

ISSN 0856 - 6844

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MONTHLY ECONOMIC REVIEW BANK OF TANZANIA

August 2003

Message from the Governor

The poor harvests of most food crops, particularly food grains, will continue to be the main factor influencing inflationary pressure for the remainder of the calendar year. Timely imports food grains would facilitate the dampening of inflationary pressures emanating from the tight food supply situation. The stance of monetary policy will be consistent with limiting the annual inflation rate over the coming months to less than 5 percent.

Inflation Developments

Headline Inflation

The annual headline inflation rate increased slightly during the year ending July 2003 to 4.5 percent from 4.4 percent recorded in June 2003, mainly due to an increase in average prices of rent, furniture and household utensils, whose average prices rose by between 0.3 and 2.6 percentage points; however, average prices of most consumer item declined during the 12-month period When measured on a

month-on-month basis, the overall inflation rate declined significantly by 0.8 percentage points between June 2003 and July 2003, mainly due to seasonal decline in food inflation. Using seasonally adjusted indices, the month-on-month headline inflation rose by 0.1 percentage point to 0.5 percent in July 2003.

Non-food inflation

During the year under review, annual non-food inflation recorded a decline from 4.9 percent in the year ended June 2003 to 4.5 percent during the year ending July 2003, following a slowdown in average prices of most non-food consumer items such as clothing and footwear, educational items, charcoal and fuel. The average price of fuel (petrol and diesel), which falls under the non-food sub-group with the highest weight declined to TZS 645.0 per litre in July 2003 from TZS 660.0 per litre in June 2003. However, the month-on-month non-food inflation rate rose slightly by 0.5 percentage points between June 2003 and July 2003, mainly as a result of an increase in the average price of rent, furniture, household utensils, personal care and health items during the month under review.

Food Inflation

Following the low supply of food items particularly food grains, the average prices of food grains and their close substitutes have gone upward during the year under review. The national average price for maize in mid-June 2003 was TZS 14,328.0 per a 100kg bag, increasing to TZS 16,840.0 per bag of 100kg recorded at the end of July 2003, while the highest price was TZS 25,000.0 per bag recorded in Mara region. Consequently, the annual food inflation rate increased from 4.2 percent in the year ending June 2003 to 4.5 percent in the year ending July 2003. However,

when measured on a month-to-month basis between June 2003 and July 2003, food inflation decreased by 1.0 percent reflecting the fall in the average prices of the seasonal food items whose supply normally improve in July. Food items that recorded a fall in average prices include fruits, bananas, cassava, potatoes and legumes.

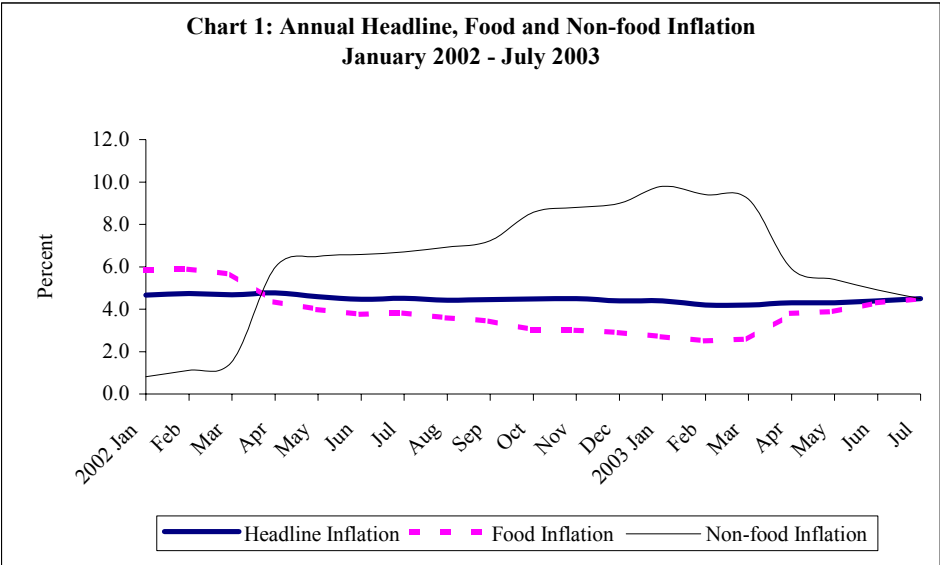


Table 1: Percentage Change in the Sub-groups of the National Consumer Price Index (All-urban)

(Base: December 1994=100)

Major Commodity Group	Weight	June	% Change	July	July	% Change	% Change
		%	2002	June 02	2002	2003	July 02
			- June 03			- July 03	- July 03
Food	71.2	237.1	+4.3	234.1	244.7	+4.5	-1.0
Drinks and Tobacco	4.4	177.6	+4.3	177.6	184.2	+3.7	-0.5
Rents	3.9	201.7	+4.4	201.6	211.0	+4.7	+0.2
Fuel, Power and Water	4.7	322.6	+6.1	323.1	339.4	+5.0	-0.9
Clothing & Footwear	3.7	196.1	+6.4	200.2	208.2	+4.0	-0.2
Furniture & Household Equipment	2.5	196.7	+3.9	197.3	210.1	+6.5	+2.8
Household Operations & Maintenance	1.5	161.6	+6.1	160.1	171.5	+7.1	0.0
Personal Care & Health	2.2	150.9	+6.2	151.5	160.5	+5.9	+0.2
Recreation & Entertainment	1.2	173.0	+3.2	173.9	178.5	+2.6	0.0
Transportation	1.2	245.2	+2.7	245.8	251.3	+2.2	-0.2
Education	1.5	201.9	+4.6	202.5	211.0	+4.2	-0.1
Miscellaneous Goods and Services	2.0	158.4	+1.6	157.8	161.0	+2.0	0.0
TOTAL	100.0	228.9	+4.4	226.9	237.2	+4.5	-0.8

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)	2)	
2000 Jun	5.9	2.4	7.1	-2.3	0.1	-3.2	4.7	3.3	5.1	0.5	0.4	0.5
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

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 July 2003 reserve money (M0), rose by TZS 136.6 billion to TZS 776.3 billion from TZS 639.7 billion recorded at the end of June 2003. The stock of M0 at the end of July 2003 was above the target for the quarter ending September 2003 of TZS 763.7 billion, by TZS 12.6 billion.

M0 rose mainly due to increase in Net Foreign Assets (NFA¹) and Net Domestic Assets (NDA) of the Bank of Tanzania by TZS 68.1 billion and TZS 68.6 billion, respectively. The increase in NFA stemmed from the Bank's purchase of donor funds from the government plus a net purchase of foreign currency from the Inter-Bank Foreign Exchange Market (IFEM). The increase in NDA emanated from a rise in Net Domestic Credit (NDC) and Other Items Net (OIN) by TZS 34.9 billion and TZS 33.7 billion, respectively. NDC rose mainly due to decline in government deposits at the Bank by TZS 24.0 billion, coupled with the increase in government securities by TZS 10.9 billion attributed to discount of treasury bills to the Bank. Government deposits fell following payment of salaries and other obligations. Meanwhile, the increase in OIN was mainly occasioned by open market operations (OMO) whereby net redemption of TZS 9.1 billion and TZS 14.1 billion was made for liquidity and REPOs, respectively. Decrease in other deposits and other liabilities of the Bank by TZS 3.7 billion and TZS 1.1 billion, respectively, reinforced the rise in OIN.

¹ Gross official reserves of the Bank increased from USD 1,670.4 million in June 2003 to USD 1,755.7 million in July 2003, equivalent to 7.3 months of imports of goods and services (GNS).

From the liabilities side, the increase in reserve money stemmed from a surge in commercial banks' reserves at the Bank and currency in circulation by TZS 106.5 billion and TZS 30.1 billion, respectively. The increase in commercial banks' reserves was largely attributed to open market operations, while currency in circulation rose following withdrawals made by commercial banks from the Bank.

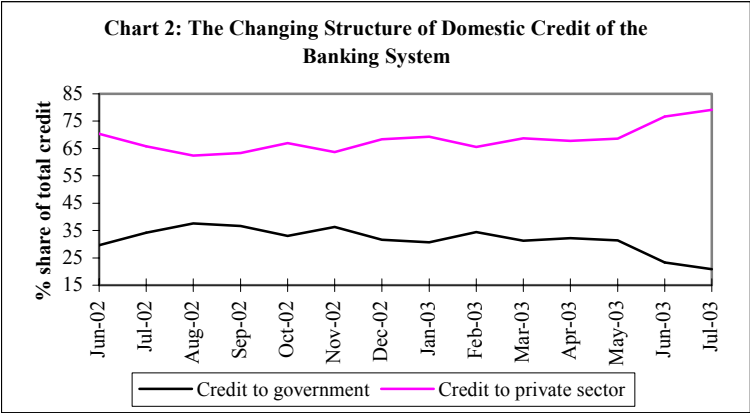
Money Supply and Credit Developments

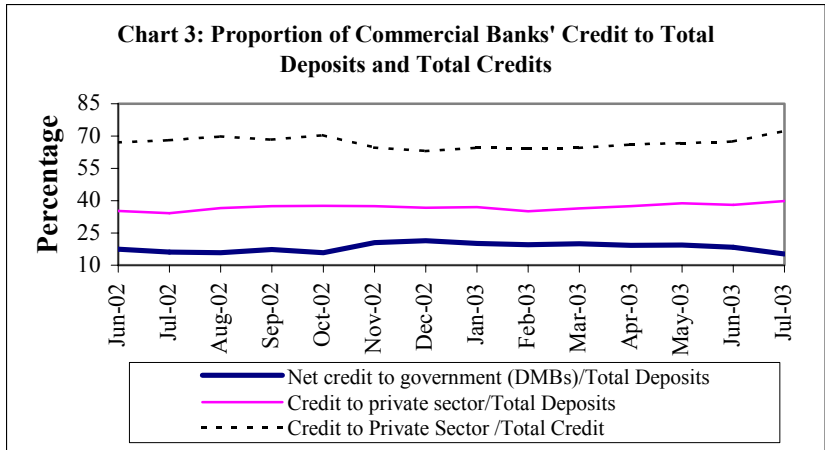
Broad money supply (M2) during July 2003, edged upwards by TZS 43.8 billion to TZS 1,602.6 billion from TZS 1,558.9 billion recorded in June 2003. The developments in M2 was however below the target for the quarter ending September 2003 of TZS 1,742.5 billion, by TZS 139.9 billion.

