

**Foreign exchange reserves in Tanzania: sources for its accumulation
and its economic implications**

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This study aimed at determining sources of foreign exchange reserves accumulation in Tanzania and its economic implications using data from 1976 to 2014. All variables were integrated at first order and presence of strong statistical evidence for co-integrating equations, Vector Error Correction Model have been applied in estimating an equation showing variables that influences foreign exchange reserves accumulation in Tanzania. Results show existence of both long run and short run relationship between reserves and economic size (GDP), Capital account vulnerability, opportunity cost and short term debt. Long run equilibrium is ensured by adjustments in GDP since coefficient of ECT for GDP appears to be negative and significant. On concluding remarks, reserves adequacy ratios have been calculated and results show that, given current economic size, Tanzania hold enough reserves.