



MONTHLY ECONOMIC REVIEW BANK OF TANZANIA

September 2003

Inflation Developments

Headline Inflation

The annual headline inflation rate stabilised at 4.5 percent during the year ending August 2003, the same rate recorded during the year ended July 2003. However, when measured on a month-on-month basis, the overall inflation rate declined by 1.1 percentage points between July 2003 and August 2003 mainly due to a decrease in average prices of most food and non-food items during the month. Similarly, using seasonally adjusted indices, the month-on-month headline inflation rate decreased by 0.1 percentage point to 0.4 percent in August 2003.

Non-food inflation

During the year under review, the annual non-food inflation rate continued to record a downward trend, declining by 0.7 percentage points to 3.8 percent, from 4.5 percent recorded in the year ended July 2003. The decrease in the average

prices of almost all consumer goods items during the 12-month period attributed to the decline in non-food inflation rate. Similarly, the month-on-month non-food inflation rate decelerated by 0.5 percentage points between July 2003 and August 2003, following a slowdown in the average prices of most non-food consumer goods items such as clothing, footwear, and educational items. The average pump prices for fuel (petrol and diesel) decreased slightly to TZS 681.0 per litre in August 2003, from TZS 684.0 per litre recorded in July 2003.

Food Inflation

Following the low supply of food items, particularly food grains, due to adverse weather conditions in the last season the annual food inflation rate increased from 4.5 percent in the year ending July 2003 to 4.8 percent in the year ending August 2003. The national average wholesale price for maize, the main staple, increased to TZS 17,215.0 per a 100 kg bag in August 2003, from TZS 16,347.0 per a 100 kg bag recorded in July 2003, with the highest price of TZS 25,714.0 per 100 kg recorded in Mara region. However, when measured on a month-to-month basis, between July 2003 and August 2003, food inflation decreased by 1.1 percent reflecting a fall in the average prices of the food items whose supply has improved during the month under review. Food items that recorded a decrease in average prices include all types of meat, fish, wheat flour, fruits, bananas, cassava, and legumes.

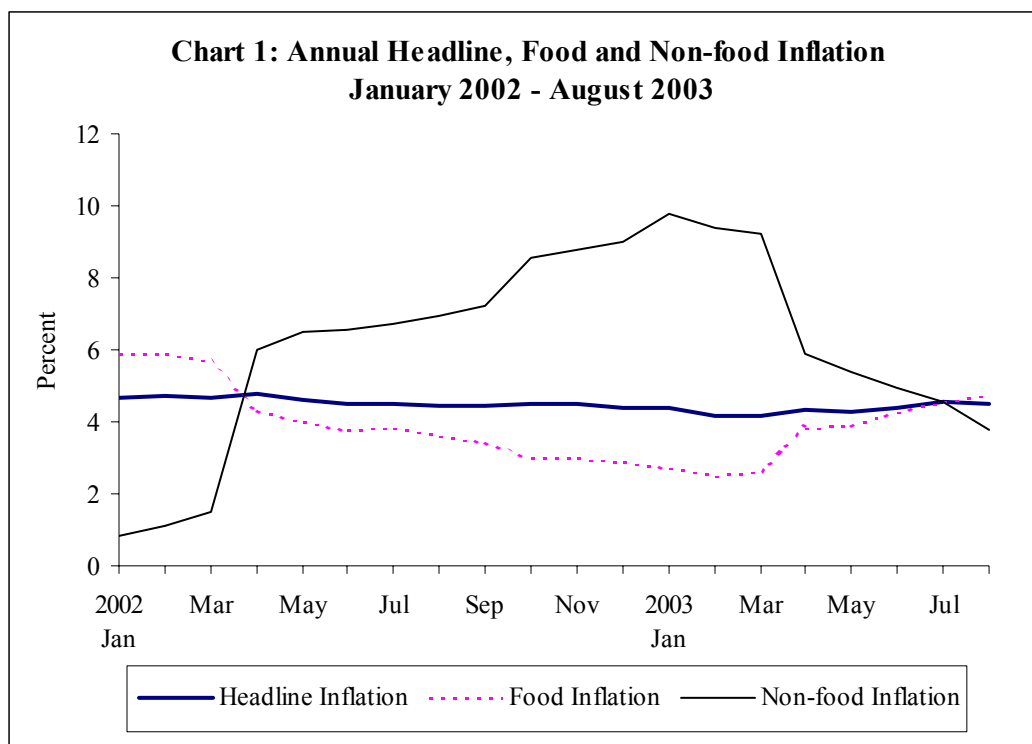


Table 1: Percentage Change in the Sub-groups of the National Consumer Price Index (All-urban)

(Base: December 1994=100)

Major Commodity Group	Weight %	% Change Aug-02 Aug-03					
		Jul-02	Jul 02 to Jul 03	Aug-02	Aug-03	% Change Aug 02 to Aug 03	% Change Jul 03 to Aug 03
Food	71.2	234.1	+4.5	230.4	241.4	+4.8	-1.3
Drinks and Tobacco	4.4	177.6	+3.7	179.6	184.2	+2.6	0.0
Rents	3.9	201.6	+4.7	201.7	211.0	+4.6	0.0
Fuel, Power and Water	4.7	323.1	+5.0	323.8	336.2	+3.8	-0.9
Clothing & Footwear	3.7	200.2	+4.0	201.0	206.1	+2.5	-1.0
Furniture & Household Equipment	2.5	197.3	+6.5	197.1	209.1	+6.1	-0.5
Household Operations & Maintenance	1.5	160.1	+7.1	160.4	171.2	+6.7	-0.2
Personal Care & Health	2.2	151.5	+5.9	150.5	159.8	+6.2	-0.4
Recreation & Entertainment	1.2	173.9	+2.6	174.0	177.4	+2.0	-0.6
Transportation	1.2	245.8	+2.2	246.5	251.3	+1.9	0.0
Education	1.5	202.5	+4.2	202.4	209.6	+3.6	-0.7
Miscellaneous Goods and Services	2.0	157.8	+2.0	157.2	160.8	+2.3	-0.1
TOTAL	100.0	226.9	+4.5	224.4	234.5	+4.5	-1.1

Source: National Bureau of Statistics (NBS)

Table 2: Actual and Seasonally Adjusted Inflation Rates, Tanzania Mainland

Period	Unadjusted						Seasonally Adjusted					
	Year-to- Year			Month-on-Month			6 Months Annualised			Month-on-Month		
	Headline	Non Food	Food	Headline	Non Food	Food	Headline	Non Food	Food	Headline	Non Food	Food
	1)	2)		1)	2)		1)	2)		1)	Food 2)	Food
2000 Jul	5.8	3.5	6.6	-0.9	0.7	-1.4	6.1	4.5	6.6	0.5	0.7	0.6
Aug	5.7	3.6	6.5	-1.1	0.5	-1.6	6.2	5.1	6.8	0.4	0.6	0.4
Sep	5.7	4.6	6.0	-0.5	0.7	-1.0	5.8	6.7	5.9	0.5	0.9	0.4
Oct	5.8	4.8	6.2	0.5	0.4	0.6	6.1	6.1	6.1	0.5	0.2	0.7
Nov	5.7	4.9	6.0	1.1	0.0	1.5	6.2	5.7	6.4	0.5	0.2	0.6
Dec	5.5	4.3	5.9	2.8	0.3	3.7	5.8	5.2	6.1	0.3	0.1	0.4
2001 Jan*	5.4	4.5	5.7	3.2	0.6	4.2	5.1	5.0	5.4	0.2	0.5	0.2
Feb	5.4	4.1	6.0	3.2	0.3	4.2	5.0	3.6	5.5	0.3	-0.1	0.4
Mar	5.1	3.6	5.6	1.9	0.0	2.6	4.7	1.0	5.6	0.4	-0.4	0.5
Apr	5.3	3.1	6.2	-1.6	-0.4	-2.0	4.7	0.6	6.4	0.6	-0.1	1.0
May	5.3	3.1	6.0	-0.9	0.3	-1.3	4.5	1.0	5.9	0.4	0.4	0.4
Jun	5.1	2.8	6.0	-2.5	-0.2	-3.3	4.7	0.9	6.2	0.4	0.1	0.5
Jul	5.1	2.3	6.1	-0.9	0.2	-1.3	5.0	0.2	6.8	0.4	0.2	0.5
Aug	5.2	1.8	6.4	-1.0	0.0	-1.4	5.4	0.3	7.3	0.5	0.0	0.6
Sep	5.1	1.0	6.7	-0.6	-0.1	-0.8	5.5	1.3	7.6	0.4	0.1	0.6
Oct	5.0	1.0	6.5	0.4	0.3	0.5	5.1	1.6	6.5	0.4	0.1	0.5
Nov	4.9	1.1	6.3	1.0	0.1	1.2	5.0	1.8	6.2	0.4	0.5	0.3
Dec	4.9	1.2	6.1	2.7	0.4	3.6	4.9	2.4	5.7	0.3	0.3	0.2
2002 Jan*	4.7	0.8	5.9	3.0	0.3	4.0	4.5	2.3	5.1	0.2	0.2	0.2
Feb	4.7	1.1	5.9	3.3	0.5	4.3	4.2	2.4	4.6	0.4	0.1	0.4
Mar	4.7	1.5	5.7	1.9	0.4	2.4	4.0	2.3	3.8	0.4	0.1	0.2
Apr	4.8	6.0	4.3	-1.6	3.8	-3.3	4.4	10.7	2.3	0.6	4.1	-0.3
May	4.6	6.5	4.0	-1.1	0.6	-1.6	4.2	11.0	1.9	0.3	0.6	0.1
Jun	4.5	6.6	3.8	-2.6	-0.1	-3.5	4.1	10.6	1.9	0.3	0.1	0.3
Jul	4.5	6.7	3.8	-0.9	0.3	-1.3	4.6	11.0	2.5	0.4	0.2	0.5
Aug	4.4	6.9	3.6	-1.1	0.2	-1.6	4.6	11.6	2.6	0.4	0.3	0.5
Sept	4.4	7.2	3.4	-0.6	0.2	-0.9	4.9	12.5	3.0	0.4	0.5	0.4
Oct	4.5	8.6	3.0	0.4	1.6	0.0	4.8	6.4	3.8	0.4	1.3	0.1
Nov	4.5	8.8	3.0	1.0	0.4	1.2	4.7	6.5	4.1	0.4	0.7	0.2
Dec	4.4	9.0	2.9	2.7	0.5	3.5	5.0	7.3	4.2	0.4	0.5	0.4
2003 Jan	4.4	9.8	2.7	3.0	0.9	3.8	4.5	8.3	3.1	0.3	0.7	0.0
Feb	4.2	9.4	2.5	3.1	0.3	4.1	3.9	7.4	2.4	0.1	0.0	0.2
Mar	4.2	9.2	2.6	1.9	0.2	2.5	3.6	6.1	2.2	0.3	-0.2	0.3
Apr	4.3	5.9	3.8	-1.4	0.6	-2.1	4.0	5.5	3.9	0.7	1.0	1.0
May	4.3	5.4	3.9	-1.1	0.1	-1.5	3.8	4.4	3.9	0.3	0.1	0.2
Jun	4.4	4.9	4.3	-2.5	-0.5	-3.1	3.7	2.4	4.3	0.4	-0.5	0.6
Jul	4.5	4.5	4.5	-0.8	0.0	-1.0	4.5	1.1	5.9	0.5	0.1	0.7
Aug	4.5	3.8	4.8	-1.1	-0.5	-1.3	5.1	0.3	7.2	0.4	-0.5	0.7

Source: National Bureau of Statistics and Bank of Tanzania Computations.

1) Total NCPI. 2) Non-Food NCPI. *Revised figures using new set of seasonal factors.

Monetary and Financial developments

Reserve Money Developments

During August 2003, Reserve money (M0), eased by TZS 8.8 billion to TZS 767.5 billion from TZS 776.3 billion recorded at end of July 2003. However, the stock of M0 at end of August 2003 was above the Poverty Reduction and Growth Facility (PRGF) target for the quarter ending September 2003 of TZS 763.7 billion, by TZS 3.8 billion.

The decline in M0 stemmed from a fall in Net Foreign Assets (NFA¹) and Net Domestic Assets (NDA) of the Bank of Tanzania by TZS 3.0 billion and TZS 5.8 billion, respectively. NFA fell mainly due to appreciation of the shilling against SDR, while the decrease in NDA emanated from a fall in Net Domestic Credit (NDC) and Other Items Net (OIN) by TZS 3.6 billion and TZS 2.2 billion, respectively. NDC declined following an increase in government deposits at the Bank by TZS 1.4 billion, coupled with decrease in government securities by TZS 2.2 billion. Meanwhile, a fall in OIN was largely occasioned by open market operations (OMO) that led to a rise in liquidity papers and REPOs by TZS 16.5 billion and TZS 17.2 billion, respectively. However, a decline in other deposits and other liabilities of the Bank by TZS 9.9 billion and TZS 14.0 billion, respectively, dampened a rise in OIN.