From assets side, developments in M2 during July 2003 were largely explained by a surge in NFA of the banking system by TZS 31.8 billion from TZS 1,224.2 billion in June 2003 to TZS 1,256.0 billion in July 2003. Specifically, Net International Reserves (NIR) of the Bank increased by TZS 68.9 billion to TZS 1,284.0 billion largely due to the Bank's purchase of donor funds from the government plus a net purchase of USD 7.2 million from the IFEM. However, the impact of NIR on NFA was partly dampened by a decline in foreign holdings of commercial banks by TZS 37.1 billion, largely attributed to Foreign Exchange Market Operations (FEMO) and exchange rate developments.

On the other hand, Net Domestic Assets (NDA) of the banking system declined from TZS 710.3 billion at the end of June 2003 to TZS 707.5 billion at the end of July 2003, thus easing the impact of NFA on M2 by TZS 2.8 billion. The decline in NDA stemmed from a fall in Other Items Net (OIN) by TZS 31.6 billion, which

more than offset the increase in Domestic Credit (DC) by TZS 28.8 billion. Credit to the government by the banking system continued to decline from TZS 199.7 billion in June 2003 to TZS 185.1 billion in July 2003, mainly due to decline in government indebtedness to commercial banks. During the same period credit to the private sector by the commercial banks maintained an upward trend from TZS 658.5 billion to TZS 701.9 billion. Following these developments, the share of private sector credit to total domestic credit rose from 76.7 percent in June 2003 to 79.1 percent in July 2003, while that of the government fell from 23.3 percent to 20.9 percent (**Chart 2**). Similarly, lending to the private sector as a proportion of total deposits increased from 38.0 percent in June 2003 to 39.9 percent in July 2003, while the proportion of commercial banks lending to the government to total deposits fell from 18.3 percent to 15.2 percent in the same period (**Chart 3**).

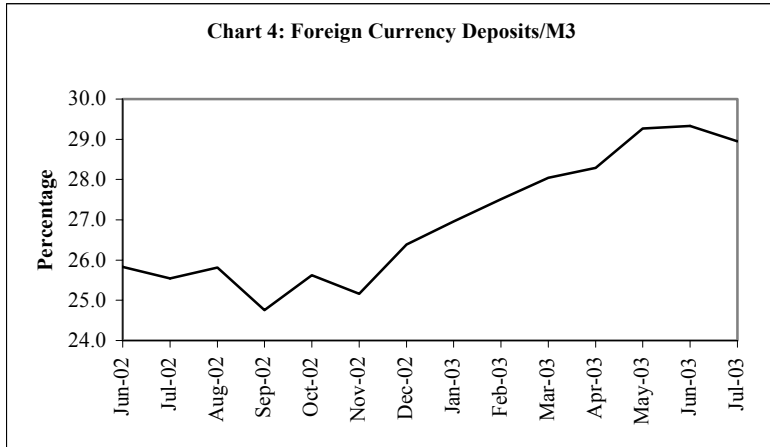




From liabilities side, the increase in M2 in July 2003 was largely due to an increase in commercial banks deposits and currency in circulation by TZS 22.2 billion and TZS 21.6 billion, respectively. The increase in deposits during July 2003 was largely attributed to non-remittance of Tanzania Revenue Authority revenue collections to the government accounts at the Bank. During July 2003 demand deposits with commercial banks increased by TZS 46.3 billion, while time and savings deposits fell by TZS 22.5 billion and TZS 1.5 billion, respectively.

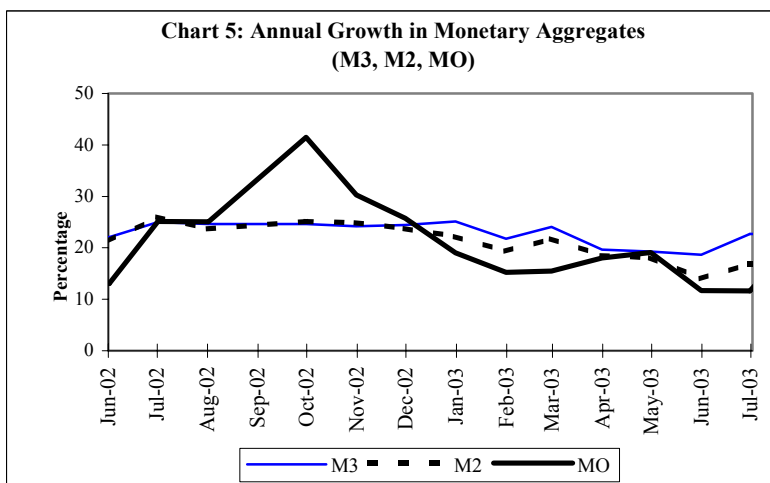
Extended Broad Money Supply

Extended broad money (M3), which includes M2 plus foreign currency deposits, grew by TZS 49.8 billion to TZS 2,255.7 billion in July 2003, following a rise in foreign currency deposits (FCD) of commercial banks by TZS 5.9 billion, attributed to the increase in corporate customers' deposits in the banking sector. Despite of the increase in FCD during July 2003, foreign currency deposits as a proportion of M3 fell from 29.3 percent in June 2003 to 29.0 percent in July 2003 (**Chart 4**).



Annual Growth Rates in Monetary Aggregates

During July 2003, annual growth rates of monetary aggregates edged upwards except for M3, which slowed down from 22.7 percent in the year ending June 2003 to 22.6 percent in the year ending July 2003. The annual growth rate of M0 and M2 stepped up from 11.6 percent and 16.9 percent to 22.5 percent and 17.0 percent in the same period, respectively (**Chart 5**).



Inter-bank Cash Market

During July 2003, the total value of inter-bank cash market transactions, increased by TZS 346.0 billion to TZS 587.5 billion from TZS 241.5 billion recorded in June 2003. Overnight transactions accounted for 77.3 percent of the total value of transactions for July 2003, down from 77.9 percent recorded in June 2003. During the same period, the proportion of 7-day and 14-day in the inter bank cash market transactions reached 5.7 percent and 1.7 percent, from 4.2 percent and 2.1 percent in the previous month, respectively. The value of other maturities accounted for 15.3 percent in July 2003 down from 15.9 percent recorded in the previous month.

The weighted average interest rate on overnight lending between commercial banks, increased from 4.6 percent in June 2003 to 6.5 percent in July 2003 signifying liquidity squeeze in the overnight money market. Similarly, the overall inter-bank cash market rate rose from 4.8 percent to 6.6 percent in the same period ([Table 3](#)).

Treasury Bills Market

During July 2003, the markets for Treasury bills were supplied with 35-day, 91-day, 182-day and 364-day maturities worth TZS 96.8 billion, compared with TZS 90.4 billion offered in the previous month. Total demand for Treasury bills increased by TZS 37.3 billion to TZS 158.1 billion in July 2003 from TZS 120.8 billion recorded in June 2003. During the period, the Bank intervened the market by selling Treasury bills worth TZS 97.5 billion, which is TZS 12.4 billion less compared with TZS 109.9 billion auctioned in the previous month.

During the month under review, commercial banks continued to dominate in the Treasury bills market accounting for 69.4 percent of total successful bids, compared with 70.7 percent recorded in June 2003. Pension funds and insurance companies constituted 22.3 percent of total successful bids in July 2003, up from 15.4 percent recorded in the preceding month. Non-bank financial institutions (NBFI) and the individuals accounted for 8.3 percent in July 2003, compared with 13.9 percent recorded in the previous month.

In July 2003, interest rates in the Treasury bills market exhibited an upward trend across all maturities compared with rates attained in June 2003. Specifically, the average yields for 35-day and 91-day bill rose from 5.8 percent and 6.1 percent during June 2003 to 6.4 percent and 6.5 percent in July 2003, respectively, whereas the average yields for 182-day and 364-day bills rose from 5.8 percent and 5.9 percent to 6.7 percent and 6.3 percent in the same period, respectively. As a result, the overall weighted average yield (WAY) for all maturities increased from 5.9 percent in June 2003 to 6.5 percent in July 2003.

Treasury Bonds

Treasury bonds market during July 2003 was supplied with 2-year, 5-year, 7-year and 10-year maturity bonds worth TZS 18.5 billion. The market experienced slight changes, whereby total bids increased from TZS 14.0 billion in June 2003 to TZS 17.7 billion in July 2003, and actual sales rose from TZS 14.0 billion to TZS 15.3 billion in the same period. In line with developments in the bond market, the weighted average yield (WAY) for 2-year, 7-year and 10-year Treasury bonds rose from 6.7 percent, 7.7 percent, and 8.5 percent in June 2003 to 7.4 percent, 8.0

percent and 8.9 percent in July 2003, respectively, while for the 5-year bond the WAY decreased from 7.6 percent to 7.3 percent in the same period (**Table 3**).

Repurchase Agreements (REPOs)

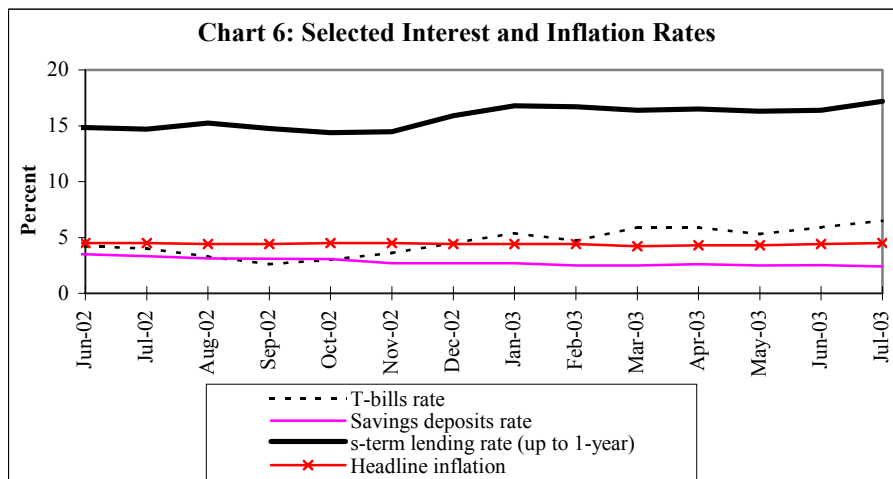
In July 2003, the Bank transacted 7-day and 14-day REPOs with commercial banks worth TZS 6.0 billion and TZS 5.0 billion, respectively, for fine-tuning the liquidity in the economy. During the review period the rates for 7-day REPO ranged between 6.3 percent and 6.8 percent while the rate for 14 day stood at 6.3 percent. Following market developments, the overall weighted average REPO rate during the period reached 6.3 percent in July 2003 compared to 7.0 percent in June 2003.

