

EBS/84/136

CONFIDENTIAL

June 21, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Tanzania - Exchange System

Attached for the information of the Executive Directors is
a paper on a change in Tanzania's exchange system.

Att: (1)

INTERNATIONAL MONETARY FUND

Tanzania--Exchange System

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

(In consultation with the Legal Department)

Approved by Oumar B. Makalou and W. A. Beveridge

June 20, 1984

In the attached communication dated June 14, 1984 the Tanzanian authorities notified the Fund that effective June 15, 1984 the midpoint exchange rate of the Tanzanian shilling vis-à-vis the intervention currency, the U.S. dollar, was changed to T Sh 17.0000 = US\$1. Taking into account the rate which prevailed on June 14, 1984--T Sh 12.59 per U.S. dollar--the recent measure entailed a 25.9 percent devaluation of the Tanzania shilling vis-à-vis the U.S. dollar. Tanzania's exchange arrangement will continue to be classified as pegged to a currency composite other than the SDR, to which it has been pegged since 1979; and the U.S. dollar will continue to be the intervention currency.

As pointed out in EBS/84/119 (Tanzania--Real Effective Exchange Rate-Information Notice, 5/30/84) the Tanzania shilling was estimated to have appreciated by 15.8 percent in real effective terms between July 1983--when the Executive Board concluded the 1983 Article IV consultation--and March 1984, and by 105 percent since 1979.

Tanzania's economy has experienced a deteriorating trend for a number of years. Real economic growth has been negative, and the rate of inflation has been high. The fiscal situation has continued to reflect great imbalance, and the balance of payments has been very weak. International reserves remain negligible, and there has been a substantial accumulation of external payments arrears, including obligations to the Fund. The staff is of the view that the exchange rate action being notified constitutes a step in the right direction, but considers that this must be viewed in the context of the large appreciation of the shilling noted above. Nevertheless, it hopes that the action demonstrates the authorities' willingness to adopt a more pragmatic approach to the exchange rate issue and to follow it with the designing and implementation of a set of comprehensive and consistent measures that are urgently needed to revitalize the economy and to restore confidence.

INTERFUND
WASHINGTON, DC

JUNE 14, 1984

EFFECTIVE [JUNE] 15, 1984 THE GOVERNMENT OF THE UNITED REPUBLIC OF TANZANIA SHALL DEVALUE THE TANZANIA SHILLINGS. THE MEAN RATE FOR THE U.S. DOLLAR ON THAT DAY SHALL BE FIXED AT T. SHILLINGS 17.0000 PER U.S. DOLLARS 1.00000. THE SHILLING SHALL CONTINUE TO BE LINKED TO A BASKET OF CURRENCIES AND TO THE U.S. DOLLAR AS THE INTERVENTION CURRENCY FOR FIXING THE DAILY T. SHILLING CROSS RATES OF OTHER CURRENCIES.

REGARDS

B.N. MAKANI
DEPUTY GOVERNOR
BANK OF TANZANIA

Received in Cable Room: June 14, 1984