Factors Influencing Price Inflation in the Tanzania Economy
Perspectives From Tanzania.

BY
Innocent Mzava

A Thesis Submitted to Mzumbe University, Dar es Salaam Campus College in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Science in Accounting and Finance (MSc-A&F) of Mzumbe University.

2013
CERTIFICATION

We, the undersigned certify that we have read and hereby recommend for acceptance by
the Mzumbe University, a dissertation entitled: Factors influencing price Inflation in the
Economy Perspective of Tanzania in fulfillment of the requirements for award of the
degree of Masters of Science in Accounting and Finance of Mzumbe university.

________________________
Major Supervisor

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Internal Examiner

Accepted for the Board of

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DEAN/DIRECTOR,FACULTY/DICTORATE, SCHOOL BOARD
I, Innocent Mzava, declare that this thesis is my own original work and that it has not been presented and will not be presented to any other university for similar or any other degree award.

Signature  ……………………………………………

Date  ……………………………………………
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Finally, I extend my thanks to my fellow students from Master of Science in Accounting and Finance and MBA programme for the ideas we shared during our stay at Mzumbe University Dar es Salaam Campus College.
DEDICATION

This work is dedicated to my family especially my father Thobias Mzava and mother Bernadetha Nyambo for their care and financial support. It is also dedicated to all those staff members, individuals not forgetting my supervisor Mzee Saburi who assisted in giving me constructive ideas that enabled me to accomplish my work on time.
ABSTRACT

This study intended to examine the factors influencing price inflation in the economy of Tanzania. The research was carried out at the Bank of Tanzania (BOT) and Ministry of Finance and Economic Affairs (MOFEA) in Tanzania. The study was conducted with the following objectives: To establish internal factors which influence inflation in Tanzania, establish external factors which influence inflation and finally suggest probable measures to curb inflation in Tanzania’s economy.

However after a thorough scrutiny the following factors were established as influencing price inflation in Tanzania these included rising fuel costs, rising energy prices, rising food prices and depreciation of the Tanzanian shilling.

Data were collected through Questionnaires, Interviews and Documentary Review. Questionnaires were open-ended questions, which allowed individuals to express their views concerning the causes of inflation in Tanzania’s economy. Interviews were conducted on the basis of predetermined interview guide. Nevertheless there was reluctance of the interviewees giving the data due to the busy nature of their activities I therefore had to collect hard data from their businesses and went on to scrutinize on by myself. For this case more of secondary data was used.

After analyzing the data, tests of questionnaires were carried and presented in tables for easy interpretation. From findings, a researcher has concluded that the Bank of Tanzania in collaboration with Ministry of Finance and Economic Affairs have a lot to do in order to make sure there is low inflation rate in Tanzania in order to reduce price increase for goods and services in Tanzania at household level. This study recommends that it is necessary to identify the main causes of inflation in Tanzania and use proper measures to curb it.
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<td>AD</td>
<td>Aggregate Demand</td>
</tr>
<tr>
<td>AS</td>
<td>Aggregate Supply</td>
</tr>
<tr>
<td>BOT</td>
<td>Bank of Tanzania</td>
</tr>
<tr>
<td>EAC</td>
<td>East Africa Community</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GNP</td>
<td>Gross National Product</td>
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<tr>
<td>IGC</td>
<td>International Growth Centre</td>
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<tr>
<td>MOFEA</td>
<td>Ministry of Finance and Economic Affairs</td>
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<tr>
<td>MPC</td>
<td>Marginal Propensity to Consume</td>
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<tr>
<td>NBS</td>
<td>National Bureau of Statistics</td>
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<td>OECD</td>
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CHAPTER ONE
INTRODUCTION AND BACKGROUND INFORMATION

1.1 Overview of the Study
The research intended to investigate the factors that cause inflation in Tanzania’s economy. Mainly aiming at obtaining a depth understanding of factors that influence inflation in Tanzania. This chapter provides the background information which highlights historical background of the problem, statement of the problem which opens up the problem under study, main and specific objectives of the study, Research questions, limitations, Delimitation, and finally significance of the study.

1.2 Background of the Study
In recent years Tanzania has been experiencing high and volatile inflation with an average of 8 percent for 9 years consecutively (Bank of Tanzania Report, 2011). This re-emerged as a central macroeconomic policy concern in Tanzania. Throughout the first decade following the macroeconomic reforms implemented in the mid-1990s, strong domestic output growth coupled with favorable global economic conditions helped keep headline inflation close to the authorities’ indicative target of 5 percent per annum. But since the onset of the global financial crisis the economy has been buffeted by much greater volatility, both domestic and internal which has, in turn, been reflected in significantly higher and more volatile inflation. In mid-2008, year-on-year headline inflation edged above 10 percent per annum for the first time since the early 1990s, and while it dropped back to low single digits in 2009 it rose again sharply towards the end of 2010, reaching close to 20 percent per annum in the final quarter of 2011.
Although it has moderated slightly since the beginning of 2012, headline inflation in Tanzania still remains high, both by historical standards and compared to other countries in East Africa. From around 2005, through the period of the global financial crisis, to the end of 2011 there was strong co-movement in inflationary patterns in Kenya, Uganda and Tanzania and by the end of 2011 inflation in each of the East African ‘big three’ stood at around 20 percent per annum. However, by September 2012, inflation had fallen to around 5 percent per annum in Kenya and Uganda but remained at over 13 percent in Tanzania. Some of this difference reflects timing issues: the sharp acceleration of prices in Kenya and Uganda in the second half of 2011 occurred somewhat earlier than in Tanzania, so that these ‘base effects’ have already dropped out of current inflation calculations. But even accounting for these timing effects, the apparent downward stickiness of Tanzanian inflation, in both food and non-food components, may point to structural characteristics in the dynamics of inflation that are specific to Tanzania but which only become apparent when inflation slows down.

A substantial part of the recent rise in inflation and inflation volatility clearly reflects developments in the global economy, most obviously the sharp rise in global food and fuels prices in 2008 and again in 2011. At their recent peak, in December 2011, year-on-year inflation in the food and energy sub-indices reached 25.6% and 41.0% respectively (NBS, 2011). With food accounting for 51% of the consumption basket in Tanzania and energy and transport costs accounting for a further 9 percent each, these global developments may be expected to have a powerful impact on overall inflation, both directly and, in the case of energy prices, indirectly through the high share of transport and distribution costs in retail prices.

Inflation affects relative prices and trade movements between export and food sectors, as well as between agriculture and non-agricultural sectors. The effect is the respective shift
in resources between sectors, which in turn determines their respective performance and the emergence of parallel markets in the economy.

Inflation also has foreign exchange implications both in real terms and in terms of the distribution of such resources between different categories of imports. That’s why inflation in Tanzania has exacerbated the economic crisis, outlined above. Government and policy makers have recognized the seriousness of the phenomenon in the economy. Though they have designed policies to curb it, amazingly, inflation is still uncontrollable.

However, some of the regional countries such as Ethiopia, Uganda and Kenya have also had experienced inflation at various times of the year hence they have employed several measures in dealing away with inflation. For the case of Ethiopia it focused more on tackling supply shock-induced effects, initially through administrative price controls but once price controls proved ineffective, they were suspended on all goods except for two commodities a clear demonstration of the inefficacy of administrative action to control inflation, AFDB (2011).

In Uganda until recently, the Central Bank of Uganda had been quite successful in controlling inflation. It used reserve money as the main operating target of monetary policy until July 2011, when it switched to the central bank rate (CBR). The Central Bank has attempted to tame inflation by focusing on demand factors, driven by rapid growth in private sector credit and more recently a widening fiscal deficit (IMF, 2011). However, expansionary fiscal policy has not drawn the Central Bank into direct monetization of the deficit, reflecting some element of departure from the pre-stabilization period when advances to government were regularly made to finance the deficit. Recognizing that recent monetary growth has emanated mainly from an acceleration in private sector credit, the Central Bank increased the CBR by 400 basis points to 20 percent, and then to 23 percent in November 2011.
Thus, monetary growth has mainly emanated from growth in private sector credit. However, these adjustments to the CBR have had minimal impact on inflation. This has raised questions as to the extent to which inflation can be managed by manipulating interest rates when there are multiple factors at play, including exogenous shocks.

This lack of success has been compounded by the depreciation of the Ugandan shilling. Nonetheless, the decision by the monetary policy committee to keep the CBR unchanged at 23 percent in December 2011 indicates that demand pressures, which had informed previous policy decisions, may be leveling off.

For the case of Kenya it also found itself trapped in an inflationary spiral, with little room to maneuver. The Central Bank of Kenya attempted to constrain growth in credit to the private sector through large interest rate adjustments, in order to rein inflation. In 2011 alone, the Central Bank raised interest rates from 6.25 percent in May to 18 percent in December. The Central Bank also revised the cash reserve ratio by 50 basis points, from 4.75 percent to 5.25 percent.

The instability in the money demand function complicates the conduct of monetary policy and therefore new tools must be devised to enhance the potency of policy. The effect of this monetary tightening on inflation may only appear after a lag, given the structural nature of liquidity and the threat still posed by rising food and energy costs, both of which make monetary policy less potent under conditions of inflation inertia. However, the current thinking is that supply shocks may soon subside, meaning that the efficacy of interest rates in managing demand pressures may increase (CBK, 2011).
1.3  **Statement of the Problem**

According to Bank of Tanzania Report, 2010, Tanzanian economy has experienced many internal and external shocks since the late 1970s; where almost all sectors of the economy were affected by the shocks, whose manifestations have been, among other things, large budget deficits and an imbalance between productive and non-productive activities. The signs closely associated with these are large balance of payments deficits, high rates of inflation, declining domestic savings, growing government expenditure, falling agricultural production, decreased utilization of industrial capacity, poor transportation infrastructure and poor levels of social services.