Interest Rate Developments

Developments in interest rates on domestic currency denominated deposits exhibited declining trend, except for 2-month and 12-month time deposit rates, which rose from 4.2 percent and 4.1 percent in June 2003 to 4.5 percent and 4.9 percent in July 2003, respectively. Savings deposit rate fell from 2.5 percent in June 2003 to 2.4 percent in July 2003, while the 1-month, 6-month and 12-month time deposit rates fell from 3.9 percent, 3.7 percent and 5.1 percent to 3.0 percent, 3.6 percent and 5.0 percent, in the same period, respectively. However, the overall time deposit rate maintained the previous month position of 3.5 percent (**Table 3**).

On the other hand, interest rates on domestic currency denominated credits exhibited an upward trend, except for medium term lending rates of 1-2 year and 2-3 year, which fell marginally from 14.6 percent and 13.4 percent in June 2003 to

14.5 percent and 13.3 percent in July 2003, respectively. The overall lending rate rose from 14.1 percent in June 2003 to 15.1 percent during the reporting month (Chart 6 & Table 3).



Interest rate structure on foreign currency denominated deposits and lending exhibited mixed trends. The savings deposits rate rose from 0.9 percent in June 2003 to 1.0 percent in July 2003, while overall time deposits rate fell from 1.1 percent to 1.0 percent in the same period. The interest rates on foreign currency denominated credits fell across all maturities, except for long-term loan of 3-5 year, which rose from 6.5 percent in June 2003 to 7.3 percent in July 2003. In line with foreign lending rates developments, the overall foreign currency denominated lending rate edged down from 7.5 percent to 7.4 percent in the same period (Table 3).

Table 3: Weighted Average Interest Rates of Commercial Banks

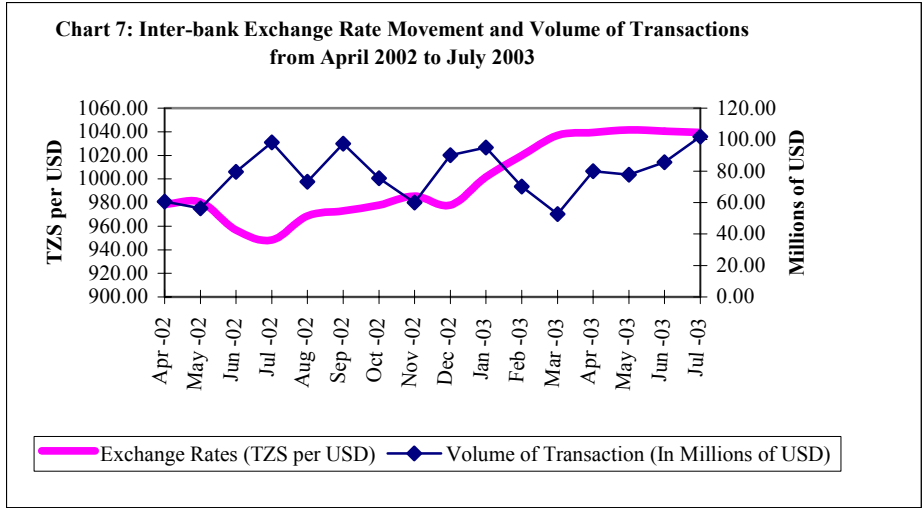
Percentage per annum							
	Jan-03	Feb-03	Mar-03	Apr-03	May-03	Jun-03	Jul-03
<u>Domestic Currency</u>							
1 Inter-bank Cash Market Rates							
Overnight	6.5	4.6	5.4	6.5	5.1	4.6	6.5
Overall inter-bank cash market rate	6.5	4.5	5.4	6.5	5.3	4.8	6.6
2 REPO Rate							
	4.4	4.4	6.5	6.5	4.6	7.0	6.3
3 Treasury Bills Rates							
35 days	4.2	3.8	5.1	5.1	5.4	5.8	6.4
91 days	5.4	4.6	5.8	6.0	5.4	6.1	6.5
182 days	5.5	5.0	6.1	5.8	5.1	5.8	6.7
364 days	5.6	5.1	6.2	6.3	5.2	5.9	6.3
Overall Treasury bills rate	5.4	4.7	5.9	5.9	5.3	5.9	6.5
4 Treasury Bonds-							
2-years	4.9	5.0	5.0	5.2	6.3	6.7	7.5
5-years	5.6	5.9	6.1	6.6	6.9	7.6	7.3
7-years	6.2	6.6	6.6	6.9	7.1	7.7	8.0
10-years	7.5	7.6	7.6	7.8	8.1	8.5	8.9
5 Discount Rate							
	10.4	9.8	10.4	11.1	10.4	10.6	11.6
6 Savings Deposit Rate							
	2.7	2.5	2.5	2.5	2.5	2.5	2.4
7 Time Deposits Rates							
1 month	1.6	2.1	2.5	1.7	2.4	3.9	3.0
2 months	4.5	5.5	4.0	4.6	4.8	4.2	4.5
3 months	3.8	3.0	2.5	2.9	2.5	2.8	2.8
6 months	4.3	4.3	4.2	4.2	4.2	3.7	3.6
12 months	5.6	5.6	5.8	6.0	6.0	5.1	5.0
24 months	4.5	4.5	4.4	4.2	4.1	4.1	4.9
8 Lending rates							
Short-term (up to 1yr)	14.7	14.6	15.0	15.1	14.5	14.1	15.1
Medium-term (1-2 yrs)	16.8	16.7	16.4	16.5	16.3	16.4	17.2
Medium-term (2-3 yrs)	14.0	14.3	15.8	16.9	15.8	14.6	14.5
Long-term (3-5 yrs)	12.7	12.6	12.3	12.7	12.5	13.4	13.3
Term Loans (over 5 yrs)	11.1	11.3	12.1	13.9	12.1	10.9	14.0
	18.9	18.1	18.5	15.8	15.7	15.2	16.4
<u>Foreign Currency</u>							
1 Deposits Rates							
Savings Deposits	1.1	1.1	1.3	1.1	1.1	1.1	1.0
	0.8	0.9	0.9	0.9	0.9	0.9	1.0
Time Deposits							
1-months	1.0	0.9	0.9	0.8	1.0	0.9	0.7
2-months	1.3	1.6	2.6	1.4	1.7	1.4	1.3
3-months	1.1	1.2	1.1	1.2	0.9	0.9	1.0
6-months	1.5	1.3	1.2	1.2	1.5	1.7	1.3
12-months	1.2	1.3	1.5	1.3	1.3	1.2	1.2
2 Lending Rates							
Short-term (up to 1yr)	7.5	7.4	7.2	7.8	7.4	7.5	7.4
Medium-term (1-2 yrs)	7.7	7.5	7.6	7.6	6.3	7.0	6.6
Medium-term (2-3 yrs)	6.2	6.1	6.0	7.5	7.9	7.9	7.8
Long-term (3-5 yrs)	8.8	9.2	8.2	8.6	8.4	8.7	7.7
	7.2	7.1	6.8	7.5	7.0	6.5	7.3

Inter-bank Foreign Exchange Market

During the month of July 2003, the volume traded at the IFEM increased by 18.8 percent to USD 101.8 million from USD 85.7 million traded in the previous month. The increase in the volume traded is partly attributed to a rise in foreign exchange inflows from tourism following the commencement of the peak tourist season. Commercial banks continued to dominate both the demand and supply side of the market by supplying USD 72.2 million or 70.9 percent of volume traded and purchasing USD 67.1 million or 65.9 percent of the volume traded. The non-bank financial institutions supplied USD 4.9 million or 4.8 percent and purchased USD 2.8 million or 2.8 percent of the volume traded. The Bank of Tanzania intervened in the market by supplying USD 24.7 million or 24.3 percent of the volume traded and purchased USD 31.9 million or 31.3 percent of the volume traded

Exchange Rate

During the period under review, the Tanzanian shilling appreciated slightly against the US dollar by 0.1 percent to TZS 1,039.4 per US dollar from TZS 1,040.4 per US dollar recorded in the previous month.



Bureau De Change Operations

The volume of transactions conducted by Bureau de change system increased by 77.4 percent to USD 52.7 million from USD 29.7 million transacted in the previous month mainly due to the rise in both sales and purchases. Sales went up by 67.1 percent to USD 25.4 million while purchases increased by 88.3 percent to USD 27.3 million.

The buying rate depreciated slightly by 0.2 percent to TZS 1,039.0 per US dollar from TZS 1,037.0 per US dollar recorded in June 2003. Similarly, the selling rate depreciated by 0.4 percent TZS 1,057.0 per US dollar from TZS 1,053.0 per US dollar recorded in the previous month.

Table 4 shows the foreign exchange market developments during the period under review.

Table 4: Foreign Exchange Market Developments

	2003			July		
	June	July	% Change	2002	2003	% Change
IFEM						
1. Amount offered*	85.7	101.8	18.8	98.2	101.8	3.7
2. Amount sold*	85.7	101.8	18.8	98.2	101.8	3.7
3. Exchange rate**	1,040.4	1,039.4	-0.1	948.3	1,039.4	9.6
Bureau de Change						
1. Sales*	15.2	25.4	67.1	19.7	25.4	28.9
2. Purchases*	14.5	27.3	88.3	20.3	27.3	34.5
3. Volume of Transactions*	29.7	52.7	77.4	40.0	52.7	31.8
4. Buying rate**	1,037.0	1,039.0	0.2	945.0	1,039.0	9.9
5. Selling rate**	1,053.0	1,057.0	0.4	965.0	1,057.0	9.5

Source: Foreign Markets Dept. and Bank Supervision - Bureau de Change Section

* Millions of USD, ** Tanzanian shillings (TZS) per US dollar.

External Sector Developments

Trade Account

During July 2003, the deficit in the trade account worsened by 85.3 percent to a deficit of USD 88.8 million, from a deficit of USD 47.9 million recorded in the previous month. This development was attributed to a 4.6 percent fall in total exports of goods and services coupled with 18.2 percent increase in total imports. Likewise, the deficit in the trade account for July 2003 deteriorated by 20.0 percent when compared with the corresponding month last year largely due to increase in total imports that exceeded the effects of increase in exports. Conversely, during the year ending July 2003, the deficit in the trade account declined by 7.7 percent to USD 711.1 million from USD 770.8 million recorded during the year ending July 2002, following a 18.6 percent increase in total exports of goods and services

that cushioned the impact of a 9.5 percent increase in imports of goods and services (Table 5).

