | 100.0 |
| Bank | 0.0 | 0.0 | 0.0 | |
| Non-bank | 6,138.3 | 470.1 | 470.1 | 100.0 |
| Amortization (local) | (9,100.0) | 0.0 | (4,753.0) | |

Source: Zanzibar Ministry of finance and Economic Affairs



**Table A9: Tanzania: Interest Rate Structure
(In percent)**

| | Jun-07 | Jul-07 | Aug-07 | Sep-07 | Oct-07 | Nov-07 | Dec-07 | Jan-08 | Feb-08 | Mar-08 | Apr-08 Prov. |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|
| A: Domestic Currency | | | | | | | | | | | |
| 1 Interbank Cash Market Rates | | | | | | | | | | | |
| Overnight | 6.67 | 9.79 | 12.05 | 12.07 | 18.64 | 10.19 | 5.37 | 6.47 | 4.52 | 4.11 | 3.85 |
| 2 to 7 days | 7.60 | 11.27 | 12.28 | 12.77 | 19.47 | 8.19 | 5.99 | 7.11 | 5.20 | 4.34 | 4.08 |
| 8 to 14 days | 7.03 | 12.00 | 11.98 | 12.00 | 24.04 | 5.86 | 5.86 | 6.82 | 5.00 | 4.43 | 4.20 |
| 15 to 30 days | 6.00 | 6.00 | 6.00 | 6.50 | 6.50 | 9.00 | 9.22 | 7.50 | 6.50 | 6.50 | 5.18 |
| 31 to 60 days | 9.59 | 6.55 | 8.81 | 11.16 | 6.42 | 5.15 | 5.84 | 5.60 | 5.60 | 6.32 | 5.40 |
| 61 to 90 days | 10.75 | 10.75 | 10.75 | 10.75 | 10.75 | 10.75 | 10.75 | 10.75 | 5.93 | 5.93 | 5.93 |
| 91 to 180 days | 12.50 | 13.00 | 13.83 | 14.80 | 14.80 | 14.80 | 9.75 | 9.50 | 6.50 | 6.25 | 6.25 |
| 181 and above | 12.87 | 12.87 | 12.87 | 15.23 | 15.23 | 12.10 | 12.10 | 12.10 | 12.10 | 7.00 | 7.00 |
| Overall Interbank cash market rate | 7.24 | 10.46 | 12.11 | 12.27 | 18.92 | 9.67 | 5.83 | 6.74 | 4.81 | 4.24 | 4.12 |
| 2 Lombard Rate | 10.01 | 14.69 | 18.07 | 18.11 | 27.97 | 15.29 | 8.19 | 9.90 | 7.18 | 5.72 | 5.50 |
| 3 REPO Rate | 6.25 | 9.10 | 11.02 | 11.56 | 11.34 | 7.36 | 5.13 | 6.60 | 4.79 | 3.82 | 3.67 |
| 4 Treasury Bill Rates | | | | | | | | | | | |
| 35 days | 6.47 | 6.07 | 6.32 | 6.27 | 6.35 | 4.94 | 5.46 | 5.96 | 5.99 | 5.36 | 4.77 |
| 91 days | 12.62 | 12.88 | 13.76 | 14.78 | 15.14 | 11.31 | 9.90 | 9.54 | 7.05 | 5.69 | 5.12 |
| 182 days | 16.74 | 16.23 | 15.83 | 16.37 | 16.62 | 12.96 | 10.15 | 10.33 | 8.02 | 7.03 | 6.90 |
| 364 days | 18.39 | 15.84 | 15.95 | 16.98 | 17.86 | 13.68 | 12.95 | 12.80 | 9.82 | 9.40 | 9.43 |
| Overall Treasury bill rate | 17.07 | 15.41 | 15.11 | 15.59 | 16.42 | 12.45 | 11.40 | 10.89 | 8.37 | 7.39 | 7.05 |
| 5 Treasury Bond Rates | | | | | | | | | | | |
| 2-years | 18.25 | 17.67 | 18.91 | 20.07 | 17.29 | 14.99 | 14.97 | 14.97 | 14.97 | 12.23 | |
| 5-years | 18.37 | 17.31 | 19.43 | 20.54 | 18.69 | 17.60 | 17.60 | 16.81 | 16.81 | 14.49 | 14.49 |
| 7-years | 18.58 | 18.50 | 20.43 | 19.25 | 18.80 | 17.90 | 18.15 | 18.15 | 17.18 | 17.18 | 17.18 |
| 10-years | 17.48 | 17.52 | 19.63 | 19.92 | 20.28 | 17.87 | 17.68 | 17.68 | 17.68 | 17.68 | 17.68 |
| 6 Discount Rate | 21.42 | 21.05 | 20.11 | 20.59 | 21.42 | 17.44 | 16.40 | 15.89 | 13.36 | 12.39 | 12.08 |
| 7 Savings Deposit Rate | 2.59 | 2.70 | 2.71 | 2.62 | 2.59 | 2.63 | 2.65 | 2.66 | 2.64 | 2.64 | 2.75 |
| 8 Overall Time Deposits Rate | | | | | | | | | | | |