Maintaining inflation rates within reasonable targets continues to be one of the principal goals of the ongoing economic reforms. The government through the monetary authorities has instituted tight monetary and fiscal policies which often target the demand causes of inflation. On the other hand there are real factors such as food production which also influences inflation. Despite the fact that according to the National Bureau of Statistics (NBS) Inflation rate has decline by one per cent from the 15.7 per cent recorded in July 2012 to 14.7 per cent recorded in August Inflation has been among the major economic issues in Tanzania in the recent past especially for great part of 2011 and 2012. Inter alia, there is a need to give historical and increasing the understanding of the Tanzanian inflation by investigating the effect to the developments of the country.

In efforts of examining the factors influencing price inflation in Tanzania’s economy various studies have been conducted earlier on by various academicians which includes: Determinants of inflation in Tanzania by Samuel and Ussif (2001), Food prices and inflation in Tanzania by Christopher et al (2012), as well as Money and other determinants of inflation in Tanzania by Ndashau M, (2010).

However, the internal factors influencing price inflation in Tanzania have been not extracted enough and it is because of this research gap this study is conducted.
In addition there are some research studies that where done on other regional countries in determining the factors triggering inflation, this is essential to be viewed as some factors are common to all countries including Tanzania.

In the empirical literature of inflation, Chibber et al (1989) developed a detailed econometric model of inflation for Zimbabwe. In their model, both structuralists and monetary factors of inflation were included. In the study, they showed that nominal monetary growth, foreign prices, exchange and interest rates, unit labour costs and real income are the determinants of inflation in Zimbabwe.

Elbadawi (1990) conducted a research on the determinants of inflation in Uganda during the period 1988-89. His work revealed that rapid monetary expansion and the depreciation of parallel exchange rate were the principal determinants of inflation in Uganda. Tegene (1989) on the other hand adopted Granger and Pierce causality test in order to establish the role of domestic money supply on inflation in six African countries. Evidence from the study indicated a unit-directional causality from monetary growth to inflation.

A research conducted by Laryea and Sumaila (2001) on the determinants of inflation in Tanzania established that in the short-run, output and monetary factors are the main determinants of inflation in Tanzania. They also pointed out that in the long-run, parallel exchange rate also influences inflation. In their conclusion, they emphasized that; inflationary situation in Tanzania is basically a monetary phenomenon.

In the late 1990s, Agenor and Montiel (1996) pointed out that exchange rate depreciation only have a short-run impact on inflation in small, open developing countries. They also pointed out that very high inflation rates result, when large unsustainable deficits are financed by money creation. Aghevli and Khan (1978) also developed a model with both
monetarist and structuralist features. In their model, fiscal deficit was considered as the original force and the propagating mechanism in the inflationary process.

In the theoretical literature, the new-structuralists such as Arida (1985) and Pazos (1972) argued that inflation is generally caused by inertia. In regard to this, Arida and Frasicisco (2005) conducted an empirical research on this. Their study, which was an IMF working paper, was conducted on “does political instability lead to higher inflation?” In their study, they combined generalized method of moment’s system (GMM) estimation which was applied to dynamic panel data of 100 countries for the period (1960-99). Results of the study showed that a higher degree of political instability (which is measured by using several political and institutional variables) generates higher inflation rates and seignior age. They also pointed out that the propagative mechanism of political instability in causing higher inflation levels are more pervasive and stronger in developing countries than developed countries which have low inflation levels.

One argument put up by structuralists in their theory of inflation is that, deficit financing by the banking sector is inflationary. Based on this, Fisher et al (2002) in their research pointed out that the relationship between fiscal deficit and inflation is only strong in high inflation countries but find no obvious relationship between fiscal deficit and inflation in low inflation countries.

1.4 Objectives of the Study

1.4.1 Main Objective

The objective of the study was to establish the factors influencing price inflation in Tanzania’s economy.

1.4.2 Specific Objectives

The study was guided by the following specific objectives:-
To establish internal factors which influence inflation in the economy of Tanzania

To establish external factors which influence inflation in Tanzania’s economy

To suggest the probable measures to curb inflation in Tanzania’s Economy.

1.5 Research Question

The study was guided by the following general and specific research questions:-

1.5.1 General Research Question

The primary research question was; what are the factors influencing inflation in Tanzania’s economy?

1.5.2 Specific Research Questions

To operationalize the main research question, the following specific research questions were used:

I. What are the internal factors which influence inflation in Tanzania’s Economy?

ii. What are the external factors which influence inflation in Tanzania’s economy?

iii. What are the probable measures to curb inflation in Tanzania’s economy?

1.6 Limitations of the Study

The study was constrained by confidentiality. Confidentiality was a research constraint since some respondents totally rejected to provide some data on the ground that it was confidential and I had no permission to access to such data unless after obtaining a special permission from the concerned parties as some data were highly confidential.

Lack of response from interviewee. Some of the interviewee from informal sector had a busy work nature that could not give them time to respond to the questionnaire as well as sparing part of their time so as I could interview them. Even some of the formal sector employees such as in the Ministry of Finance and Economic Affairs, officials interviewed
did not even respond to the questions by saying that they were not department spokes persons.

Indeed, accessibility of secondary data was also another problem faced by the researcher as some data relating to specific past periods for example 2000 to 2005 were hardly to be found.

1.7 Delimitation of Study

Due to confidentiality I was obliged to go into higher authorities to seek for permission to access some of the data that was confidential, for the case of lack of response from the informal sector I employed questionnaires as a major tool in searching of the data I initially asked them to assist me with their various financial records for those who kept them and from there I was able to evaluate the trend of shift in prices for various periods, this was my basis for setting of questionnaires as to determine the factors that influenced the shift in prices.

For the case of unavailability of data relating to particular periods I had to sample the data and therefore used only those years I was able to obtain.

1.8 Significance of the Study

a. Significance to the public

The study increases the knowledge of users on the internal factors influencing inflation in Tanzania’s economy, since the study gives highlight on the factors that result to inflation in Tanzania. By acquiring this knowledge the public users can adopt measures so as to control inflation in their own working environment hence ensuring a stable economy.

Also by identifying solutions to tackle the factors influencing inflation it provides an optimistic expectation to the citizens on the fact that inflation can however be controlled.

b. Significance to the government
Through this study the government authorities like Bank of Tanzania (BOT) and Ministry of Finance (MOF) are in a position to identify internal and external factors influencing inflation in Tanzania hence establishing relevant policies that will enable to control inflation to appropriate levels

c. Significance to the academicians

Practically the study enables the researcher to meet one of a necessary condition of being awarded a degree of Masters of Science in Accounting and Finance. It also adds up new ideas into the existing ones that were obtained from the findings conducted. Furthermore, through this study other researchers are in a position to identify the research gap and conduct further research on factors influencing price inflation in Tanzania and other parts of East African region
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
In this chapter a detailed literature review on the causes on Inflation in Tanzania’s Economy will be given. The chapter will be divided into two parts, theoretical literature and empirical literature review.
This chapter presents theoretical and empirical literature that aims at developing an understanding of the factors influencing Inflation in Tanzania’s Economy.

2.2 Theoretical Literature Review

2.2.1 Inflation Definition
The term Inflation refers to a continuous increase of the general price level based on macroeconomic mechanisms:-
According to the monetarist theory, when the quantity of money increases faster than the Gross National Product (GNP), the inflation brings back the market to equilibrium.

2.2.2 Theoretical approach of inflation
In respect to the determinants of inflation, there are various theories proposed by various economists to explain the occurrence of inflationary situations. In this study, the various theories of inflation are grouped basically into two broad theories, the excess–demand theories under the umbrella of expectations-augmented Phillips curve (which comprises the monetarist and the Keynesians theories of inflation) and the cost-push theories which are currently termed structuralists/institutional theories of inflation.
2.3 Review of Theoretical Studies

A great deal of economic literature concerns the determinants and causes of inflation, in which inflation's role in the economy has been at the center of economic studies and has been debated for a long time. There are many variations in the definition of inflation. Vane and Thompson (1979), and Bronfenbrenner and Holzman (1965), define inflation as a rise in the general price level, which is therefore equivalent to a continually falling value of money. Flemming (1976) defines the rate of inflation as changes in the rate of the general level of prices in the economy.

Stiglitz and Greenwald (2003) have proposed that the relationship between inflation and money supply growth cannot be separated for ordinary inflation, in contrast to hyperinflation, which is mostly considered an effect of monetary policy.

However, Pigou (1949) rejected the inflationary gap theory. He placed attributed inflation to the increase in money income. According to Pigou, inflation exists when money income increases more than the income earning capacity. In addition, inflation can be caused by an increase in aggregate demand or a decrease in aggregate supply. This suggests two basic sources or types of inflation: demand-pull inflation and cost-push inflation. According to latter-day Keynesian economists like Gordon (1988), demand-pull inflation would be the case when economy wide shortages are created by increases in aggregate demand. Cost push inflation results from economy-wide shortages created by decreases in aggregate supply, which are frequently triggered by increases in production cost.

The most popular neo-classical economic critique of Keynesian economic theory is by Lucas (1976), who argues that rational expectations will defeat any monetary or fiscal policy. The new Keynesian argument is that this critique only applies if the economy has a unique equilibrium at full employment, and that rational expectations models do not produce any simple result.
They claim that because of price stickiness, there are a variety of possible equilibriums in the short run. Finally, according to Frisch (1977), the effects of international inflation on domestic inflation are through several channels for international inflation to be transmitted to domestic economies, including the liquidity effect, price effect and the demand effect.

In respect to the determinants of inflation, there are various theories proposed by various economists to explain the occurrence of inflationary situations. In this study, the various theories of inflation are grouped basically into two broad theories, the excess–demand theories under the umbrella of expectations-augmented Phillips curve (which comprises the monetarist and the Keynesians theories of inflation) and the cost-push theories which are currently termed structuralists/institutional theories of inflation.

