THE EXCHANGE RATE REGIME MACRO-ECONOMIC INSTABILITY AND TRADE LIBERALIZATION IN TANZANIA

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Introduction:

The purpose of this paper is to review the current exchange rate system in Tanzania in light of other macro-economic developments. Sustained trade liberalization must ultimately rest on market clearing exchange rate regime. Considering the importance changes in the nominal exchange rate for the overall stability of the Tanzanian economy, the authorities should at all times be capable of intervening the market, varying their foreign assets positions. This action of course, would lead to change in broad money supply. To be able to deal with the unwanted consequences of these changes the authorities must have access to effective instruments of monetary policy. The authorities should also be able to more effectively and efficiently, influence the private demand for foreign exchange, essentially by using interest rate policy and open market operations to affect both the intensity of monetary flows through the balance of payments and the level of domestic aggregate demand. In short, Tanzania must implement both a more sustained liberal trade regime and more effective instruments of monetary policy.

A: The Current Exchange System: Trends in the Real Exchange rate...

The Tanzanian shilling (TSh.) was introduced in 1966 and was originally pegged to the SDR-currency basket with individual currency weights that more adequately reflect the country's pattern of foreign transactions. From 1966 to 1974 the exchange rate was T.Sh 7.14 = US$ 1. Subsequently, the shilling had minor nominal fluctuations until January 20, 1979. At that time, the peg to the SDR was discontinued, the TSh. was devalued by 10% (to TSh. 8.22 = US$ 1) and pegged to a basket of currencies of Tanzania's main trading partners. The shilling remained stable until March 8, 1982, when it was again devalued by about 10%. A 20% devaluation on June 6, and a further 20% devaluation on June 15, 1984 brought the shilling to TSh.. 17 to the dollar. During the first half of 1986, the shilling was allowed to slide to TShs. 25 to the dollar, and in June it was further devalued to TSh. 40. Additional small devaluation have resulted in an exchange of TShs. 50 to the dollar, by the end of 1986. Since March 1986, the TShs. has been depreciating further through a crawling peg, and had dropped to TSh. 106.60 to the dollar by October, 1990.

The nominal exchange rate is the rate at which a currency can be officially exchanged for the currencies. When a currency is devalued the nominal exchange rate is said to decline, or depreciated. However, even without a change in the nominal exchange rate, the amount of goods that can be bought with one currency as compared to another may change if there are differences in the

goods which can be purchased as a result of differences in inflation rates.

The real exchange rate attempts to capture both the effects of differential inflation and the effects of nominal exchange rate adjustment. Thus if a country has a relatively high inflation rate and does not devalue to allow for that fact, it is said that the real exchange rate has appreciated , i.e. the amount of goods that can be purchased with a given amount of foreign currency is declining faster in that market than in foreign markets, an effect that could also result from a revaluation or appreciation of nominal exchange rate. On the other hand, the same effect as a devaluation could be achieved by a decline in the domestic price level.

As the Tanzanian Economic Trends (TET) notes, the real exchange rate of the Tanzanian shilling was over time appreciating in terms of dollars between 1980 and 1986. The mini-devaluation which were implemented in that period were not substantial enough to restore the real exchange rate to the level prevailing in the first quarter of 1980.'

Table 1. change in the Exchange Rate TSh/US Dollar

Year	1980	1981	1982	1983	1984	1985	1986	1987
Nominal	-	-1.8	-14.4	-30.9	-45.3	-8.8	-212.6	-62.8
Real Effective	1	6.7	8.5	8.3	14.2	39.3	-189.0	-55.8

Notes: Nominal exchange rate deflated by difference between the national and US rate of consumer price inflation.

Source: Maliyamkono & Bagachwa (1990). The Second Economy p. 142

According to Maliyamkono & Bagachwa (1990) there are three important policy instruments which have significantly influenced the nature, magnitude and direction of foreign trade transactions. These are exchange rate management, the administrative system of foreign exchange allocation, and tariffs. Foreign trade policy from the early 1970s to the early 1980s was dominated by quantitative control introduced to deal with the growing excess demand for foreign exchange.