| Call Accounts | 1.31 | 1.36 | 0.21 | 1.14 | 0.50 | 1.11 | 0.78 | 0.87 | 8.33 | 0.94 | 1.31 |
| 1 month | 6.77 | 6.44 | 6.54 | 7.44 | 7.99 | 7.52 | 9.26 | 7.22 | 8.68 | 7.58 | 7.79 |
| 2 months | 8.29 | 7.87 | 8.51 | 8.65 | 9.87 | 8.94 | 6.97 | 9.42 | 8.75 | 8.82 | 7.10 |
| 3 months | 8.61 | 8.59 | 8.78 | 9.89 | 9.50 | 9.25 | 9.33 | 9.63 | 10.10 | 8.99 | 8.69 |
| 6 months | 9.28 | 9.97 | 9.99 | 8.82 | 9.30 | 10.22 | 8.66 | 10.00 | 9.10 | 9.89 | 9.93 |
| 9 months | | | | | | | | | | | |
| 12 months | 9.25 | 9.04 | 9.42 | 9.64 | 10.22 | 9.85 | 10.08 | 10.10 | 9.97 | 9.41 | 8.95 |
| 24 months | 11.27 | 9.75 | 10.89 | 11.91 | 10.31 | 10.19 | 12.92 | 9.95 | 10.11 | 10.66 | 9.48 |
| 9 Negotiated Deposit Rate | 8.65 | 8.91 | 9.82 | 9.83 | 10.61 | 10.96 | 11.04 | 10.72 | 10.82 | 10.29 | 11.20 |
| 10 Overall Lending rate | | | | | | | | | | | |
| Call Loans | 19.25 | 19.25 | 19.25 | 19.25 | 19.25 | 19.25 | 19.25 | 19.25 | 19.25 | 19.25 | 19.25 |
| Short-term (up to 1 year) | 13.95 | 14.12 | 14.30 | 14.06 | 13.85 | 14.06 | 14.70 | 13.96 | 14.19 | 13.58 | 12.63 |
| Medium-term (1-2 years) | 17.01 | 17.15 | 16.94 | 16.84 | 16.86 | 16.79 | 16.60 | 16.72 | 15.80 | 16.11 | 15.62 |
| Medium-term (2-3 years) | 15.06 | 15.65 | 15.17 | 15.15 | 15.27 | 15.43 | 15.48 | 15.32 | 15.39 | 15.37 | 13.63 |
| Long-term (3-5 years) | 15.68 | 16.04 | 16.76 | 16.53 | 15.90 | 16.37 | 16.66 | 16.49 | 16.54 | 16.86 | 15.32 |
| Term Loans (over 5 years) | 17.37 | 17.42 | 18.20 | 17.15 | 17.04 | 17.04 | 12.84 | 13.69 | 13.47 | 13.52 | 13.24 |
| 11 Negotiated Lending Rate | 12.20 | 12.14 | 12.63 | 11.91 | 11.89 | 11.68 | 11.98 | 11.50 | 11.76 | 11.82 | 12.77 |
| B: Foreign Currency | | | | | | | | | | | |
| 1 Deposits Rates | | | | | | | | | | | |
| Savings Deposits Rate | | | | | | | | | | | |
| Overall Time Deposits Rate | 2.90 | 2.61 | 2.95 | 3.61 | 4.08 | 4.69 | 4.49 | 4.58 | 4.63 | 4.62 | 4.28 |
| 1-months | 2.19 | 2.03 | 2.08 | 3.21 | 2.71 | 4.77 | 5.02 | 3.60 | 4.58 | 4.79 | 2.96 |
| 2-months | 2.28 | 1.87 | 2.79 | 3.55 | 4.95 | 5.36 | 4.12 | 4.75 | 4.94 | 3.03 | 5.12 |
| 3-months | 2.89 | 2.58 | 3.10 | 3.88 | 4.89 | 3.76 | 3.94 | 4.85 | 3.17 | 4.88 | 4.89 |
| 6-months | 3.18 | 2.88 | 3.51 | 3.86 | 3.87 | 3.86 | 4.79 | 4.78 | 4.73 | 3.45 | 3.99 |
| 12-months | 3.97 | 3.68 | 3.29 | 3.56 | 3.99 | 5.72 | 4.58 | 4.42 | 5.32 | 6.95 | 4.43 |
| 2 Overall Lending Rate | | | | | | | | | | | |
| Short-term (up to 1 year) | 8.05 | 8.41 | 7.49 | 5.89 | 5.77 | 7.41 | 3.85 | 3.82 | 4.55 | 4.79 | 6.43 |
| Medium-term (1-2 years) | 8.57 | 8.46 | 8.31 | 8.45 | 8.48 | 8.51 | 8.45 | 8.69 | 8.72 | 8.67 | 8.88 |
| Medium-term (2-3 years) | 7.91 | 7.97 | 8.27 | 8.19 | 8.69 | 8.67 | 8.94 | 8.95 | 8.74 | 8.67 | 8.55 |
| Long-term (3-5 years) | 7.11 | 7.90 | 6.89 | 7.00 | 8.93 | 8.68 | 8.97 | 8.46 | 8.47 | 8.47 | 8.37 |
| Term Loans (over 5 years) | 6.17 | 8.09 | 8.49 | 8.33 | 8.64 | 8.73 | 8.54 | 8.86 | 8.86 | 8.69 | 7.53 |

