ABSTRACT

Like several other countries both industrialised and non-industrialised, one of the central objectives of macroeconomic policies in Tanzania is to promote economic growth and to keep inflation on a low level. However, there has been substantial debate on whether inflation promotes or harms economic growth. Motivated by this controversial, this study examined the impact of inflation on economic growth in Tanzania and established the existence of inflation growth relationship in the economy.

It was further revealed that inflation is inelastic to growth. Annual time-series data for the period from 1990 -2011 was used through the application of Regression analysis (OLS) to examine the impact, Augmented Dickey-Fuller technique and Phillip-Perron test in testing the unit root property of the series, Correlation coefficient and co-integration technique to establish the relationship between inflation and GDP and Coefficient of elasticity to measure the degree of responsiveness of change in GDP to changes in general price levels.

Results of unit root suggest that all the variables in the model are stationary. Also inflation has a negative impact on economic growth. The study also revealed that there was no co-integration between inflation and economic growth during the period of study. No long-run relationship between inflation and economic growth in Tanzania. Only a negative and statistically significant short term relationship was found. The coefficient of elasticity showed that, the sensitivity of GDP growth rates to inflation is inelastic to the tune of -0.8.

A major policy implication of these results was that intensive effort should be made by policy makers to control all factors which cause increase of the general price levels such as energy crisis, exchange rates volatility, increase in money supply and poor agricultural production with appropriate policies so as to foster economic growth.