Table 5: Trade Account Balance

	Value, Millions of USD								
	2003 p		%	July		%	August - July*		%
	June	July		Change	2002		2003p	Change	
Exports	141.0	134.5	-4.6	112.7	134.5	19.4	1,465.9	1,738.3	18.6
Goods	79.2	66.5	-16.0	58.5	66.5	13.7	819.7	1,018.1	24.2
Services	61.8	68.0	10.0	54.2	68.0	25.5	646.2	720.2	11.5
Imports	188.9	223.3	18.2	186.7	223.3	19.6	2,236.7	2,449.4	9.5
Goods	134.7	149.7	11.1	128.6	149.7	16.4	1,554.5	1,678.2	8.0
Services	54.2	73.6	35.8	58.1	73.6	26.7	682.2	771.2	13.0
Trade Balance	-47.9	-88.8	85.3	-74.0	-88.8	20.0	-770.8	-711.1	-7.7

Note:

* Year ending July

p = Provisional data

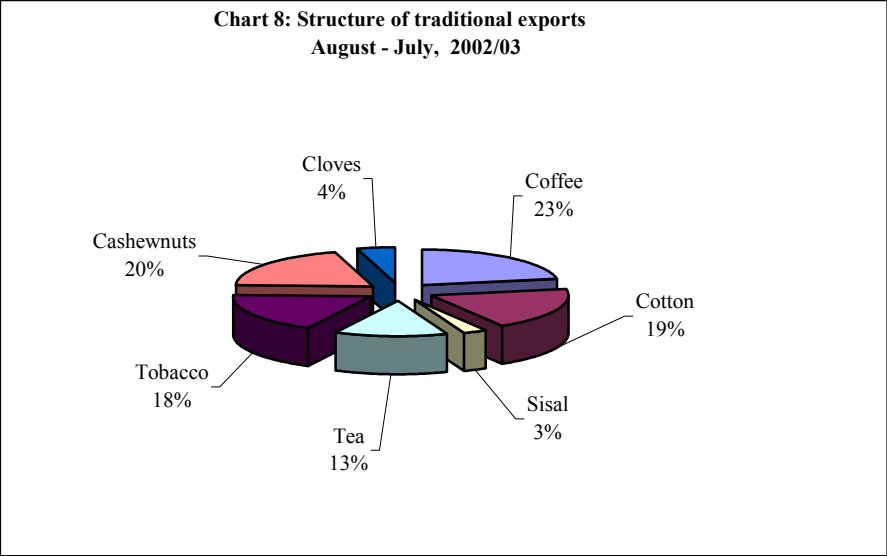
Source: Bank of Tanzania, and Tanzania Revenue Authority (TRA)

Exports

During July 2003, total exports registered a decline of 16.0 percent from USD 79.2 million to USD 66.5 million following a decrease in both traditional and non-traditional exports. Traditional exports declined by 8.4 percent to USD 5.1 million largely due to a fall in export volumes of coffee, cotton, tea, and tobacco which declined by 6.3 percent, 12.5 percent, 21.4 percent and 95.7 percent, respectively. Performance of traditional exports, which has been on the decline in recent years, worsened during the review period because it, is low season for most traditional crops. As for export unit prices, coffee, sisal, tea and tobacco recorded an increase of 6.7 percent, 11.1 percent, 4.8 percent and 16.7 percent respectively.

When compared with the corresponding month last year, total exports went up by 13.7 percent from USD 58.5 in July 2002, mainly due to increase in non-traditional exports, especially minerals and manufactured goods.

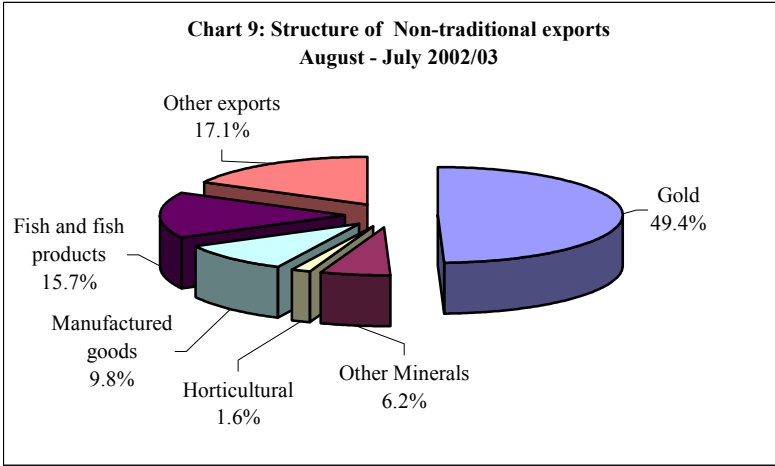
On annual basis, during the year ending July 2003, total exports increased by 24.2 percent, from USD 819.7 million to USD 1,018.1 million. The improvement is largely attributed to increase in export volumes of coffee, cotton, tea, cashewnuts and cloves. Likewise, an increase was recorded in export unit prices of coffee, sisal, tobacco and cashewnuts. The structure of traditional exports for the year ending July 2003 is reflected on **Chart 8**.



During the month under review, non-traditional exports declined by 16.6 percent from USD 73.6 million to USD 61.4 million. With the exception of manufactured goods, which increased by 7.4 percent from USD 6.8 million to USD 7.3 million, minerals, fish and fish products, horticultural products and other exports declined by 22.6 percent, 3.5 percent, 33.3 percent and 18.4 percent respectively. However,

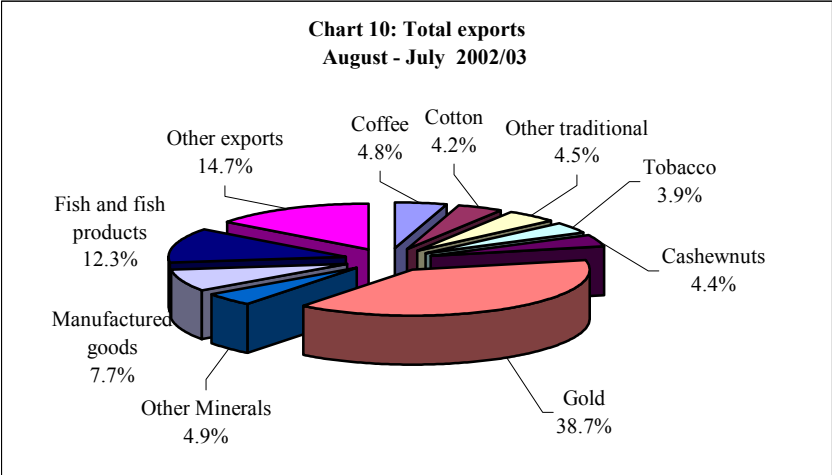
when compared with the corresponding month in 2002, non-traditional exports increased following improved performance in minerals and manufactured goods.

On annual basis, non-traditional exports increased by 27.3 percent from USD 625.6 million recorded in the year ending July 2002 to USD 796.3 million. The surge in non-traditional exports resulted from an increase in exports of minerals, manufactured goods, fish and fish products, horticultural products and other exports. The share of mineral exports to non-traditional exports remained unchanged at 55.0 percent. Gold exports, which accounted for about 89.0 percent of mineral exports, recorded an increase of 27.4 percent from USD 309.0 million to USD 393.6 million during the period under review. The structure of non-traditional exports during the year ending July 2003 is shown on **Chart 9**.



It is worthy noting that despite the increase in traditional exports in the year ending July 2003, its share to total exports continued to decline reaching 22.0 percent from about 62.0 percent in the year ending July 1998. The weakening of traditional exports which started in 1999, is partly due to decline in world commodity prices and persistent low producer prices which has led to inability by farmers to

purchase fertilizers and pesticides that are vital in improving both quantity and quality of the exports. The structure of total exports during the year ending July 2003 is depicted on [Chart 10](#).



Imports

Total imports (f.o.b.) increased by 11.1 percent from USD 134.7 million to USD 149.7 million in July 2003, mainly due to a surge in imports of Capital and Intermediate goods that increased by 12.3 percent and 44.1 percent, respectively. The rise in imports of capital goods is explained by a surge in machinery imports in particular machinery parts and accessories, automatic data processing machines and electrical apparatus for telecommunication services. Similarly, the increase in intermediate imports is attributed to the rise in oil imports by more than two-folds to USD 22.0 million from USD 10.3 million in June 2003, on account of increased import volumes as well as higher oil prices in the world market. While the increase in the world market oil prices was largely due to delay in restoring Iraq's oil exports, the increase in oil imports to 95,000.0 tons from 40,000.0 tons was to replenish oil stocks.

On the other hand, imports of consumer goods declined by 11.4 percent from USD 45.6 million to USD 40.4 million in July 2003, mainly due to a decrease in imports of food and foodstuffs particularly rice and maize. During the month under review, the volume of imported rice declined to 4,108.0 tons from 40,704.0 tons, while maize imports declined to 617.0 tons from 21,113.0 tons registered in June 2003.

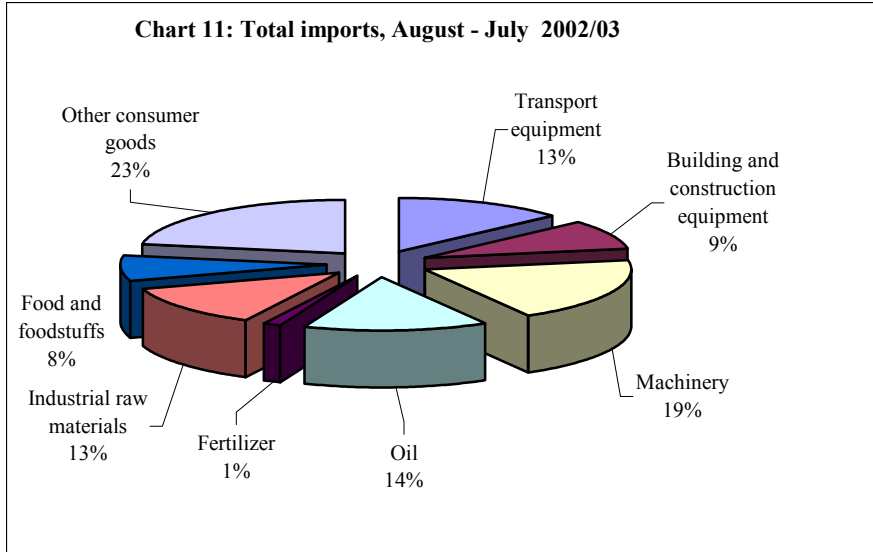
When compared with the corresponding month a year earlier, total imports (f.o.b.) increased by 16.4 percent to USD 149.7 million. The increase was attributed to a surge in imports of capital goods and intermediate goods by 27.1 percent and 18.8 percent, respectively while consumer goods remained unchanged at USD 40.4 million.

