



September 1, 2023

MONETARY POLICY COMMITTEE MEETING STATEMENT

The Monetary Policy Committee (MPC) held its 227th Ordinary Meeting on 31st August 2023, to assess the recent implementation of the monetary policy and noted that the less accommodative monetary policy succeeded to contain liquidity within the desired levels. The MPC also observed that the growth of credit to the private sector was high, thus providing impetus to improved economic growth in 2023.

In addition, the MPC discussed the recent performance of the global economy and observed that it is gradually improving. The projected growth for 2023 has been revised to 3 percent, up from the earlier projection of 2.8 percent. Additionally, commodity prices in the world market have been easing, and inflation have been declining. As a result, central banks in advanced economies are progressively reducing aggressiveness of monetary policy tightening. This global landscape provides favourable environment for improved growth of economic activities in Tanzania.

Furthermore, the MPC discussed the recent performance of domestic economy and observed the following:

- i. In Mainland Tanzania, the GDP growth for the first quarter of 2023 was 5.6 percent, in line with the annual projection of 5.2 percent, mainly driven by agriculture, construction, and mining. The Zanzibar economy grew by 6.8 percent in 2022, driven by accommodation and food services, livestock, construction and manufacturing activities.
- ii. Inflation trended downward and was within the EAC and SADC convergence criteria. In Mainland Tanzania, inflation has been declining for six consecutive months, reaching 3.3 percent in July 2023 from 4.9 percent in January 2023, while in Zanzibar it reached 6.7 percent from 8.4 percent. The decline was mainly on account of subdued commodity prices in the world market. Inflation is projected to remain low, below the medium-term target of 5 percent.
- iii. Money supply growth has been relatively high compared to the target, mostly driven by private sector credit growth. The annual growth of extended broad money supply was 18.8 percent in June 2023, compared to the target of 10.3 percent. Private sector credit recorded a robust growth of 21.2 percent, exceeding the target of 10.7 percent, attributable to an increase in demand for loans in line with improvement in the business environment.

- iv. Government revenue performance for 2022/23 was satisfactory. Revenue in Mainland Tanzania and Zanzibar was 93.2 percent and 96 percent of the target, respectively. Expenditure was aligned with the available resources.
- v. The external sector of the economy was affected by the global shocks, leading to widening of the current account deficit to 6.3 percent of GDP in 2022/23 from 4.8 percent of GDP in the previous year. This was on account of a faster increase in imports than exports. The current account deficit in Zanzibar also widened, following increase in imports. The current account position is expected to improve gradually, as global economy normalizes. In addition, the implementation of measures to address the imbalance in the current account and increase in seasonal earnings from tourism activities and export of traditional crops are expected to improve the current account position. Nevertheless, the foreign exchange position remained stable, as reflected in foreign exchange reserves, which remained adequate amounting to USD 5,338.9 million in July 2023, sufficient to cover about 4.8 months of projected imports.,
- vi. The banking sector remains liquid and adequately capitalized. The sector's assets continue to improve, as reflected by a decrease in non-performing loans (NPLs) ratio to 5.3 percent in June 2023 from 7.8 percent in June 2022. This trend is expected to motivate banks to increase lending to the private sector supporting further economic growth.

The MPC also observed that, the economy experienced shortage of the foreign exchange, particularly the US dollar, due to the global shocks. However, owing to adequate foreign reserves and measures adopted to increase supply of the foreign exchange in the market, the situation is expected to improve. The private sector is encouraged to boost production to increase exports and import substitution.

In view of the global and domestic economic environment, the MPC decided to maintain the less accommodative monetary policy stance. Monetary policy measures will be implemented to align liquidity with the foreign exchange demand. These measures are also expected to facilitate attainment of the targets under the Extended Credit Facility Program for the quarter ending September 2023.

**GOVERNOR
BANK OF TANZANIA**