Between 1966 (when the Tanzania shilling was introduced) and January 1979 the exchange rate policy pursued was essentially one of nominal exchange rate rigidity characteristic of fixed exchange rate regime. During the mid-to-late 1960's Tanzania maintained a balanced external trade account. By 1970/71, however, a significant trade deficit had already emerged. From 1970 to the end of 1978 the real exchange rate appreciated by 56% as a result of higher domestic inflation while terms of trade deteriorated by 17% during the period and external debt increased rapidly. The seriousness of the Tanzania's financial position was soon translated into the scarcity of imported raw materials, leading to a dramatic deterioration of capital stock and in even greater shortages of spare parts and other commodities (Mbaga & Baguma 1982).

To deal with the problem of shortages the Government undertook to liberalize imports by waiving restrictions placed on merchants and by removing import controls on several consumer goods. These measures were also clearly carried out in accordance with IMF prescriptions, but the document which finally

induced agreement in May, 1986 was the Economic Recovery Program (ERP). The expressed intention was to increase the output of export and food crops, rehabilitate the infrastructure, raise industrial capacity utilization and balance of payments. The key policies have been aptly summarized by Samuel Wangwe (1985, p.153) as follows:

- raising producer prices by 5% in real terms or to the extent of 60-70% of the world market price, whichever is higher;
- to increase the list of items under import liberalization;
- further confinement of imports and internal trade;
- continued budget expenditure controls;
- control of money supply;
- raising parastatal efficiency;
- preference for structural adjustment and non-project and import support type of aid;
- debt rescheduling;
- improvement of the system of allocation of foreign exchange

From 1982 onwards, the Government used the exchange rate action as a policy for economic management. Between 1981 and 1985, the shilling had depreciated from 8.32 to 16.32 to the US$, a devaluation of 96% in shilling terms or 42% in dollar terms.

According to Maliyamkono and Bagachwa (1990), adjustment of the exchange rate was needed because between 1982 and 1986 the annual rate at which Tanzanian prices were rising was on average four times higher than the rate of inflation in Tanzania's major trading partners. Export incentives had declined, and as Table 1A shows, the country was experiencing massive budget deficits, as well as increasing deficits on the external trade account especially since 1978. Al these indicate that the real exchange rate must have appreciated. Odegaard (1985) estimates that by 1981 the exchange rate was already overvalued by 53%.

The overvalued exchange rate posed severe problems to the adjustment effort. First, it meant that a significant portion of the much needed foreign exchange leaked through smuggling and other black market deals. Secondly, since the producer price was being set as a residual between the expected world market price net of export taxes and the marketing margins of the marketing producer prices and hence acted as a disincentive to increased production of cash crops. This is obvious since the world market price of cash crops in Tanzania shillings is simply the product of the exchange rate and the world market price in any of the international convertible currencies. Indeed, as Odegaard has observed. "The taxation of agricultural exports via an overvalued exchange rate apparently was substantially higher than the direct tax on cash crops exports".

Thirdly, if not adjusted, increasing overvaluation of the exchange rate would progressively price Tanzania out of the foreign markets since her exports would be relatively excessive compared to similar exports from other countries. In turn, this could have led to reduced foreign exchange earnings and hence increased import pressure, leading to further deterioration in the balance of payments. On the other hand, the artificial cheapening of imports might encourage increased importation of non-essential imports.

Devaluation, it was argued, was needed to improve the country's competitiveness in exports, to provide remunerative prices to cash crop producers, to reduce leakages of foreign exchange through black market channels, to improve the balance of payments and to facilitate Government budgetary balance.

Therefore, the Government exchange rate policy has been to manipulate the exchange rate so as to provide incentives for farmers, and also as a way of correcting overvaluation in the shilling and to attract more donor support. Subsequently, since 1986, the Government has made major changes to its exchange rate policy by introducing monthly adjustments designed to keep the real exchange rate or purchasing power more or less constant.

Table 2: Official and Parallel market exchange rate. (TShs./US$ average for period)

Period	Official Rate	Parallel Market Rate
1980	8.2	21.0
1981	8.3	27.6
1982	9.3	32.6
1983	11.1	39.6
1984	15.3	60.0
1985	17.5	100.0
1986	32.7	170.0
1987	70.0	180.0
1988	120.0	210.0
1989	145.0	250.0

Source: Maliyamkono & Bagachwa, "The Second Economy in Tanzania 1990" p158

Thus from March to June 1986, the shilling fell from TShs. 16 to the US Dollar to TShs. 30. This was followed by a shock devaluation of 37% against the USDollar in 1986/87 budget. Since then the shilling has been substantially devalued through the crawling peg, especially following the realignment of values of major currencies in 1987. In November, 1988 the shilling was brought down from TShs. 98 to 120 to the US Dollar, followed by a downward crawl. Since 1986 the devaluation of the shilling has been more pronounced against the pound sterling and the deutch mark (Table 3). Despite the massive devaluation of the shilling in 1980s the gap between the official and the parallel exchange rate did not disappear as can be seen from the table 3. Whereas the relative difference diminished, the absolute difference has been nearly the same.