During the year ending July 2003, total imports (f.o.b.) increased by 8.0 percent to USD 1,678.2 million from USD 1,554.5 million recorded during the year ending July 2002. This development is attributed to a surge in imports of capital goods, intermediate goods and consumer goods that went up by 4.6 percent, 16.0 percent and 5.7 percent, respectively. Despite the overall increase in imports of capital goods, machinery imports which account for about 50.0 percent of capital goods imports declined by 6.0 percent to USD 325.4 million from USD 346.3 million. This is partly due to the completion of construction works by mining companies in 2001/02.

Intermediate goods imports increased to USD 475.4 million from USD 409.7 million recorded during the year ending July 2002, owing to an increase in oil, fertilizers and industrial raw materials. The increase in oil imports is partly explained by the rise in oil prices in the world market as well as a surge in volume

of imported oil. Imports of fertilizer and industrial raw materials increased by 42.0 percent and 10.5 percent, respectively. The increase in the value of imported fertilizer is partly attributed to higher fertilizer prices offered in the world market during the review period. The prices of Triple Super Phosphate (TSP) and Urea which are mostly used by farmers in the country increased from an average of USD 133.1 per ton and USD 94.4 per ton in 2002 to an average of USD 142.6 per ton and USD 129.4 per ton, respectively from January to July 2003. Moreover, the increase in imports of industrial raw materials from USD 189.8 million to USD 209.8 million during the year ending July 2003, is partly explained by the general recovery of the manufacturing sector amid reforms in the domestic economy. The growth rate of the manufacturing sector increased from 4.8 percent in 2001 to 6.0 percent during 2002.

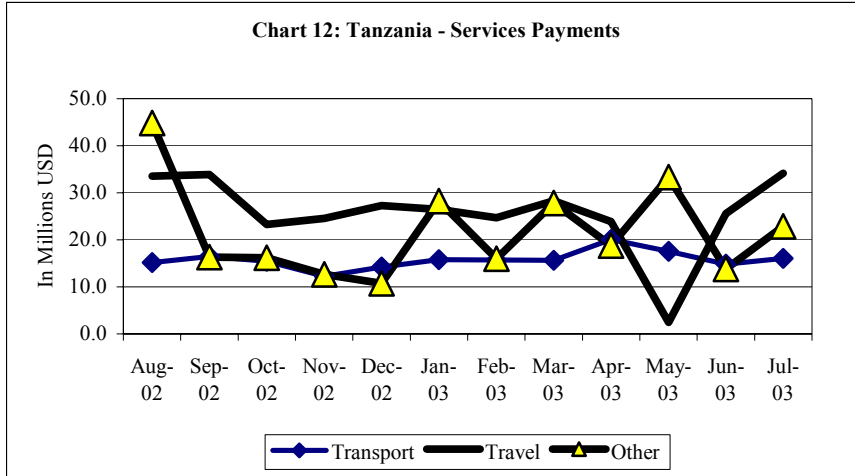
Similarly, imports of consumer goods increased to USD 504.8 million from USD 477.7 million recorded in the corresponding period ending July 2002, due to a surge in imports of other consumer goods. However, imports of food and foodstuffs recorded a decline of 8.6 percent from USD 142.4 million to USD 130.2 million during the year ending July 2003. The lower amount of imported food and foodstuff of which cereals account for about 60.0 percent, partly reflects improved domestic supply of cereals for the most part of the year following good weather conditions in the 2001/02 season. The structure of total imports during the year ending July 2003 is summarized on [Chart 11](#) below.



Services and Income Accounts

Services Account

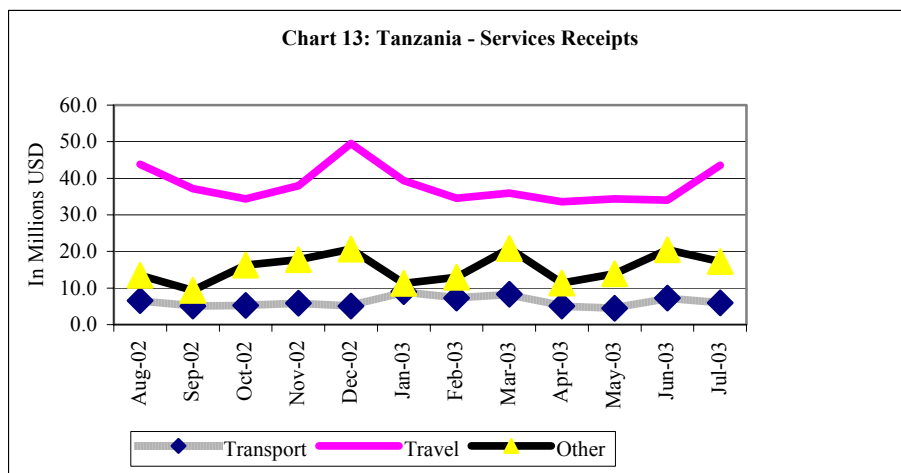
During July 2003, the services account worsened from a surplus of USD 7.6 million to a deficit of USD 5.6 million following the increase in services payments that offset the increase in service receipts. Services payments increased by 35.8 percent to USD 73.6 million, mainly due to the increase in travel, communication and government services.



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

The increase in communication services payments to USD 9.7 million from USD 2.8 million is explained by the increase in the usage of international satellite to facilitate telecommunications in remote parts of the country.

On the other hand, services receipts increased by 10.0 percent to USD 68.0 million mostly on account of an increase in travel (tourism) receipts. The increase in travel (tourism) services receipts largely signifies the onset of the country's peak tourist season (July-September).



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 deficit in the services account increased from USD 3.9 million to USD 5.6 million during July 2003. The development resulted from the increase in services payments that outweighed the impact of the increase in receipts. The increase in services payments was largely attributed to the increase in payments of communication, travel and other business services.

During the year ending July 2003, the deficit in the services account increased to USD 51.0 million from USD 36.0 million recorded during the year ending July 2002, following a 13.0 percent rise in services payments that surpassed the impact of a 11.5 percent increase in services receipts. The increase in payments was mainly attributed to a surge in communication service payments to USD 84.8 million from USD 16.6 million. The development was largely due to the increase in payments made by telecommunication companies to Satellite providers for usage of bandwidth (satellite) services. The satellite facilities are used to provide communication services to up-country areas that do not have traditional ground network installations. The increase in payments was also recorded in freight,

travel, government and other business services. The increase in freight payments is consistent with 8.0 percent increase in imports. On the other hand, the increase in services receipt was mostly due to increase in travel and transportation services. Travel (tourism) receipts rose by 12.4 percent to USD 459.5 million, partly due to continued efforts by the government and other stakeholders in promoting Tanzania as a tourist destination. There was however, a 20.6 percent decline in government services receipts to USD 52.7 million.

Income Account

During July 2003, the income account deficit increased to USD 18.1 million from USD 1.2 million recorded in the previous month largely due to the increase in income payments. The increase in payments results from the increase in scheduled interest payments to USD 14.6 million from USD 7.9 million.

Similarly, when compared with the corresponding month a year earlier, the income account deficit increased to USD 18.1 million from USD 9.7 million following the increase in income payments to USD 20.6 million from USD 15.4 million.

However, during the year ending July 2003, the income account deficit decreased to USD 40.8 million from USD 50.5 million recorded during the year ending July 2002, resulting from a 6.5 percent increase in income receipts coupled with a 4.6 percent decline in income payments. Income payments decreased largely on account of a 19.7 percent fall in scheduled interest payments to USD 74.7 million, attributable to debt relief under the HIPC initiative. The increase in income receipts, which was necessitated by the surge in investment income by the Bank

from USD 58.2 million to USD 63.8 million, is largely due to an increase in earnings following a surge in the Bank of Tanzania's foreign exchange reserves.

World Commodity Prices

With the exception of gold, the average world market commodity prices for other traditional crops increased, compared to the levels recorded in the previous month. The average price of both **coffee** (Arabica) and (Robusta) increased by 3.0 percent and 4.0 percent to USD 1.4 per kg and USD 0.8 per kg respectively. The increase in prices was mainly attributed to dry weather threats in the Brazilian coffee growing areas, Columbia and Southern Ethiopia that adversely affected coffee production in the crop year 2003/04, thereby exerting an upward pressure in coffee prices in the world market.

The prices of both **tea** (average of Calcutta, Colombo and Mombasa auctions) and (Mombasa auction alone) increased by 8.1 percent and 2.7 percent to USD 1.6 per kg and USD 1.5 per kg respectively in July 2003, from the price levels recorded in the previous month. The increase in price was mainly attributed to floods that hit low-lying tea estates in Sri Lanka, the world's largest exporter of tea.

The price of **cloves** increased by 10.7 percent to USD 1,900 per metric ton in July 2003, while the average price of **sisal** remained unchanged at USD 675.0 per metric ton from the price level recorded in the previous month.

The **cotton** (A-index) price increased by 3.9 percent to USD 1.3 per kg during the review period, from the levels recorded in the previous month. The improvement in the average cotton price was largely due to a surge in the global cotton

consumption in China (Mainland), which is expected to outpace the expected cotton production in 2003/04.

Prices of **crude oil** continued to register an upward trend during the month under review and were slightly above the upper oil cartel's price range of USD 28.0 per barrel. The increase in the crude oil prices during the month under review was due to low global energy stocks and the delay in the restoration of Iraq's oil exports to the pre war levels. The prices of crude oil (average of UK Brent, Dubai and West Texas Intl) and (Dubai f.o.b.) went up by 2.5 percent and 4.5 percent to USD 28.6 per barrel and USD 26.7 per barrel respectively, from the price levels recorded in the previous month. Similarly, the price of **white products** (f.o.b. West Mediterranean) increased by 4.5 percent to USD 259.3 per ton from USD 248.1 per ton recorded in June 2003. **Gold** price decreased by 1.5 percent to USD 351.0 per troy ounce in July 2003.

