

EBS/84/119

CONFIDENTIAL

May 30, 1984

To: Members of the Executive Board  
From: The Secretary  
Subject: Tanzania - Real Effective Exchange Rate - Information Notice

There is attached for the information of Executive Directors an information notice on a change in the real effective exchange rate of the Tanzania shilling.

Att: (1)

INTERNATIONAL MONETARY FUND

TANZANIA

Real Effective Exchange Rate--Information Notice

Prepared by the African Department and  
the Exchange and Trade Relations Department

(In consultation with other departments)

Approved by J. B. Zulu and S. Kanesa-Thasan

May 29, 1984

The recent evolution of Tanzania's real effective exchange rate, as measured by the standard index developed in connection with the information notice system, is set out in the attached table and chart. Based on this index, as of March 1984 the Tanzania shilling had appreciated in real effective terms by more than 10 percent since the last occasion on which the Executive Board had an opportunity to discuss Tanzania's exchange rate policy--the 1983 Article IV consultation in July 1983. The appreciation is estimated to have amounted to 15.8 percent.

The Tanzania shilling has been pegged to a composite of the currencies of Tanzania's main trading partners since 1979. A devaluation of 10 percent took place on March 8, 1982; a gradual depreciation of about 5 percent over the next year was followed by a further devaluation of 20 percent on June 6, 1983, resulting in an exchange rate of T Sh 12.18 per U.S. dollar. Despite these actions, as of July 1983 the real effective appreciation since 1979 had amounted to over 75 percent.

The estimated further real appreciation of the effective exchange rate of 15.8 percent during the period June 1983-March 1984 has taken place as a result of a much higher domestic annual rate of inflation (25 percent) <sup>1/</sup> than in trading partners, as well as some nominal effective appreciation. These developments have brought the cumulative real appreciation of the Tanzania shilling to 105 percent since 1979.

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<sup>1/</sup> Based on interpolation of seasonally adjusted quarterly data, with first quarter of 1984 extrapolated on the basis of the rate of increase over the previous two quarters. The increase from the third quarter to the fourth quarter of 1983 alone exceeded 10 percent.

The deteriorating trend of the Tanzanian economy was last reviewed by the Executive Board in concluding the 1983 Article IV consultation in July 1983. Since then the economic situation in Tanzania has further deteriorated. Real economic growth is expected to remain negative in 1983/84 and the rate of inflation remains high. The fiscal situation continues to reflect great imbalance--the overall fiscal deficit is estimated to be equivalent to about 43 percent of total government expenditure in 1983/84, a slight increase from the 40 percent registered in 1982/83. The share of international trade in economic activity will further decline in 1983/84 as exports and imports are expected to remain at the low level of 1982/83. International reserves remain negligible and arrears on commercial obligations and external debt were estimated at SDR 425 million at end-1983; arrears to the Fund amounted to about SDR 7.8 million on May 18, 1984. A staff team visited Dar es Salaam during January 1984 to discuss an adjustment program to be supported by the use of Fund resources, but found no basis for agreement.

#### Staff Appraisal

At the conclusion of the 1983 Article IV consultation on July 11, 1983 the Acting Chairman's Summing-Up observed that "Directors took note of the recent 20 percent depreciation of the shilling; however, most of them considered the action to be inadequate and hoped that it would be only a first step toward decisively correcting the remaining substantial overvaluation of the currency." The real effective appreciation of the Tanzania shilling since then has contributed to a further deterioration in the external position. To prevent any further weakening of the economy, and as an essential condition for the restoration of confidence, a comprehensive adjustment program, including a substantial depreciation of the currency, is urgently needed. The depreciation would need to be fully reflected in domestic prices, particularly producer prices for export products. It would also need to be supported by appropriate financial policies, including higher interest rates, economies in parastatal enterprises and improvements in public sector finances. The program would also need to provide for a far-reaching rationalization of the price control and distribution systems.