From the liabilities side, the decrease in reserve money stemmed from a decline in commercial banks' reserves at the Bank by TZS 12.2 billion, largely due to open

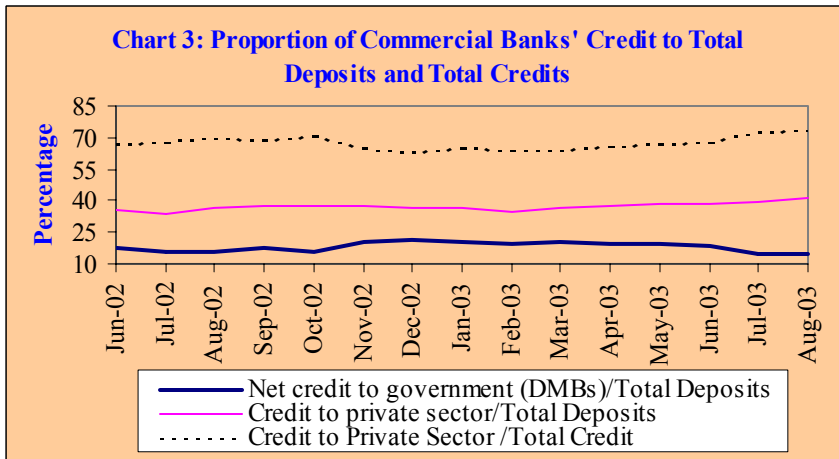
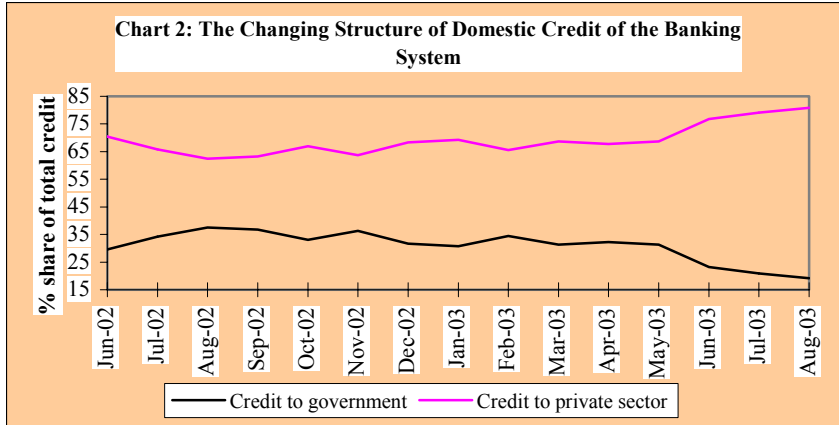
¹ Gross official reserves of the Bank increased from USD 1,755.7 million in July 2003 to USD 1,908.9 million in August 2003, equivalent to 8.0 months of imports of goods and services (GNS).

market operations, however, the impact was partly dampened by the increase in currency in circulation by TZS 3.4 billion.

Money Supply and Credit Developments

In August 2003, the Bank continued to maintain the growth of broad money supply (M2) in line with programme targets. M2 rose by TZS 4.7 billion to TZS 1,607.3 billion, from TZS 1,602.6 billion recorded in July 2003, and was below the PRGF target for the quarter ending September 2003 of TZS 1,742.5 billion, by TZS 135.2 billion.

From the assets side, M2 rose mainly due to increase in NDA of the banking system by TZS 18.8 billion, from TZS 707.5 billion in July 2003 to TZS 726.3 billion in August 2003. However, the effect was dampened by a decline in NFA of the banking system by TZS 16.7 billion, from TZS 1,256.0 billion in July 2003 to TZS 1,239.3 billion in August 2003. The increase in NDA in August 2003 was largely associated with increase in private sector credit by TZS 27.0 billion, which was partly offset by the decrease in government indebtedness to the banking system by TZS 12.5 billion. Following these developments, the share of private sector credit to total domestic credit rose from 79.1 percent in July 2003 to 80.9 percent in August 2003, while that of the government fell from 20.9 percent to 19.2 percent in the same period (**Chart 2**). Similarly, lending to the private sector as a proportion of total deposits increased from 39.9 percent in July 2003 to 41.4 percent in August 2003, while the proportion of commercial banks lending to the government to total deposits fell from 15.2 percent to 14.7 percent in the same period (**Chart 3**).



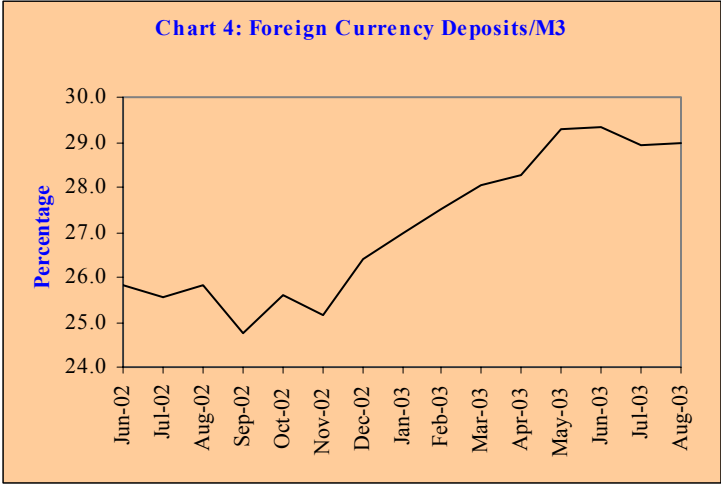
On the other hand, NFA of the banking system fell following a decline in foreign exchange holdings of commercial banks by TZS 15.1 billion. The decline in banks foreign exchange holdings was due to increase in imports demand, as well as changing of foreign exchange into local currency by some commercial banks, in order to raise resources for lending to the private sector.

From liabilities side, the increase in M2 during August 2003 was largely due to increase in currency in circulation which rose by TZS 8.0 billion, with its impact being partly reduced by a decline in commercial banks deposits by TZS 3.6 billion. During the period, demand deposits with commercial banks fell by TZS 20.2

billion mainly due to deposits drawn down by local governments to meet priority budgetary expenditures in education, health, water services and construction sectors. Meanwhile time and savings deposits rose by TZS 13.0 billion and TZS 3.5 billion, respectively.

Extended Broad Money Supply

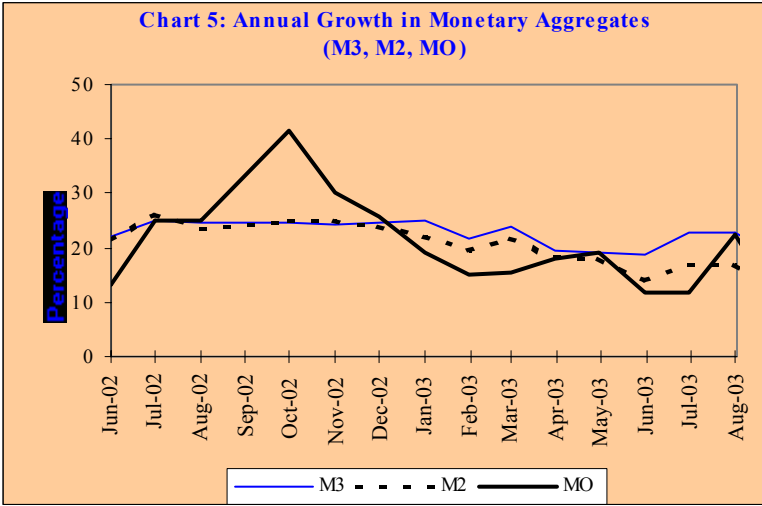
Extended broad money (M3), which is M2 plus foreign currency deposits, rose by TZS 7.5 billion, from TZS 2,255.7 billion in July 2003 to TZS 2,263.2 billion in August 2003. The increase in M3 was occasioned by a rise in foreign currency deposits (FCD) by TZS 2.9 billion. Despite of this increase, FCD as a proportion of M3 maintained the previous month position 29.0 percent (**Chart 4**).



Annual Growth Rates in Monetary Aggregates

During August 2003, monetary aggregates exhibited downward trend. The annual growth rates of M0 and M2 fell from 22.5 percent and 17.0 percent in July 2003 to 9.0 percent and 13.1 percent in August 2003. Similarly, annual growth rate of M3

decelerated from 22.6 percent to 18.1 percent in the same period (**Chart 5**). The sharp decline in the growth rate was due to a higher base in the corresponding period last year.



Inter-bank Cash Market

During August 2003, the total value of inter-bank cash market transactions increased by TZS 145.7 billion to TZS 733.2 billion, from TZS 587.5 billion recorded in July 2003. Overnight transactions accounted for 82.0 percent of the total value of transactions for August 2003, up from 77.3 percent recorded in July 2003. In the same period, the value of 7-day and 14-day accounted for 6.0 percent and 2.0 percent, from 5.7 percent and 1.7 percent, respectively. The value of other maturities accounted for 10.0 percent of total transactions in August 2003 down from 15.3 percent recorded in the previous month.

The weighted average interest rate on overnight lending decreased from 6.5 percent in July 2003 to 6.4 percent in August 2003. Similarly, the overall inter-

bank cash market rate fell from 6.6 percent to 6.4 percent in the same period ([Table 3](#)).

Treasury Bills Market

In August 2003, the Treasury bills Market was supplied with 35-day, 91-day, 182-day and 364-day maturities worth TZS 88.9 billion in total, compared with TZS 96.8 billion offered in the previous month. Total demand for Treasury bills decreased by TZS 60.1 billion to TZS 98.0 billion in August 2003 from TZS 158.1 billion recorded in July 2003. During the period, the Bank intervened in the market by selling Treasury bills worth only TZS 85.2 billion, which is TZS 3.7 billion less than the amount offered. The intervention was necessary to take out the outlier bids.

During the month under review commercial banks continued with their dominance in the Treasury bills market accounting for 70.0 percent of total successful bids, compared with 69.4 percent recorded in July 2003. Pension funds and insurance companies constituted 14.9 percent of total successful bids in August 2003, down from 22.3 percent recorded in the preceding month. Non-bank financial institutions (NBFIs) and individuals accounted for 15.1 percent in August 2003, compared with 8.3 percent recorded in the previous month.

In August 2003, developments of interest rates in the Treasury bills market exhibited a downward trend except for the 364-day yield, which rose from 6.3 percent in July 2003 to 6.7 percent in August 2003. The average yields for 35-day and 91-day bill fell from 6.4 percent and 6.5 percent during July 2003 to 6.2 percent and 6.3 percent in August 2003, respectively, whereas the average yield for

182-day bill fell from 6.7 percent to 6.3 percent in the same period. As a result, the overall weighted average yield (WAY) for all maturities decreased from 6.5 percent in July 2003 to 6.4 percent in August 2003.

Treasury Bonds

The Treasury bonds market in August 2003 was supplied with 2-year, 5-year, 7-year and 10-year bonds, worth in total, TZS 18.5 billion. The market experienced low demand, with total bids declining to TZS 10.3 billion from TZS 17.7 billion recorded in July 2003. Likewise, actual sales fell from TZS 15.3 billion to TZS 9.1 billion in the same period, largely on account of 10-year Treasury bond, which had no demand. During the month under review, the weighted average yield to maturity (WAY) for 2-year, 7-year and 10-year Treasury bonds retained the previous month position at 7.5 percent 8.0 percent and 8.9 percent, respectively, while 5-year Treasury bond yield fell from 7.3 percent in July 2003 to 6.7 percent in August 2003 (**Table 3**).

Repurchase Agreements (REPOs)

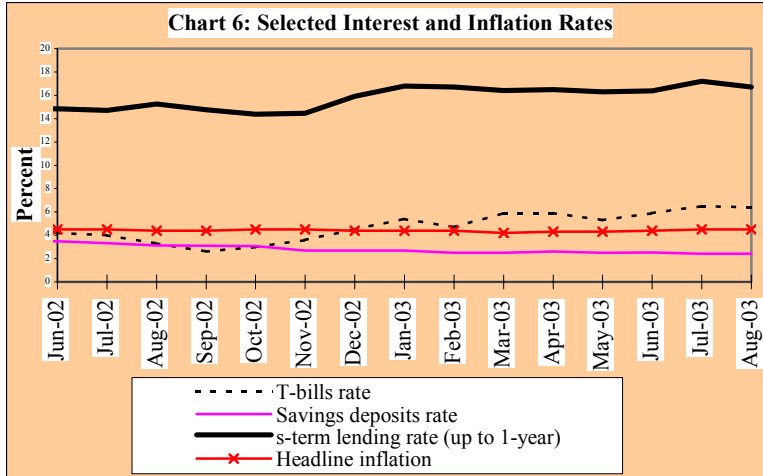
During August 2003, the Treasury bonds market was supplied with 2-year, 5-year, 7-year and 10-year maturity bonds worth TZS 18.5 billion. The market experienced low demand, where by total bids stood at TZS 10.3 billion from TZS 17.7 billion recorded in July 2003. Likewise, actual sales fell from TZS 15.3 billion to TZS 9.1 billion in the same period, largely on account of 10-year Treasury bond, which was not sold. During the month under review, the weighted average yield to maturity (WAY) for 2-year, 7-year and 10-year Treasury bonds remained at the previous month's level of 7.5 percent 8.0 percent and 8.9 percent,

respectively, while 5- year Treasury bond yield fell from 7.3 percent in July 2003 to 6.7 percent (**Table 3**).

