

Non-bank financial intermediaries and the demand for money in Tanzania

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The main objective of this study has been to investigate the effect of non-bank financial intermediaries (NBFIs) on the conduct of monetary policy in Tanzania for the period 1967-96, paying special attention to the rapid growth on NBFIs liabilities. To estimate the single equation demand for money function, the ordinary least square (OLS) method was used. The study found that the NBFIs are statistically significant determinant of money demand function in Tanzania. Accordingly, the main conclusions of this empirical study are that the NBFIs liabilities are important in explaining the demand for money in Tanzania. However, the participation of the NBFIs in the financial sector expands the market NBFIs. A Chow test was used to establish the stability of the money demand function results obtained did not indicate any significant shifts in demand for money function when the broad (M2) and expanded (M3) definitions of money were used. This result rejects the hypothesis that the estimated money demand function was unstable in the period 1967-96. But, as regards the function estimated with M1, the hypothesis that the demand for money function has shifted during the period under study was confirmed. Generally, the results suggest that money demand function estimated by using M2 and M3 are more stable than that estimated by using M1. Empirically therefore, M2 and M3 are better definition of money in Tanzania.