Source: Bank of Tanzania



Table A10: Tanzania's Balance of Payments
(Millions of USD)

| Item | 2003 | 2004 | 2005 | 2006p | 2007p |
|---|---------------|---------------|---------------|-----------------|-----------------|
| A. Current Account | -118.1 | -366.7 | -864.3 | -1,171.6 | -1,858.8 |
| Balance on Goods | -712.6 | -1,001.2 | -1,318.3 | -1,946.5 | -2,634.1 |
| Goods exports f.o.b. | 1,220.9 | 1,481.6 | 1,679.1 | 1,917.6 | 2,226.6 |
| Traditional | 220.5 | 297.8 | 334.5 | 267.1 | 319.7 |
| Nontraditional | 1,000.4 | 1,183.9 | 1,324.6 | 1,476.2 | 1,704.3 |
| of Gold | 562.8 | 629.9 | 635.1 | 786.4 | 788.2 |
| Goods imports f.o.b. | -1,933.5 | -2,482.8 | -2,997.6 | -3,864.1 | -4,860.6 |
| Balance on Services | 222.1 | 158.9 | 61.8 | 278.7 | 240.4 |
| Services credit | 947.8 | 1,133.6 | 1,269.2 | 1,528.1 | 1,714.0 |
| Transportation | 138.9 | 183.0 | 222.9 | 343.7 | 331.1 |
| Travel | 646.5 | 746.0 | 823.6 | 950.2 | 1,037.1 |
| Other | 162.3 | 204.6 | 222.7 | 234.1 | 345.8 |
| Services debit | -725.7 | -974.7 | -1,207.3 | -1,249.4 | -1,473.6 |
| Transportation | -214.7 | -267.1 | -319.5 | -418.3 | -485.0 |
| Travel | -353.2 | -445.3 | -583.8 | -534.8 | -643.3 |
| Other | -157.8 | -262.3 | -334.0 | -296.6 | -343.2 |
| Balance on Goods and Services | -490.5 | -842.3 | -1,286.6 | -1,667.8 | -2,393.6 |
| Balance on income | -138.5 | -113.5 | -104.1 | -93.1 | -79.0 |
| Income credit | 87.1 | 81.8 | 80.0 | 83.7 | 80.8 |
| Income debit | -225.6 | -195.3 | -185.0 | -146.8 | -159.8 |
| O/W Direct investment income | -59.7 | -58.4 | -65.6 | -66.4 | -67.6 |
| Interest payments (scheduled) | -111.0 | -73.5 | -89.0 | -29.7 | -20.4 |
| Compensation of employees | -22.4 | -28.0 | -24.9 | -23.4 | -46.4 |
| Balance on Goods, Services and Income | -629.1 | -955.8 | -1,360.7 | -1,760.9 | -2,472.7 |
| Balance on Current transfers | 511.0 | 489.1 | 496.3 | 589.3 | 616.9 |
| Current transfers: credit | 574.2 | 654.1 | 563.9 | 658.2 | 689.4 |
| Government | 607.2 | 582.0 | 478.5 | 560.3 | 598.2 |
| of Multilateral HIPC relief | 68.2 | 73.7 | 75.7 | 0.0 | 0.0 |
| Other sectors | 66.6 | 72.1 | 88.4 | 94.9 | 94.2 |
| Current transfers: debit | -63.3 | -65.0 | -67.5 | -68.9 | -72.5 |
| B. Capital Account | 692.8 | 459.9 | 393.2 | 5,217.7 | 957.8 |
| Capital transfers: credit | 692.8 | 459.9 | 393.2 | 5,217.7 | 957.8 |
| General Government | 655.5 | 420.0 | 350.1 | 5,169.1 | 904.6 |
| Project | 320.9 | 253.7 | 238.0 | 207.4 | 381.6 |
| Debt forgiveness (including MDRI) | 334.6 | 166.3 | 112.1 | 4,961.7 | 523.0 |
| Other sectors | 37.3 | 39.9 | 43.1 | 48.6 | 53.2 |
| Capital transfers: debit | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Groups A plus B | 574.7 | 494.6 | 471.2 | 4,046.1 | -807.9 |
| C. Financial Account, excl. reserves and related items | 160.6 | 278.8 | 665.3 | -3,952.2 | 1,030.9 |
| Direct investment abroad | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Direct investment in Tanzania | 308.2 | 330.6 | 494.1 | 997.0 | 647.0 |