Interest Rate Developments

Developments in interest rates on domestic currency denominated deposits exhibited declining trend except for 1-month time deposit rate, which rose from 3.0 percent in July 2003 to 3.4 percent in August 2003. Savings deposits and 6-month time deposits remained at the previous month levels of 2.4 percent and 3.6 percent, respectively. While 3-month and 12-month time deposit rates fell from 2.8 percent and 5.0 percent in July 2003 to 2.5 percent and 4.7 percent in August 2003, respectively. Similarly, the overall time deposit rate fell from 3.5 percent in July 2003 to 3.4 percent in August 2003 (**Table 3**).

On the other hand, interest rates on domestic currency denominated credits exhibited a downward trend except for medium term lending rates of 1-2 year, which rose from 14.5 percent in July 2003 to 15.4 percent in August 2003. Commensurate with rates developments, the overall lending rate fell from 15.1 percent in June 2003 to 14.5 percent in August 2003 (**Chart 6 & Table 3**).



Interest rate structure on foreign currency denominated deposits and loans exhibited mixed trends. The savings deposit and overall time deposit rates maintained the previous month rate at 1.0 percent. The interest rates on short-term rates up to 1-year on foreign currency denominated credits rose from 6.6 percent in July 2003 to 6.9 percent in August 2003, while medium-term loan of 2-3 year remained static at 7.7 percent, same rate recorded in the previous month. In line with foreign currency rates developments, the overall lending rate remains stable at 7.4 percent ([Table 3](#)).

Table 3: Weighted Average Interest Rates of Commercial Banks
(Percentage per annum)

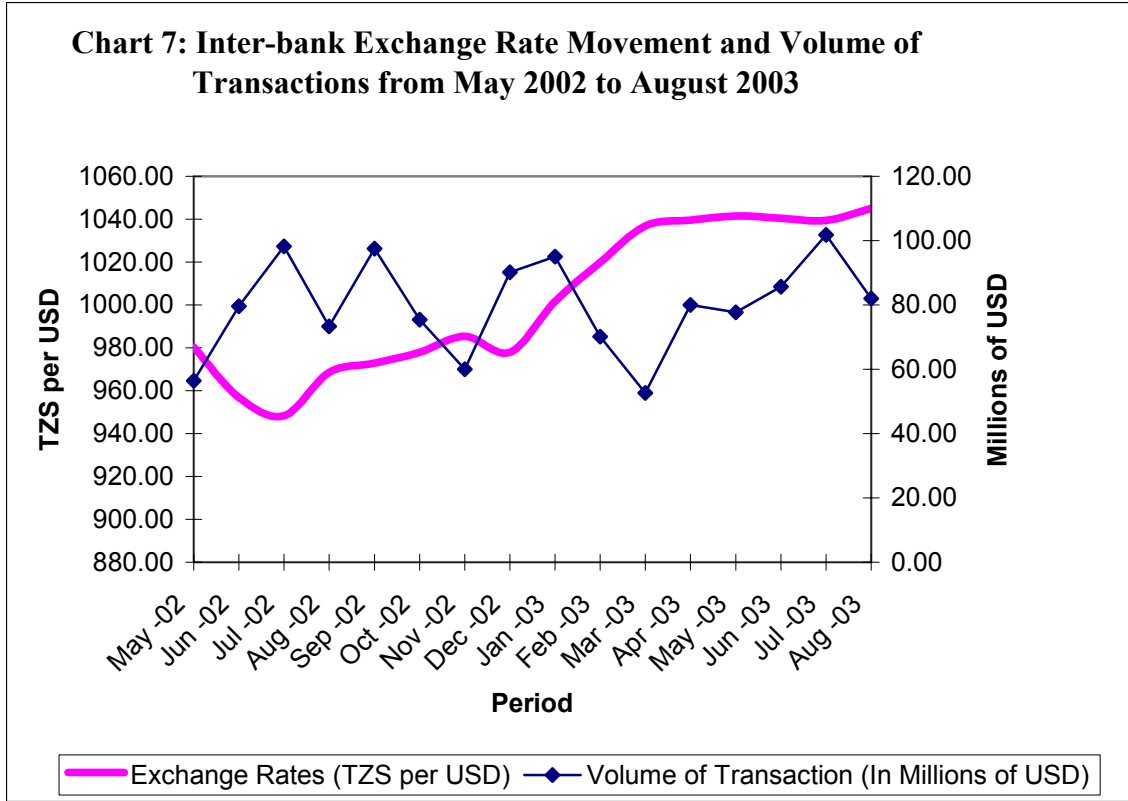
Item	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03	Aug-03
A. Domestic Currency								
Inter-bank Cash Market Rates								
Overnight	6.5	4.6	5.4	6.5	5.1	4.6	6.5	6.4
Overall Inter-bank Cash Market Rates	6.5	4.5	5.4	6.5	5.3	4.8	6.6	6.4
REPO Rate	4.4	4.4	6.5	6.5	4.6	7.0	6.3	7.0
Treasury bills Rates								
35 days	4.2	3.8	5.1	5.1	5.4	5.8	6.4	6.2
91 days	5.4	4.6	5.8	6.0	5.4	6.1	6.5	6.3
182 days	5.5	5.0	6.1	5.8	5.1	5.8	6.7	6.3
364 days	5.6	5.1	6.2	6.3	5.2	5.9	6.3	6.7
Overall Treasury bills rate	5.4	4.7	5.9	5.9	5.3	5.9	6.5	6.4
Treasury Bonds-								
2-years	5.0	5.0	5.2	6.3	6.7	7.5	7.5	6.7
5-years	5.9	6.1	6.6	6.9	7.6	7.3	6.7	8.0
7-years	6.6	6.6	6.9	7.1	7.7	8.0	8.0	8.9
10-years	7.6	7.6	7.8	8.1	8.5	8.9	8.9	11.6
Savings Deposits Rate	2.7	2.5	2.5	2.5	2.5	2.5	2.4	2.4
Time Deposits Rates								
1 month	1.6	2.1	2.5	1.7	2.4	3.9	3.0	3.4
2 months	4.5	5.5	4.0	4.6	4.8	4.2	4.5	4.0
3 months	3.8	3.0	2.5	2.9	2.5	2.8	2.8	2.5
6 months	4.3	4.3	4.2	4.2	4.2	3.7	3.6	3.6
12 months	5.6	5.6	5.8	6.0	6.0	5.1	5.0	4.7
24 months	4.5	4.5	4.4	4.2	4.1	4.1	4.9	4.9
Lending Rates								
Short-term (up to 1year)	14.7	14.6	15.0	15.1	14.5	14.1	15.1	14.5
Medium-term (1-2 years)	16.8	16.7	16.4	16.5	16.3	16.4	17.2	16.7
Medium-term (2-3 years)	14.0	14.3	15.8	16.9	15.8	14.6	14.5	15.4
Long-term (3-5 years)	12.7	12.6	12.3	12.7	12.5	13.4	13.3	11.4
Term Loans (over 5 years)	11.1	11.3	12.1	13.9	12.1	10.9	14.0	12.3
Term Loans (over 5 years)	18.9	18.1	18.5	15.8	15.7	15.2	16.4	16.5
B. Foreign Currency								
Deposits Rates								
Savings Rates	1.1	1.1	1.3	1.1	1.1	1.1	1.0	1.0
Time Deposits Rates								
1-months	0.8	0.9	0.9	0.9	0.9	0.9	1.0	1.0
2-months	1.0	0.9	0.9	0.8	1.0	0.9	0.7	0.6
3-months	1.3	1.6	2.6	1.4	1.7	1.4	1.3	1.4
6-months	1.1	1.2	1.1	1.2	0.9	0.9	1.0	0.8
12-months	1.5	1.3	1.2	1.2	1.5	1.7	1.3	1.3
12-months	1.2	1.3	1.5	1.3	1.3	1.2	1.2	1.2
Lending Rates								
Short-term (up to 1year)	7.5	7.4	7.2	7.8	7.4	7.5	7.4	7.4
Medium-term (1-2 years)	7.7	7.5	7.6	7.6	6.3	7.0	6.6	6.9
Medium-term (2-3 years)	6.2	6.1	6.0	7.5	7.9	7.9	7.8	7.6
Long-term (3-5 years)	8.8	9.2	8.2	8.6	8.4	8.7	7.7	7.7
Long-term (3-5 years)	7.2	7.1	6.8	7.5	7.0	6.5	7.3	7.3

Inter-bank Foreign Exchange Market

During the month of August 2003, the volume of foreign exchange traded in the IFEM declined by 19.4 percent to USD 82.0 million from the level traded in the previous month. Commercial banks dominated both the supply and demand sides of the market by supplying USD 75.8 million or 92.3 percent of volume traded and purchasing USD 79.1 million or 96.4 percent of the volume traded. The non-bank financial institutions supplied USD 6.3 million or 7.7 percent and purchased USD 3.0 million or 3.6 percent of the volume traded. The Bank of Tanzania did not intervene in the market.

Exchange Rate

During the period under review, the Tanzanian shilling depreciated against the US dollar by 0.5 percent to TZS 1,045.1 per US dollar from TZS 1,039.4 per US dollar recorded in July 2003 ([Chart 7](#)).



Bureau De Change Operations

The volume of transactions conducted by Bureau de change system declined by 11.2 percent to USD 46.8 million from the level transacted in the previous month due to the fall in both sales and purchases. Sales went down by 9.4 percent to USD 23.0 million from the level recorded in the previous month, partly due to a fall in payments for travel and air tickets while purchases declined by 12.8 percent to USD 23.8 million mainly on account of a fall in foreign exchange receipts from education services and NGOs.

While the buying rate depreciated slightly by 0.2 percent to TZS 1,041.0 per US dollar from TZS 1,039.0 per US dollar recorded in July 2003, the selling rate

appreciated slightly by 0.1 percent to TZS 1,056.0 per US dollar from TZS 1,057.0 per US dollar recorded in the previous month (Table 4).

Table 4: Foreign Exchange Market Developments

Item	2003			August			July - August		
	Jul	Aug	% Change	2002	2003	% Change	2002	2003	% Change
IFEM									
1. Amount offered (Mill.USD)	101.8	82.0	-19.4	73.3	82.0	11.9	171.5	183.8	7.2
2. Amount sold (Mill. USD)	101.8	82.0	-19.4	73.3	82.0	11.9	171.5	183.8	7.2
3. Exchange rate (TZS/USD)	1,039.4	1,045.1	0.5	968.5	1,045.1	7.9	956.9	1,041.9	8.9
Bureau de Change									
1. Sales (Mill.USD)	25.4	23.0	-9.4	23.5	23.0	-2.1	43.1	48.4	12.3
2. Purchases (Mill.USD)	27.3	23.8	-12.8	24.2	23.8	-1.7	44.5	51.1	14.8
. Total Volume (Mill.USD)	52.7	46.8	-11.2	47.7	46.8	-1.9	87.6	99.5	13.6
3 Buying rate (TZS/USD)	1,039.0	1,041.0	0.2	961.0	1,041.0	8.3	953.0	1,041.0	9.1
4. Selling rate (TZS/USD)	1,057.0	1,056.0	-0.1	980.0	1,056.0	7.8	972.5	1,056.5	8.6

Source: BoT

Government Budgetary Developments

During August 2003, Government budgetary performance on cheques issued basis recorded an overall deficit before grants of TZS 77.3 billion. However, the surplus balance was realized at TZS 4.2 billion after considering grants amounting to TZS 81.5 billion.

Revenue

In August 2003, total government revenue collection amounted to TZS 106.4 billion being 0.8 percent above the target of TZS 105.6 billion. Tax revenue amounted to TZS 98.1 billion or 92.2 percent of total revenue collection and also 2.1 percent above the target of TZS 96.1 billion. The good performance was

mainly on account of higher than expected receipts from Income tax and other taxes. The collections from Income tax and other taxes, respectively, amounted to TZS 20.5 billion and TZS 11.5 billion that were 2.8 percent and 38.6 percent above their August targets. Collections from VAT on both domestic and imported goods was below the expected level reaching TZS 39.9 billion compared to the targeted level of TZS 44.1 billion. The Tax revenue comprised the following (chart 1) Taxes on imports were TZS 43.3 billion or 44.0 percent of tax revenue, and 2.8 percent below the projected TZS 44.6 billion for the month. Taxes on local goods amounted to TZS 23.0 billion or 23.4 percent of tax revenue, and were 14.7 percent below the target of TZS 27.0 billion. Income tax collection was TZS 20.5 billion, which was 20.8 percent of tax revenue and was 2.8 percent above the projected collection of TZS 19.9 billion. Collections from other taxes were TZS 11.5 billion or 11.7 percent of tax revenue or 38.6 percent above the targeted amount of TZS 8.3 billion.

In addition, other government receipts comprised the following: Non-tax revenue, which amounted to TZS 8.3 billion, was below the target of TZS 9.5 billion. External grants which stood at TZS 81.5 billion, were more than the projected amount of TZS 43.6 billion largely on account of unexpected inflows in respect of Basket supports and program grants that amounted to TZS 15.8 billion and TZS 59.2 billion respectively.

On cumulative basis, from July to August 2003, revenue collection amounted to TZS 209.6 billion compared with TZS 209.5 billion projected for the year. It also received grants amounting to TZS 181.5 billion or 8.7 percent below the expected inflows of TZS 198.9 billion.