Debt Developments

Overview

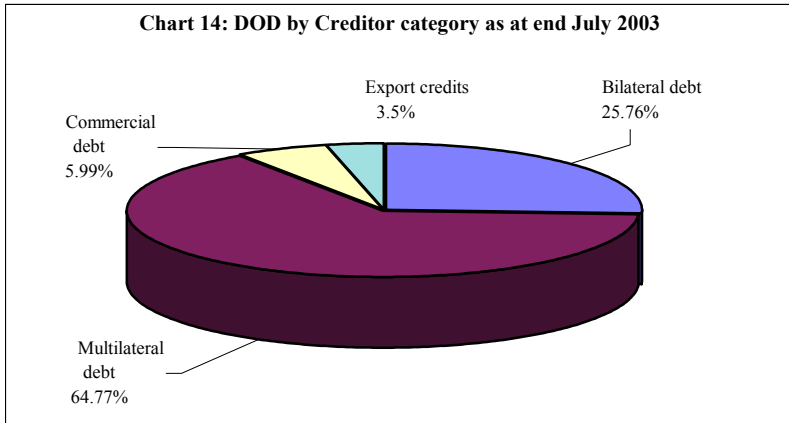
Total debt stock (external and domestic) as at end July 2003, stood at USD 8,150.8 million, out of which, USD 7,331.3 million (90.0 percent) and USD 819.5 million (10.0 percent) was external and domestic debt respectively. The total debt stock rose by USD 41.1 million from USD 8,109.7 million as at end of June 2003.

External Debt Position

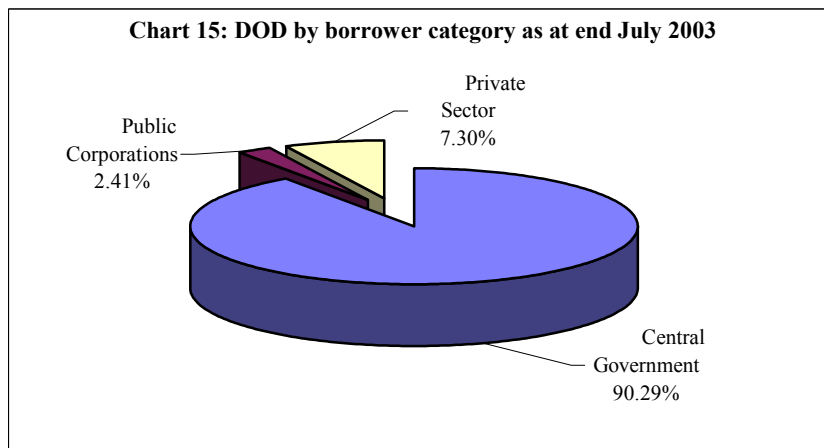
Total external debt committed as at end-July 2003 was USD 7,630.7 million. The amount increased by USD 24.1 million (0.3 percent) from USD 7,606.6 million as at the end-June 2003. Out of the total amount committed, disbursed outstanding debt (DOD) was USD 6,296.5 million and committed undisbursed debt (CUB) was USD 1,334.2 million. Interest arrears decreased by USD 0.3 million from USD 1,035.1 million at the end of June 2003 to USD 1,034.8 million as at the end of July 2003. The external debt stock increased by USD 63.2 million (0.9 percent) from USD 7,268.1 million at the end of June 2003 to USD 7,331.3 million as at the end of July 2003. The increase in debt stock was attributed mainly by recorded disbursements of private sector debt.

Disbursed Outstanding Debt

The profile of disbursed outstanding debt by creditor category shows that 64.8 percent and 25.8 percent of the total debt is owed to multilateral and bilateral creditors respectively. The proportion of total debt owed to Commercial and Export creditors was 5.9 percent and 3.5 percent respectively.

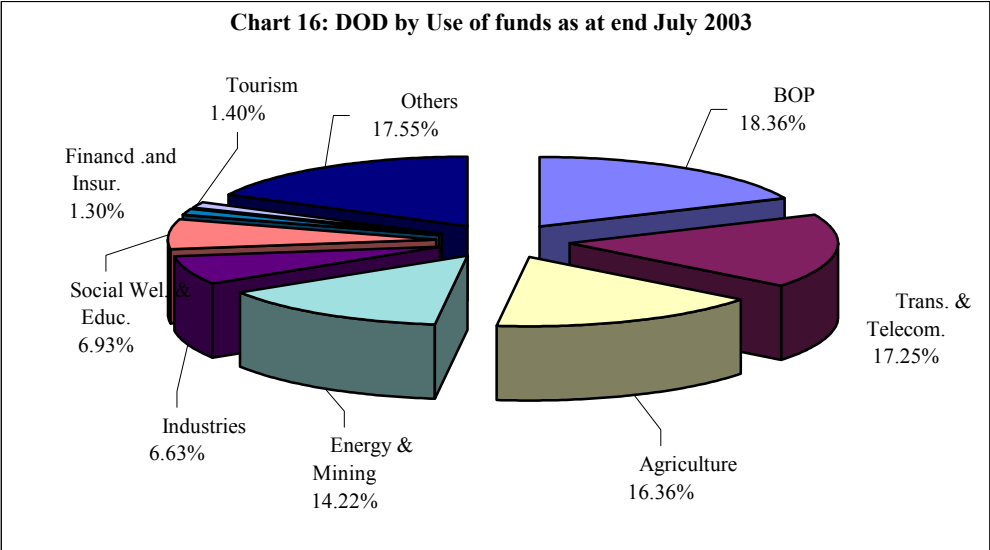


Analysis of disbursed outstanding debt by borrower category shows that, the Central Government is the largest borrower with 90.3 percent of the total debt. The Parastatal and Private sector accounted for 2.4 percent and 7.3 percent of the total debt, respectively.



Analysis of the stock of debt by use of funds indicates that, USD 1,156.1 million (18.4 percent) of the total debt was disbursed in the form of Balance of payments support. At the same time Transport received USD 1,085.9 million (17.2 percent).

Agriculture, Mining received USD 1,029.8 million (16.4 percent) and USD 895.6 million (14.2 percent), respectively. Industries absorbed USD 417.5 million (6.6 percent) of the total debt while, Social welfare, Finance and Tourism received USD 436.3 million (6.9 percent), USD 82.0 million (1.3 percent) and USD 88.3 million (1.4 percent) of the debt respectively. The remaining USD 1,105.1 (17.6 percent) was absorbed by other activities.



HIPC Debt Relief

- **Multilateral Creditors**

During the month under review, Tanzania received a total of USD 5.1 million as HIPC debt relief from Multilateral Institutions out of which, USD 0.5 million and USD 5.6 million came from IDA and AfDB (African Development Bank Group), respectively.

- **Bilateral creditors**

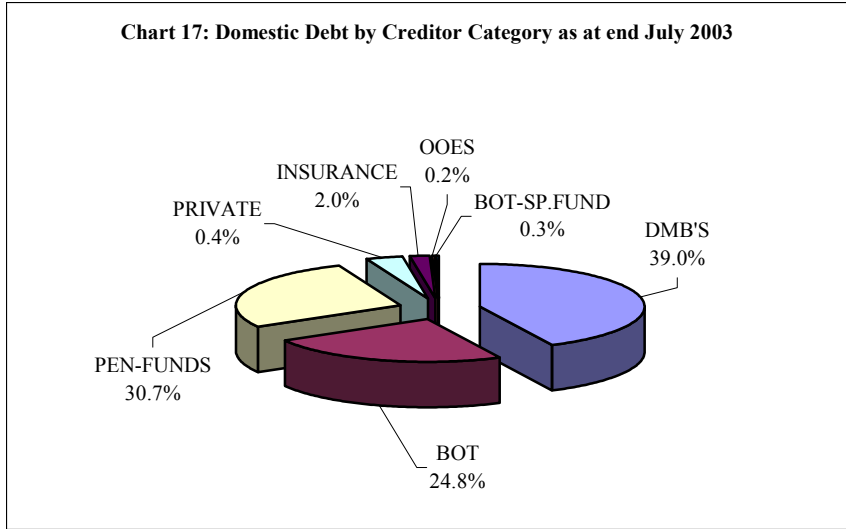
The Government concluded bilateral agreement with Russia on July 18, 2003 under which total debt worth USD 69.6 million and USD 15.1 million were cancelled and rescheduled, respectively.

Debt Contracted, Debt Service and Disbursements

During the month under review, there were no new loans contracted and recorded. Recorded disbursements amounted to USD 0.5 million and debt service payments were USD 8.3 million, resulting into net outflow of USD 7.8 million.

Domestic Debt Stock by Creditor Category

Commercial Banks were the largest creditors holding TZS 333.72 billion (39.0 percent) of the domestic debt. Pension funds were the second largest creditors holding securities worth TZS 263.30 billion (30.7 percent). The Bank was third with TZS 214.98 billion (25.1 percent) of domestic debt. While Non-bank financial institutions and Insurance companies held 2.6 percent and 2.0 percent respectively, the rest of the creditors altogether held 0.6 percent of the debt.



Domestic Debt Service

Government debt worth TZS 29.8 billion fell due for payment during the month of July 2003. Out of the debt falling due TZS 27.8 billion was principal while the remaining 2.0 billion was interest. The principal was rolled over while the interest was paid out of government revenues.

Other Economic Developments

Food Supply Situation

Food security vulnerability assessment carried out in early July 2003 by the Ministry of Agriculture and Food Security, Prime Minister’s Office and other stakeholders in drought affected areas in Tanzania, established that about 2 million people in 52 districts of Tanzania Mainland are facing food shortages. However, the vulnerability analysis revealed that current household stocks could still satisfy demand up to September 2003. The districts however will be at risk of severe food

shortages between October 2003 and March 2004. Thereafter, the Government intervention is anticipated in October 2003 through March 2004, in the form of providing food grains in the market at pre-determined prices and also in the form of relief food supplies.

Specifically, the Government has undertaken the following measures to alleviate food shortages in the country:

- (i) It has allocated a substantial amount of funds in the 2003/04 budget to cater for hunger and floods emergencies. Accordingly, the SGR department is expected to continue buying maize from surplus regions in order to distribute to the deficit areas at affordable prices.
- (ii) In order to encourage private traders to import food grains, the Government has waived the import duties for maize. Food imports by private traders are estimated at 210,750.0 tons of maize, 171,500.0 tons of rice and 223,000.0 tons of wheat. As at end-July 2003, the private traders had already imported 750.0 tons of maize, 4,000.0 tons of rice and 32,620.0 tons of wheat as part of the planned food import.
- (iii) The Government has also approached donors to contribute about 45,000.0 tons of food aid. Japan has pledged to contribute 17,000.0 tons of rice and 3,000.0 tons of wheat while India has pledged to donate 5,000.0 tons of rice and 5,000.0 tons of wheat.
- (iv) With the exception of Rukwa region, export of cereals has been suspended countrywide.