The staff has indicated to the authorities the need to hold the next Article IV consultation discussions in Dar es Salaam in time to permit the consultation to be concluded in early October. (Under the guidelines for the standard 12-month cycle, the final date, including the three-month grace period, would be October 11, 1984.) The Tanzanian authorities, however, have replied that it is not feasible to hold the consultation discussions during the next several months. The staff is continuing efforts to arrange for early discussions.

Table: Tanzania: Real Effective Exchange Rate and Related Series

(Indexes: 1980 = 100)

	Real Effective Exchange Rate <u>1/2/</u>	Nominal Effective Exchange Rate <u>1/</u>	Relative Consumer Prices (local currency) <u>2/</u>	Exchange Rate (U.S. dollars) <u>3/</u>	Consumer Price Index (seasonally adjusted)	Consumer Price Index (not seas- onally adjusted)
<u>Quarterly</u>						
1978						
I	91.4	110.1	83.0	103.9	64.3	64.1
II	94.4	111.5	84.7	104.5	67.0	66.4
III	92.7	109.9	84.3	107.3	67.2	67.3
IV	96.6	110.4	87.5	111.0	71.7	72.6
1979						
I	87.1	98.7	88.2	99.0	73.6	73.3
II	88.4	100.6	87.9	99.2	75.2	74.3
III	85.3	98.1	86.9	99.7	77.0	77.3
IV	88.3	99.3	89.0	99.4	81.2	82.2
1980						
I	93.1	99.6	93.5	99.7	89.2	88.8
II	98.3	100.4	98.0	100.0	96.5	95.1
III	100.9	98.6	102.3	100.1	103.6	104.3
IV	107.9	101.9	105.9	100.1	110.3	111.8
1981						
I	116.1	107.2	108.3	99.8	116.2	115.6
II	127.9	115.6	110.7	99.0	122.2	120.1
III	140.1	123.4	113.5	98.1	128.5	129.6
IV	139.7	119.9	116.6	98.5	135.1	137.2
1982						
I	145.4	119.7	121.5	94.7	144.3	143.3
II	144.0	113.8	126.5	86.9	152.2	149.4
III	161.1	117.2	137.4	85.6	171.7	173.5
IV	170.7	120.2	141.9	84.9	178.9	181.8
1983						
I	175.6	119.4	147.1	84.1	187.5	186.1
II	178.4	115.1	155.0	78.8	204.4	200.3
III	157.6	101.7	154.9	66.3	204.6	206.9
IV	170.7	103.9	164.2	66.1	226.1	230.0
1984						
I	179.7	105.8	170.0	65.9	237.8 <u>4/</u>	...
<u>Monthly</u>						
1983						
July <u>5/</u>	154.5	100.0	154.5	66.4	205.0 <u>6/</u>	...
Aug.	156.3	102.0	153.2	66.0	205.0	...
Sept.	161.9	103.1	157.0	66.4	211.9	...
Oct.	164.8	102.4	160.9	66.5	219.1	...
Nov.	171.2	103.6	165.2	65.9	226.6	...
Dec.	176.2	105.8	166.6	65.8	230.4	...
1984						
Jan.	178.7	106.2	168.4	65.0	234.3	...
Feb.	181.5	106.8	169.9	66.5	238.3	...
Mar.	179.0	104.3	171.7	66.3	242.4	...
<u>Percentage change</u>						
July 1983- Mar. 1984	15.8	4.3	11.1	-0.2	18.2	...

1/ Increase means appreciation.

2/ Using seasonally adjusted consumer price indexes.

3/ End-month data.