Expenditure

During August 2003, total government expenditure (excluding amortization) amounted to TZS 183.7 billion out of which recurrent expenditure stood at TZS 138.2 billion and was 1.3 percent below the planned amount of TZS 140.0 billion for the month. Expenditure on interest payments amounted to TZS 8.4 billion compared to the monthly target of TZS 17.4 billion mainly due to slow payment of foreign interest. Expenditure on goods, services and transfers reached TZS 91.4 billion, being above by 8.8 percent of the projected amount of TZS 83.9 billion for the month. Recurrent spending on priority sectors accumulated to TZS 22.0 billion being lower than the planned amount of TZS 26.8 billion by 17.9 percent.

As shown in [Chart 3](#), during August 2003, the government spent 27.8 percent of its recurrent expenditure on wages and salaries and 15.9 percent on priority sectors. Interest payments (domestic and foreign) accounted for 6.1 percent and goods and services accounted half of the recurrent expenditure. Development expenditure amounted to TZS 45.5 billion. Out of this, domestic funds amounted to TZS 11.7 billion in line with the target for the month. Cumulatively, during July-August 2003, total expenditure amounted to TZS 330.8 billion being 87.3 percent of the projected level of TZS 379.0 billion.

Financing

The budgetary operations in June 2003, after adjustments to cash, recorded a surplus balance of TZS 34.3 billion. The surplus balance was used to reduce

domestic obligations by TZS 7.2 billion while at the same period made foreign borrowing of TZS 115.1 billion.

External Sector Developments

Trade Account

During August 2003, the trade account deficit declined by 3.4 percent to USD 97.1 million, from USD 100.6 million recorded in July 2003. The decline was attributed by a 2.5 percent fall in imports of goods and services. Conversely, the deficit in the trade account for August 2003 deteriorated by 6.1 percent when compared with the corresponding month last year due to increase in imports that exceeded the increase in exports. On annual basis, during the year ending August 2003, the deficit in the trade account also declined by 3.4 percent to USD 732.4 million, from USD 757.9 million recorded during the year ending August 2002, following an 18.2 percent increase in exports of goods and services that more than off set the impact of a 10.9 percent increase in imports of goods and services (**Table 5**).

Travel (tourism) and gold accounted for about 50.0 percent of exports of goods and services, with tourism taking the lead, accounting for about 27.0 percent. On the other hand, traditional exports accounted for 13.0 percent of exports of goods and services (**Chart 8**).

Table 5: Trade Account Balance

Millions of USD

	2003p		%	August		%	<i>September – August*</i>		
	July	August		2002	2003p		Change	2001/02	2002/03p
Exports	137.5	135.0	-1.8	132.0	135.0	2.3	1,475.6	1,743.6	18.2
Goods	69.7	79.2	13.5	68.1	79.2	16.2	827.2	1,032.0	24.8
Services	67.8	55.9	-17.6	63.9	55.9	-12.6	648.4	711.5	9.7
Imports	238.1	232.2	-2.5	223.6	232.2	3.8	2,233.6	2,475.9	10.9
Goods	161.5	163.7	1.4	130.1	163.7	25.8	1,522.5	1,723.8	13.2
Services	76.6	68.5	-10.6	93.5	68.5	-26.8	711.1	752.1	5.8
Trade Balance	-100.6	-97.1	-3.4	-91.6	-97.1	6.1	-757.9	-732.4	-3.4

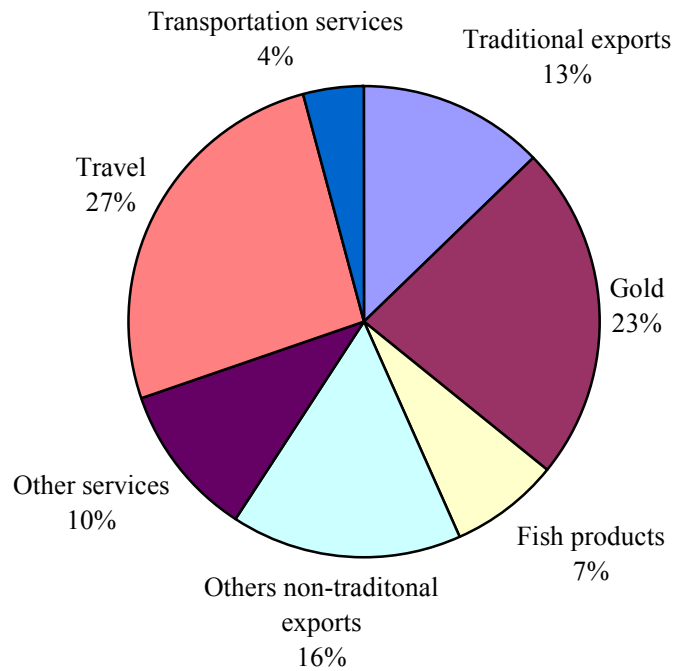
Note:

* Year ending August

p = Provisional data

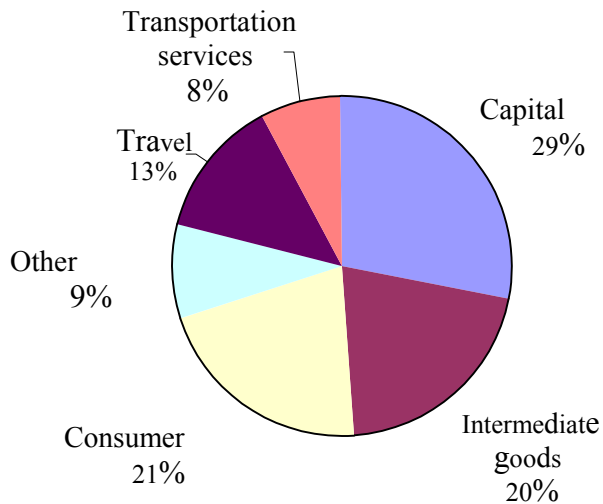
Source: Bank of Tanzania and Tanzania, Revenue Authority

Chart 8: Exports of goods and service



On the other hand, during the year ending August 2003, good imports accounted for about 70.0 percent of goods and services imports ([Chart 9](#)).

Chart 9: Share of Imports of goods and



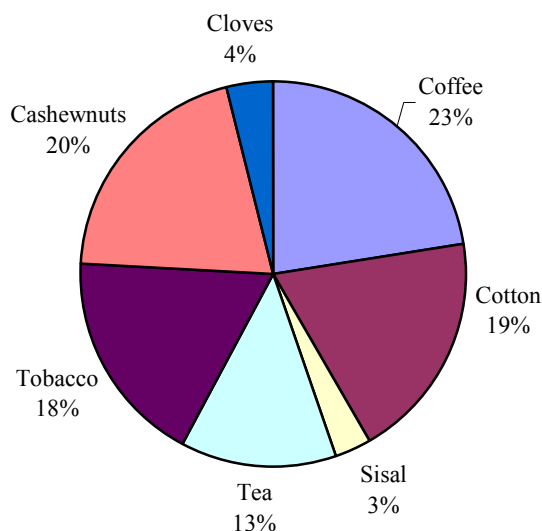
Exports

During August 2003, exports increased by 13.5 percent to USD 79.2 million, from USD 69.7 million recorded in the previous month following an increase in both traditional and non-traditional exports. Traditional exports went up by 39.0 percent to USD 7.6 million, mainly due to substantial increase in export volumes of cotton, tobacco and cashewnuts. The increase in export volumes partly reflects the onset of the export season for traditional crops. The export season for traditional crops normally begins in the fourth quarter of the calendar year and extends to the first quarter of the following year.

When compared with the corresponding month a year earlier, exports increased by 16.2 percent from USD 68.1 million in August 2002. On annual basis, during the year ending August 2003, exports increased by 24.8 percent, from USD 827.2 million to USD 1,032.0 million due to an improvement in both traditional and non-traditional exports. The increase in traditional exports is attributed to volume and

price factors. Coffee, sisal and tobacco recorded increases in their unit export prices. Likewise, all traditional exports with exception of tobacco recorded increases in volumes amid good weather conditions recorded in 2001/02 season (**Chart 10**).

Chart 10: Structure of traditional exports
September - August, 2002/03

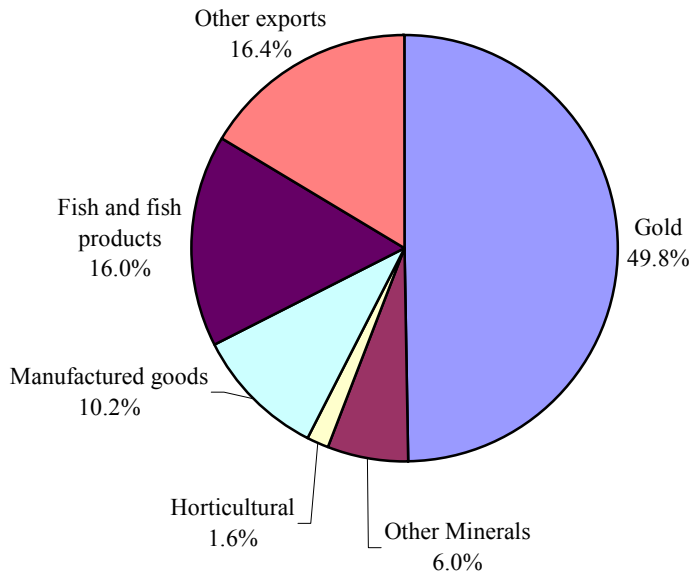


During August 2003, non-traditional exports increased by 11.4 percent, from USD 64.1 million to USD 71.6 million following an increase in all sub-categories except horticultural exports. Exports of minerals, manufactured goods, fish and fish products and other exports increased by 6.1 percent, 6.6 percent, 14.8 percent and 46.0 percent, respectively. The increase in other exports is partly explained by the increase in exports of vegetables, oil seeds, and wood products, while decline in exports of horticultural products is partly associated with increase in flower production associated with summer conditions in Europe.

When compared with the corresponding month the year earlier, non-traditional exports increased by 15.6 percent from USD 61.7 million to USD 71.3 million. The increase is attributed to the improved performance of minerals, manufactured goods and fish and fish products.

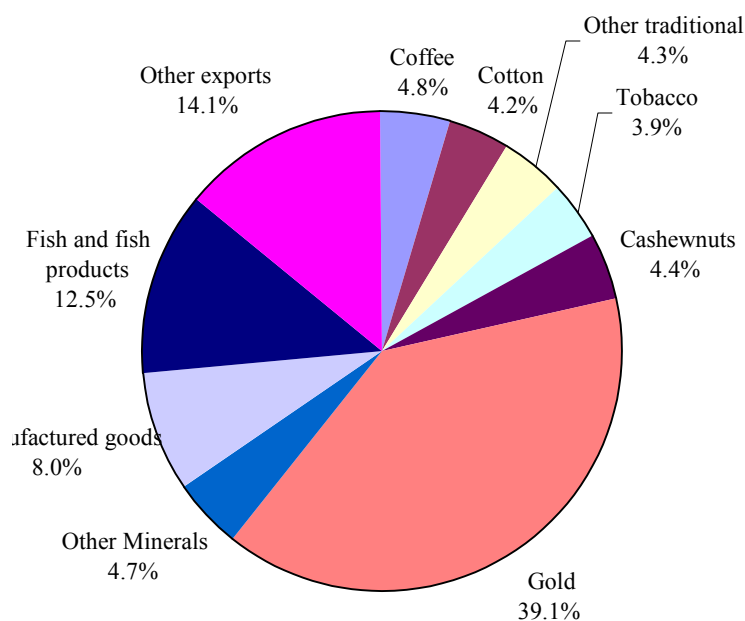
On annual basis, non-traditional exports increased by 26.8 percent from USD 637.9 million recorded in the year ending August 2002 to USD 808.9 million. Mineral exports continued to be the biggest contributor to non-traditional exports largely due to good performance of gold and diamond exports, which increased by 27.7 percent and 52.7 percent, respectively. Exports of manufactured goods and other exports increased by 27.0 percent and 35.6 percent, respectively. Likewise, exports of fish products and horticultural products increased by 16.8 percent. Recovery in industrial production, especially textiles, cement, sisal products, cigarettes, sugar and beverages partly accounted for the surge in exports of manufactured goods ([Chart 11](#)).

Chart 11: Structure of Non-traditional exports
September - August, 2002/03



It is noteworthy that unlike in the past when exports were dominated by traditional exports, gold and fish products have become dominant in recent years. The changing trend in exports is attributed to the liberalized investment policy that brought about a surge in private capital investments in the mining and fishing sectors beginning mid 1990's. For the year ending August 2003, gold and fish products accounted for 51.6 percent of total exports ([Chart 12](#)).

**Chart 12: Total
September - August,**



Imports

Recorded imports (f.o.b) during August 2003, remained virtually unchanged, having only marginally increased by 1.4 percent from USD 161.5 million in July 2003 to USD 163.7 million. Consumer goods imports, that include food and foodstuffs increased in August 2003. Imports of food and foodstuffs dominated by wheat imports, more than doubled to 49,633 tons from 24,300 tons in the previous month. Imports of maize increased by 79 tons to 696 tons, from 617 tons registered in the previous month. The increase in consumer goods imports is mainly explained by food shortages experienced in various regions in the country.