2.4 Excess-demand theories of inflation

The excess-demand theories argued that excess demand for goods and services over supply in an economy is the main source of inflation. This view that was implicitly reflected in the Phillips empirical study in the late 1950s, which showed a trade-off between unemployment and inflation (the Phillips curve), led the monetarists to search for a theory that can explain the existence of excess–demand to propagate inflationary conditions. In their search for the causes of excess-demand in an economy, the monetarists adopted the quantity theory of money as their point of departure. The original quantity theory is expressed by fisher’s equation of exchange as ;( Curwen, 1976)

\[ MV = PT \]

Where (M) is the money stock in the economy, (V) represents the velocity of money circulation, (P) is the average price level and (T) represents the number of transactions in the economy.
The classical economists assumed that \( (V) \) is constant over time and that the economy is at its full employment level, meaning that \( (T) \) is also constant. Under these restrictions, it implies that changes in the money stock \( (M) \) directly affect changes in the price level. Also, the monetarists with Milton Friedman (1956) as its chief advocate followed the same line of argument as their predecessors (the classical economists). They only differ in respect to the assumptions on \( (V) \) and \( (T) \). Friedman, consider that money demand is one of the five main forms of holding wealth (other forms of holding wealth are; equities, bonds, physical goods and human capital) and that any significant change in any of the other forms of wealth would cause velocity of circulation to vary, but only in the long-run. Based on the fact that velocity of circulation does not change in the short-run but does in the long-run in a steady manner, Friedman concluded that, money supply and velocity of circulation could be treated as existing independently of one another. Considering this as the case, he concluded that, money national income \( (Y = T) \) in the original quantity theory) could be traced almost exclusively to changes in the money supply.

This argument by the monetarists therefore suggests that in the long-run, growth in the money national income could only be achieved through adherence to steady long-term growth in the money supply. Based on this, since velocity of circulation is constant in the short-run, it implies that changes in money national income \( (Y) \) must be equal to and move in the same direction as money supply changes, if the price level is to remain steady. This implies that any increases in money supply beyond the increases in money national income will lead to increases in the general price level. Hence when the rate of growth in money supply is greater than that of gross domestic product in the long run, inflation is the ultimate result.

Friedman and Schwartz (1970), who wrote an influential book on the monetary history of the United States, concluded by saying that "inflation is always and everywhere a monetary phenomenon". Whereas Neo-Keynesians and other critics of monetarism argue that the demand for money is directly linked to supply and that the demand for money cannot be predicted.
Johnson (1971) also introduces international aspect of inflation into the monetarist theory of inflation. He argued that under fixed exchange rate regime when a country expands its domestic demand via increases in the domestic money supply, the excess demand generated will not only be on domestic products but also on imports. Due to this kind of spill over of excess demand, it means that inflationary pressure generated by increases in money supply will be shared between the domestic sector and the foreign sector.

However, He pointed out that the extent of the spillover effects depends on the size and the marginal propensity to import by the domestic country where the excess demand originated. This re-enforces Friedman’s statement that inflation is always a monetary phenomenon: The other excess-demand theory of inflation is the Keynesians theory of inflation. Their ideas evolved from Keynes-Smithies ideas on inflation, basically the inflation gap model. The Keynesians argued that, excess demand for goods and services result in inflation which is in line with the monetarist theory, but they differ in respect to what generate the excess demand in the economy. For the Keynesian, excess-demand is the result of increases in aggregate demand in the economy rather than just increases in money supply. They argued that, money supply is only one of the components of aggregate demand and therefore cannot solely be responsible for increases in the general price level; rather it is aggregate demand that entirely influences inflationary situations in a country. Keynesians believe that, factors that influence aggregate demand in the economy (money supply inclusive) are responsible for the persistent rise in price levels in an economy. Blinder (2002), a representative of the second school of thought, the Keynesian economists, states that the main determinants of inflation are aggregate demand goods and services in the economy rather than the money supply.

According to the Keynesians, the natural level of gross domestic product is a level of GDP where the economy is at its optimal level of production. If GDP increases beyond its
natural level, inflation will accelerate as suppliers increase their prices. If GDP decreases below its natural level, inflation will decelerate as suppliers attempt to fill excess capacity by lowering prices. Keynes argued that money has no significant relationship with inflation, but inflation is an outcome of the goods market. He proposed the "inflationary gap" model to explain the change in price level. (See Keynes 1936).

2.5 Structuralists / cost-push theory of inflation

The cost-push theory of inflation is a generic term for Marxists, Structuralists and Keynesians theories of inflation that are not based on excess-demand influences in the economy. In this group of theories of inflation, a host of non-monetary supply oriented factors influencing the price level in the economy are considered. Thus cost-push causes of inflation result when cost in production increases independently on aggregate demand. The Keynesians argued that wage mark-up via trade unions lead to increases in the cost of production. For the affected firms in this regard to maintain their profit margins, they will have to increase prices of their products. The increases in the prices will further put pressure on the trade unions to press for higher wages which will ultimately lead to further increases in prices and the process continue in that circular manner, known as the price-wage spiral.

The extent to which price-wage spiral affect the increases in the general price level (inflation) depends on the power of trade-unions relative to employers association. The Keynesians went on to point out that when firms gain more market power, they will be able to push up prices independently in order to make profit.

This is the case when markets are concentrated and move towards monopoly or oligopoly through mergers. Structuralist ideas on cost-push causes of inflation can be summarised by J. Laurence Laughlin views in his article in the 1909 journal of political economy (12, P.178). He started by rejecting the monetarist explanation of inflation. Instead, he proposed that the causes of inflation “must be sought in the (real) forces settling particular prices”
Structuralists believe that, conflicts over the distribution of income between capital and labour, between landowners and peasants, between different producers in different sectors, is the main cause of inflation.

This is due to the fact that demand for higher income by one of the following groups (labour, landowners and different producers in different sectors) in excess of their productivity can only be achieved by each of the other groups (firms, peasants and different producers in different sectors) via increases in prices of their products.

The structuralists also consider currency depreciation as an essential part in explaining inflationary situations. This is due to the fact that, in the structuralists’ production process, emphasis is placed on capital input. This implies that in countries were there is lack of foreign reserves; currency depreciation becomes a serious problem with or without foreign exchange control. The currency depreciation leads to high cost of imported raw materials for production, which are ultimately passed onto higher prices for goods and services. Besides, Structuralists such as Pazos (1972), Arida and Andre (1985) also pointed out that inflation is generally caused by inertia. Inflation inertia is a process where the current inflation rate is determined by its past history.

This is generally caused by inflationary expectations, relative price adjustments, institutional adjustments that support the indexation of wages, financial contracts, monetary and exchange rate policy frameworks.

From the Keynesian and the structuralist theories of cost-push causes of inflation, the following general factors can be identified as the agents of inflation; wage increases by trade unions, profit motives of firms that gain market power, increase in the prices of raw materials imported from abroad through currency depreciation and price increase in the world commodity market, structure of land ownership, inertia, taxes such as value added tax (VAT) and the presence of external shocks such as a dramatic change in oil prices, crop failure and war.
Over the years, there have been a considerable number of empirical researches in the field of inflation. Most of the works were directed towards the establishment of the causal agents (determinants) of inflation.

In the empirical literature of inflation, Chhibber et al (1989) developed a detailed econometric model of inflation for Zimbabwe. In their model, both structuralists and monetary factors of inflation were included. In the study, they showed that nominal monetary growth, foreign prices, exchange and interest rates, unit labour costs and real income are the determinants of inflation in Zimbabwe. Elbadawi (1990) conducted a research on the determinants of inflation in Uganda during the period 1988-89. His work revealed that rapid monetary expansion and the depreciation of parallel exchange rate were the principal determinants of inflation in Uganda. Tegene (1989) on the other hand adopted Granger and Pierce causality test in order to establish the role of domestic money supply on inflation in six African countries. Evidence from the study indicated a unit-directional causality from monetary growth to inflation.

A research conducted by Laryea and Sumaila (2001) on the determinants of inflation in Tanzania established that in the short-run, output and monetary factors are the main determinants of inflation in Tanzania. They also pointed out that in the long-run, parallel exchange rate also influences inflation. In their conclusion, they emphasized that; inflationary situation in Tanzania is basically a monetary phenomenon.

In the late 1990s, Agenor and Montiel (1996) pointed out that exchange rate depreciation only have a short-run impact on inflation in small, open developing countries. They also pointed out that very high inflation rates result, when large unsustainable deficits are financed by money creation. Aghevli and Khan (1978) also developed a model with both monetarist and structuralist features. In their model, fiscal deficit was considered as the original force and the propagating mechanism in the inflationary process. In the theoretical literature, the new-structuralists such as Arida (1985) and Pazos (1972 argued that inflation is generally caused by inertia.
In regard to this, Arida and Frasicisco (2005) conducted an empirical research on this. Their study, which was an IMF working paper, was conducted on “does political instability lead to higher inflation?” In their study, they combined generalized method of moment's system (GMM) estimation which was applied to dynamic panel data of 100 countries for the period (1960-99). Results of the study showed that a higher degree of political instability (which is measured by using several political and institutional variables) generates higher inflation rates and seignior age. They also pointed out that the propagative mechanism of political instability in causing higher inflation levels are more pervasive and stronger in developing countries than developed countries which have low inflation levels.

One argument put up by structuralists in their theory of inflation is that, deficit financing by the banking sector is inflationary. Based on this, Fisher et al (2002) in their research pointed out that the relationship between fiscal deficit and inflation is only strong in high inflation countries but find no obvious relationship between fiscal deficit and inflation in low inflation countries.

2.6 Review of Empirical Studies

A variety of models and empirical methods have been used in attempts to analyze inflation determinants.

Tsalinski and Kyle (2000) analyzed the determinants of Bulgarian inflation in the period from 1991 to 2000 using monthly data; Bulgarian inflation has been shown to have experienced two radically different regimes over the past decade. The dividing point between the two regimes is the spring of 1997 when the hyperinflationary trend of the prior period was ended by the institution of a currency board. They found that inflation during the previous period had been determined in large part by monetary growth and to some extent by past inflation. Inflation after the currency board was established was no longer dependent upon monetary growth.
Boschen and Weise (2003) modeled the probability of a large upturn in inflation during a period of either stable or declining inflation, an occurrence that they term an inflation start in the OECD. The results indicate that three factors tend to lead up to these sustained increases in inflation. First, high rates of real GDP growth increase the probability of an inflation start, in that rapid growth reflects policy makers' attempts to exploit the short run Phillips curve, which eventually leads to higher inflation in most cases. Second, the gap between inflation in the United States and domestic inflation raises the probability of an inflation start, because inflation shocks in the world's largest economy tend to be distributed internationally.