Table 3 **Exchange rate of TShilling - against selected currencies**

	Exchange Rate			Percentage Change, 1 Year		
	US Dollars	**Pound Sterling**	**Deutch Mark**	**US Dollar**	**Pound Sterling**	**Deutch Mark**
June	17.1742	23.2281	6.1710			
Dec.	18.1057	21.1102	5.7780			
1985						
June	17.7333	22.4521	5.7359			
Dec.	16.4993	23.5857	6.5892	-8.9	11.73	14.04
1986						
June	63.4835	101.5831	34.7142			
Dec.	83.7174	155.5051	52.4874	61.87	104.75	97.60
1988						
June	97.1871	175.0340	53.2824			
Dec.	125.0000	226.1250	70.5020	49.31	45.41	34.32
1989						
June	145.0000	223.9525	73.8290			
Dec.	192.3000	309.6992	113.7029	53.84	36.96	61.28

Note : End of quarter

Source: Bank of Tanzania. Economic and Operations Report for the year ended 30th June, 1989

Obviously, devaluation was not sufficient, because there is still a shortage of foreign exchange. The high domestic inflation rate during the last four years of around 30% surely can be identified as one reason for this dual exchange rate system. High domestic inflation rates result (c.p.) in a real revaluation of domestic currency, i.e. the real exchange rate - the price of the foreign currency denominated in domestic currency - is going to fall.

Overall, the real exchange rate between the TSh. and the US$ has been falling from 1970 to 1982 (i.e. the TShs. was revalued in real terms), although the TShs. was devalued nominally in 1981 and 1982. Only in 1983 and 1984, the nominal devaluation of 16.7% and 27.1% respectively resulted in a first considerably real devaluation of the TSh. against the US Dollar. But already in 1985, the 12.5% devaluation of the TSh. was not sufficient to compensate for the difference between the Tanzanian and the US inflation rates. The shilling had again the same real value (in real US$), as it had in 1983. But the high nominal devaluation of the TShs. versus the US$ in 1986 (46.6%), 1987 (49%) and 1988 (31.5%) have caused a considerable real devaluation of the Tanzanian currency (Wenzel and Widermann 1989). Now the question is - what impact did these devaluation have on the balance of trade?

According to Wenzel and Wiedermann (1989), the real overvaluation of the TShs. up to 1982 contributed to the bad trade account but the influence of the real

exchange rate as a macro price for the trade account is much smaller than usually assumed. During the 1970's, they found out that there was a systematic positive relationship between the real exports and the real exchange rate, i.e. the cheaper the TSh. in terms of the US$, the higher are the real exports. However, this does not mean that export volumes have extended; it can be the case that Tanzania only took profits from the more favorable exchange rate. Imports seem to react normally, i.e. import expenditures are reduced the more expensive foreign currency is (i.e. the US$). In the 70's, the import volume reduction overcompensated the import price increases (caused by devaluation), i.e. the Tanzanian import demand elasticity is smaller than -1. In the eighties, however, the picture is not systematic: nearly the same import volumes in 1981 and 1986 have occurred with very different real exchange rates. The export development does not follow the same pattern as in the seventies; the export to GDP ratio more or less is independent of the real exchange rate.