On the other hand imports of capital goods went down following a decline in imports of transport equipment and building and construction equipment.

However, machinery imports increased slightly by 5.3 percent following a surge in imports of electrical machinery equipment, particularly electrical apparatus for telecommunication services. Intermediate goods also declined by 4.4 percent due to fall in imports of oil and industrial raw materials by 5.8 percent and 8.2 percent, respectively. The decline in oil imports is partly explained by a decrease in volume of imported oil by 2,050 tons to 135,300 tons, from 137,350 tons recorded in July 2003. Fertilizer imports increased by 30.3 percent to USD 4.3 million from USD 3.3 million, partly due to increase in the volumes imported. Fertilizer imports increased by 2,930 tons to 19,700 tons from 16,770 tons, as most of the regions in the country are getting ready for the 2003/04 farming season, which begins in October 2003.

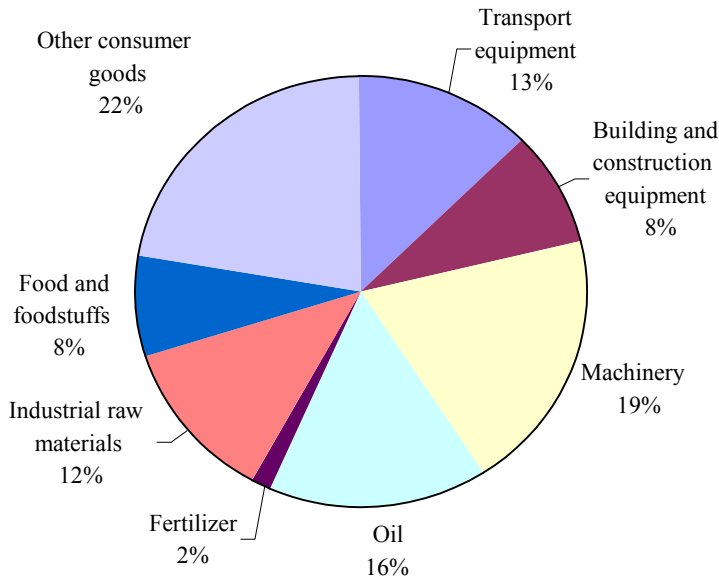
When compared with the corresponding month a year earlier, imports (f.o.b.) increased by 25.8 percent to USD 163.7 million. The increase was attributed to a surge in imports of all major categories namely capital goods, intermediate goods and consumer goods that went up by 5.5 percent, 52.6 percent and 33.6 percent, respectively.

On annual basis, during the year ending August 2003, imports (f.o.b.) increased by 13.2 percent to USD 1,723.8 million from USD 1,522.5 million recorded the year ending August 2002. The increase is attributed to a surge in imports of capital goods, intermediate goods and consumer goods that went up by 6.2 percent, 24.8 percent and 13.1 percent, respectively, partly reflecting the increase in economic activities. Specifically, increase in imports of capital goods are due to a rise in transport equipment imports as well as building and construction equipment associated with the construction of the gas pipeline from Songo Songo to Dar es Salaam.

Intermediate goods imports increased by USD 100.3 million to USD 504.0 million, from USD 403.7 million recorded in the year ending August 2002, with the rise being attributed to an increase in oil, fertilizers and industrial raw materials. The increase in oil imports is partly explained by the increase in the volume of imported oil following a boom in economic activities, especially in large-scale mining. Oil imports increased by 210,000 tons to 1,150,000 tons, fertilizer import rose by USD 12.9 million to USD 26.5 million, while industrial raw material imports increased by USD 19.1 million to USD 209.5 million.

Similarly, imports of consumer goods increased by USD 60.0 million to USD 517.8 million, from USD 457.8 million recorded in the corresponding period ending August 2002, due to a surge in imports of other consumer goods. Other consumer goods increased by USD 64.2 million to USD 385.7 million (**Chart 13**).

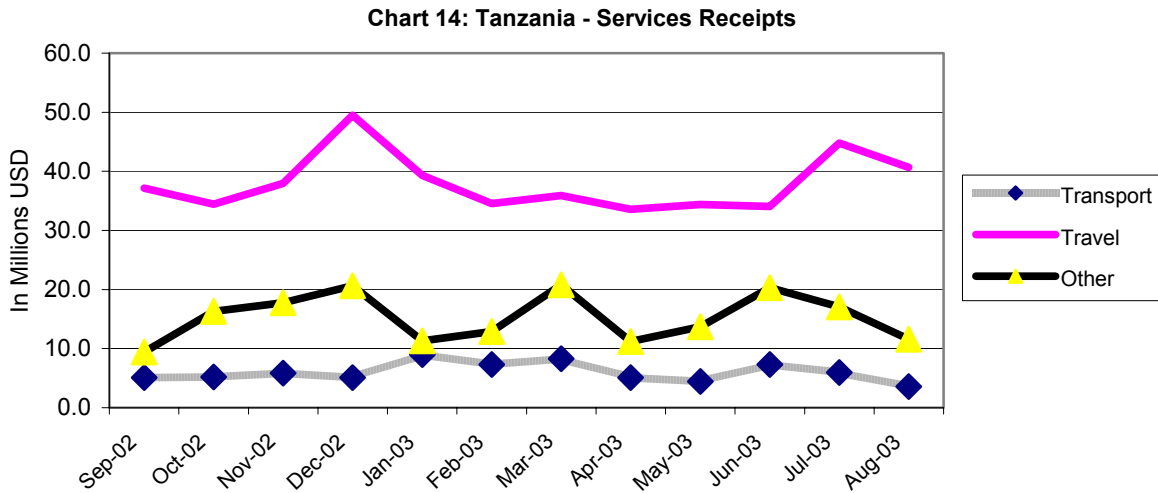
Chart 13: Imports: September - August 2002/03



Services and Income Accounts

Services Account

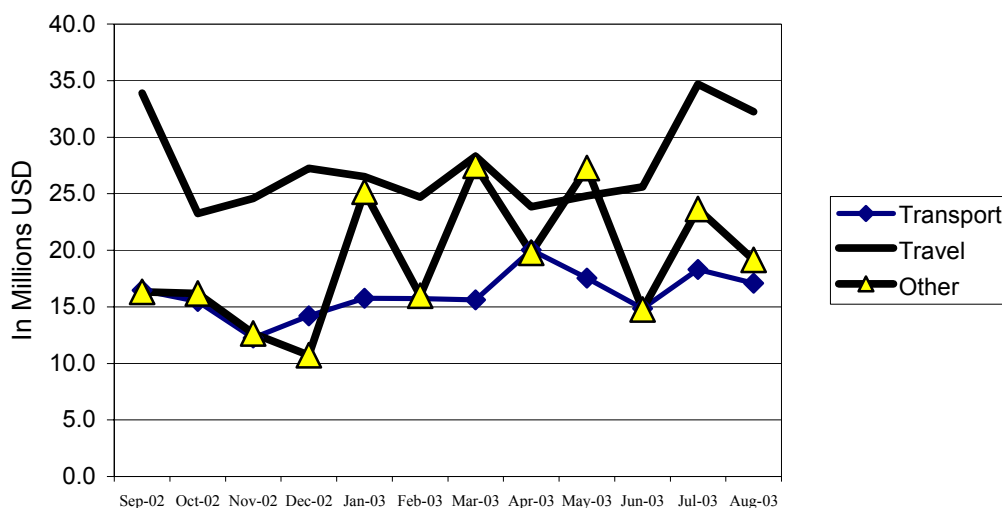
During August 2003, the deficit in the services account increased from USD 8.8 million to USD 12.6 million, following a 17.6 percent decline in services receipts that exceeded the 10.6 percent decrease in services payment. Services receipts decreased to USD 55.9 million, from USD 67.8 million, mainly due to decline in travel (tourism), government services and other business services ([Chart 14](#)).



Note: Other Services' include communication, insurance, financial, computer, information, government, Royalties, Personal, and other business services.

On the other hand, service payments on communication and travel services declined from USD 9.7 million and USD 34.7 million to USD 1.5 million and USD 32.2 million, respectively. The decline in transportation service payments was largely on account of a 17.2 percent decrease in freight payments, following a fall in imports (f.o.b.) from USD 153.4 million to USD 127.0 million.

Chart 15: Tanzania - Services Payments

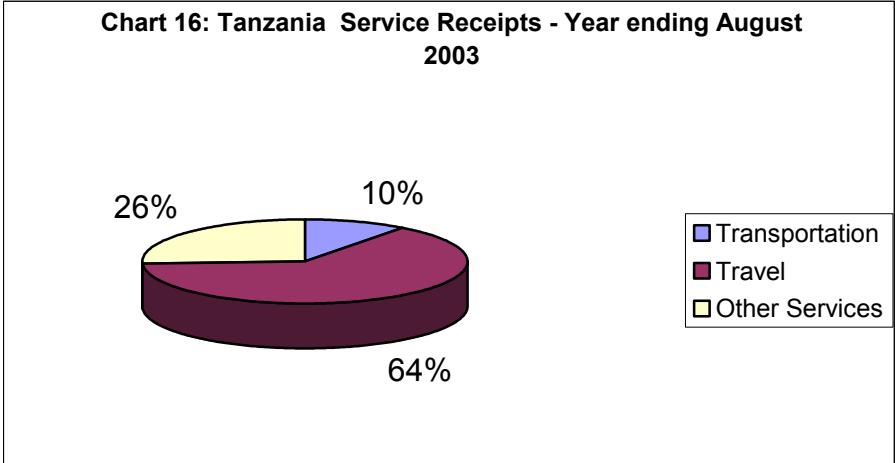


Note: ‘Other Services’ include: communication, construction, insurance, financial, computer, information, government, royalties, personal, and other business services.

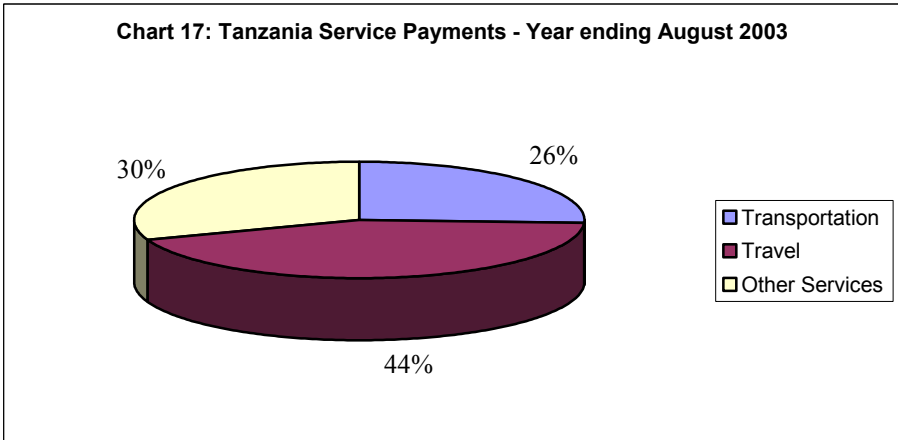
When compared with the corresponding month a year earlier, the services account improved to a deficit of USD 12.6 million, from a deficit of USD 29.6 million, following a decrease in services payments that offset the impact of a 12.6 percent decrease in receipts. The decline in services payments was largely attributed to a fall in communication services.

During the year ending August 2003, the deficit in the services account decreased to USD 40.6 million from a deficit of USD 62.6 million recorded during the year ending August 2002, following a 9.7 percent rise in services receipts that surpassed the impact of a 5.8 percent increase in services payments. The increase in receipts was mainly attributed to a surge in travel (tourism) and transportation receipts, which increased from USD 412.2 million and USD 62.7 million, to USD 456.4 million and USD 72.2 million, respectively. The increase in tourism over the year is partly due to continued efforts made by the government and other stakeholders

in promoting Tanzania as a tourist destination. During the year ending August 2003, tourism accounted for 64 percent of total service receipts (**Chart 16**).



On the other hand, the increase in services payments was mostly on account of increase in freight and construction services payments. Freight payments increased from USD 146.2 million to USD 165.3 million following a 13.1 percent increase in imports. There was however a recorded decline in travel and government service payments. Travel expenses account for 44.0 percent of total service payments while transportation, that is largely freight payments, accounts for 26 percent of the total service payments (**Chart 17**).



Income Account

During August 2003, the income account improved to a surplus of USD 5.7 million from a deficit of USD 18.1 million recorded in the previous month largely due to a decrease in income payments arising mainly from the decline in scheduled interest payments. Income receipts increased from USD 2.5 million to USD 9.7 million. Similarly, when compared with the corresponding month a year earlier, the income account balance improved from a surplus of USD 0.1 million to a surplus of USD 5.7 million due to the increase in income receipts, that rose from USD 4.0 million to USD 9.7 million.

For the year ending August 2003, the income account balance improved from a deficit of USD 45.7 million recorded during the year ending August 2002 to a deficit of USD 35.1 million, largely due to increase in income receipts. Income receipts increased on account of a rise in investment income receipts, particularly income by the Bank of Tanzania that increased from USD 54.8 million to USD 68.8 million. On the other hand scheduled interest payments decreased by 16.2 percent to USD 74.4 on account of debt relief under the HIPC initiative.