Third, the probability of an inflation start in a particular year is higher if a general election takes place. The explanation for this is that government policies aimed at influencing voters are most of the time inflationary. In contrast, oil price hikes, fixed exchange rate, fiscal policy and political initiations of the government do not have a large effect on the probability of an inflation start. In further work, Bowdler and Nunziata (2004) extended Boschen and Weise's analysis. They claim that one determinant of the probability of an inflation start that Boschen and Weise did not examine is the openness to international trade index. Their empirical results show that greater trade openness decreases the probability of an inflation start, even after controlling the variables emphasized by Boschen and Weise. The contrasting of different model specifications indicates that what matters for the probability of an inflation start is changes in openness over time, rather than cross-country differences in openness. Vielma (2003) models the effect of inflation in the Solow model. Later this model was augmented with inflation and used to empirically test the effect of inflation on long-run growth. Three different samples were employed in the testing: first, an extended sample of countries; second, an objectively screened sample; and third, an
OECD sample. The conclusion provides strong evidence that moderate inflation does not affect long term economic growth in a negative manner.

Al-Otaibi (2001) investigated the relationship among oil revenues, money supply and the price level, by concentrating on the importance of oil revenues in the money supply process. The results indicate that non-oil income is a key part of the Saudi money supply process. In addition, oil revenue is the stimulating factor in the system and has no direct effect on the price level. A study for the assessment of the main determinant of inflation in three oil-based economies (Saudi Arabia, Kuwait and Bahrain) undertaken by Aljebrin (2006), using the time series of the period 1971-2000 and the Johansen co-integration technique, showed that the inflation roots in the developing oil-based economies are strongly affected by the oil market and its income, in which oil production growth, oil price growth rate, non-oil GDP growth rate and liquidity are the main factors of inflation.

Finally in another research undertaken by Ghavam Masoodi and Tashkini (2005), to investigate the long term relationship between the inflation rate and its effective factors in Iran, they used the ARDL method. The results obtained via this research showed that GDP, the imported goods price index, liquidity and the exchange rate are the most significant factors contributing to inflation in Iran.

Bangladesh Bank, IMF and CPD (2007) explored that both demand and supply side factors constitute the relevant sources of inflation in Bangladesh. Among these are M2 growth, private sector credit growth, market capitalization growth, growth of government borrowing, remittance growth, exchange rate change, market syndicate. Taslim (1980) used regression models for explaining the inflationary process of Bangladesh. He explored that one year lagged money supply had significant positive effect on inflation. However, the introduction of wage variable as an additional independent variable resulted in dramatic fall of statistical significance of coefficients of other variables in the regression model.
Another way, Khanam and Rahman (1995), examined the causative factors of inflation in Bangladesh during the period from 1972-73 to 1991-92 using Ordinary Least Square (OLS) method. Their results showed that growth rate of import prices and money wages, both considered as supply side variables, affect the inflation positively.

They also found that all demand side variables have insignificant influence on the rate of growth of prices. In an analytical writing Ahmed and Das (2007) found that world food price and fuel price triggered inflationary pressure in Bangladesh. They also detected inflation inertia is another reason to sustain higher inflation. Kibria (2010) also traced there is a upward trend in inflation as international commodity prices are showing signs of increase, excess liquidity prevailing in the domestic market, increased flow of remittance and its impact on Forex Reserve and stagnancy in investment in Bangladesh. Basir et al. (2011) traced determinants of inflation in Pakistan for the period from 1972 to 2010 using Johansen Co-integration and Vector Error Correction approached.

The study carries out long run as well as short run estimates of some factors influencing consumer price index (inflation) in Pakistan. The results of the analysis reveal that in the long run money supply, gross domestic product, government expenditures and imports are contributed in raising consumer price index while consumer price index is bound to decrease due to higher government revenues. In the short run, the coefficient of error correction term is -0.03 suggesting 3 percent annual adjustment towards long run equilibrium. Kim (2001) estimated the determinants of polish inflation during 1990-1999, using co integration and error correction models, identified three possible sources of inflation namely, the monetary sector, the labor sector and the external sector. Laryea and Sumaila (2001) examined the major determinants of inflation both in the long-run and short-run in Tanzania using OLS method, ADF test for unit root and error correction model for the time series data from 1992 to 1998 on quarterly basis.
The result shows that in the short run, output and monetary factors are the main determinants of inflation. However, in the long run, the parallel exchange rate also plays a key role, in addition to output and money. The positive coefficients on the exchange rate variable reflect the effect on inflation via trade in goods, mainly through imports in the informal sector. Similarly, Abidemi and Maliq (2010) analyzed the dynamic and simultaneous inter-relationship between inflation and its determinants in Nigeria between 1970 and 2007.

The findings reveal that growth rate of GDP, money supply, Imports, 1st lag of inflation and interest rate give positive impression on inflation rate. While other explanatory variables such as fiscal deficit and exchange rate are indirectly associated to inflation. Saatsiglu and Korap (2006) investigated the potential causes of chronic-high inflationary environment in Turkish economy for the period 1989-2004 using monthly observations.

The results obtained support the view of cost-push or supply side factors such as exchange rate, wage indexation mechanism and real interest structure in the economy seem to be the main causes of inflationary process in Turkish economy, while demand-pull monetary factors have not been found indicating consequential effects on inflation.

Khan et al. (2007) examined the main determinants of recent inflation trends in Pakistan. Using data from the 1972-73 and 2005-06 period, applying ordinary least square method and verifying results through Breusch-Godfrey Serial Correlation LM and Augmented Dickey-Fuller tests. The analysis concludes that government sector borrowing, real demand, private sector borrowing, import prices, exchange rate, government taxes, previous year consumer price index and wheat support prices are found to have direct contribution in consumer price index of Pakistan. Khathlan (2011) examined the determinants of inflation in Saudi Arabia for the period 1980 to 2009, both in the long run as well as in the short run, using co integration method developed by Pesaran et al. (2001).
The result shows that inflation in world economy, depreciation of domestic currency and supply bottlenecks are the major factors influencing inflation in the long run. In the short run, money supply and supply bottlenecks have been found to be the major factors influencing inflation in the country. Shahadudheen (2012) analyzed the major determinants of inflation in India extracting 54 time series quarterly observations. The study employed Johansen-Juselius co integration methodology to test for the existence of a long run relationship between the variables. The error correction from the long run determinants of inflation is used as a dynamic model to estimate the short run determinants of inflation.

The study concluded that the GDP and broad money have a positive effect on the inflation in long run. On the other hand, interest rate and exchange rate has a negative effect.

Mosayed and Mohammad (2009) examined the determinants of inflation in Iran for the data from 1971 to 2006. The study adopted Autoregressive and distributed lag model (ARDL) and concluded that money supply, exchange rate, gross domestic product, change in domestic prices and foreign prices, a variable that capture the effect of Iran or Iraq war are the major determinants of inflation in Iran and all are positively contributing to the domestic prices in Iran.

A study by De Brouwer and Ericsson (1998) investigates the inflation process in Australia by using the mark-up model which presents the supply side factors. In another study, Juselius (1992) finds a strong dependence of Danish prices on West Germany price level by examining the long run foreign transmission effects. Juselius (1992) shows that long run foreign transmission depends on the foreign or external factors of inflation. On the other hand, some researchers have found country-specific factors to influence inflation; these include, for instant, Mio and Higo (1999) in the case of Japan and Durevall and Ndung’u (2001) for Kenya.
Wang and Wen (2006) investigate the short-run inflation dynamics and the output across countries using eighteen developed countries. They find a significant average correlation of inflation across these countries. Darrat (1985) investigates the relationship between money and inflation in three developing countries. He finds that a high inflation is associated with a low real income growth and a high money supply.

Al-Raisi and Pattanaik (2003) investigate the impact of pass-through of exchange rate on Omani general price level. They find partial CPI responses to changes in the nominal effective exchange rate (NEER). Al-Mutari (1995) examines the influence of money supply, government expenditure, and import prices on inflation in Kuwait using the VAR model. He finds a role of government expenditure in Kuwait. His findings report a smaller effect of the import prices and money supply in explaining fluctuations in price level in Kuwait.

Lim and Papi (1997) have shed light on the determinants of inflation in Turkey. In this study, they have adopted time series data from 1970 to 1995. The authors have applied Johansen Co integration technique to find out results. The analysis concludes that money, wages, prices of exports and prices of imports have positive influence on domestic price level where as exchange rate exerts inverse effect on the domestic price level in Turkey.

Laryea and Sumaila (2001) have examined the major determinants of inflation in Tanzania. For this analysis, they have used the time series data from 1992 to 1998 on quarterly basis. Ordinary least square method has been applied to have estimates. The analysis demonstrates that money supply and exchange rate have positive impression on consumer price index while gross domestic product has negative impact on consumer price index of Tanzania.
Abdullah and Khalim (2009) have explored the main determinants of food price inflation in Pakistan. For that purpose, they have used time series data for the period from 1972 to 2008. Johansen co-integration technique has been employed to estimate long run results.
The analysis illustrates that money supply, per capita GDP, agriculture support price, food exports and food imports are directly associated with food inflation in Pakistan. Mosayed and Mohammad (2009) have traced out the major determinants of inflation in Iran. They have used the time series data from 1971 to 2006 in their analysis.

The study uses Autoregressive and distributed lag model to discover the long run estimates. The study probes that money supply, exchange rate, gross domestic product, change in domestic prices and foreign prices are presenting the effect of Iran or Iraq war on Iran’s economy and all are positively contributing to the domestic prices in Iran.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the systematic way to solve the research problem. It may be understood as a science of studying how research is done scientifically. This chapter presents the methodology and procedures used in the study, which include research design, types of data, and methods of data collection, analysis and presentation.