B: Liberalization of External Trade

As the Tanzania Economic Trade (TEP) notes, however, Government measure to liberalize external trade were partial in the sense that:

(i) Exchange controls were not withdrawn and in principle have been mildly relaxed. Foreign exchange receipts are still in law to be handed over to the Central Bank;

(ii) The list of imports allowed under the own-funded imports scheme is not completely open; in principle definite restrictions on the list of permissible imports remain in place;

(iii) Own-funded imports remain subject to tariffs and as the exchange rate has adjusted the shilling value of ad-valorem tariffs should have increased in proportion.[3]

C: Economic Developments:

(a) Overall Review:

In 1974 Tanzania faced her first major balance of payments deficit. The crisis was short lived and was quickly superseded by a booming export performance. The government embarked on a two-fold policy. First, it instantly reduced imports of consumer goods; second, it approached the IMF for financial support which it was legally entitle as an ordinary member of the Fund (Nyirabu, 1981: 53-61). Between November 1974 and August 1975. Tanzania drew the first of the two trenches of her quota with the IMF. These trenches, designed to overcome short-term imbalances in a member state's balance of payments, were not linked to any conditionality. The activation of SDR 20 million was, therefore, easily performed. Furthermore, the country received SDR 20.6 million from the Fund's Oil Facility in 1975 and, one year later, drew SDR 21 million under the Compensatory Financing Facility (Kamori, 1984:223)

A record harvest in 1975 and a booming world market for coffee quickly lifted the major impasse on Tanzania's balance of payments; economic performance was restored as was the previous pattern of growth. Having from 4.45% in 1973 to 2.2% in 1974, growth occurred at 4.6% in 1975. The coffee boom produced

a current account surplus with the assistance of an import licensing policy, which was maintained after recovery. Hence, the Bank of Tanzania's Annual Report identified 1975/76 as a period of economy and financial recovery.

The period of growth came to an abrupt halt in the wake of the Ugandan War. The military engagement depleted the country's financial resources - foreign exchange reserves and domestic credit facilities alike. In 1979, the overall balance of payments became negative; current account deficits could not be balanced, by the capital inflows. The depletion of foreign exchange curtailed imports, which affected the performance of cash crops and the industrial sector. hence the GDP contracted while pressure on a 3.2% decline in 1982 (Minister of Planning, 1983:5). This trend forced the Government and the Party to adopt emergency measures in the introduction of a National Economic Survival Program (NESP) in May, 1981. Government substituted inflationary policies for deflation recurrent expenditure was translated into rural producer price increases (Minster of Planning, 1982: 6-7; Baguma, 1982.18). This redistribution was accompanied by drastic cuts of salaries and social services, and another sharp increase in taxation. It was expected that through price incentives cash and food crop production would be stimulated. NESP, however, did not produce the expected results, precisely because price increases remained below the inflation rate and parallel market returns. The program was a failure and was substituted with the Structural Adjustment Program (SAP) in 1982.

The SAP which followed was more detailed, and more closely allied with IMF thinking - partly because the advisory body was itself, in effect, previously vetted by both the IMF and the World Bank. The clear expectation of the Government was that IMF negotiations would henceforth be more fruitful.

The actions which ensued doubled the share of development expenditure allocated to agriculture between 1982/83 and 1983/84, increased produced prices, and replaced crop authorities with farmer cooperatives and marketing boards. The IMF also insisted on a devaluation of the Tanzanian shilling, a wage-freeze, higher rates of interests, the removal of price controls, and the abolition of subsidies on pesticides, fertilizers and on maize meal. But the document which finally induced agreement in May, 1986 was the Economic Program (ERP).

The Economic Recovery Program (ERP) covering a three year period (1986/87-1988/89) ended on June 30, 1989. The program which was a continuation of Government effort in the structural adjustment process, was designed to arrest the decline which had persisted from the late 1970's through the early 1980's. During the ERP period, the Government implemented a number of far reaching policy reforms, aimed at facilitating the direction of resources to more productive sectors, and at reducing the internal and external imbalances.

At the end of the ERP, substantial achievement was recorded in the performance of the real sector of the economy. Total output performance as measured by the Gross Domestic Product (GDP) was relatively impressive. GDP increased, in real terms, by 3.6% in 1986, 3% in 1987, 4.1% in 1988 and is estimated at 4.5% in 1989. This performance contrasts sharply with an average growth of only about 1% during the 1980-85 period. The revival in GDP growth meant that per capita output which had been declining steadily has now become positive. The main source of GDP growth has so far been agriculture, the contributing factors

being favorable weather conditions, improved availability of inputs, and the impact of attractive incentives to producers. The most important element in agriculture performance has been recovery in food output. In 1988/89, production of maize, the main staple, is estimated to have increased by 34%, to reach 3.1 million tons. At the beginning of the ERP in 1985/86 season, production of maize was 2.2 million tons. Other leading grains-rice and wheat also rose sharply during the ERP period. In the export sector, cotton registered record production during the ERP period. Generally, there has been a revival in the performance of the industrial sector, recording a growth rate of 5.2% in real terms in 1988, in contrast to persistent declines during the early 1980's. However, the industrial sector remains depressed as output is still much below the levels attained in the 1970's.