It is noteworthy that the anticipated food shortages have caused an increase in price for maize (staple food for most Tanzanians) as well as triggered increase in prices of maize substitutes ([Table 6](#)).

Table 6: Average wholesale prices for Selected Food Items – TZS per 100 Kg

Crop	16/6/2003	16/7/2003	28/7/2003
Maize	14,328	15,324	16,840
Rice	35,611	35,471	35,776
Beans	41,708	40,719	38,132
Millet	17,813	18,188	18,250
Wheat	21,800	19,125	21,200

Note: Average prices for 19 regions of Tanzania Mainland.

Source: Ministry of Agriculture and Food Security and Ministry of Cooperatives and Marketing.

During July 2003, the Food Security Department purchased 1,910.0 tons of maize from the food surplus regions. At the same time, it released 2,495.0 tons to the market, thus reducing the SGR stocks to 50,475.0 tons compared with the previous level of 51,060.0 tons recorded at end-June 2003.

Table 7: Food Security, SGR Stocks (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		
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 Bank of Tanzania computations.

Economic Developments in Zanzibar

Inflation Developments

Headline Inflation

The annual headline inflation rate for the year ended July 2003 increased to 7.1 percent from 6.3 percent recorded during the year ended June 2003. The increase was on account of an increase in food inflation associated with the commencement of the tourism season. When measured on the month-on-month basis, the headline inflation rate in 2003 increased to 0.2 percent from a decline of 0.7 recorded during the year ended June 2003. The increase was brought about by a general rise in average prices of most food items such as starchy roots, dried pulses, spices and meat (**Chart 18 and Table 8**).

Non-food inflation

During the July 2003 there was an increase in average prices of non-food items such as clothing and footwear, furniture and utensils, recreation and entertainment and transport. Consequently, the non-food inflation rate rose marginally by 0.1 percentage points from 7.9 percent in the year ending June 2003 to 8.0 percent in the year ending July 2003. Likewise, when measured on a month-to-month basis, non-food inflation between July 2003 and June 2003 remained stable at 0.3 percent because most of the non-food items maintained the same growth rates.

Food Inflation

The food inflation rate experienced an accelerating trend, rising from 5.5 percent during the year ended June 2003 to 6.8 percent during the year ended July 2003.

The increase in food prices during the period under review was demand driven due to influx of tourists partly attributable to gradual fading away of global terrorist threats. When measured on the month-on-month basis, food inflation rate increased slightly from negative 1.1 percent in June 2003 to 0.3 percent in July 2003.

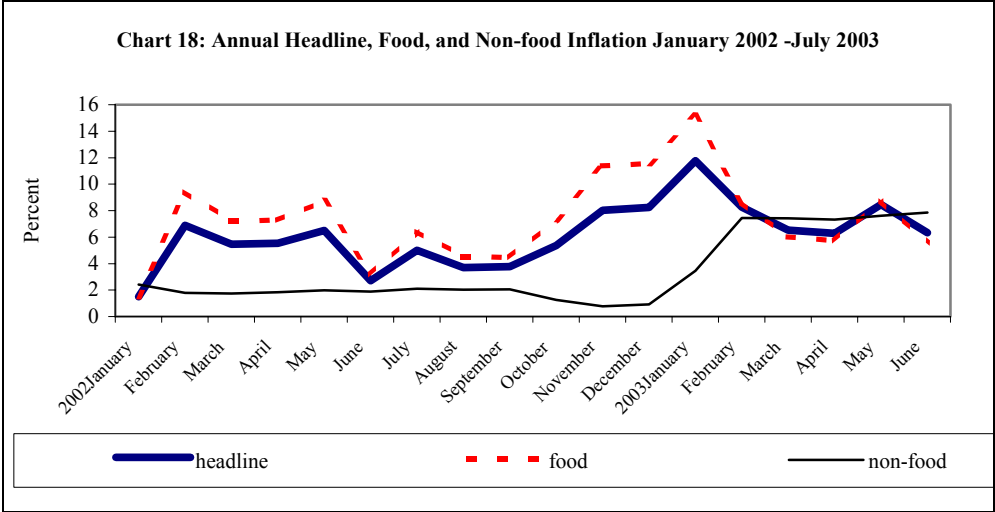


Table 8: Percentage Change in the Sub-Groups of the Zanzibar Consumer Price Index

Major Commodity Group	Weight %	Jun-02	% Change June 02- June 03	Jul-02	Jul-03	% Change July 02-July 03	%Change June 2003-July 2003
Food	75.8	339.8	5.5	337.0	359.8	6.8	0.3
Drinks and Tobacco	1.2	463.0	10.9	463.0	513.2	10.8	0.0
Rent	1.4	761.9	12.5	761.9	857.1	12.5	0.0
Fuel and Light	7.5	823.3	4.3	823.3	858.5	4.3	0.0
Clothing and Footwear	5.8	177.1	21.3	178.1	216.8	21.8	0.9
Furniture and Utensils	1.2	324.0	8.5	328.7	352.8	7.3	0.3
Household Operations	2.5	204.1	10.3	204.7	225.1	10.0	0.0
Personal Care and Health	0.6	206.0	16.9	207.5	240.9	16.1	0.0
Recreation and Entertainments	0.5	238.7	19.7	265.2	274.1	3.4	-4.1
Transportation	3.4	442.8	8.1	442.8	479.2	8.2	0.1
TOTAL	100.0	372.4	6.3	370.5	396.9	7.1	0.2

Source: Office of the Chief Government Statisticians

Zanzibar Government Budgetary Developments

Overall Performance

Zanzibar Government budgetary performance, on cheques issued basis, recorded an overall deficit before grants of TZS 2.3 billion during the month of July 2003 compared with a deficit of TZS 1.5 billion recorded in the previous month of June 2003. The budget registered a deficit of TZS 1.4 billion after considering grants amounting to TZS 0.9 billion,

Revenue Performance

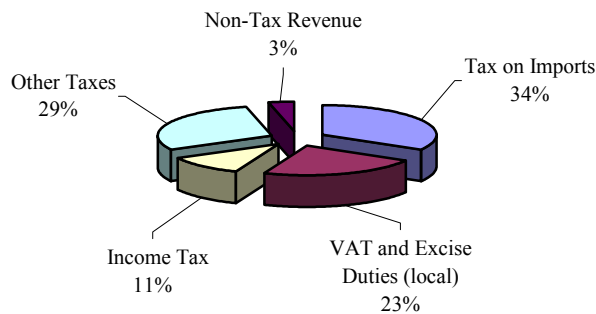
During the period under review, total revenue collection amounted to TZS 2.9 billion, down from TZS 3.8 billion collected in June 2003. The revenue collections

accounted for 55.5 percent of the projected monthly level of TZS 5.2 billion and accounted for 4.6 percent of the annual projection of TZS 62.9 billion. The dismal performance in revenue collection was mainly attributed to lower than expected collection in all revenue categories except income tax and other tax category.

Analysis of revenue by category reveals that, tax revenue decreased from TZS 3.4 billion recorded in the previous month to TZS 2.8 billion during the review month being 96.6 percent of total revenue. Tax on imports decreased from TZS 1.4 billion to TZS 1.0 billion mainly due to low imports volumes through the Zanzibar port. Similarly, VAT and Excise duties (local) declined by 28.5 percent to TZS 0.7 billion compared to TZS 0.9 billion registered in previous month. However, income tax recorded a slight increase from TZS 0.31 billion collected in the previous month to TZS 0.32 billion due to increase in tax returns. Also, revenue from “Other taxes” category increased by 7.1 percent from TZS 0.80 billion to TZS 0.86 billion, mainly due to increase in trade activities during the month under review.

Meanwhile, non-tax revenue collection dropped sharply from TZS 0.4 billion collected in previous month to only TZS 0.1 billion, representing a mere 3.4 percent of total revenue. The unfavourable performance was largely on account of seasonality especially during the beginning of the new financial year.

Chart 19: Government Revenue by Source July 2003



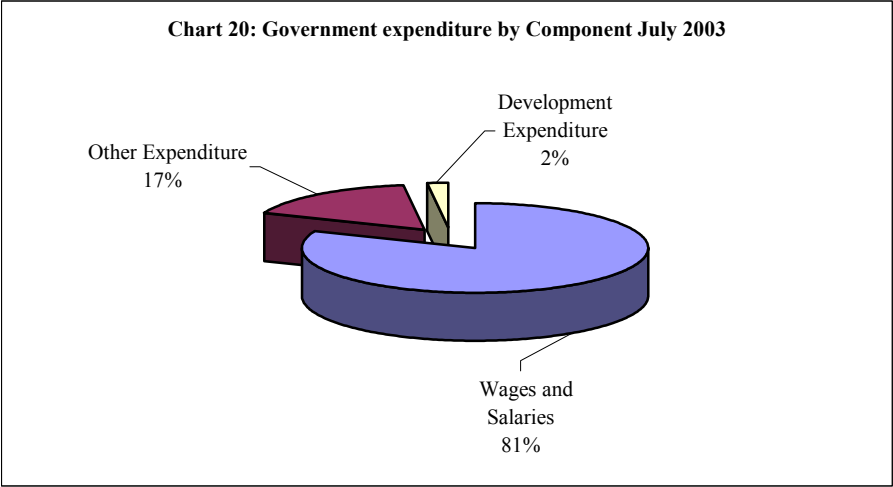
Expenditure

During the period under review, total Government expenditure was lower by 1.0 percent from TZS 5.3 billion in June 2003 to TZS 5.2 billion. The level accounted for 41.9 percent of the projected monthly expenditure of TZS 12.4 billion and was 3.5 percent of the annual targeted expenditure of TZS 149.1 billion. The lower than projected expenditure is mainly attributed to low expenditure levels recorded on development and other expenditures categories.

Recurrent expenditure amounted to TZS 5.1 billion, lower than TZS 5.1 billion spent in June 2003. The level was 63.8 percent of the projected monthly expenditure of TZS 8.0 billion. Expenditure on wages and salaries increased by 20.0 percent from TZS 3.5 billion spent in June 2003 to TZS 4.2 billion. However, other expenditure category decreased from TZS 1.7 billion spent in June 2003 to TZS 0.9 billion.

