



CLARIFICATION ABOUT ADOPTION OF INTEREST RATE BASED MONETARY POLICY FRAMEWORK

In the Bank of Tanzania's Monetary Policy Statement for 2017/18 published in June 2017, the Bank expressed its intention to replace the current monetary policy framework, which targets monetary aggregate (reserve money), with a new framework that targets interest rate. The interest rate to be targeted in the new framework will be the interbank cash market rate, which is the rate at which banks lend to each other. Under the new framework the Bank will set and announce a policy rate and take actions in the interbank cash market to keep the interbank cash market rate as close as possible to the policy rate.

All policy actions will be taken in the market to keep the interbank cash market rate close to policy rate. Interest rate based monetary policy framework is a best practice across the world and its adoption by the Bank of Tanzania is part of the monetary policy modernization process currently being implemented by the Bank.

Interest rate based monetary policy framework should not be confused with interest rate capping, which constitutes a mandatory requirement that interest rates should not exceed a certain limit. Interest rate capping interferes with the functioning of the market, leading to inefficient allocation of financial resources.

BANK OF TANZANIA

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