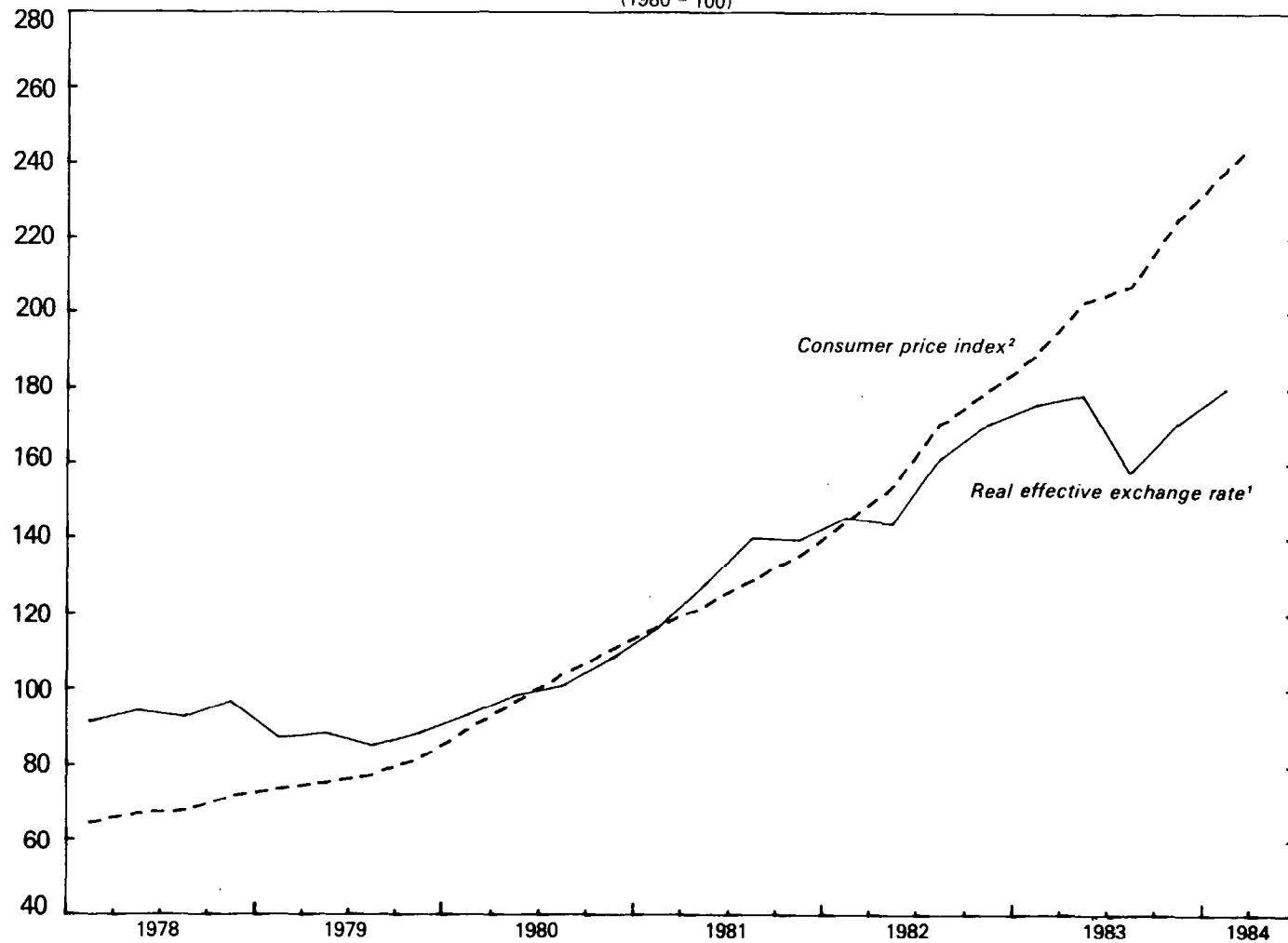
4/ Projected on basis of average rate of inflation between the second and fourth quarters of 1983.

5/ Date of latest consideration by Executive Board.

6/ Monthly data derived by interpolation of seasonally adjusted quarterly series.

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CHART 1  
TANZANIA  
INFORMATION NOTICE SYSTEM INDEX OF REAL EFFECTIVE  
EXCHANGE RATE  
(1980 = 100)



<sup>1</sup>Trade weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices; increases mean appreciation.

<sup>2</sup>Seasonally adjusted. The datum for January-March is an extrapolation based on the increase between the second and fourth quarters of 1983.