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Monetary Policy Committee Meeting Statement

The Monetary Policy Committee (MPC) held its 226th Ordinary Meeting on 22nd May 2023, to assess the conduct of monetary policy in March and April 2023, review the performance and outlook of the domestic and global economy, and agree on monetary policy measures for May and June 2023. The MPC noted with satisfaction the sustained implementation of a less accommodative monetary policy that succeeded in containing inflation within the target while ensuring an adequate supply of liquidity in the banking system in support of credit intermediation and recovery of various economic activities. In addition, the policy stance supported the attainment of agreed benchmarks under the IMF Extended Credit Facility (ECF) arrangement for the quarter ending March 2023, laying the foundation for achieving the performance criteria for June 2023.

In discussing recent economic trends, the MPC observed that global economic activity remained weak in 2022 and the outlook is uncertain, reflecting the adverse effects of war in Ukraine, monetary policy tightening and climate-related constraints. Global inflation has been easing since the last quarter of 2022, driven by a decline in energy prices, but remained above the central banks' targets in many countries. Commodity prices in the global market have been declining, though remained above the levels recorded before the war in Ukraine. Going forward, inflation is expected to continue declining, driven by the lagged effect of monetary policy tightening and expected further decrease in commodity prices.

On the domestic economy, the MPC noted that:

- i growth is broadly on track supported by improving business conditions, sustained public and private investment, recovery in tourism, and strong growth of credit to the private sector. In Mainland Tanzania, growth in the first three quarters of 2022 was 5.2 percent, and high-frequency economic indicators support for strong growth of around 5 percent for the entire year 2022 and about 5.2 percent for 2023. Zanzibar economy is estimated to have grown by 6.8 percent in 2022, much faster than 5.1 percent in 2021. In 2023, Zanzibar economy is projected to grow at 7.1 percent;
- ii inflation in Mainland Tanzania eased for the third month in a row to 4.3 percent in April 2023, remaining below the target of 5.4 percent for 2022/23. In Zanzibar, inflation rose to 7.5 percent in April 2023 from 7.1 percent in March 2023, remaining above the medium-term target of 5 percent, largely due to an increase in the prices of food. The MPC expects inflation to remain low in the remainder of 2022/23, based on expected further decline in food and energy prices in the global market, complemented by less accommodative monetary policy and favourable weather that will improve food supply;

- iii money supply growth was consistent with the monetary policy stance, with a year-on-year growth of 17.2 percent in April 2023, against the target of 10.3 percent for 2022/23. This outturn was on account of sustained strong growth of credit to the private sector of around 23 percent, above the target of 10.7 percent for 2022/23;
- iv government budgetary operations remained broadly on track. In the first three quarters of 2022/23, domestic revenue reached 95.1 percent and 95.9 percent of the targets for Mainland Tanzania and Zanzibar, respectively. The performance was mainly attributable to the ongoing recovery of economic activities, supported by improved tax administration and enhanced taxpayers' compliance. Government expenditures were aligned with the available resource envelope;
- v the external sector of the economy continued to face spillover effects of the war in Ukraine and lagged impact of the COVID-19 pandemic, through elevated commodity prices, disrupted supply chains, rising current account deficit and pressure on foreign exchange, as well as high cost of borrowing in international markets. As a result, foreign exchange reserves closed at USD 4.9 billion at the end of April 2023, down from USD 5.5 billion at the end of April 2022. The level of reserves was sufficient to cover 4.4 months of imports, which was within the country benchmarks of at least 4 months; and
- vi the banking sector remained stable and resilient to shocks, characterized by adequate capital, liquidity and profitability. In April 2023, banks' deposits and assets continued to increase, in line with the ongoing recovery of economic activities and enhanced use of digital financial services. Quality of assets in the banking system continued to improve as reflected by a decrease in the ratio of non-performing loans to 5.45 percent, compared with 8.25 percent registered in April 2022;

Given the domestic and global economic conditions, the MPC approved the Bank to sustain the implementation of less accommodative monetary policy in May and June 2023. This policy stance will ensure that inflation remains within the target of 5.4 percent in the remainder of 2022/23, while supporting attainment of quantitative performance criteria under the IMF ECF arrangement for the quarter ending June 2023. The Bank will continue to closely monitor the developments in the economy and take additional actions, as deemed necessary, to address any unwarranted shocks.

GOVERNOR
BANK OF TANZANIA