The external sector has continued to be the most difficult area of economic management. Although the reforms implemented during the ERP helped to stimulate exports particularly of non-traditional goods, and the increased external support resulted in improvement of foreign exchange situation, the balance of payments position remains depressed. At the end of the ERP, exports are still only one third of import bill. The recovery in agricultural production could not be translated into increase in exports due to structural bottlenecks including transport, processing and marketing. Export performance was also constrained by the unstable world market prices of primary commodities. As a result, the achievement attained, has been much below the ERP target of US$ 452 million worth of merchandise exports by the end of 1988/89.

Nonetheless, the balance of payments disequilibrium continues. The current account deficit, excluding grants, was $ 841.3 million during 1988/89 or 213.6% of merchandise exports, showing little improvement from the pre-ERP period.

Fiscal policy remained tight through the ERP period with the outturn of 1988/89 budget being generally within the targets. In 1988/89, the overall deficit, excluding amortization, was contained at 8.3% of GDP on cheques issued basis. However, if amortization is included, the overall deficit was 13.% of GDP, suggesting that debt service burden has substantial impact on government fiscal situation. Interest payments and amortization account fro nearly 35% of recurrent expenditure in 1988/89. Revenue performance was in line with target, but remained at around 20% of GDP, and could finance only 59% of total expenditure.

At the end of the ERP, monetary situation continued to reflect the underling structural weaknesses in the economy. Domestic credit formation continued to be excessive, and therefore responsible for the rapid growth in money supply. During the ERP period, the direction of bank credit was shifted from the Central government in favor of the public entities and the private sector. Agricultural market institutions continued to take the largest share of credit, although at the end of 1988/89, the share of credit to industry and agricultural input financing increased significantly. All in all, overall credit growth was responsible for a 38% increase in broad money, a rate substantially higher than the growth in real GDP. Thanks to the availability of food, which helped to mitigate the impact of money supply growth, inflation in 1988/89 was contained at 28%. Food accounts for 64% of the price index basket, and its supply particularly in the urban sector

has an important bearing on inflation in Tanzania.

(b) Interest Rates and Credit Allocation

A modest change in interest rates took place in July 1982 when deposit rates were increased on longer term deposits from 6% to 7.5% with a 0.5% increase allowed on 9 to 12 months deposits, from 5% to 5.5% and no change on short term deposits. Lending rates were raised by 0.5% from 7.5 - 12% to 8 to 12%. Inspite of 30% inflation, further increases did not occur until October 1985 when the general level of interest rates was adjusted by 1 to 4.5% points. Twelve months deposits rates were increased to 7.5% and saving rates to 10%; the maximum lending rates were increased to 14% for commercial banks and to 16% for specialized financial institutions. Through the 1970s until now, real interest rates have been significantly negative. As of late, real interest rate have become less negative due to more frequent upward adjustments in the nominal rate.

The negative level of real interest rates has resulted in reduced savings and lending rationing. Saving deposits in real terms have decline since 1980. In order to stimulate financial savings and to facilitate more effective utilization and allocation of resources, the Government promised to make periodic adjustment in the interest structure with a view to making them positive in real terms during the recovery period. Subsequently, annual interest on savings deposits rose from 7.5% in 1985 to 24% in 1987, while interest on 20-year Government stock rose from 10 to 20% during the same period. Interest on medium and long-term lending has risen from 10 to 29.% percent. However, in the absence of a well-developed financial markets in Tanzania, positive interest rates alone cannot be expected to have a substantial positive effect on savings mobilization unless they are accompanied by a conscious program of expanding the financial infrastructure in terms of geographical coverage and the range of financial instruments.

Recommendations and Conclusions

Between 1966 and Janyar, 1979, Tanzania pursued a fixed real exchange rate policy through a fixed peg to the SDR and quantitative restrictions (QRs) to control domestic demand. From 1979 on, periodic adjustments in the nominal exchange rate reflecting the inflation differential with the trading partners were added. Since 1977, the Tanzania' s domestic inflation rate has generally been slightly higher than world inflation and much higher than in the industrialized countries which are Tanzania's major trading partners, suggesting that the real exchange of the shilling has been appreciating relative to other major currencies.