World Commodity Prices

The increase in world market prices for **coffee** experienced in July 2003 continued in August 2003. Prices of coffee (Arabica) and (Robusta) went up by 1.4 percent and 2.6 percent to USD 1.41 per kg and USD 0.80 per kg respectively, during the month. The increase in price is largely attributed to speculation that there would be a significant shortfall in Brazilian coffee production and production cutbacks in

the other coffee exporting countries in 2003/04, following the persistent low coffee prices over the past four years. The persistently low levels of coffee prices in the world market caused many countries to adjust their production costs by reducing costs associated with the maintenance of coffee farms and cutting back on the agricultural workforce.

The price of **tea** (average of Calcutta, Colombo and Mombasa auctions) declined by 6.1 percent to USD 1.53 per kg from the price level recorded in the previous month. The prices of **tea** (Mombasa auction) and **Sisal** remained unchanged at USD 1.55 per kg and USD 675.0 per metric ton respectively, during the review period.

The price of **cloves** decreased by 10.5 percent to USD 1,700.0 per metric, from the price level recorded during the month before, while the price of **cotton** (A-index) rose by 0.8 percent to USD 1.34 per kg during the month, largely due to speculation that there would be shortfalls in supply in the US and China following poor weather conditions in the major cotton growing areas.

Prices of **crude oil** continued to increase during the month under review. The prices of crude oil (average of UK Brent, Dubai and West Texas Intl) and (Dubai f.o.b.) went up by 3.7 percent and 3.8 percent to USD 29.68 per barrel and USD 27.7 per barrel respectively, during the month. Similarly, the price of white petroleum products (f.o.b. West Mediterranean) increased by 7.0 percent to USD 277.4 per ton from the price level recorded in July 2003. The increase in crude oil prices was largely attributed to slower recovery in crude oil exports from Iraq, following sabotage of oil pipelines and other oil facilities. Moreover, the low crude

oil stock levels in industrialized countries such as the US and Japan also contributed to the price increase.

The price of **gold** also increased by 2.5 percent to USD 359.8 per troy ounce during the month, largely due to the weakness of the US dollar against major currencies.

Debt Developments

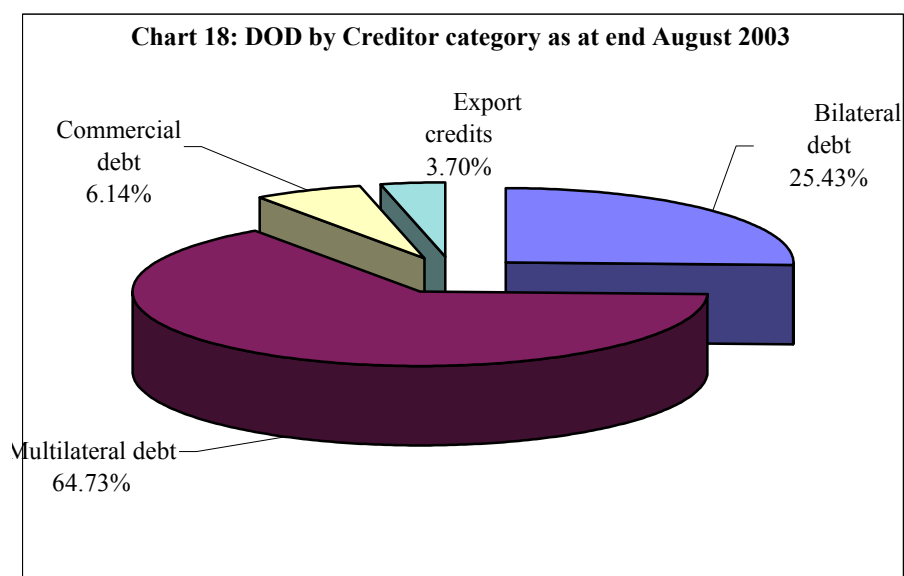
Total debt stock as at end August 2003, stood at USD 8,072.5 million, out of which, USD 7,243.9 million or 89.7 percent and USD 828.6 million or 10.3 percent was external and domestic, respectively.

External Debt Position

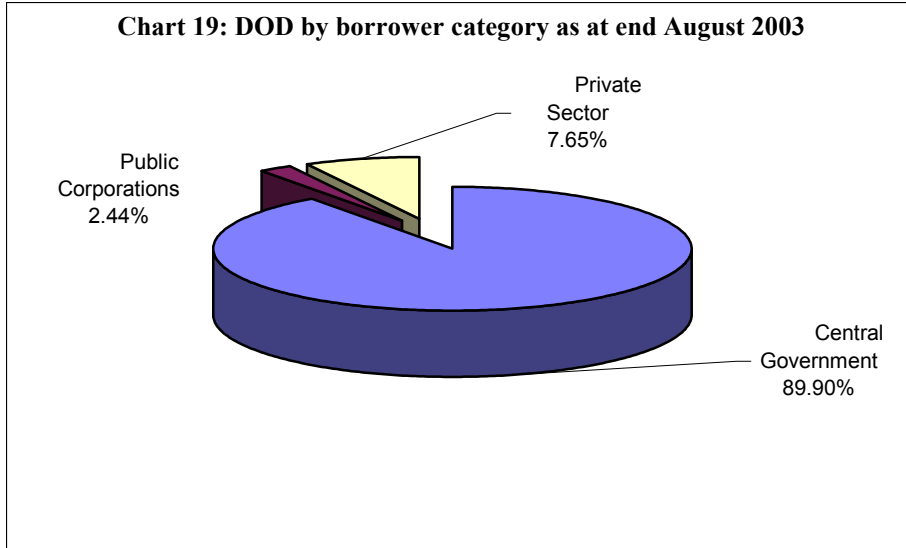
Total external debt committed as at end-August 2003 was USD 7,511.5 million, which represents a decreased of USD 119.2 million or 1.6 percent from USD 7,630.7 million as at July 2003. Out of the total amount committed, disbursed outstanding debt (DOD) was USD 6,197.7 million and committed undisbursed debt (CUB) was USD 1,313.8 million. On the other hand, interest arrears increased by USD 8.8 million from USD 1,034.8 million as at end of July 2003 to USD 1,046.2 million as at end of August 2003. The external debt stock decreased by USD 87.4 million or 1.2 percent from USD 7,331.3 million end of July 2003 to USD 7,243.9 million as at end August 2003, due to cancellation of bilateral debt with Russia.

Disbursed Outstanding Debt

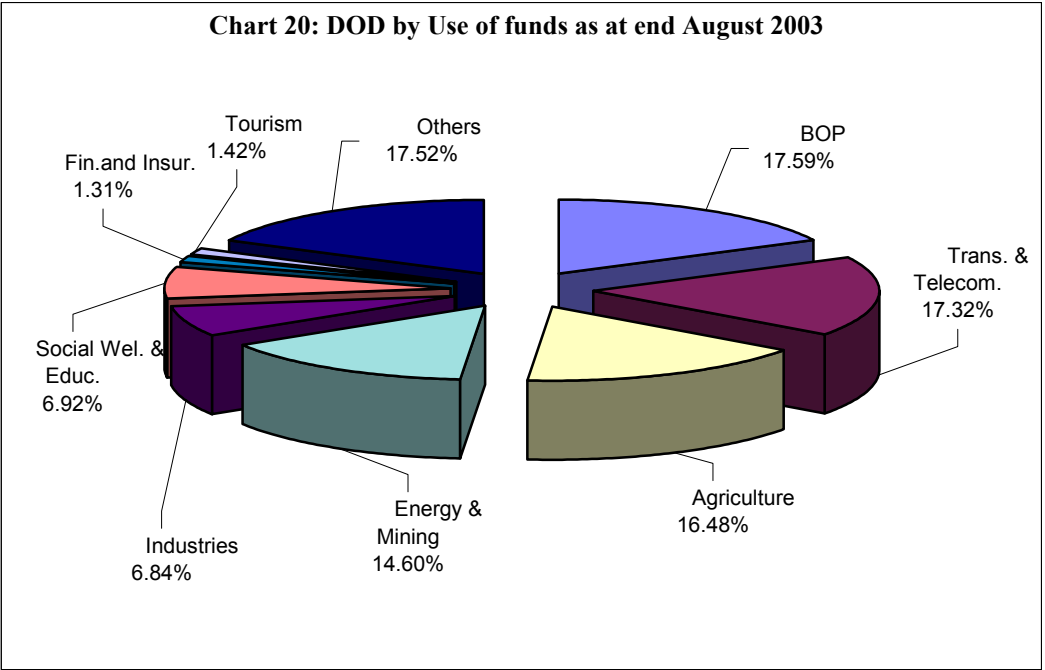
The profile of disbursed outstanding debt by creditor category shows that 64.7 percent and 25.4 percent of the total debt is owed to multilateral and bilateral creditors, respectively. The proportion of total debt owed to commercial creditors and export credits was 6.1 percent and 3.7 percent, respectively (**Chart 18**).



The profile also indicates that the Central Government is the largest borrower with 89.9 percent of the total debt. The Parastatal and Private sector accounted for 2.4 percent and 7.7 percent of the total debt respectively (**Chart 19**).



Furthermore, analysis of debt by use of funds indicates that USD 1,090.2 million or 17.6 percent of the total debt was disbursed as Balance of Payments Support. Transport sector received USD 1,073.4 million or 17.3 percent. Agriculture and Mining received USD 1,021.2 million or 16.5 percent and USD 904.7 million or 14.6 percent, respectively. Industries absorbed USD 423.6 million or 6.8 percent of the total debt while, Social Welfare, Finance and Tourism received USD 429.1 million or 6.9 percent, USD 81.3 million or 1.3 percent and USD 88.0 million or 1.4 percent of the debt, respectively. The remaining USD 1,086.1 or 17.5 percent was absorbed by other activities (**Chart 20**).



HIPC Debt Relief

During the period under review, Tanzania received a total of USD 3.5 million as HIPC debt relief from International Development Association (IDA).

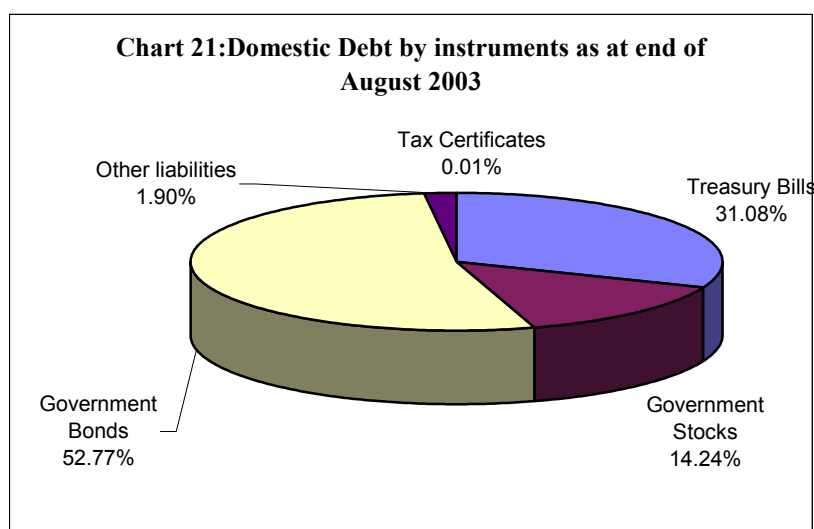
Debt Contracted, Debt Service and Disbursements

New loans contracted and recorded during the month amounted to USD 0.4 million, and were for the private sector. Recorded disbursements amounted to USD 0.3 million, while debt service payments were USD 15.3 million, resulting into a net outflow of USD 14.5 million.

Domestic Public Debt

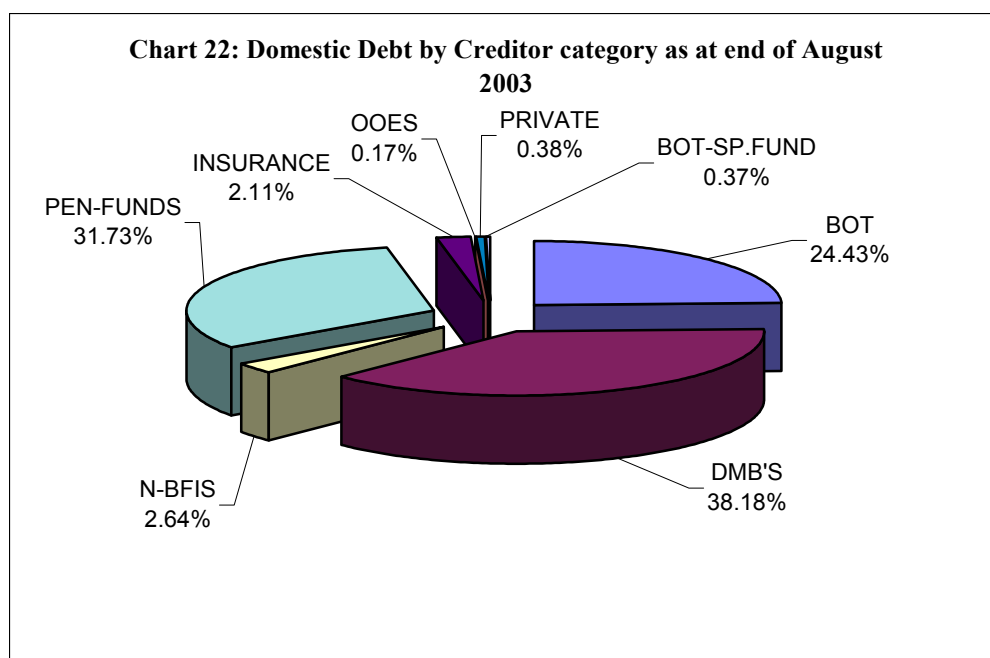
Domestic debt stock increased by TZS 11.2 billion or 1.3 percent from TZS 856.4 billion registered at end of July 2003 to TZS 867.7 billion as at end of August 2003.

