

# **Bank of Tanzania Interest Rate-Based Monetary Policy Framework**

## **1. Monetary policy**

Monetary policy consists of decisions and actions taken by the Bank of Tanzania (the Bank) to influence the amount of money supply in the economy and the cost of borrowing. This is done using monetary policy instruments at the disposal of the Bank.

In fulfilling this mandate, the Bank assesses economic conditions and determines the policy rate required to achieve the inflation objective, in consideration of the output growth. Consistently, the Bank deploys an appropriate mix of monetary policy instruments to steer interbank cash market interest rates along the Central Bank policy rate. The Bank through the Monetary Policy Committee (MPC) determines the interbank market interest rate to be used as the operating target and communicates to stakeholders. In its day-to-day operations, the Bank assesses the liquidity in the banking system and decides on the magnitude, type and maturity of instruments to be deployed for liquidity management.

## **2. Monetary policy framework**

The monetary policy framework of the Bank focuses on maintaining price stability conducive to a balanced and sustainable growth of the economy by targeting the money market interest rate along in accordance with the Central Bank policy rate. The mainstays of this monetary policy framework are highlighted below.

## **3. Objective of monetary policy**

The primary objective of monetary policy is to maintain price stability, which is defined as a low and stable rate of inflation over time. The rate of inflation is measured as an annual change in the consumer price index (CPI), expressed in percent. Over the medium-term period of 3-5 years, inflation is expected to evolve within the target of 5 percent. The target is consistent with regional economic communities in which the country is a member. The inflation target is considered appropriate to support a sustainable growth of the economy. However, due to shocks to the economy, actual inflation may temporarily deviate from the target range in a year. To achieve the objective of monetary policy, the Bank focuses on maintaining an adequate level of liquidity in the economy and ensuring the stability of short-term interest rates and exchange rates.

## **4. Intermediate target**

The Bank of Tanzania controls inflation and facilitates economic growth by setting the policy rate (CBR). The CBR is set consistent with the inflation forecast as the intermediate target, conducive to a balanced and sustainable growth of the economy.

## **5. Operating target**

The Bank steers the 7-day interbank cash market interest rate (the operating target variable) along the policy rate, in order to achieve inflation and output objectives. The short-

term interbank rate is chosen by the Bank from the interbank cash market and is considered to be stable and has a strong relationship with the policy rate.

## **6. Monetary policy instruments**

The Bank of Tanzania uses a variety of instruments to align the operating target along the Central Bank policy rate, while managing the quantity of money supply in the economy and the cost of borrowing. The main instruments are repurchasing agreements (repo and reverse repo), primarily for monetary policy operations. Other open market operations include but are not limited to, selling or buying debt securities and the sale or purchase of foreign currency in the inter-bank foreign exchange market. The statutory minimum reserve requirement ratio (SMR) and discount rate are also part of monetary policy instruments for managing structural liquidity. There are also standing lending facilities—intraday and Lombard loan facilities granted to all banks on demand to ensure efficiency and facilitate smooth settlement of payments. Furthermore, the Bank is mandated to design and use any other instruments considered to be appropriate for monetary policy.

## **7. Monetary policy communication strategy**

The Bank of Tanzania exercises a high degree of transparency in its decisions and actions. The decisions of the Monetary Policy Committee (MPC), which include policy rates, are communicated to banks through post-MPC meetings with Chief Executive Officers of banks and the public through the media. In addition, the Bank publishes MPC meeting statements and periodic reports containing outcomes of monetary policy implementation, monetary policy stance, decision on policy rate and developments of the economy at large. The reports are available on the Bank of Tanzania website.