



31st October 2023

Monetary Policy Committee Meeting Statement

The Monetary Policy Committee (MPC) convened its 228th Meeting on 27th October 2023 to assess the implementation of monetary policy and review the recent performance of the economy and outlook. The MPC noted that the implementation of the less accommodative monetary policy successfully maintained liquidity in the economy at appropriate levels in August, September, and October 2023. This, combined with supportive fiscal and structural policies, has contained inflationary pressures, facilitated economic activities, and preserved the stability of the financial sector amidst challenges in the global economic environment. The policy stance has also helped to reduce foreign currency demand pressure.

The MPC also assessed the global economic environment in 2023 and observed that, the growth remains weak, despite surpassing the projections in the first half of the year. The subdued growth is attributable to monetary policy tightening cycle, geopolitical tensions, and high oil prices. Inflation eased in many countries relative to 2022, but still higher than targets. To restore inflation at low levels, central banks have maintained monetary policy tightening.

Regarding the performance of the domestic economy, the MPC noted that:

- i. Growth in the first and second quarters of 2023 was satisfactory, at 5.4 percent and 5.2 percent, respectively, and is expected to reach 5.3 percent in 2023, as projected. The Zanzibar economy grew by 6.2 percent in the first quarter and is expected to reach an annual target of 7.1 percent in 2023.
- ii. Inflation trended downward since June 2023, reaching 3.3 percent in September 2023 from 3.6 percent in June 2023, associated with declining food prices. In Zanzibar, inflation was 7.5 percent, up from 6.5 percent in June 2023, mainly driven by food prices. Inflation is projected to remain lower than the targets, despite the recent increase in oil prices.
- iii. Money supply (M3) grew at around 17.7 percent in the first quarter of 2023/24 above the target of 10.1 percent for end-December 2023, driven by strong private

sector credit growth. Credit to private sector grew at around 22 percent in July and August, before moderating to 19.5 percent in September 2023, which was above the projection of 16.4. percent for end December 2023. The robust growth of credit is attributable to the improving business environment, reinforced by the less accommodative monetary policy. Credit was largely registered in agricultural activities relative to others.

- iv. Government budgetary operations performance was satisfactory, with revenue reaching 96.2 percent during the first quarter of 2023/24. In Zanzibar, the resource envelope was above the target by 1.7 percent. Expenditure continued to align with the available resources.
- v. The current account deficit is narrowing but remained high due to the increase in commodity prices in the world market. The current account deficit narrowed to USD 3,652.6 million year-on-year in September 2023 from USD 4,728.2 million in September 2022. The improvement was mainly driven by a rise in earnings from tourism. The current account position is expected to gradually improve, driven by earnings from tourism, gold, and traditional export crops. As for Zanzibar, the current account deficit widened to USD 417.1 million in the year ending September 2023, from a deficit of USD 344.8 million, mainly on account of an increase in imports of goods and services.
- vi. Foreign exchange reserves remained above USD 5 billion in July-October 2023, with import cover within the country's and EAC benchmarks of at least 4 and 4.5 months, respectively.
- vii. The banking sector remained adequately capitalized, liquid and profitable. The assets continue to improve, as reflected by a decline in non-performing loans ratio to 5.2 percent in September 2023 from 7.3 percent in September 2022. The decline is expected to motivate banks to increase lending to the private sector.

The MPC also noted that, the recent observed shortage of foreign currency is gradually improving owing to earnings from tourism, minerals, manufacturing, and cash crops. The Bank of Tanzania participation in the interbank foreign exchange market by selling foreign exchange to address accumulation of foreign currency denominated loans extended to importers have also contributed to the improvement.

The foreign currency condition is expected to continue improving in the wake of foreign exchange inflows from tourism, export crops and minerals as well as measures taken by the Bank and the Government to address the situation.

In light of this background, the MPC decided to sustain the less accommodative monetary policy. The policy stance will continue to be implemented in close collaboration with fiscal and structural policies. Monetary policy measures will also be implemented to achieve the targets under the Extended Credit Facility Program for the quarter ending December 2023.

**GOVERNOR
BANK OF TANZANIA**