| Portfolio investment | 2.7 | 2.4 | 2.5 | 2.6 | 2.8 |
| Other investment | -150.3 | -54.2 | 168.7 | -4,551.8 | 381.2 |
| Assets | -59.0 | -11.0 | -61.5 | -175.0 | 114.8 |
| Currency and deposits | -59.0 | -11.0 | -61.5 | -175.0 | 114.8 |
| Banks | -59.0 | -11.0 | -61.5 | -175.0 | 114.8 |
| Other sectors | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Liabilities | -91.3 | -43.2 | 230.2 | -4,376.8 | 266.4 |
| Trade credits | 27.2 | 1.2 | 1.2 | 9.9 | 9.9 |
| Loans | -205.4 | -80.4 | 143.5 | -4,340.7 | 266.5 |
| General government | -114.8 | -15.0 | 196.1 | -4,293.0 | 225.9 |
| Drawings | 413.3 | 273.8 | 410.3 | 699.0 | 767.6 |
| Repayments | -528.1 | -288.8 | -214.2 | -4,992.0 | -841.7 |
| Scheduled payments | -196.6 | -122.8 | -102.1 | -30.3 | -18.7 |
| Debt forgiveness | -334.6 | -166.3 | -112.1 | -4,961.7 | -523.0 |
| Rescheduled debt | -86.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Banks | -89.7 | -6.5 | 23.7 | -14.2 | 63.2 |
| Other sectors | -89.9 | -74.9 | -76.3 | -42.5 | -22.6 |
| Drawings | 19.2 | 50.3 | 61.4 | 102.1 | 134.1 |
| Repayments | -109.1 | -125.2 | -137.7 | -144.6 | -156.7 |
| Scheduled payments | -109.1 | -125.2 | -137.7 | -144.6 | -156.7 |
| Currency and deposits | 87.0 | 46.0 | 85.5 | -36.9 | -10.0 |
| Total Groups A through C | 735.2 | 372.0 | 194.1 | 93.9 | 133.0 |
| D. Net Errors and Omissions | -346.2 | -166.0 | -416.5 | 366.8 | 395.7 |
| Overall balance | 389.1 | 206.0 | -222.4 | 460.7 | 532.7 |
| Net International Reserves (year end) | -389.1 | -206.9 | 222.4 | -460.7 | -532.7 |
| Change in Net International Reserves | -506.8 | -258.4 | 247.7 | -126.5 | -419.4 |
| Reserve assets | -2.9 | -33.8 | -80.5 | -334.2 | -113.3 |
| Use of Fund credit and loans | 122.6 | 86.2 | 25.1 | 0.0 | 0.0 |
| Exceptional financing | 86.9 | 0.0 | 0.0 | 0.0 | 0.0 |
| Rescheduled debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Debt forgiveness | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest arrears | 29.5 | 21.9 | 25.1 | 0.0 | 0.0 |
| Principal arrears | 6.2 | 64.3 | 0.0 | 0.0 | 0.0 |
| Memorandum items | | | | | |
| GDP(ppp) Mill US\$ | 12,107,062.0 | 13,971,593.0 | 15,965,295.0 | 17,941,268.0 | 20,948,403.3 |
| GDP(ppp) Mill USD | 11,653.4 | 12,828.0 | 14,139.1 | 14,308.4 | 16,838.6 |
| CAB/GDP | -1.0 | -2.9 | -6.1 | -8.2 | -11.0 |
| CAB/GDP (excl. current official transfers) | -5.4 | -7.5 | -9.6 | -12.3 | -14.7 |
| Gross Official Reserves | 2,037.8 | 2,296.1 | 2,048.4 | 2,260.1 | 2,755.2 |
| Months of Imports | 7.1 | 6.6 | 4.8 | 4.3 | 4.6 |
| Net International Reserves (year end) | 1,413.5 | 1,644.6 | 1,395.9 | 1,754.8 | 2,706.4 |
| Change in Net International Reserves | -366.8 | -231.1 | 248.8 | -358.9 | -965.9 |
| Exchange rate (end of period) | 1,063.6 | 1,043.0 | 1,165.5 | 1,261.6 | 1,132.1 |
| Exchange rate (annual average) | 1,038.9 | 1,089.1 | 1,129.2 | 1,253.9 | 1,244.1 |

