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Monetary Policy Committee Statement

The Monetary Policy Committee (MPC) held its 214th Ordinary Meeting on 28th May 2021 to review recent implementation of monetary policy, as well as performance of domestic and global economies. The MPC was satisfied with the conduct of monetary policy, which succeeded in keeping liquidity in banks at desirable levels for lending to the private sector and fall in interest rates in future.

The MPC was also pleased with good performance of the economy, which is in the midst of global spillover of adverse impact of the pandemic. Growth is estimated at 4.8 percent in 2020, lower than projection of 5.5 percent, reflecting adverse impact of the pandemic. In 2021, the economy is projected to grow at 5.6 percent, reinforced by construction, agriculture and transport and communication activities. Inflation remained low, within the target range of 3-5 percent. The risk of increase in inflation remains muted, although a sudden rise in oil prices in the world market could lead to a rise in domestic pump prices.

The external sector of the economy continued to face spillover effects of the pandemic, but seemingly regaining momentum, as global trade and investment normalizes. As earnings from gold nearly offset underperformance of tourism, the current account deficit remained relatively low, albeit moderately rising. Foreign exchange reserves were within the country, as well as EAC and SADC benchmarks. This helped to maintain stability of the exchange rate and provided a buffer against short-term external shocks. The MPC reiterated the need to diversify export markets and promoting value addition of exports in order to limit vulnerability of the external sector.

Private sector credit growth improved to 4.8 percent in April 2021, but remained lower than pre-pandemic historical averages. A sustained high growth of credit to the private sector is expected in the outer period of 2020/21, due to ongoing reforms to improve the business environment, post-pandemic measures, and easing of lockdown measures in trading partner countries. The MPC was satisfied with Government efforts to fast-tracking verification and payment of expenditure arrears and VAT refund, which is expected to boost credit growth and potentially provide tax space. The banking sector was capitalized and capable to support growth of credit to the private sector.

Against this backdrop, the MPC approved the Bank of Tanzania to sustain monetary policy easing stance in the remainder of 2020/21, to further support the recovery of the economy through bank lending to the private sector. The MPC urged the Bank of Tanzania to continue to closely monitor domestic and global economic conditions and implement measures to limit adverse impact to the economy.

Governor
Bank of Tanzania
28 May 2021