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Monetary Policy Committee Meeting Statement

The Monetary Policy Committee (MPC) met on 18th December 2023, to review the conduct of monetary policy and performance of the economy. During deliberations, the MPC observed that the less accommodative monetary policy continued to keep monetary and financial conditions at the level required to contain inflation below the target of 5 percent while continue to support economic activities and financial sector stability. Also, supported by fiscal policy and an improvement in proceeds from exports and tourism, the policy stance lessened the pressure on demand for foreign currency in October and November 2023.

The MPC also discussed the global economic outlook and noted that the situation has been relatively weak for most of 2023, largely due to geo-political tensions, tightened financial conditions, and high energy prices. The condition might improve in 2024, conditional on the fading of geo-political conflicts, decline in energy prices in the world market, and easing of monetary policy tightening in advanced economies. Furthermore, after much deliberation about the domestic economy, the MPC observed that:

i. Despite the spillover effects of the global shocks, the performance of the economy was satisfactory in 2023 and is expected to further improve in the subsequent year, on account of the implementation of growth-enhancing policies and increased private sector investment. Specifically, growth in the first and second quarters of 2023 was 5.4 percent and 5.2 percent, respectively, bolstered by the diversified nature of economic activities. Given this performance, combined with leading economic indicators for the second half of the year, growth outturn for the entire year might be above the projection of 5 percent. A recovery in economic activities was also observed in Zanzibar, owing to a remarkable improvement in tourism and public and private investment. As a result, growth was 5 percent in the second quarter and is expected to reach an annual target of 7.1 percent in 2023.

ii. Inflationary pressures remained muted, evolving below the target of 5 percent, owing to the smooth coordination of monetary, fiscal, and structural policies. As a result, the downward trend of inflation observed since the beginning of 2023 continued, reaching 3.2 percent in October and November 2023 from 3.3 percent which persisted for three months consecutively, primarily driven by moderation in food prices. In Zanzibar, inflationary pressures were also subdued, with an outturn of 6.5 percent in October 2023 from 7.5 percent in the preceding month. The decline was driven by both food and non-food inflation. In both

Mainland Tanzania and Zanzibar, inflation is expected to remain stable and consistent with the medium-term target of 5 percent.

iii. Owing to the implementation of a less accommodative monetary policy, the growth of monetary aggregates slowed in November 2023. The Extended broad money supply grew at 13.7 percent compared with 14.5 percent recorded in September 2023, driven by private sector credit growth, which slowed to 18.3 percent from 19.5 percent. However, the growth of private sector credit, was still above the projection of 16.4 percent by the end of December 2023. The high investment appetite strengthened by improving the business environment and supportive policies is expected to persist.

iv. Fiscal performance was satisfactory. In the first four months of 2023/24, revenue performance was 96 percent of the target and expenditure continued to be aligned with the available resources. For Zanzibar, revenue performance was almost on target. The performance was observed in all revenue categories, except tax on imports and non-tax.

v. The current account improved slightly, mainly on account of an increase in foreign exchange earnings from traditional export crops and tourism. The deficit narrowed to USD 3,265.5 million in the year ending October 2023 compared with USD 4,990.1 million in the corresponding period in 2022 and is expected to continue improving. As for Zanzibar, the current account deficit widened to USD 447.7 million compared with a deficit of USD 362.8 million, mainly on account of an increase in imports, which outweighed the improvements in exports. Foreign exchange reserves remained adequate at about USD 5 billion in November 2023, sufficient to cover more than 4 months of imports. The exchange rate depreciated by around 7.8 percent, year-on-year, reflecting the shortage of foreign currency liquidity. The foreign reserves are projected to remain adequate.

vi. The financial sector remained stable. The banking sector was adequately capitalized and liquid. Asset quality continues to improve, as reflected by a decline in non-performing loans to 5.3 percent in October 2023 from 7.2 percent in the corresponding period in 2022.

The MPC noted with satisfaction the measures implemented by the Bank of Tanzania in addressing the shortage of foreign currency and observed that the implementation of policies by the Government to increase export and import substitution will improve the current account position, boost foreign exchange reserves, and stabilize the exchange rate. The MPC also applauded the satisfactory implementation of policies and the achievement of targets outlined in the national economic programs, including the IMF-supported Extended Credit Facility.

Additionally, the MPC noted with satisfaction the progress made by the Bank of Tanzania in adopting a new monetary policy framework in January 2024, which will focus on targeting short-term interest rates rather than reserve money, to control inflation and support economic growth. This new framework is referred to as the interest rate or price-based monetary policy framework.

In the context of the expected low inflationary environment and improving business conditions, the MPC decided to sustain the implementation of a less accommodative monetary policy in December 2023. This conclusion was also reached after considering the unfavourable global economic condition.

GOVERNOR
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