Abstract

The inflationary impact of exchange rate changes has been controversial in the wake of adjustment/stabilisation policies in many developing countries. One view held that currency devaluation associated with structural adjustment of the 1980s was one of the causes of inflation. However, empirical results regarding the inflationary effects of official and parallel market exchange rate changes are not unanimous. This paper examines the relative impact of both official and parallel market exchange rate changes on inflation in Tanzania. A model of inflation is estimated for the period 1967-1995 and divided into the "controlled" regime (up to mid-1980s) and a more liberalised regime (mid-1980s to 1995). It is found that while the official exchange rate generally had a direct influence on domestic prices overall both regimes, the parallel exchange rate had a dominant influence during the controlled regime; but eliminating the parallel market was compelling