Domestic debt portfolio shows that Government securities (bonds, stocks and Treasury bills) constitute 98.1 percent of the debt stock while the remaining 1.9 percent was other government debts. Furthermore Government bonds stood at TZS 457.8 billion representing 52.8 percent of domestic debt. Government bonds increased by 0.9 percent compared to TZS 453.8 billion recorded as at the end of July 2003. In addition, Treasury bills constitute 31.1 percent of total domestic debt, having increased by 2.8 percent from TZS 262.4 billion as at end July 2003 to TZS 269.7 billion as at end-August 2003. Government stocks and Tax Reserve Certificates remained at the same level of TZS 123.5 billion and TZS 0.1 billion, respectively, recorded at end of the previous month (**Chart 21**).



Domestic Debt Stock by Creditor Category

Domestic debt profile also indicates that commercial banks were the largest creditors holding TZS 331.3 billion or 38.2 percent of the domestic debt, followed by pension funds were the second largest creditors holding securities worth TZS 275.3 billion or 31.7 percent. Bank of Tanzania (BoT) was third with TZS 212.0 billion or 24.4 percent of domestic debt, while non-Bank Financial Institutions and Insurance Companies held 2.6 percent and 2.1 percent, respectively. The remaining 1.0 percent of the debt owed to other creditors, **(Chart 22)**.



Domestic Debt Service

During the August 2003, debts worth TZS 42.5 billion fell due for payment, out of which, TZS 39.9 billion worth of principal repayments were rolled over. The

remaining balance of TZS 2.6 billion, representing interest, was paid out of government revenues.

Other Economic Developments

Food Supply Situation

According to the food security assessment carried out in early July 2003 by the Ministry of Agriculture and Food Security, Prime Minister's Office and other stakeholders on drought affected areas in Tanzania, it was established that 52 districts of Tanzania Mainland are facing food shortages. However, the government delivered the first consignment of 7,215 tones of maize from the Strategic Grain Reserve (SGR) to the 16 districts facing an acute food shortage. The districts include, Same and Mwanga both in Kilimanjaro Region, Morogoro Rural, Mvomero and Kilosa in Morogoro Region, Simanjiro and Monduli in Arusha, Bagamoyo and Kisarawe in Coast Region. Others are Muheza and Lushoto in Tanga, Dodoma Rural, Liwale (Lindi) and Kilolo in Iringa Region. The government has directed the respective districts to collect maize from their nearby Zonal SGR units and sell them at a subsidized price of TZS 50 per kilogram, to the hunger stricken households.

In view of the current food shortage in the country, the prices of food items, particularly cereals, in various market centres have been increasing since June 2003. The average price of maize increased to TZS 17,215.0 per 100 kilogram in August 2003, from TZS 9,237.0 per 100 kilogram recorded in August last year. On monthly basis, the average price of maize increased from TZS 16,347.0 per 100

kilogram in July 2003 to TZS 17,215.0 per 100 kilogram in August 2003 (**Table 6**).

Table 6: National average wholesale prices for Selected Food Items

Crop	TZS per 100 Kg					
	Aug-02	Jun-03	Jul-03	Aug-03	Percentage Change	
					Aug 02 – Aug 03	Jul 03 - Aug 03
Maize	9,237	15,025	16,347	17,215	86.4	5.3
Rice	25,650	35,560	36,054	36,999	44.2	2.6
Beans	28,826	42,858	40,158	39,112	35.7	-2.6

Note: Average prices for 19 regions of Tanzania Mainland.

Source: Ministry of Agriculture and Food Security.

Strategic Grain Reserve (SGR) and Private Traders Stocks

During August 2003, the Food Security Department purchased 7,020 tons of maize from the food surplus regions and released 309 tons in to the market resulting in a net SGR stock of 52,681 tons, compared with 50,475 tons recorded at end-July 2003 (**Table 7**). In addition to SGR stocks statistics on food security as at end-August 2003 indicate that private traders held 118,921 tons of food grains, bringing the total stock of food grains to 171,602 tons. However, the stock level is likely to decline in the coming months, following the government’s commitment to continue releasing food stocks to the districts facing food deficit. In order to replenish the food grain stocks in the market, private traders are planning to import 620,250 tons of cereals, out of which 88,700 tons have already arrived in the country.

Table 7: SGR Stocks

Period	Tons				
	2000	2001	2002	2003	% Change 2002/03
January	105,665	78,967	60,503	59,961	-0.9
February	103,305	72,000	58,254	59,493	2.1
March	101,496	63,022	56,738	58,976	3.9
April	96,326	51,435	52,228	54,118	3.6
May	82,119	44,776	48,653	52,857	8.6
June	72,000	47,225	47,100	51,060	8.4
July	63,976	46,290	44,787	50,475	12.7
August	70,352	48,998	41,795	52,681	26.0
September	95,000	59,047	57,500		
October	88,474	58,000	62,700		
November	89,882	62,388	61,773		
December	78,967	62,788	58,395		

Source: Food Security Department and BoT computations.

Economic Developments in Zanzibar

Inflation Developments

Headline Inflation

The annual inflation rate during the year ending August 2003 increased to 11.4 percent, from 7.1 percent registered during the year ended July 2003. When measured on month-on-month basis, the overall headline inflation increased to 5.0 percent, from 0.2 percent recorded in July 2003, due to increase in average prices of food and non-food items (**Table 8 & Chart 23**).

Non-food inflation

During the year ending August 2003, non-food inflation increased by 2.5 percent to 10.5 percent, from 8.0 percent registered in the year ending July 2003, on

account of an increase in the average prices of all non-food items, except average prices of entertainment and recreation, which declined by 14.2 percent. On month-on-month basis, non-food inflation increased from 0.3 percent recorded in July 2003 to 2.4 percent during August 2003. The increase is attributed to a rise in fuel and electricity prices during the review period.

Food Inflation

During the year ending August 2003, the annual food inflation rate increased to 11.8 percent from 6.8 percent recorded in the year ending July 2003. However, when measured on month-on-month basis, it increased by 5.9 percent to 6.2 percent, from 0.3 percent recorded in the previous month. The increase was mainly attributed to shortage of basic foodstuffs, which culminated into rise in average prices of cereals and cereal products.

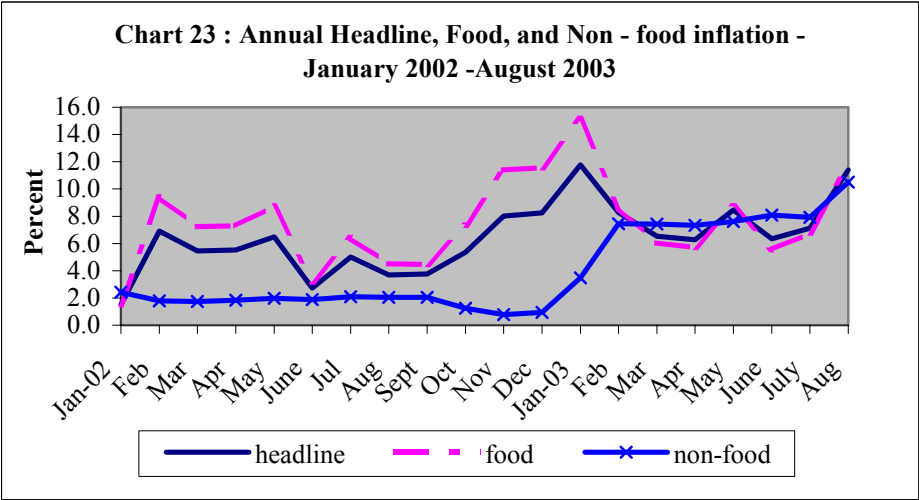


Table 8: Percentage Change in the Sub-Groups of the Zanzibar Consumer Price Index

Major Commodity Group	Year-to-Year				Month-on-Month			
	Weight %	Aug-02	Aug-03	% Change Aug.02-Aug.03	Weight %	Aug-03	Jul-03	% Change Jul. 03-Aug. 03
Food	75.8	341.9	382.1	11.8	75.8	382.1	359.8	6.2
Drinks and Tobacco	1.2	463	513.2	10.8	1.2	513.2	513.2	0.0
Rent	1.4	761.9	857.1	12.5	1.4	857.1	857.1	0.0
Fuel and Light	7.5	823.3	900.1	9.3	7.5	900.1	858.5	4.8
Clothing and Footwear	5.8	186.3	216.8	16.4	5.8	216.8	216.8	0.0
Furniture and Utensils	1.2	338.3	352.8	4.3	1.2	352.8	352.8	0.0
Household Operations	2.5	204.7	225.1	10.0	2.5	225.1	225.1	0.0
Personal Care and Health	0.6	207.7	240.9	16.0	0.6	240.9	240.9	0.0
Recreation and Entertainments	0.5	285.4	244.9	-14.2	0.5	244.9	274.1	-10.7
Transportation	3.4	442.8	479.2	8.2	3.4	479.2	479.2	0.0
TOTAL	100	374.2	416.9	11.4	100	416.9	396.9	5.0

Source: Office of the Chief Government Statistician, Zanzibar and Bank of Tanzania Computations.

Table 9: Actual Inflation rates, Tanzania-Zanzibar

Percentage Change

Period	Year-to- Year			Month-on-Month		
	Headline	Food	Non-Food	Headline	Food	Non-Food
2002-Jan	1.5	1.5	2.4	0.3	0.5	0.6
Feb	6.9	9.4	1.8	1.6	2.3	-0.6
Mar	5.5	7.2	1.7	1.7	2.5	0.1
Apr	5.5	7.3	1.8	0.5	0.7	0.1
May	6.5	8.8	2	-2.9	-4.2	0.2
Jun	2.7	3.2	1.9	1.3	1.9	0
Jul	5.0	6.4	2.1	-0.5	-0.8	0.2
Aug	3.7	4.5	2.0	1.0	1.4	0
Sep	3.8	4.5	2.0	-0.6	-1.1	0.4
Oct	5.4	7.3	1.3	0.5	0.7	-0.2
Nov	8.0	11.4	0.8	2.7	3.9	0
Dec	8.3	11.6	0.9	2.4	3.4	0.1
2003-Jan	11.8	15.2	3.5	3.5	3.7	3.1
February	8.3	8.6	7.4	-1.6	-3.5	3.2
March	6.5	6	7.4	0.1	0.1	0.0
April	6.3	5.7	7.3	0.3	0.4	0.0
May	8.0	8.0	7.6	-1.3	-2.1	0.5
June	6.3	5.5	7.9	-0.2	-0.5	0.3
July	7.1	6.8	8.0	0.2	0.3	0.3
August	11.4	11.8	10.5	5.0	6.2	2.4

Source: Office of the Chief Government Statistician, Zanzibar and Bank of Tanzania Computations.

Zanzibar Government Budgetary Developments

Overall Performance

Zanzibar Government budget on checks issued basis, recorded an overall deficit before grants of TZS 0.8 billion during August 2003, compared with a deficit of TZS 3.9 billion recorded in the previous month. However, the budget registered a surplus of TZS 0.4 billion after considering grants amounting to TZS 1.2 billion. Cumulatively, the overall deficit for the year 2003/04 reached TZS 0.6 billion.

Revenue Performance

During the period under review, total revenue collection increased by 42.0 percent from TZS 2.9 billion collected in previous month, to TZS 4.1 billion. The collections accounted for 78.8 percent of the target for the month of TZS 5.2 billion, and 6.5 percent of the annual target of TZS 62.9 billion. With the exception of VAT and exercise duty, which surpassed their monthly targets all other revenue categories performed below targets.

Specifically, tax revenue increased from TZS 2.8 billion recorded in the previous month to TZS 3.9 billion during the review month. Tax on imports increased from TZS 1.0 billion to TZS 1.5 billion mainly due to increase in imports. VAT and Excise Duties (local) increased by 0.5 billion to TZS 1.2 billion, from TZS 0.7 billion registered in previous month. Income tax increased from TZS 0.3 billion collected in the previous month to TZS 0.4 billion, due to increase in tax returns. While revenue from “Other taxes” category amounted to TZS 0.9 billion, the same amount recorded in the previous month.

Non-tax revenue collections increased from TZS 0.1 billion recorded in the previous month to TZS 0.2 billion. On cumulative basis, total revenue collected during only August 2003 amounted to TZS 7.0 billion, accounting for 67.2 percent of the two target of to TZS 10.5 billion. The under performance resulted from a decline in imports and low tourism activities.

Expenditure

During the month under review, total Government of Zanzibar expenditures amounted to TZS 4.9 billion, being lower by TZS 1.9 billion, compared with TZS 6.8 billion recorded in the previous month. The expenditure accounted for 39.5 percent of the projected expenditure target of TZS 12.4 billion due to low levels of revenue collections and grants.