The persistence of balance of payments disequilibria and the widening gap between official and parallel market exchange rates are a clear indications of the growing excess demands for foreign exchange. Instead of relying on deflationary monetary and fiscal policies (expenditure reducing policies), and/or exchange rate flexibility (expenditure switching policies), Tanzania has until recently consistent resisted the use of these market instruments and increasingly relied on rationing through the administrative allocation of foreign exchange in dealing with excess demand.

The Central Bank has controlled the volume of lending that is commercially viable by fixing a maximum rate for savings deposits (which may be considered

as the base deposit rate) and a maximum lending rate. Nevertheless, administered interest rates are not an active instrument of monetary policy. The Tanzanian Economic Trends cautions the Government against a policy of high interest rates:

> High nominal interest rates act as an added burden to the crop marketing system, increasing the need for credit expansion. In the Tanzanian institutional context it is to be doubted whether high nominal interest rates, largely applied to intra-parastatal transactions, serve much useful purpose and it could even be argued that type reinforce inflationary pressures. The time should come when the effort is made to squeeze inflation out of the system rather than attempting to adjust to inflationary conditions through exchange rate movements and high nominal interest rates.

Tanzania has a small private capital market. Interest rates are determined administratively. A detailed structure of deposit and lending rates for all financial institutions is prescribed by the Bank of Tanzania (BOT). So far, there are no signs that the higher nominal interest rates have stimulated domestic savings or deterred capital flight. Instead, they have imposed an extra burden on the crop marketing system, necessitation increased need for credit and hence reinforcing inflationary pressures (Bagachwa & Maliyamkono (1990) p. 136).

In an economy such as Tanzania's, a devaluation, while expansionary in the intermediate run, usually has a contractionary effect in the short run. By raising the overall price level, a devaluation reduces real cash balances. If the demand for real cash balance is unchanged, the private sector must reduce current expenditures to rebuild its stock of liquid financial assets. The real level of private expenditures falls. Meanwhile given the inelastic demand for intermediate inputs and their increase in cost, real output will temporarily fall. This contractionaary effect helps to bring down inflationary pressures and increases the impact of the devaluation on import demands.

A successful real devaluation would require positive developments in three fronts:

(a) For a real devaluation to succeed it must be inserted within a supportive macro-economic framework. Since the money supply is largely not controlled effectively and interest rates are administered, the fiscal stance must be consistent with the medium term balance between aggregate supply and aggregate demand.

(b) With a severe balance of payments problems, the real devaluation must produce a speedy recovery in the level of foreign reserves. Given the rigidities in the structure of production this requirement feeds back directly in the macro-economic stance. Specifically to produce a real devaluation with an almost immediate increase in foreign assets, domestic credit must be contractionary; given the recourse to administered interests with a mark up on government debt, domestic credit policy should be based on a reduction in credit to the government.

(c) In order to succeed, a devaluation during high inflation must also have credibility within the financial community. This requirement is partly met through a sustainable macro-economic framework, but is also influenced by political perceptions.

The policy dilemma facing Tanzanian authorities are quite tremendous. First of all, there is the need for far reaching structural reforms in the real and financial sectors if sustained economic stability is to be maintained. Secondary trade liberalization will ultimately require a market clearing flexible exchange rate. And a flexible rate hinges on a balanced domestic macro-economic framework. Yet, the rapid changes in the nominal exchange rate required to maintain external balance have destabilizing effects on internal balance.

The introduction of a fully flexible exchange rate should be preceded by development of effective instruments of monetary policy. To develop the instruments of monetary policy the authorities should quickly introduce a secondary market for a government paper with a market determined interest rate. Gradually, all other interest rates in the financial system should be tied to this rate, whether directly or through the competitive operation of the markets for financial assets.

To conclude, while a move to a fully flexible exchange rate should await progress in the development of more effective instruments of monetary policy, the authorities should continue to pursue an active exchange rate policy that is compatible with the reduction in QRs and the maintenance of prudent levels of reserves. This is likely to require a more sizable real devaluation in the near future, especially if the trend towards trade liberalization is accelerated. In the medium term, if the necessary reform in the operation of financial market are successfully implemented, the authorities will be in a position to work with an essentially liberal trade regime supported on a fully flexible exchange rate. But, I would like to caution the authorities too, that, for an exchange rate policy to be effective it needs additionally to be backed by an investment program for the production of raw materials, intermediate and capital goods.