3.2 The Research Design

This is a plan that specifies the conceptual structure within which research was carried out. For the proposed study, primary source of data collection as well as secondary source was used, however there was unwillingness of interviewee to respond, hence much of secondary data was used, basically the researcher visited some of the individuals who are involved in the day to day transaction and interviewed them and for those who were very occupied were issued with questionnaire for later collection, however the researcher will visited various statistics institution such REPOA and B.O.T so as he could collect relevant data regarding factors that have been influencing inflation, however the research is took six months. Case study was chosen to be Tanzania due to the simplicity for gathering data from various sources including documentary reading, questionnaires and interviews in an in-depth and analytical manner.

3.3 Study Area

The United Republic of Tanzania is the main area that was studied under this research through its agencies such as Bank of Tanzania (BOT) and Ministry of Finance and Economic Affairs (MOFEA) in determining the sample. However, the researcher obtained
much of the data from these institutions rather than from the public since they are directly linked to the factors that are likely to influence the inflation in Tanzania.

3.4 Types of Data

Both secondary and primary data were used by the researcher to collect data to supplement to each other. The researcher used secondary data to supplement with primary data when they were not available. The primary data was collected mainly through interview and questionnaire while the secondary data was collected basing on collection of journals that was provided by the institution that the researcher intends to visit.

3.5 Sampling Procedures

Mixed sampling in terms of simple random sampling and area sampling were employed to obtain data to the subject being studied this was because it was necessary to obtain opinions from different individuals so as conclude as to the actual factors that were influencing inflation; Sampling was done in both the primary and secondary data whereby for the primary appropriate sample size were 60 respondents who are employees of Ministry of Home Affairs and Ministry of Finance and Economic Affairs in Tanzania, in addition to that private individuals from different nature of activities and in different locations of Tanzania were interviewed. For the case of secondary data it was very unfortunate that not all the data relating to particular periods was obtained hence it necessitated the researcher to sample out years.

3.6 Data Collection Instruments

Due to the design chosen, the following instructions were employed.

(a) Interview

Interview was conducted to collect qualitative information such as opinions and views of the study. Interviews were guided by interview guide questions (see appendix I & ii). Bank of Tanzania and Ministry of Finance officials particularly in Policy and Research Sections were interviewed during data collection; they were able to come up with the answers on
interview questions. The advantages of using interview was quick method of gathering information, the researcher would know whether the respondents understands the questions and the method was not restricted to educated class alone. This means that the questionnaires were given and answered by employees of the above mentioned institutions.

(b) Questionnaire
Is a pre-formulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives (Kothari, 2001). Questionnaires were open-ended questions, which allowed individuals to express their views concerning funds allocation in public sectors in Tanzania (see appendix I). The questionnaires were distributed to respondents aimed at getting information regarding the Fund allocation in Public Sectors in Tanzania. One of the set of questionnaires was designed for Bank of Tanzania and Ministry of Finance and Economic Affairs. Numbers of respondents were 49 out of 50. The table below shows the categories of respondents.

Table 3.1: Categories of Respondents

<table>
<thead>
<tr>
<th>Organization</th>
<th>BOT</th>
<th>MOFEA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>31</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: Analyzed data, 2013
From table 3.3: 39 Questionnaires were distributed; 31 Questionnaires were distributed to Bank of Tanzania, 21 were distributed to Ministry of Finance and Economic Affairs officials of which only 18 questionnaires were answered.

3.7 Source of Data
Both secondary and primary data were employed. Questionnaires and interviews were employed in the collection of primary information. Secondary data obtained from Bank of

3.8 Method of Data Analysis

Findings have been presented by using statistical procedure/models such as tables and percentages, which were used to summarize the results in order to draw conclusion on the causes of inflation in Tanzania’s Economy. The study applied both qualitative and quantitative analysis techniques. The researcher used Microsoft word and Excel in analyzing both primary and secondary data. With the use of Microsoft word and Excel the researcher was able to analyze the information from the findings quickly. The analysis was guided by research objectives and research questions.
CHAPTER FOUR

PRESENTATION AND DISCUSSION OF FINDINGS

4.1 Introduction

In this chapter the analysis and discussion of the findings are presented. The analysis and discussion in this chapter is based on the responses from research questionnaires, interview questions and secondary data information. The research intended to find out the causes of inflation in Tanzania’s economy. Main areas of concern in the research are the identification of the causes of inflation in Tanzania’s economy, examination of inflation effects on the prices of goods and services in Tanzania’s economy and suggesting the probable measures to curb inflation in Tanzania’s Economy and this was according to the research objectives.

The study was guided by the following specific objectives:-

i. Establishing internal factors which influence price inflation in the economy of Tanzania

ii. Establishing external factors which influence price inflation in Tanzania’s economy

iii. Suggesting the probable measures to curb inflation in Tanzania’s Economy.

4.2 Establish internal factors which influence price inflation in the economy of Tanzania

According to primary and secondary data the following are some of the factors influencing inflation in Tanzania’s Economy:-

From table 3.3: 39 Questionnaires were distributed; 31 Questionnaires were distributed to Bank of Tanzania (BOT), 21 were distributed to Ministry of Finance and Economic Affairs officials of which only 18 questionnaires were answered. The following is the table
showing the determinants of Tanzania’s Economy as indicated by various respondents and their percentage scores as indicated in table 4.1

Table 3.2: Determinants of Price Inflation and frequency of scores

<table>
<thead>
<tr>
<th>Determinants</th>
<th>No of respondents</th>
<th>Actual No of respondents</th>
<th>% of scores</th>
<th>Total percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rising fuel costs</td>
<td>50</td>
<td>50</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Rising Energy prices</td>
<td>50</td>
<td>50</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Rising Food prices</td>
<td>49</td>
<td>50</td>
<td>98%</td>
<td>98%</td>
</tr>
<tr>
<td>Depreciation of the Tanzanian Shilling</td>
<td>45</td>
<td>50</td>
<td>90%</td>
<td>90%</td>
</tr>
</tbody>
</table>

Source: Analyzed data, 2013

According to the table above the main determinants of Inflation in Tanzania’s Economy includes Rising Fuel prices, Rising Energy prices, Rising Food prices and Depreciation of Tanzanian Shilling; where rising fuel costs scored 100%, Rising Energy prices scored 100%, rising food prices 98% and Depreciation of Tanzanian shilling scored 90%. Therefore rising fuel costs and rising energy prices have great influence on inflation in Tanzania’s economy compared to other factors as indicated in the table above.

Moreover; the data collected through documentary review which included; African Economic Outlook 2012, World Bank Report 2012 and International Growth Centre (IGC) Report 2012 revealed that the following were some of the internal factors influencing inflation in Tanzania’s Economy:-
I. Rising Fuel Costs

Fuel price have been the major factor triggering inflation in Tanzania from 2006 to 2007 this is according to African Development Bank brief AfDB, July 2012, according to AfDB inflation had reached a tune of 26 percent, however rising fuel costs as one of the determinants of inflation in Tanzania’s Economy has been shown by African Economic Outlook 2012 and World Bank Report 2012 as the significant determinant of inflation in most non-oil producing countries in the world.

According to documentary reviews Tanzania’s Economy continue to experience inflationary pressure; largely due to high fuel costs coupled with rising prices in other goods and services. Further, rising fuel costs pushed up transport costs. Indeed this match with the opinion from various respondents as indicated by table 3.2 above. Despite analysis from various reports conducted earlier on, the researcher also conducted interview and issued questionnaire whereby he obtained a positive feedback from all correspondents that fuel has played a major role in influencing the change of prices within their daily transactions,

II. Rising Energy Prices

According to African Economic Outlook Report 2012 rising energy prices in Tanzania’s economy continues to experience inflationary pressure because rising costs of production for goods produced local which results into price increase in goods and services in Tanzania.

Indeed this match with the opinion from various respondents as indicated by table 3.2 above.

According to B.O.T monthly report of February 2011 non food items which included indices for Housing, Water, electricity, Gas and other fuels increased to 6.1 percent from 4.7 percent annually, non food items which contributed to the rise include rents which rose
to 6.5 percent, electricity by 21.7 percent, charcoal by 13.5 percent, household textiles by 2.9 percent, private pre primary school and primary fees by 5.9 percent and private secondary school fees by 12.6 percent.

III. Rising in food prices

According to World Bank Report 2012 and African Economic Outlook Report 2012, rising in food prices was among the major determinants of inflation in Tanzania’s Economy. Food inflation in particular increased consistently throughout 2011, surpassing 20% by the end of 2011, the result of a combination of factors. Existing infrastructure was not adequate to supply regions suffering from food shortages from regions generating surplus, hence those regions with food shortage suffered a price hike as a result of short of supply. To make matters worse, food shortages in neighboring countries exerted greater demand in domestic food markets as a result this resulted into a price hike in domestic markets. Indeed this match with the opinion from various respondents as indicated by table 4.1 above. However AfDB Brief (July 2011) points out drought really affected cereal production such as maize production in Tanzania due to this there was a short of supply of variety of crops which lead into rise in price for these crops hence triggering inflation close to 10 percent in the year 2011.