Recurrent expenditure amounted to TZS 4.9 billion, being a decline of TZS 1.8 billion compared with TZS 6.7 billion recorded in July 2003. The expenditure represented 61.1 percent of the projected expenditure of about TZS 8.0 billion. Specifically, expenditure on wages and salaries amounted to TZS 4.3 billion, compared with TZS 4.2 billion in July 2003, and other expenditures decreased from TZS 2.5 billion in the previous month to TZS 0.6 billion, largely due to strict adherence to the cash budget system.

During August 2003, development expenditure remained almost unchanged, amounting to TZS 0.1 billion. This expenditure accounted for only 1.2 percent of total expenditure. On cumulative basis, Government expenditure during July-

August, 2003 amounted to TZS 11.8 billion, accounting for 47.4 percent of the target of TZS 24.9 billion.

Financing

During August 2003, Government expenditure was financed through internal sources and grants from the Union Government amounting to TZS 1.2 billion.

Zanzibar Debt Developments

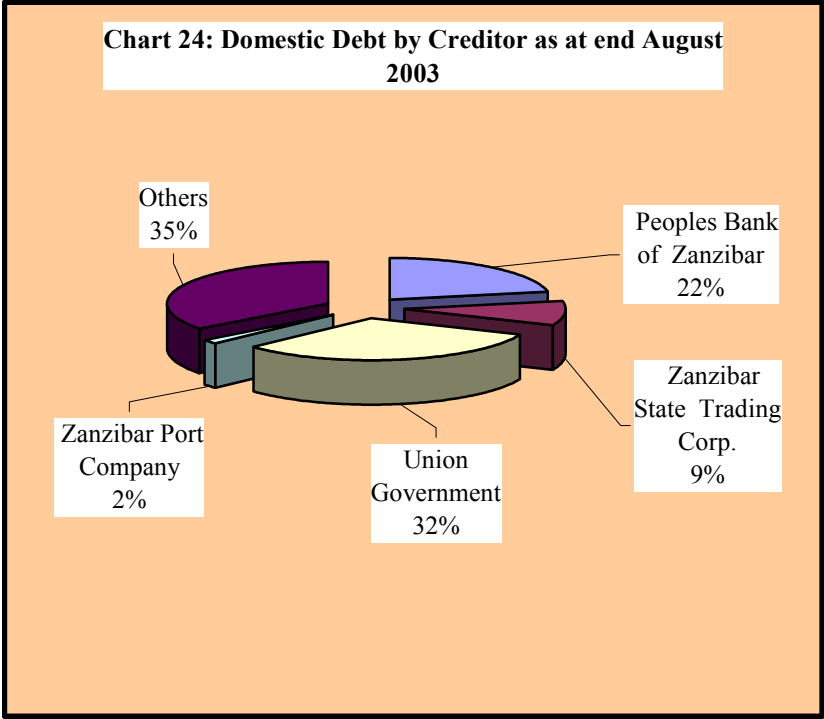
The total debt (i.e. external and domestic) for Zanzibar Government as at end August 2003 stood at TZS 101.0 billion or USD 96.4 million, having increased from USD 96.0 million registered in previous month. The increase was attributed to contracting of new domestic debt. Domestic debt amounted to TZS 42.9 billion or USD 41.0 million, accounting for 42.5 percent of the total debt, while external debt amounted to TZS 58.0 billion or USD 55.4 million, accounting for 57.5 per cent of the total debt.

Domestic Debt

Domestic debt increased by 1.4 percent from TZS 42.3 billion recorded in the previous month to TZS 42.9 billion, following new borrowing through treasury bills.

Domestic Debt by Creditor

The profile of domestic debt reveals that as at end-August 2003; the Zanzibar Government indebtedness to the Union Government amounted to TZS 13.6 billion representing 31.7 percent of total domestic debt; The People’s Bank of Zanzibar claims to the Government amounted to TZS 9.4 billion, accounting for 21.9 percent of total domestic debt; Zanzibar State Trading Corporation and Zanzibar Port Authority claims amounted to TZS 4.1 billion and TZS 0.69 billion, accounting for 9.5 percent and 1.6 percent of total debt, respectively; and other creditors’ claims amounted to TZS 15.1 billion, accounting for 35.3 percent of the total domestic debt (Chart 24).



Domestic Debt by Instrument

The profile of domestic debt, also reveals that as at end-August 2003: Government advances (outstanding) from Union Government was TZS 13.6 billion, constituting 31.7 percent of total domestic debt; Borrowing through long-term loans, government stocks and short-term loans remained unchanged at TZS 9.4 billion or 21.9 percent, TZS 4.1 billion or 9.4 percent and TZS 0.7 billion or 1.7 percent, respectively; Borrowing through Treasury bills increased by 13.4 percent; and Borrowing through “other instruments” (pensioners’ claims, suppliers’ credits) remained unchanged at TZS 9.8 billion.

Domestic Debt by Maturity

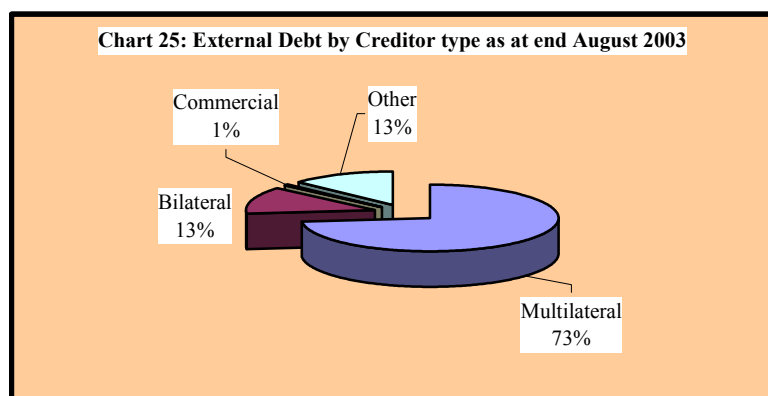
Analysis of domestic debt profile by maturity indicates that, as at end-August 2003; Debt maturing less than a year amounted to TZS 10.1 billion, accounting for 23.6 percent of the total domestic debt; Debt maturing between 2-5 years amounted to TZS 9.4 billion, representing 21.9 percent of total domestic debt; and debts with “undetermined maturity” (pensioners’ claims, suppliers’ credits) amounted to TZS 23.4 billion, representing 54.5 percent of total domestic debt.

External Debt

The Zanzibar Government external indebtedness as at end of August 2003, amounted to USD 55.4 million, compared with USD 55.5 million registered in July 2003.

External Debt by Creditor Category

As at end August 2003, external debt profile by creditor revealed that; Multilateral debts amounted to USD 40.6 million; Bilateral debts amounted to USD 7.4 million; Commercial credits were USD 0.3 million; and Other creditor claims accounted for remaining external debt (Chart 25).



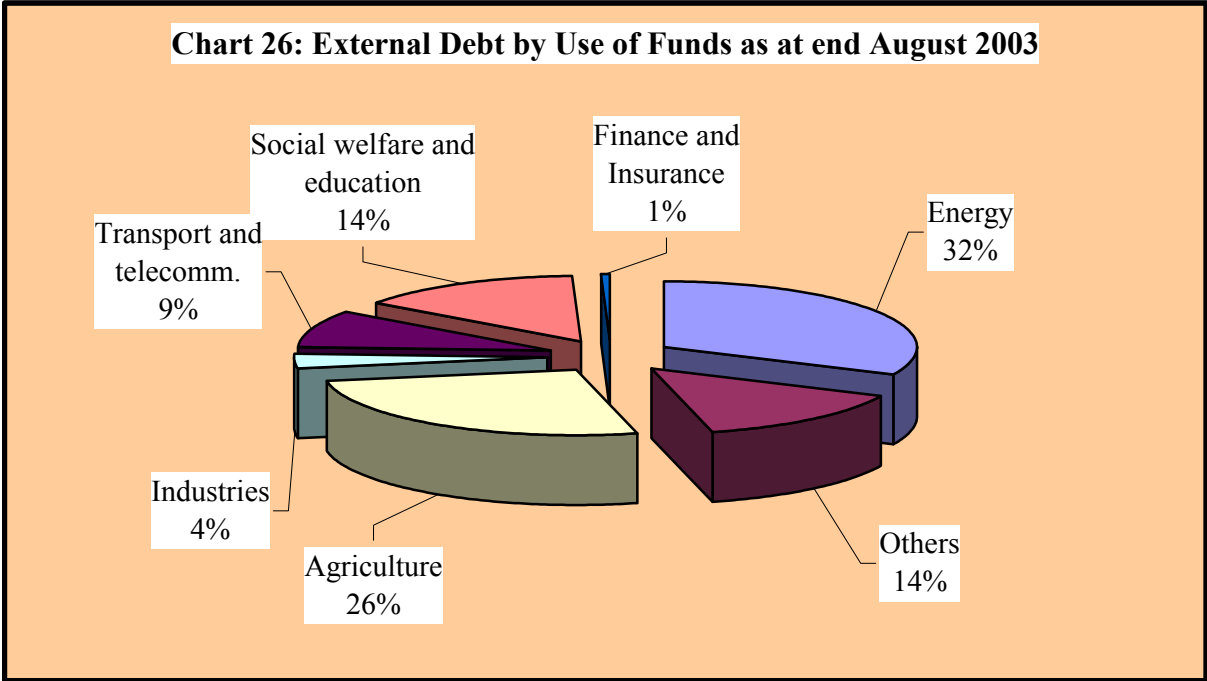
External Debt by Maturity

External debt profile by maturity indicate that, as at end August 2003; Debts maturing between 5-10 years amounted to USD 6.7 million: Debts maturing before 10-20 years amounted to USD 4.8 million; and Debts maturing in over 20 years amounted to USD 31.7 million, accounting for 57.1 percent of total external debt.

External Debt by Use of Funds

Analysis of external debt profile by use of funds shows that, as at end August 2003; Debt amounting to USD 17.7 million were utilised by the energy sector; Agriculture, Industries, Transport and telecommunication absorbed USD 14.5

million, USD 2.0 million, and USD 5.2 million, respectively; Social welfare and education, and Finance and insurance utilised USD 7.9 million and USD 0.3 million, respectively; and Other sectors absorbed USD 7.8 million (Chart 26)



Trade Developments

Trade balance

During August 2003, the deficit in the trade account (goods and services) worsened to USD 6.0 million, from USD 1.7 million recorded in the previous month. The increase in the deficit is explained by increase in imports from USD 5.0 million to USD 9.3 million, while exports remained unchanged at about USD 3.3 million.

Exports

During the period under review, total exports (goods and services) remained almost unchanged at USD 3.3 million despite a relative increase in service receipts by 2.1 percent. Similarly, there was no change in traditional exports, which recorded the same level of USD 0.2 million recorded in July 2003. Clove exports decreased both in volume and value. The volume decreased from 43.0 tons registered in July 2003 to 20.0 tons in August 2003, due to seasonality of the clove crop, less demand due to abundance of cloves in the world market from Indonesia, Madagascar and Comoro, which continue to dampen prices for the commodity.

On the other hand, volume of seaweed exports during the month under review increased from 542 tons in July 2003 to 729 tons in August 2003, while the unit price increased from USD 190.8 per ton in July 2003 to USD 205.4 per ton in August 2003.

The value of non-traditional exports decreased to USD 0.1 million from USD 0.2 million recorded in July 2003, while exports of manufactured goods remained almost unchanged at USD 0.1 million. Other exports except fish and fish produce showed no sign of improvement.

Imports

During the period under review, overall imports (c.i.f.) increased to USD 6.8 million, from USD 3.3 million registered in July 2003. The rise in imports was attributed to a surge in capital and consumer goods. Importation of capital goods increased to USD 3.2 million, from USD 1.1 million, and was dominated by transport equipment. Consumer goods imports increased from USD 1.2 million to USD 2.2 million mainly due to increased importation of foodstuffs, while intermediate goods imports, which were dominated by oil imports, increased from USD 1.0 million to USD 1.4 million.

Service and Income Accounts

During August 2003, the combined income and services account deteriorated to record a deficit of USD 0.1 million from a surplus of USD 0.9 million, recorded during July 2003. The deterioration was mainly due to a rise in foreign payments to USD 3.0 million. The rise in payments was in respect of transport service namely, passengers, freight, travel, and insurance services. During the month, there was an increase in services receipts to USD 2.9 million that emanated from an increase in travel (tourism) receipts.

GLOSSARY

Average Rate of Inflation

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

Non-Food Inflation Rate

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

Seasonally Adjusted Indicators

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

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

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

Money Supply, M

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

Narrow Money, M1

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

Broad Money, M2

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

Extended Broad Money, M3

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

Currency in Circulation Outside Banks

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

Discount Rate

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

International Reserves, or Reserve Assets

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

Reserve Money Program

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

Reserve Requirement

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

Repurchase Agreement (Repo)

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

Weighted Annualised Yields of Treasury Bills of all Maturities

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

Exchange Rate

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

Nominal Exchange Rate

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

Nominal Effective Exchange Rate (NEER)

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

Real Effective Exchange Rate

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