Notes:

[1]*Tanzania Economic Trends.* A quarterly Review of the Economy. Vol, 1 No. 2, July, 1988. p.6.

[2]*Tanzania Economic Trends.* A Quarter Review of the Economy No. 1-3, 1988 p 31. The emphasis is original.

[3]*On NESP, see the findings on an ILM workshop, and particularly the introduction by Mmbaga* (1982: 1-14): for the document, see Ministry of Planning (1982).

[4]Bank of Tanzania. *Economic and Operations Report for the year ended 30th June, 1989.* p.2

[5]M.E. Juha and N. Ossoro, *"An Economic Analysis of Inflation in Tanzania 1960-1979"*, Journal of Economic Reflection 1981.

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Tables and Figures
Appendix 1
Table 1. Major economic trends of the Tanzanian economy

	1970-6	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Real GDP Growth Rate (Percentages, 1976 prices)													
Overall GDP	5.1	0.9	1.1	1.9	2.5	1.8	1.8	1.2	1.3	1.4	1.6	3.9	4.1
Agriculture	4.5	1.2	-0.3	0.1	1.0	1.0	1.1	0.8	0.6	0.9	1.1	4.4	4.5
Manufacturing	6.7	-6.1	-1.5	0.1	1.2	-3.3	-3.3	-4.1	-3.2	-3.3	-3.7	4.2	5.4
Public Administration	13.2	11.0	12.0	12.7	11.8	10.8	10.3	9.6	8.7	8.2	8.7	7.9	3.1
Real GDP per capita	1.5	2.4	-1.9	0.6	0.9	-4.3	-1.1	-5.7	-0.2	-0.1	-0.3	1.1	1.3
Inflation (Percentage change) in NCPI, 1977 - 100)	11.1	11.6	19.8	13.3	36.0	22.7	32.6	19.2	44.0	20.2	33.2	22.9	28.2
Government Finance													
Total Revenue (TShs. Millions)		6,129	6,082	6812	7,757	18,872	10,960	14,193	27,951	20,852	31,387	47,730	70,212
(TShs. Millions)		4,702	5,563	8229	9,229	10,136	13,214	18,182	21,337	27,402	40,390	61,765	90,272
Development Expenditure (TShs. Millions)		3,606	2,411	4,741	5104	4,795	5,185	5,736	5,391	5,837	16,090	15,091	28,400
Overall Budget (TShs. Millions)		2,179	-1,592	-6,158	-6656	-6,059	-7,439	-9,725	-8,771	-12,387	-24,093	-29,126	-46,135
Overall Budget deficit as percentage of GDP		8.5	6.6	19.1	17.8	13.8	14.1	15.5	11.2	?	16.8	15.7	17.6
External Balance and Trade Account (US$ million)		-234		-618	-713	-607	-697	-435	-486	-714	-670	-745	-813

Table 1.A cont'd

	1970-6	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Current Account Balance ($US million)		-49	-436	-350	-565	-407	-539	-308	-369	-415	-312	-286	-284
Overall Balance (US$ millions)		137	-319	-150	-178	-102	-109	-138	-159	-395	-384	-341	
Barter Terms of Trade (1980 - 100)		143	123	106	100	88	88	91	94	90	101		
Purchasing Power of Exports (1980 - 100)		186	149	129	100	119	92	79	83	63	77		
Exports as percentage of GDP		17.4	12.8	13.3	11.2	9.9	6.6	6.4	6.5	5.2	7.9	11.9	14.5
Imports as percentage of GDP		6.5	30.1	27.8	26.7	20.8	16.0	13.1	16.6	15.2	24.0	37.6	46.2
Exchange Rate Tshs/$US (June)	7.50	7.50	7.68	8.25	8.19	9.31	9.32	12.24	17.17	17.73	44.43	63.50	97.20

Source: URT Economic Survey (Various years); National Accounts of Tanzania, Ministry of Trade and Industries. UNCTAD Handbook of International Trade and Development Statistics