During July 2003, development expenditure amounted to TZS 0.1 billion compared to TZS 0.2 billion spent in June 2003, and is only 2.4 percent of the

monthly projected amount of TZS 4.4 billion. The level, accounted for 2.1 percent of total expenditure. The lower than expected development expenditure was due to lower than expected resources and compliance to cash budget system.



Financing

During the month under review the Government operations were financed by using internal resources and grants received from the Union Government amounting to TZS 0.9 billion.

Zanzibar Debt Developments

Overview

The overall total debt (external and domestic) as at the end July 2003 stood at TZS 100.3 billion or USD 96.0 million. The debt stock declined by USD 8.3 million or 8.0 percent from USD 104.3 million registered in end June 2003. The decline was attributable to debt reconciliation and exchange rate variations.

Out of the total debt, domestic debt amounted to TZS 42.3 billion or USD 40.5 million accounting for 42.2 percent of the total debt, while external debt amounted to USD 55.5 million or TZS 58.0 billion accounting for 57.8 percent of the total debt.

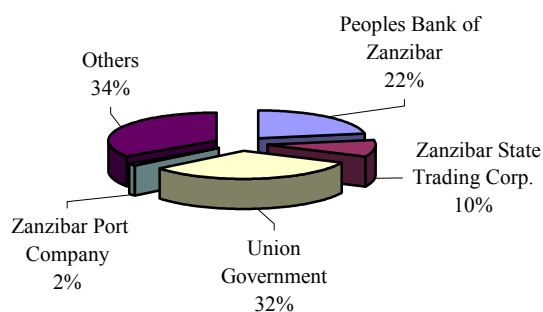
Domestic Debt

During July 2003, domestic debt stood at TZS 42.3 billion, which marked an increase compared with TZS 41.8 billion registered at the end of June 2003. The increase in domestic debt was largely attributed to accumulation of debt arrears.

Domestic Debt - By Creditor

Domestic debt by creditor reveals that as at end-July 2003, the Zanzibar Government indebtedness to the Union Government amounted to TZS 13.6 billion accounting for 32.2 percent of total domestic debt. The People's Bank of Zanzibar claims to the Government amounted to TZS 9.4 billion accounting for 22.3 percent of total domestic debt. Zanzibar State Trading Corporation and Zanzibar Port Authority claims amounted to TZS 4.1 billion and TZS 0.7 billion accounting for 9.6 percent and 1.6 percent of total debt respectively. Other creditor claims amounted to TZS 14.5 billion accounting for 34.3 percent of the total domestic debt.

Chart 21: Domestic Debt by Creditor as at end July 2003



Domestic Debt by Instrument

Domestic debt by instruments, as at end-July 2003, shows that advances by Union Government remained unchanged at TZS 13.6 billion, constituting 32.2 percent of total domestic debt. Borrowing through Long-term loans, Government Stocks and short-term loans remained unchanged at TZS 9.4 billion 22.3 percent, TZS 4.1 billion or 9.6 percent and TZS 0.7 billion or 1.7 percent respectively. Borrowing through treasury bills and other instruments increased by 1.6 percent and 5.2 percent respectively, mainly due to data reconciliation.

Domestic debt by maturity

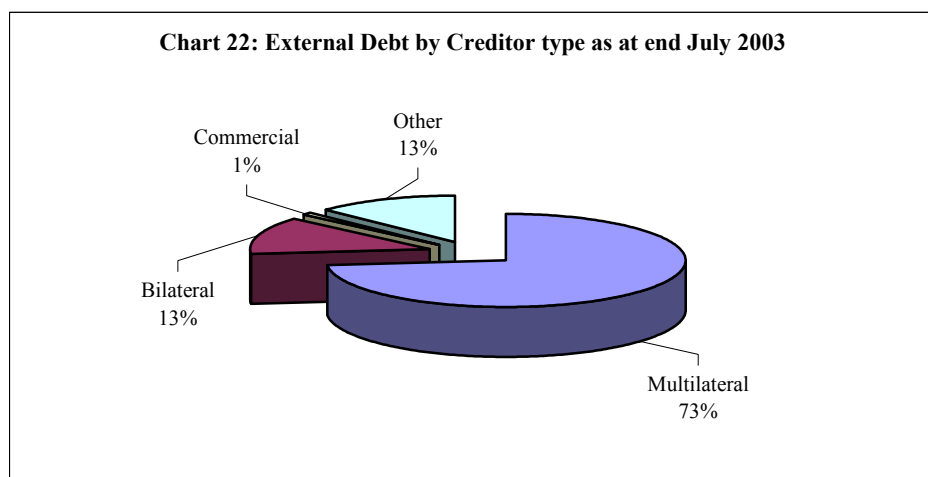
Analysis of domestic debt by maturity indicates that, as at end-July 2003, debt maturing less than a year amounted to TZS 9.5 billion accounting for 22.4 percent of the total domestic debt. Debt maturing between 2-5 years amounted to TZS 9.4 billion accounting for 22.3 percent of total domestic debt. Debts with undetermined maturity amounted to TZS 23.4 billion or 55.3 percent, while debt in arrears amounted to TZS 3.0 million accounting for 0.01 percent of total domestic debt.

External Debt

The Zanzibar Government external indebtedness as at the end of July 2003 stood at USD 55.5 million or TZS 58.0 billion. There was no change from the position registered in June 2003, however reconciliation is still in process.

External Debt by Creditor Category

As at end July 2003, the profile of external debt by creditor revealed that multilateral debts amounted to USD 40.6 million accounting for 73.2 percent of total external debt. Bilateral debt amounted to USD 7.4 million or 13.2 percent. Commercial creditors amounted to USD 0.3 million accounting for 0.6 percent of total external debt, and, other creditor claims accounted for 12.9 percent of total external debt.

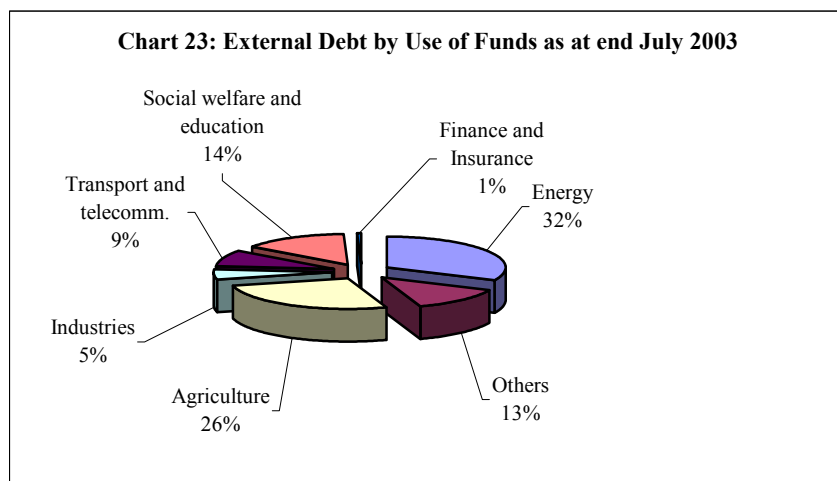


External Debt by Maturity

Analysis of the external debt by maturity shows that, as at end July 2003, debts maturing between 5-10 years amounted to USD 6.7 million accounting for 12.1 percent of total external debt. Debt with maturity between 10-20 years amounted to USD 4.8 million or 8.7 percent. Debt with maturity above 20 years amounted to USD 31.7 million accounting for 57.1 percent of total external debt, while, debt in arrears amounted to USD 12.3 million or 22.3 percent.

External debt by use of funds

The profile of External debt by use of funds shows that, as at end July 2003, debt amounting to USD 17.7 million or 31.9 percent was utilised in the Energy Sector. Agriculture, Industries, Transport and Telecommunication, Social welfare and Education and Finance and Insurance absorbed USD 14.6 million or 26.2 percent, USD 2.9 million or 5.2 percent, USD 4.9 million or 8.8 percent, USD 8.0 million or 14.3 percent and USD 0.3 million or 0.6 percent respectively. Other sectors absorbed USD 7.2 million or 12.9 percent.



Trade Developments

Trade balance

During the month of July 2003, the deficit in the trade account (goods and services) worsened to USD 3.6 million from USD 3.0 million recorded in the previous month. The expansion in the deficit is explained by the increase in imports from USD 5.5 million to USD 6.0 million against the fall in exports from USD 2.6 million to USD 2.4 million.

Exports

During the period under review, total exports declined to USD 2.4 million from USD 2.6 million recorded in June 2003. The decrease was attributed to a decline in services receipts by 13.6 percent.

Traditional exports - predominantly seaweeds - increased from USD 0.17 million recorded during June 2003 to USD 0.2 million in the review period. Export volume of seaweed increased by 64.0 percent from 1,000.0 tons registered in June 2003 to 1,640.0 tons in July 2003 while unit price rose from USD 172.6 per ton down to USD 197.5 per ton during the review period. There were no clove exports during the month under review.

The value of non-traditional exports increased to USD 0.13 million from USD 0.1 million recorded in June 2003. Exports of manufactured goods slightly increased to USD 0.1 million while fish and fish produce registered insignificant improvement.

Other exports declined to USD 0.07 million from USD 0.08 million recorded in June 2003. No exports for horticulture were recorded during the review period.

Imports

During the period under review, overall imports (c.i.f.) increased to USD 5.3 million from USD 4.6 million registered in June 2003. The surge in imports emanated from importation of consumer goods and capital goods. The consumer goods increased from USD 2.1 million to USD 2.7 million due to increase of other consumer goods basically fabrics and electronic items. The importation of capital goods increased from USD 1.2 million to USD 1.5 million mainly due to importation of machinery to support the on going capital projects. However intermediate goods imports registered a decline from USD 1.3 million to USD 1.1 million mainly due to decline in oil imports. The latter is partly explained by non-official oil imports into Zanzibar from mainland and/or neighbouring countries, which tend to have lower prices.

Services and Income Account

During the period under review, the combined income and services account deteriorated from a surplus of USD 0.93 million recorded in June 2003 to a surplus of USD 0.9 million. The decline was attributed to an decrease in foreign receipts from USD 2.3 million recorded during June 2003 to USD 2.0 million in July coupled with a slight decrease in foreign payments from USD 1.4 million to USD 1.2 million in the same period.

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 clearly 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 differently at various levels of aggregation, 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 domestic currency denominated time deposits and savings deposits.

Extended Broad Money, M3

It consists of Broad Money (M2) plus foreign currency deposits held by residents

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 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 foreign 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 Requirements

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 rate, relative to some base period.

Real Effective Exchange Rate

This 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 the 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.