According to B.O.T report (Feb 2011) food and non alcoholic beverage rose from 6.3 percent in December 2010 to 6.7 percent in January 2011, this price hike was mainly contributed by bread and cereals which rose by 3 percent, meat by 2.4 percent, fish by 4.3 percent, vegetables by 3.8 percent, sugar by 3.5 percent and food from restaurants by 3.2 percent.
The chart above shows that, Annual Headline Inflation Rate has an increasing trend from 14.8% in July 2011 to 19.2% in November, 2011. This trend is highly attributed to the increase of food prices that led to high food Inflation Rates over the period. Food Inflation Rate has increased from 14.8% in July 2011 to 24.7% in November, 2011. Changes in the prices of food items have a big impact on Consumer Price Index dynamics due to the fact
that, Tanzania’s spend about half (47.8%) of their income on food items. Prices of food items have been increasing tremendously from July to November, 2011 which resulted to high food Inflation Rates. Among others, food items with corresponding Inflation Rates that has contributed to high food Inflation Rates which includes Rice, Wheat Flour, Cassava flour, meat, fish, fruits, potatoes and sugar as shown in table below:-

Table 1: Trend of annual Headline from August to November 2011 inflation rates for selected food items

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>37.5</td>
<td>37.8</td>
<td>43.0</td>
<td>48.2</td>
</tr>
<tr>
<td>Wheat Flour</td>
<td>28.7</td>
<td>25.6</td>
<td>22.7</td>
<td>26.7</td>
</tr>
<tr>
<td>Cassava flour</td>
<td>23.9</td>
<td>16.6</td>
<td>14.6</td>
<td>19.9</td>
</tr>
<tr>
<td><strong>Meat</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beef with bones</td>
<td>13.9</td>
<td>20.5</td>
<td>20.7</td>
<td>28.1</td>
</tr>
<tr>
<td>Pork meat</td>
<td>13.0</td>
<td>26.6</td>
<td>30.2</td>
<td>36.1</td>
</tr>
<tr>
<td>Traditionally bred live chicken</td>
<td>12.6</td>
<td>12.9</td>
<td>17.2</td>
<td>21.6</td>
</tr>
<tr>
<td><strong>Fruits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avocado</td>
<td>20.2</td>
<td>25.4</td>
<td>19.6</td>
<td>25.2</td>
</tr>
<tr>
<td>Papaya - Pawpaw</td>
<td>32.7</td>
<td>29.1</td>
<td>30.9</td>
<td>40.3</td>
</tr>
<tr>
<td>Product</td>
<td>July</td>
<td>August</td>
<td>September</td>
<td>October</td>
</tr>
<tr>
<td>-------------------------</td>
<td>------</td>
<td>--------</td>
<td>-----------</td>
<td>---------</td>
</tr>
<tr>
<td>Pineapples</td>
<td>-9.2</td>
<td>5.1</td>
<td>14.8</td>
<td>26.6</td>
</tr>
<tr>
<td>Bitter tomatoes</td>
<td>8.4</td>
<td>8.8</td>
<td>12.9</td>
<td>19.1</td>
</tr>
<tr>
<td>Sweet Potatoes</td>
<td>67.1</td>
<td>63.0</td>
<td>47.8</td>
<td>50.9</td>
</tr>
<tr>
<td>Sugar, 1Kg</td>
<td>23.2</td>
<td>42.8</td>
<td>45.0</td>
<td>49.1</td>
</tr>
</tbody>
</table>

Source: Tanzania National Bureau of Statistics

Figure IV Price movement for Rice from July to November, 2011 by Regions
Chart IV above reveals that, Kigoma region has the highest price changes (25.2%) for rice from July to November, 2011. It also shows that, the lake zone regions Mwanza, Mara an Kagera suffer with high price changes for rice with 25.0%, 22.6% and 21.7% respectively from July to November, 2011. Other regions as shown in chart IV above have more than 10% price changes for rice except six regions that have recorded price changes of below 10%. Singida and Mbeya regions have shown the lowest price changes of 4.4% and 4.9% respectively.

**Figure V Price movement for Sugar from July to November, 2011 by Regions**

Source: Tanzania National Bureau of Statistics
Among food items, prices for sugar has been increasing significantly over the period of July to November, 2011 as shown in chart 5 above. Regions that had high price changes for sugar include Kagera (49.3%), Mwanza (43.0%), Mara (40.0%) and Coast regions with 41.2%. Other regions which experienced high price changes include Kigoma (39.6%), Shinyanga (37.5%), Tanga (33.3%) and Tabora region with 31.1%. Arusha and Kilimanjaro recorded low price changes of less than 10% for sugar over the period. The effect of prices for the remaining regions lies between (10-30) percent as shown in chart 5 above.

Source: Tanzania National Bureau of Statistics
IV Transportation Costs

Tanzania is a big country with different climatic conditions in different regions. High transportation costs charged from the business people when shifting food from regions with surplus to regions with scarcity, contribute to increase in prices of particular food in particular destination region.

<table>
<thead>
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<td>25.4</td>
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</table>

IV. Depreciation of the Tanzanian Shilling

According to African Economic Outlook Report 2012 depreciation of the Tanzanian shilling also has a great influence on Tanzania’s Economy. How? Rising in global prices for fuel and other inputs, led to imported inflation. Due to adverse balance of payment that lead to the fall in the value of the currency price hike resulted, as a strategy to control inflation, the government decided in the 2011/12 budget (approved in June) to remove a
number of fuel taxes and levies, a move that should ease pressure on domestic fuel prices. Indeed this match with the opinion from various respondents as indicated by table 4.1 above.

V. Cost push factors

In the questionnaires and interviews conducted at various locations the researcher pointed out that cost for the commodities that are produced do contribute to the rise in prices in the sense that as factors of production such as labour, rawmaterial and capital increase due several factors it will result into the commodities being inflated hence have a final impact to the final consumer.

VI. Storage

The final factor determining food prices we consider is storage. Both public and private storage should dampen within-year seasonal variation in prices. Households have an incentive to hold food stocks if they expect their marginal utility of food to be higher in the future than in the present, most obviously between harvest-time and the hungry season. These storage activities should dampen seasonal fluctuations in prices, although not entirely if storage is costly, because of carry costs or physical deterioration. Similar considerations mean that across-year private storage is unlikely to be as effective. We have no empirical evidence on private storage although the impact of within-season private smoothing will be absorbed by the monthly seasonal dummy variables used in our regression analysis (and the fact that this seasonality in prices is so powerful is evidence that price smoothing through storage is at least incomplete). Public sector storage in Tanzania is facilitated by the National Food Reserve Authority (NFRA) whose sales and purchases can in principle be used to smooth food prices seasonally, spatially, or even across years (subject to the physical deterioration of stocks), at least when price movements lie strictly within the band between import and export parity prices.. When local market prices are arbitraged fairly continuously with world grain prices via imports
intervention by the NFRA will have no effect on price unless it is large enough to drive imports to zero. Similarly, when prices in border regions are being pushed up by demand pressures from neighboring countries (e.g., along the Tanzania/Kenya border in late 2009), attempts to use grain sales to lower grain prices will tend to spill abroad as increased exports, with little effect on local prices.

Data on storage activities by the NFRA are limited. We do not have access to the spatial pattern of interventions or any means to distinguish price stabilization transactions from other activities of the grain reserves. Our analysis is therefore limited to examining whether net intervention at the national level moderate food and headline inflation.

**Repurchase Agreement and Inter-bank Cash Market Developments**

During January 2011, the Bank continued to conduct repurchase agreements (repos) with banks to supplement other monetary policy instruments in the management of liquidity in the economy. Volume of repos conducted in December 2010 was TZS 407.0 billion. In the same month Dec 2010, the volume of transactions traded in the inter-bank cash market was TZS 1,045.6 billion. Overnight placements were TZS 890.4 billion, higher than TZS 722.3 billion recorded November 2010 (Figure VI). Through this policy the government contribute highly towards inflation hike.

**Figure VI: Inter-bank Cash Market Developments**
4.3 Establish external factors which influence price inflation in Tanzania’s economy

According to primary and secondary data the following are some of the factors which influence price inflation in Tanzania.

4.3.1 Shortage of food in neighboring countries

Shortage of food products like sugar, rice and maize in neighboring countries attract the business peoples to opt for external markets to sell their products in high prices. This result into shortage of supply of that particular food items in local market and increases in prices.

4.3.2 Imported foreign Inflation
Most of the neighboring countries like Uganda and Kenya have recorded high Inflation Rates than Tanzania. Importation of food items from these countries resulted into imported inflation; this is because business people purchased the products already inflated hence creating inflation into the Tanzania economy.

**4.3.3 Increase in prices for Petrol and Diesel in international markets**

Petrol and Diesel are the important inputs in food production system. Frequently changes of price for these items have increased the production costs of various products in the international markets and finally resulted into increase in the prices of produce such as food products in Tanzania.

**4.3.4 Velocity of Money**

Velocity of money is a key indicator of the pace of monetary transactions, and in turn helps in contextualizing current inflationary developments. Since 2006, the velocity of money has been on an upward trend in all four countries, with a sharp jump in Kenya, Tanzania and Uganda from 2009. The increase in velocity is largely due to financial innovations, including the advent of new products such as mobile banking.

**Figure VII: Velocity of Money**
During the year ending January 2011, extended broad money supply (M3) grew by 25.4 percent, same rate recorded in the preceding month, but higher than 20.1 percent recorded in the year ending January 2010.

Meanwhile, broad money supply (M2) grew by 20.3 percent, lower than 21.8 percent recorded in December 2010 and 23.4 percent in January 2010. The growth in money supply was mainly attributed to growth in net foreign assets of the banking system and growth of credit to the private sector (Chart 2.1). The banking system registered an annual growth of 26.3 percent in January 2011, compared with 23.0 percent in the preceding month and 24.2 percent recorded in January 2010, on account of strengthening of the US dollar against the Shilling. Meanwhile, credit to the private sector continued to grow at an annual rate of 21.5 percent, from 20.0 percent recorded in December 2010 and 9.8 percent in January 2010. This trend reflects the recovery of banks’ confidence in extending credit.
to various economic activities as global economy continues to recover from the financial crisis. (B.O.T, Nov 2011)

Figure VIII: Annual Growth Rates of Monetary Aggregates

4.3.5 M-PESA effects

In the case of Tanzania, the advent of financial innovation such as e-money may have contributed to the increase in velocity of money as seen by the corresponding rise in the number of M-PESA subscribers. The M-PESA has brought more than 14 million customers into virtual banking. According to the IMF (IMF, 2011), M-PESA processes more transactions domestically within Tanzania than Western Union does globally. The M-PESA platform also provides mobile banking facilities to more than 70 percent of the country’s adult population. Evidence shows that the transactions velocity of M-PESA may be three to four times higher than the transactions velocity of other components of money.
4.3.6 Effects of informal trade

In Ethiopia, increased informal intraregional and cross-border trade is primarily through cash transactions, which do not often pass through the banking sector. Although the impact of these transactions on inflation may not be very clear from a theoretical perspective, we can conjecture that the price effects generated by rising demand for agricultural commodities in the face of supply shocks has placed a high premium on Ethiopia’s inflation.

4.3.7 Exchange rate

A floating exchange rate regime allows domestic and foreign prices to align. Such movements in the exchange rate should therefore allow the pass-through of external developments into the domestic economy as a one-off adjustment, which may be tempered by appropriate prudent fiscal and monetary policies. Recently, nominal exchange rates have depreciated rapidly across the region (Figure 5).