Table 1.B Effectiveness of major policy instruments in Tanzania 1980-1987

	1980	1981	1982	1983	1984	1985	1986	1987
price as % of world price								
Coffee (mild Arabica)	37.7	59.6	53.0	70.9	61.1	52.4	34.2	28.7
Cotton (AR)	23.6	16.1	27.6	32.6	28.8	27.6	35.6	38.2
Change in exchange rate T.Shs/US Dollar								
Nominal	-	-1.8	-14.4	-30.9	-45.3	-8.8	-212.6	-62.8
Real Effective 1	-	6.7	8.5	8.3	14.2	39.3	-189.0	55.8
Government expenditure in 1980 constant prices								
Recurrent	100	89.5	88	102	83	83	92	123
Development	100	75	62	57	37	31	61	53
Revenue as % of GDP	20.7	20.2	20.8	22.7	22.9	19.3	21.9	15.7
Budget deficit as % of GDP	17.8	13.8	14.1	15.5	11.2	11.5	16.8	15.7
Index of weighted agricultural Export volume (1980 = 100)	100	143	119	97	100	81	85	89
Growth in money supply (nominal)								
Acutal	-	13.5	21.0	17.6	20.2	11.6	28.0	21.9
Target	-	-	-	19.6	19.1	13.0	10.0	10.0
Commercial interest rates (NBC, savings)								
Nominal	5.0	5.0	5.10	5.50	5.50	7.50	10.00	24.00
Real 2	5.0	-16.4	-18.2	-16.9	-22.5	-19.4	-16.9	-8.0

Notes:
1. Nominal exchange rate deflated by difference between national and US rate of consumer price inflation
2. Deflated by inflation rate (National Consumer Price Index 1980 = 100)

Source: Marketing Development Bureau Bank of Tanzania. Table 1.1: InternAtional Monetary Fund, International Financial Statistics. January, 1988

Table 1.C Evolution of money supply, 1967 - 1986, at current prices (in TShs. million)

	Currency in circulation (G)	Demand Deposits (D)	Narrow Money (M)	Time and Savings Deposits (T)	Total deposits (D+T)	Broad moey (M2)	Currency velocity
1967	511.7	680.4	1,192.1	347.6	1,028.6	1,539.7	13.2
1968	528.6	685.3	1,213.9	285.0	970.3	1,498.9	13.6
1969	605.0	867.4	1,472.4	407.1	1,274.5	1,879.5	12.3
1970	818.4	860.5	1,678.9	540.7	1,401.2	2,219.6	10
1971	986.4	1,072.0	2,058.4	566.0	1,638.0	2,624.4	10
1972	1,201.1	1,125.7	2,326.8	762.9	1,888.6	3,089.7	8.4
1973	1,190.6	1,356.2	2,774.7	878.3	2,454.4	3,653.0	9.6
1974	1,517.3	1,939.0	1,456.3	1,005.7	2,944.7	4,462.0	9.8
1975	1,755.8	2,509.0	4,283.8	1,268.9	3,796.9	5,552.7	9.7
1976	2,071.3	3,260.5	5,331.8	1,615.0	4,875.5	6,946.8	10.5
1977	2,379.1	4,003.1	6,382.8	1,963.9	5,967.0	8,346.7	10.8
1978	2,195.2	3,911.1	6,826.9	2,569.4	6,481.1	9,395.3	9.8
1979	4,055.4	4,380.0	8,435.4	3,371.2	7,751.2	11,806.6	8
1980	5,245.5	5,380.0	10,625.5	4,173.9	9,553.9	14,799.4	7.1
1981	5,992.2	5,855.0	11,847.2	4,952.7	10,807.7	16,799.9	7.3
1982	7,178.3	6,907.5	14,085.8	6,277.2	13,144.7	20,363.0	7.3
1983	7,794.2	7,733.9	15,528.1	7,598.0	15,331.9	23,126.1	7.8
1984	9,389.2	9,439.4	18,828.6	8,981.1	18,420.5	27,809.7	8.1
1985	10,680.2	10,185.5	20,865.7	10,165.2	20,348.7	31,028.9	9.3
1986	13,679.2	12,566.0	26,245.2	13,467.8	26,033.8	39,713.0	9.6

Notes: a) Refers as currency in circulation outside banks
b) GDP/currency ratio.

Sources: Bank of Tanzania