



14th March 2023

Monetary Policy Committee Meeting Statement

On 14th March 2023, the Monetary Policy Committee (MPC) held its 225th Ordinary Meeting to evaluate the implementation of monetary policy, review the performance and outlook of the economy, and deliberate on monetary policy actions for the subsequent two months. The MPC was satisfied that the implementation of less accommodative monetary policy in January and February 2023 succeeded to contain inflation within the target, while supporting recovery of economic activities by maintaining adequate liquidity and strong credit intermediation to the private sector. The policy stance also helped to cushion the economy from adverse global economic shocks and heightened commodity prices, while supporting the attainment of agreed benchmarks under the IMF Extended Credit Facility (ECF) arrangement.

Regarding the recent economic performance, the MPC noted that, in 2022 the global economy was weakened by economic shocks and climate-related constraints. As a result, global growth is expected to slow in 2023, before rebounding in 2024. Commodity prices in the world market remained high in 2022, though trended downwards in the second half of the year. As a result, inflation has been declining since the last quarter of 2022, though remains above central bank targets in many countries, especially advanced economies.

Specifically, the MPC noted that:

- i The domestic economy is performing well with leading economic indicators suggesting positive outlook. Considering actual growth of 5.2 percent in the first three quarters of 2022 in Mainland Tanzania, it is likely that growth could be around 5 percent, which is higher than the projected growth of 4.7 percent for 2022. The Zanzibar economy is estimated to grow at 5.4 percent in 2022, owing to implementation of ongoing initiatives to enhance the blue economy and the resumption of tourism. The MPC projects higher growth for both economies in 2023, reinforced by growth of credit to the private sector, improved business and

investment conditions, rebounding of tourism activities, as well as prudent monetary and fiscal policies. The growth projections are also supported by ongoing trend of easing global inflationary pressures and improvements in the supply chain;

- ii Inflation has been on upward trend over recent months, because of the ongoing war in Ukraine, which has caused an increase in import prices of consumer goods. In January 2023, Mainland Tanzania inflation edged up to 4.9 percent, compared with 4.8 percent in the preceding month, but remained within the country's target of 5.4 percent, and EAC and SADC regional benchmarks of 8 percent and 3-7 percent, respectively. In Zanzibar, inflation experienced an upward trend, reaching 8.4 percent in January 2023, mainly because of the increase in both food and non-food inflation. The MPC remains optimistic that inflation will remain within target in the second half of 2022/23, as prices of global consumer goods and inflation in trading partners ease, coupled with the expected increase in food supply in the country. The moderation will also be supported by cautious liquidity reducing monetary policy operations pursued by the Bank;
- iii Money supply recorded a satisfactory annual growth of 12.8 percent in January 2023, broadly in line with the target of 10.3 percent for 2022/23, mainly on account of strong growth of private sector credit that reached around 23 percent;
- iv In the first seven months of 2022/23, domestic revenue performance was strong, broadly in line with the targets. Domestic revenue was 97.1 percent and 96.1 percent of the target for Mainland Tanzania and Zanzibar, respectively, mainly attributable to ongoing recovery of economic activities, supported by improved tax administration and taxpayers' compliance. Government expenditures were aligned to the available resources and the need to close the infrastructure gap and protect the economy from external shocks, in a bid to ensure sustainable and inclusive growth of the economy;
- v The external sector continued to be affected by the ongoing war in Ukraine and protracted effects of COVID-19 pandemic. Consequently, the current account deficit widened to USD 5.2 billion in January 2023, from USD 2.6 billion in the year ending January 2022, driven by high imports bill that outweighed the increase in exports. Foreign reserves amounted to USD 4.8 billion at the end of January 2023, sufficient to cover 4.3 months of imports, in line with the country benchmark of at least 4 months of imports. In the outer periods, current account balance and

import cover are expected to improve supported by decline in prices in the world market, as well as improved supply chains;

- vi The banking sector remained adequately capitalized, liquid and profitable in January 2023. Banks' deposits and assets increased indicating improved economic activities, complemented by use of agent banking and digital financial services. The sector was also stable and exhibited strong resilience to shocks. Assets quality improved with the ratio of non-performing loans reaching 5.85 percent, down from 8.42 percent in January 2022.

Based on assessment and outlook of global and domestic economies, the MPC approved the Bank of Tanzania to continue implementing less accommodative monetary policy in March and April 2023. The policy stance will help to control inflation below the target of 5.4 percent, while supporting credit growth to various economic activities. In addition, the policy stance will support the attainment of IMF ECF targets for the third quarter of 2022/23, which are set as indicative targets and laying foundation for achieving the performance criteria for June 2023. The Bank shall continue to support the broader macroeconomic objectives of the Governments, while closely monitoring the emerging risks from external shocks and take necessary measures when need arises.

**GOVERNOR
BANK OF TANZANIA**