

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

SM/83/124  
Correction 2

CONTAINS CONFIDENTIAL  
INFORMATION

July 13, 1983

To: Members of the Executive Board  
From: The Secretary  
Subject: Tanzania - Staff Report for the 1983 Article IV Consultation

The following correction should be made in SM/83/124 (6/13/83):

Page 15, second full para: Delete last sentence and add the following:  
"Interest rates were revised upwards on July 1, 1982. Interest rates on deposits were raised generally by from 1 1/2 to 1 3/4 percentage points, with the rate on savings deposits being raised from 6.0 per cent to 7.5 per cent. Lending rates were raised by 1/2 percentage point to between 8.0 and 12.5 per cent per annum."

A corrected page is attached.

Att: (1)

Other Distribution:  
Department Heads

deficits, and they referred to the recommendations of the Commission on Parastatal Finances on the savings to be expected, inter alia, from the establishment of cooperatives. They noted, moreover, that the ginneries rehabilitation project, begun with assistance from the Netherlands and the United Kingdom, should assist the finances of the troubled cotton industry. The increased emphasis on up-to-date accounting, moreover, should make possible a more careful cost control, thus reducing deficits. However, they agreed that, taking into account the already announced nominal increases in producer prices, relatively large subsidies could again be required in 1983/84. The staff mission reiterated its view that the budget was unable to sustain large subsidies and said it felt that it was important, also, that a substantial cash surplus be created to finance the essential rehabilitation of the agricultural processing and marketing industries and the transportation network in the rural areas, which has been estimated to cost, over a three-year period, some US\$270 million over and above current foreign exchange needs for agriculture. The mission did not see how this could be achieved and at the same time adequate financial incentives be provided to the farmer, in the absence of a substantial depreciation of the currency.

c. Money and credit

Analysis of money and credit is very difficult in Tanzania. The data provided by the sole commercial bank are available with great delay, and there are frequently classification problems. The foreign asset position is particularly difficult to interpret, since the balance sheet data differ considerably from statements of correspondent banks.

Money and credit developments are dominated by the Government and the export crop authorities. During the year ended December 1982, credit expanded by 20 per cent, with the Central Government accounting for 85 per cent of the credit expansion (Table 3). Credit to industrial parastatals slowed substantially from the previous year, due to the decline in industrial activity and the large rehabilitation payments from the Government, much of which went to pay off overdrafts of the industrial parastatals. Growth in credit to the export crop authorities accelerated in 1982 as their losses increased while outstanding credit to the NMC declined. Purely private sector credit grew by T Sh 122 million, reversing declines in previous years, but was still insignificant in the total credit expansion. Interest rates were revised upwards on July 1, 1982. Interest rates on deposits were raised generally by from 1 1/2 to 1 3/4 percentage points, with the rate on savings deposits being raised from 6.0 per cent to 7.5 per cent. Lending rates were raised by 1/2 percentage point to between 8.0 and 12.5 per cent per annum.

Total monetary liabilities and currency outstanding grew by only 22 per cent, which implies a large increase in velocity given the 36 per cent official inflation rate (and probably higher actual inflation rate). This is likely to be evidence of a demonetization of the economy, which is showing increasing tendencies toward greater reliance on subsistence production and barter transactions. There may also have been dishoarding of currency issued in previous periods in order to finance current transactions.

Table 3. Tanzania: Monetary Survey, 1980-82 1/  
(In millions of Tanzania shillings)

	1980		1981		1982	
	June	Dec.	June	Dec.	June	Dec.
Net foreign assets 2/	-1,600.8	-2,781.9	-2,834.5	-2,757.8	-2,932.5	-3,455.6
Assets	1,610.3	1,353.7	1,978.3	922.5	1,551.7	1,254.7
Bank of Tanzania	760.7	451.3	495.5	336.9	294.5	254.4
National Bank of Commerce	849.6	902.4	1,482.8	585.6	1,257.2	1,000.3
Liabilities	-3,301.1	-4,135.6	-4,812.8	-3,680.3	-4,484.2	-4,710.3
Of which: arrears	-1,881.0	-2,481.9	-2,688.4	-2,499.3	-3,033.4	-3,245.1
Domestic credit	15,023.3	17,719.9	18,602.8	21,874.8	22,747.5	26,317.6
Net claims on Government	9,024.8	11,050.8	11,943.1	14,093.6	15,333.2	17,850.6
Claims on Government	9,340.4	11,347.5	12,278.2	14,507.7	15,755.0	18,832.9
Government deposits	-315.6	-296.7	-335.1	-414.1	-421.8	-982.3
Claims on official entities and private sector	5,998.5	6,669.1	6,659.7	7,781.2	7,414.3	8,467.0
Money plus quasi-money	12,106.8	14,210.0	14,620.5	17,638.2	18,716.9	21,446.2
Money supply	8,472.8	10,149.0	10,187.6	12,377.8	13,031.8	15,023.4
Currency outside banks	3,903.0	4,902.0	4,873.7	6,309.1	6,335.6	7,675.5
Demand deposits	4,549.8	5,247.0	5,313.9	6,068.7	6,696.2	7,347.9
Time and savings deposits	3,634.0	4,061.0	4,432.9	5,260.4	5,685.1	6,422.8
Other items (net)						
(Minus is net liability)	-1,225.7	-728.0	-1,147.8	-1,478.8	-1,098.1	-1,415.8

Source: Data supplied by the Tanzanian authorities.

1/ Mainland only.

2/ Based on balance sheets; figures differ from monetary movements in the balance of payments, which are based on statements from foreign correspondent banks.