Source: Bank of Tanzania, International Economic Department

Notes: 1. Revision is based on new data from the Private Capital Flows survey and adoption of new data sources for some other items in the services account

2. Change in gross official reserves will not necessarily be equal to reserve assets given a new methodology of computing reserve assets which nets out the impact of valuation was introduced beginning 2006

3. Figure on exports for 2006 and 2007 include adjustments on unrecorded trade

r = Revised; p = Provisional



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

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

Exchange Rate

The price at which one currency can be purchased with another currency, e.g. 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. There are many causes of inflation, such as, rising import prices, low domestic production, high cost of production, food shortages as well as short supply of other consumer items.

International Reserves or Reserve Assets

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, which can be made available to the Bank of Tanzania for meeting external financing needs.

M—Money Supply

The sum of currency in circulation outside the banks and deposits of residents with banks are defined in various levels of aggregation as money supply narrowly and broadly defined. That is 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' domestic cash in vaults plus their required and free deposits with 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 on inflation since price movements in these items are caused largely by 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 borrowing.

Seasonally Adjusted Indicators

Seasonal movements or seasonal variations, refer to identical, or almost identical, patterns, which a time series appears to follow during corresponding months (quarters) of successive years. Such movements are due to recurring events, which take place annually, as for example, the harvest season. Seasonally adjusted indicators show the impact of non-seasonal influences on a time series, thus showing more clearly the underlying movements in the series.

Weighted Annualized Yields of Treasury Bill 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.

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