On a year-on-year basis, the Kenyan and Ugandan shilling depreciated by about 23 and 24 percent, respectively in November 2011 before slowing down to 6 percent and 8 percent in December 2011. Under such conditions, we find that exchange rate depreciation contributes between 11 percent (Ethiopia) and 38 percent (Uganda) of the observed inflation in 2011. In the case of Kenya, exchange rate depreciation explains close to 17 percent of the observed
Figure IX: Real exchange rates (March 2006 to December 2011)

Figure X: Inter-bank Foreign Exchange Market Operations

Source: Bank of Tanzania
4.4 Determine the probable measures to curb inflation in Tanzania’s Economy.

According to secondary data the following are some of the ways to curb inflation in Tanzania’s Economy;

4.4.2 Government Budgetary Operations

In January 2011, revenue collections (excluding Local Government Authorities own sources) amounted to TZS 433.4 billion or 91.7 percent of the budget estimate. In the corresponding period in 2009/10, revenue collections amounted to TZS 374.7 billion or 94.0 percent of its estimates. Tax revenue collections in January 2011 amounted to TZS 407.0 billion or 91.5 percent of the budget estimate, whereas non-tax revenue was TZS 26.4 billion or 94.7 percent of budget estimate. On cumulative basis, tax revenue collections in the first seven months of 2010/11 amounted to TZS 2,956.9 billion or 91.4 percent of the budget estimate, non-tax revenue reached to TZS 183.6 billion or 80.3 percent of budget estimate (Figure XI). Domestic revenue collection was 9.0 percent of GDP whereas in the corresponding period in 2009/10 it was 8.6 percent of GDP.

Figure XI: Government resource, July 2010 to January 2011
The above statistics indicate the efforts that were undertaken by the Government in ensuring that inflation is brought to a minimal level from July 2010 to January 2011.

4.4.1 Government Expenditure Instrument

Figure XII: Government Expenditure, July 2010 to January 2011
During the month under review, total expenditure amounted to TZS 690.3 billion, which was below the estimate of TZS 943.9 billion by 26.9 percent. Out of the total, recurrent expenditure was TZS 527.8 billion and development expenditure was TZS 162.5 billion.

On cumulative basis for the first seven months of 2010/11, government expenditure reached TZS 5,232.0 billion, against the estimate of TZS 5,920.4 billion. Recurrent expenditure amounted to TZS 3,851.1 billion in line with budget estimate whereas development expenditure amounted to TZS 1,380.9 billion or 71.4 percent of budget estimate. The underperformance in development expenditure was mainly a result of lower than projected disbursement of project grants which was only 14 percent of the projected TZS 546.7 billion. In corresponding period in 2009/10, total government expenditure amounted to TZS 4,261.7 billion or 81.7 percent of the budget estimate (Figure XII). As a percentage of GDP, total expenditure during the first seven months of 2010/11 was 15.1 percent, compared with 13.7 percent of GDP in the corresponding period in 2009/10. However government fiscal objective for 1998/99 was to reduce the budget deficit by TZS 10.0 billion, with a corresponding reduction of credit from the banking system and domestic suppliers and to increase revenue collection up to or above TZS 670 billion or
13.0 percent of GDP. The country’s overall economic objective was to achieve a real GDP growth rate of 3.5 percent and to reduce the inflation rate to 7.5 percent by the end of June 1999. In order to achieve the above objectives the government employed various revenue and expenditure measures. Revenue measures included the introduction of Value Added Tax (VAT), various reforms in tax laws, efforts to fight evasion, introduction of bonded warehouses, and the abolition of export tax to on traditional agricultural goods. Alongside the revenue measures, the government put in place expenditure reduction measures. These included the continuation of cash budgeting by matching expenditure to revenue collection and the introduction of a system of computerizing all government commitments in the ministries.

4.4.3 Monetary Policy

In most of the countries like Tanzania, the UK and US, monetary policy is the most important tool for maintaining low inflation. In the UK, monetary policy is set by the MPC of the Bank of England. They are given an inflation target by the government. This inflation target is 2%+/−1 and the MPC use interest rates to try and achieve this target.

The first step is for the MPC to try and predict future inflation. They look at various economic statistics and try to decide whether the economy is overheating. If inflation is forecast to increase above the target, the MPC will increase interest rates.

Increased interest rates will help reduce the growth of Aggregate Demand in the economy. The slower growth will then lead to lower inflation. Higher interest rates reduce consumer spending because: Increased interest rates increase the cost of borrowing, discouraging consumers from borrowing and spending, increased interest rates make it more attractive to save money, increased interest rates reduce the disposable income of those with mortgages, and higher interest rates increased the value of the exchange rate leading to lower exports and more imports.
According to Bank of Tanzania Report 2012; Credit control is one of the significant monetary measures strategies. The central bank of the nation follows a number of ways to control the quantity and quality of credit. For this cause, it raises the bank rates sells securities in the open market, raises the reserve ratio and follows a number selective credit control measures such as raising margin requirements and regulating consumer credit. But one of the monetary measures is to demonetize currency of higher denominations. Such measures are usually followed when there is more of black money in the nation. The most tremendous monetary measure is the issue of new currency in place of the old ones. Under this operation, one new currency note is negotiated for a number of currency notes of the old ones. The value of bank deposits is also set respectively.
4.4.4 Supply side measures

According to BOT Tanzania Economic Survey 2013 has highlighted measures that the government can take to ensure ‘growth-friendly’ reduction in high inflation. According to the survey, Tanzania faces a number of constraints on supply and the growth-friendly way to deal with inflation is to focus on boosting the supply side. However, because the vulnerable segments of society may be adversely affected before supply side measures kick in, some targeted support is reasonable, the survey says. Measures such as targeted subsidies for below poverty line (BPL) families will shield vulnerable consumers.

Permitting FDI in multi-brand retail trading will help consumers and farmers improve their selling and purchasing facilities. This government reform will help insulate some sections of the society from price rises. Given that inflation has been persistent, it suggests a significant mismatch between demand and supply. According to the survey, for some articles such as food, where demand is hard and probably unwise to curb, supply increases have to be the primary solution. In the short run, curbing demand moderately so as to allow supply to catch up can be an effective tool, while in the long run, measures to increase supply are the only way to have non inflationary growth, says the survey. The survey admits that some of the short-term measures to curb inflation will have an adverse effect on growth.

In January 2011, the Bank offered Treasury bills amounting to TZS 240.0 billion same as the amount offered in December 2010, being higher than TZS 324.7 billion recorded in the preceding month (Figure X111). The Bank intervened in the market and sold Treasury bills with face value of TZS 194.2 billion or TZS 185.3 billion at cost value, being relatively lower than the face value of TZS 206.6 billion (or cost value of TZS 197.2 billion) sold in December 2010. All these activity was a strategy of controlling inflation.
In the Treasury bonds market, the Bank conducted two auctions by issuing 7-year and 10-year bonds amounting to TZS 40.0 billion and TZS 20.0 billion, respectively. Demand for 7-year bond stood at TZS 27.5 billion, while that of 10-year bond was TZS 26.2 billion. The Bank accepted 10-year bond worth TZS 20.0 billion at face value (or TZS 17.5 billion at cost value) and intervened in the 7-year bond by accepting bids with the face value of TZS 25.0 billion (TZS 22.5 billion at cost value). Commercial banks continued to dominate the market followed by pension funds. The main focus was mainly controlling of
the level of inflation. Following the need to address high and volatile Treasury bill rates, the Bank of Tanzania reduced over dependence on Treasury bills for liquidity management by increasing sales of foreign exchange. Furthermore, effective 9th January, 2008 the Bank reduced the frequency of Treasury bills auctioning from weekly to once fortnightly and Treasury bonds to once a month. The move was taken mainly to foster competitive bidding, and stimulate secondary trading of securities. These efforts paid off, as the upward trend on interest rates reversed. Commercial banks also responded accordingly. In the Treasury bills market, the overall weighted average Treasury bill yield for all maturities declined significantly from 17.07 percent in June 2007 to only 11.40 percent in December 2007. Overall time deposit rate improved from 7.83 percent in June 2007 to 8.26 percent in December, 2007, while 12months deposits rate increased from 9.25 percent to 10.2 percent.

4.4.5 Financial Market Developments

The Bank of Tanzania took steps to foster competitive bidding in Treasury bill auctions. Effective 9th January 2008, the Bank reduced the frequency of Treasury bill auctioning from weekly to once fortnightly and T-bonds to once a month. Besides influencing competitive bidding in the Treasury bills market, and thus reduce interest rates on Treasury bills and bonds, this move is also expected to steer trading of securities in the secondary market. The new policy strategy has started to bear fruits. The weighted average yield of Treasury bills declined to 10.89 percent by the end of January 2008 from the peak of 17.07 percent recorded in June 2007. In the foreign exchange market, the Bank decided to remain neutral beginning October 2007, which helped to break the entrenched expectations that the shilling will always lose value against the dollar even when the latter was depreciating rapidly. The value of the shilling has since strengthened consistent with the obtaining market fundamentals. The shilling exchange rate appreciated from an average of TZS 1,277.43 per US dollar in July 2007 to an average of TZS 1,165.15 in December. The
appreciation of the shilling has provided partial cushion against the sharp rise in the price of oil and imported inflation on other consumer goods.

### 4.4.6 External Sector Developments

On the external sector front, the deficit in the current account widened during 2007, on account of increase in imports, which outpaced increase in exports. Provisional statistics indicate that exports of goods and services increased by 14.7 percent, while imports rose by 23.3 percent. The weak performance in traditional exports, which recorded an annual change of 8.6 percent, contributed to lower export earnings, whereas much of the increase in imports was mainly attributed to a surge in goods imports which registered an annual increase of 24.9 percent. However, it is worth noting that the surge in imports was mainly associated with capital goods imports - a phenomenon that reflects increased investment in the economy. Meanwhile, the Bank’s gross international reserves rose to USD 2,761.2 million as at the end of December 2007 compared with USD 2,139.7 million recorded at the end of December 2006. This level of reserves is enough to cover about 5 months of imports of goods and services.

