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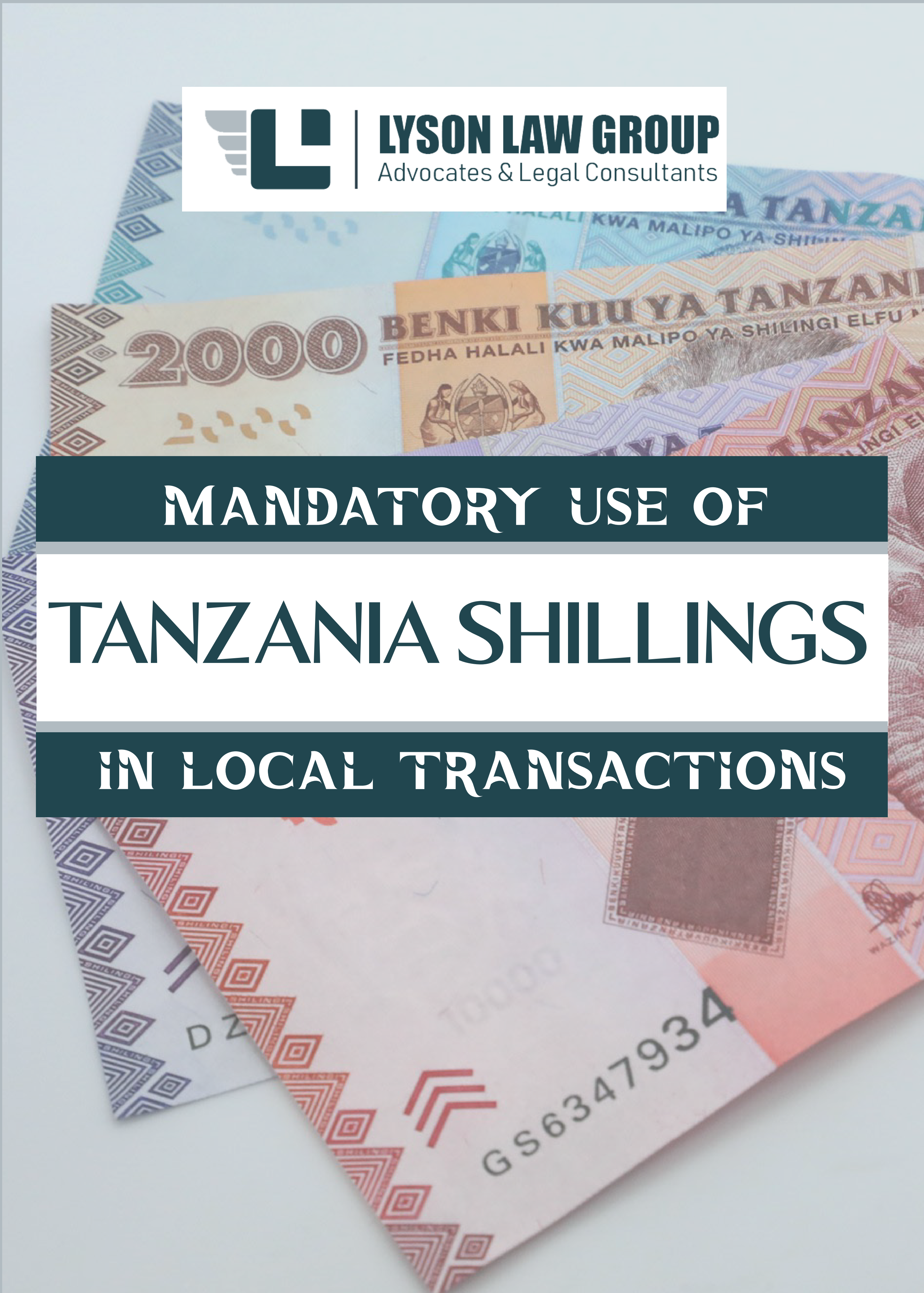

MANDATORY USE OF TANZANIA SHILLINGS IN LOCAL TRANSACTIONS

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1. INTRODUCTION

Mandatory Use of Tanzanian Shillings: All transactions and advertisements within Tanzania must now be conducted in Tanzanian shillings, in accordance with the legal framework of the country.

1.1. Scope of Legal Amendment:

Legal Amendment: The Bank of Tanzania Act has been amended to include a new subsection in section 26. This subsection states that, unless otherwise prescribed by the Minister, using any currency other than the Tanzanian shilling for transactions is considered an offense.

Objective:

The primary goal of this amendment is to curb the widespread use of foreign currencies within Tanzania, addressing a significant challenge impacting the national economy.

Implementation:
Effective immediately, all transactions must be conducted using the legal tender issued by the Bank of Tanzania, as established under Section 4 of the Bank of Tanzania Act.

This move is expected to strengthen the Tanzanian shilling and stabilize the country's economy by reducing dependency on foreign currencies.

2. CONTEXT TO THE DEDOLLARISATION DEBATE

While commenting on the growing use of the US dollar in local transactions, Tanzanian Minister for Finance Mwigulu Nchemba stated that:

"*This has exacerbated the shortage of dollars, thus hindering economic progress.*"

Nevertheless, he reiterated the importance of reducing reliance on imports and fostering domestic production to conserve foreign currency reserves and bolster economic growth.

He decried the practice of some institutions, including governmental bodies, requiring Tanzanians to pay fees, rent, work permits, licenses, and other charges in dollars. The development came amid heightened talks of de-dollarisation in sub-Saharan Africa.

According to Tatonga Rusike, a Sub-Saharan economist at the Bank of America, African countries' reliance on the dollar is increasing macroeconomic pressures from elevated debt levels, high borrowing costs, and weak growth.

Rusike emphasized the importance of reducing foreign or US dollar activity in domestic financial systems to promote stability, lower inflation, and increase lending in local currencies.

He says that some countries in the region, like Angola, have as much as 50 per cent of foreign loans and deposits in local markets, posing risks to financial intermediation and monetary policy transmission.

He cautions, however, that the de-dollarisation drive could have negative implications for financial intermediation and monetary policy transmission.

Kenya's President William Ruto, has also been championing the abandonment of the globally bullish US dollar by signing up for a pan-African payments system to facilitate trade within the continent. Ruto has increasingly urged his peers in Africa to mobilize central and commercial banks to join the Pan-African Payments and Settlement System (PAPSS), which was launched in January 2022.

The East African Community (EAC) has also stepped up the push for member states to adopt local currencies in trade. As recently as last year, a resolution recommending the EAC use local currencies to boost cross-border trade was tabled. The recommendation to the EAC's Council of Ministers and partner states adds to the push by emerging and frontier economies to dump the use of dollars in settling cross-border trade.

3. CONCLUSION

Many African nations are grappling with declining foreign exchange reserves as a result of tightening monetary policies worldwide. Low reserves have forced countries to rethink their plans for surviving future trends while balancing trade.

REFERENCES

Finance Act, No 6, 2024

Rusike, T.G., 2007. *Trends and determinants of inward foreign direct investment to South Africa* (Doctoral dissertation, Rhodes University).

The Bank of Tanzania Act No. 4,2006

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