### 4.4.7 Fiscal Measures

According to African Economic Outlook 2012; Fiscal measures such as slashing down unwanted expenditure, rise in taxes, rise in savings, surplus budgeting and public debt. Similar to monetary measures fiscal measures alone cannot help in controlling inflation and they should be surrogated by monetary, non-monetary and non-fiscal measures. Fiscal policies can also be used to control inflation. If a government wants to decrease it then it will increase taxation and decrease government spending.

This will result in consumers and firms having less to spend, therefore coupled with the lower government spending this will cause leakages to increase and injections to decrease, reducing aggregate demand.
4.4.8 Revenue collection Instrument
Total revenue collection reached TZS 689.3 billion, or 13.2 percent of GDP compared with the targeted revenue collection of TZS 699.5 billion or 13.0 percent of GDP. The revenue collection in 1998/99 was higher by TZS 70.2 billion or 11.3 percent, compared to TZS 619.1 billion collected in 1997/98. This revenue performance was largely attributed to good performance in VAT, customs duty, and income tax as per table3. Tax revenue amounted to TZS 616.3 Billion of the total revenue collection in 1998/99, and non-tax revenue reached TZS 73.0 billion and refund was 13.0. Through this collection method the government can highly control inflation.

Fiscal performance for the first six months of 2007/08 (July - December) was impressive, especially on revenue collections. Tax revenue collections amounted to TZS 1,652.0 billion (or 8.2 percent of GDP), exceeding the target by TZS 75.0 billion. Expenditure was slightly lower than planned, mainly due to the slowness of the procurement process. By the end of December 2007, total expenditure reached TZS 2,966.2 billion or 14.7 percent of GDP compared to 16.4 percent planned for the period.

Cumulatively from July to December 2007, fiscal operations recorded an overall deficit of TZS 448.5 billion, equivalent to 2.2 percent of GDP.

4.4.9 Other Measures

Conducting periodical research to identify stock and availability of food products in different regions: This will enable the Government to know regions with excess supply of food and regions with shortages for proper planning of food distribution.

Continue with the effort of stabilizing supply of electricity by finding different sources of power and also invite different private investors in this sector.
Continue to improve infrastructures to have smooth supply of food products from regions with surplus to scarcity regions

However for the case of Tanzania food is seen as a major determinant of inflation trigger, for this case the government should ensure that the National Food Reserve Agency that is responsible for creating food stability in the country during is well stocked with enough food reserve in periods of better harvest so as to ensure that there are no any business people who will either sell food such as maize in a high price during drought periods hence creating a price hike.

In spite of ensuring well stocked, the government should ensure that in periods where the internal harvest are unfavorable it should make efforts to import food from neighbor countries with better harvest so as to block any room that the business people can take so as to sell food at high price so as to obtain abnormal profit hence creating a price hike.

Controlling of the amount of debt borrowed as well as proper allocation is also important in controlling Inflation as it highly contribute into weakening of Tanzania currency during repayment if nothing productive has been achieved from the loan borrowed, this is because according to the Ministry of Finance of Tanzania the country’s indebtedness has been growing despite debt reduction measures undertaken by the government. The overall total debt stock (external and domestic debt) amounted to US$ 8,871.7 million as at end June 1999, an increase of 1.0 percent when compared to US$ 8,779.1 million registered at the end of June 1998. During the financial year 1998/99 actual debt service amounted to US$ 310.6 million. This amount portrays a decrease of debt servicing of 1.7 percent when compared to US$ 315.9 million paid out in the previous year. In the review period, the government spent about 32.7 percent of its budgeted revenue for debt service, compared with 33.5 percent 1997/98.
The unification of the foreign exchange market will highly assist in the control of inflation as it can be viewed in the Ministry of Finance by the introduction of foreign exchange bureaus in 1992, which were allowed to transact in foreign exchange at freely determined exchange rates for current account transactions, and the liberalization in 1993 of nearly all remaining foreign exchange transactions for current account purposes. Although the parallel foreign exchange market is still in existence, its premium is small reflecting mainly the operation of residual capital controls, the financing of illegal activities, and tax evasion. The virtual disappearance of parallel exchange rate premium also reflects the extent to which the adoption of the crawling peg at the start of 1986 has realigned the real exchange rate to its long-run path. Currently the exchange rate is determined freely at the inter-bank foreign exchange market (IFEM), which was introduced in June 1994 to replace weekly foreign exchange auctions that were started in July 1993 shortly before the foreign exchange market was unified (MoF).
CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, summary of the study, conclusions, recommendations and need for further research are presented. The main objective of the study was to examine the determinants of inflation in the economy in Tanzania.

The study was conducted through questionnaires and interviews to the selected sample and data were collected and analyzed. Three important areas of the study concern were to examine the causes of inflation in Tanzania’s economy, Examine Inflation effects in Tanzania’s economy and finally suggested the probable measures to curb inflation in Tanzania’s economy.

5.2 Conclusion

The objective of this study was to examine the determinants of inflation in Tanzania’s economy. Data were collected and analyzed. The study revealed the following basing on the purpose of the study. The study revealed that main determinants of inflation were increase in fuel costs, rising energy prices, rising food prices and depreciation of the Tanzanian shilling. Moreover; price increase, cost increase, market bubbles, economic downturn, decreased labor costs and increased lending were among the impacts of inflation in Tanzania’s economy, where all of them had a strong association with inflation in the economy.

5.3 Recommendations

In order to control National Inflation Rates, the Government of Tanzania should consider doing the following:-
Conducting periodical research to identify stock and availability of food products in different regions. This will enable the Government to know regions with excess supply of food and regions with shortages for proper planning of food distribution.

Continue with the effort of stabilizing supply of electricity by finding different sources of power and also invite different private investors in this sector
Continue to improve infrastructures to have smooth supply of food products from regions with surplus to scarcity regions.
Continue controlling the money supply through the use of monetary measures such as increase in cash reserve requirement on government deposit in an attempt to reduce the money supply.

The government should control the amount of food exports so as to ensure that there is sufficient available food domestically so as to ensure no price hike.

Ensuring that it regulates the foreign exchange capital requirements for dealers so as to facilitate the release of more foreign exchange so as to shore up the shilling.

The government should also establish Saccoss that would assist in empowering small scale crop producers to directly reach the customers rather than using middlemen who inflate cost hence bringing crisis of price Inflation on food.

Moreover the government should localize the food production areas closer to the consumer so as the transport cost can diminish to the minimal hence keeping food prices lower and hence regulating price inflation.
However population planning is also a very vital factor in controlling inflation in Tanzania since with proper planning of the population it will reduce demand of commodities hence assist in controlling price inflation.

5.4 Suggestion on the direction for future study

The study was only conducted in Tanzania because of lack of sufficient resources in terms of finance and time. A cross-countries study particularly in East Africa Community (EAC) could be done covering all ministries could add more value in the finding.

REFERENCES


Tanzania Investment Report 2009.


APPENDIX I

To: BOT/Ministry of Finance and Economic Affairs/Others

QUESTIONNAIRE FOR MASTERS DEGREE COURSE RESEARCH

Dear Respondent

The following is the questionnaire intending to collect data basing on the following topic: **Causes of Inflation on Tanzania’s Economy.** You are requested to assist in responding questions as you know them.

The information contained in the questionnaire will be confidential, and only for research purposes.

I anticipate my gratitude to your assistance

**PART A: GENERAL INFORMATION**

**RESPONDENTS SHOULD COMPLETE THIS PART**

(a) Name………………………………………………………………………………………………………………

(b) Government Authority/Ministry………………………………………………………………………………

(c) Name and position of a person completing this questionnaire…………………………………………

(d) Authority Address:

P.O.BOX………………………………………………………………………………………………………………

Region…………………………….District…………………………………………

Telephone Number……………….Fax………………………………………………..

Web site…………………………Email………………………………………………

(e) Date of establishment…………………………………………………………………………………………
PART B: QUESTIONS

1. What are the causes of Inflation on Tanzania’s Economy?
   (a) ……………………………………………………………………………………
   (b) ……………………………………………………………………………………
   (c) ……………………………………………………………………………………
   (d) ……………………………………………………………………………………
   (e) ……………………………………………………………………………………
   (f) ……………………………………………………………………………………

2. What are effects of Inflation on the prices of goods and services on Tanzania’s Economy?
   (i) ……………………………………………………………………………………
   (ii) ……………………………………………………………………………………
   (iii) ……………………………………………………………………………………
   (iv) ……………………………………………………………………………………
   (v) ……………………………………………………………………………………

3. What are the probable measures to curb inflation in Tanzania’s Economy?
   (a) ……………………………………………………………………………………
   (b) ……………………………………………………………………………………
   (c) ……………………………………………………………………………………
   (d) ……………………………………………………………………………………
   (e) ……………………………………………………………………………………

4. Any Observations/Suggestions……………………………………………………
Appendix II

Interview Questions to BOT, MOFEA Employees/Others

Dear Respondent

The following Interview intended to collect data basing on the following topic; the causes of inflation in Tanzania’s economy. You are requested to assist in responding questions as you know them. The research is for academic purposes and the report will be submitted at Mzumbe University as part of the requirements for Master of Science in Accounting and Finance degree.

I anticipate my gratitude to your assistance

General information

Name of Interviewee………………………...Phone number…………………………
Department Name…………………………Fax………………..Email…………………

Questions

1) What are the causes of inflation in Tanzania’s economy?
   (i) ..................................................
   (ii) ..................................................
   (iii) ..................................................
   (iv) ..................................................
   (v) ..................................................
   (vi) ..................................................
2) What are inflation effects on the prices of goods and services in Tanzania’s economy?
   (i) .................................................................
   (ii) .................................................................
   (iii) .................................................................
   (iv) .................................................................
   (v) .................................................................
   (vi) .................................................................

3. What are the probable measures to curb inflation in Tanzania’s Economy?
   (i) ........................................................................
   (ii) ........................................................................
   (iii) ........................................................................
   (iv) ........................................................................
Thank you in Advance for your Cooperation