THE UNITED REPUBLIC OF TANZANIA

BANK OF TANZANIA

8th January 2025

MONETARY POLICY COMMITTEE STATEMENT

At its quarterly meeting held on 7th January 2025, the Monetary Policy Committee (MPC) assessed the global and domestic economic conditions, and based on this, decided to maintain the Central Bank Rate (CBR) at 6 percent in the first quarter of 2025.

The MPC observed that, keeping the CBR unchanged, would ensure adequate liquidity in the economy, tie-down inflation expectations below the target of 5 percent, and facilitate the high economic growth of around 5.7 percent in the first quarter of 2025. In addition, it will keep exchange rate pressures muted, thus limiting its impact on inflation and reducing incentives to transact in foreign currency in the country.

In discussing the global economy, the MPC noted that reports released by the IMF and World Bank, indicate global growth to be relatively stable in 2024. Specifically, in the last quarter of 2024, there was a remarkable improvement in the global economic conditions. Growth improved, inflation continued to decline in many economies, financial conditions eased, and commodity prices, particularly crude oil, moderated, thereby significantly benefiting the Tanzania economy.

The MPC expects the improved global economic environment to continue in the first quarter of 2025. Notably, growth will improve due to the increase in household consumption, supportive fiscal policy, and easing financial conditions. Inflation is expected to decline in many countries due to moderate commodity prices in the world market. The risk to growth and inflation outlook is moderate, but escalation of geopolitical conflicts and trade tensions might slightly affect the projections. The direction of monetary policy stance is somewhat mixed, as some central banks might cut policy rates; others either maintain or raise.

The MPC observed that the Tanzania economy performed satisfactorily in 2024, due to supportive global economic conditions and to sustained implementation of prudent fiscal and monetary policies as well as economic reforms. An assessment made by the Fitch Ratings in December 2024, also confirmed the improvement in the macroeconomic environment, thereby affirming the country's B+ rating with a stable outlook. The IMF approval of the fourth review of the Extended Credit Facility and the first review of the Resilience and Sustainability Fund programs in December 2024 also is another indicator. The key points of the assessment of the economic performance and outlook are as follows:

i. The economies of Mainland Tanzania and Zanzibar demonstrated robust performance in 2024, with a growth path reflecting resilience and effective policy implementation. Mainland Tanzania recorded a growth rate of 5.4 percent in the first half of 2024, and is projected to be 5.6 percent in the third quarter and 5.7 percent in the subsequent quarter. Therefore, the growth of the economy is expected to be in line with a projection of 5.4 percent for the entire year. The growth was primarily driven by strong performances in agriculture, transport, construction, and trade activities.

   The Zanzibar economy is also expected to grow strongly. The economy grew at 6.4 percent and 7.2 percent in the first and second quarters of 2024, respectively, and is positioned to be sustained in the subsequent two quarters. This will result in annual growth of 7.2 percent. The key drivers included tourism, manufacturing, construction, and real estate development.

   Projections for 2025 indicate continued strength in both economies. Mainland Tanzania is expected to grow at around 6 percent, and Zanzibar at approximately 6.8 percent. The positive outlook is underpinned by several factors, including agricultural production, progress in construction projects, improvements in transport and logistics, reliable power supply, and supportive fiscal and monetary policies.

ii. Inflation remained stable throughout 2024, well-below the target of 5 percent in Mainland Tanzania and is approaching the same target in Zanzibar. In the fourth quarter of 2024, annual inflation was around 3 percent, driven by the adequate food supply, supportive fiscal and monetary policies, and moderation in commodity prices, particularly crude oil, in the world market. In Zanzibar, inflation was around 4.5 percent, because of a decrease in food and non-food prices.

   Inflation is projected to remain low in the first quarter of 2025, at around 3.1 percent and 4 percent. This is mainly due to sufficient food availability, stable exchange rate, reliable power supply, and moderate global commodity prices, particularly crude oil. The risk to the inflation outlook is low, but the OPEC+ production decision might slightly elevate the risk.

iii. Money supply and private sector credit growth remained high in 2024. Money supply growth averaged 12.5 percent, while private sector credit growth was 16.9 percent. In the fourth quarter of 2024, money supply grew at 14.8 percent compared with 13.4 percent in the corresponding period in 2023; and private sector credit growth was 16.8 percent, compared with 17.8 percent. The high private sector growth reflects a sustained demand for new loans, in line with improving global and domestic economic conditions. This was also contributed by a low risk profile, as reflected by a decline in non-performing loans to 3.6 percent in November 2024 from 4.2 percent in the corresponding period of 2023.

iv. Foreign exchange liquidity improved significantly during the quarter ending December 2024, driven by a combination of factors. A decline in interest rates in advanced economies owing to monetary policy easing, and an increase in foreign exchange earnings from tourism, gold, cashew nuts, and tobacco contributed the most to the improvement of liquidity in the foreign exchange market. These factors, combined with the implementation of monetary policy stance intended to tame the impact of exchange rate depreciation on inflation, led to exchange rate appreciation. Exchange rate speculative tendencies and the parallel market also disappeared.

    Exchange rate pressures are expected to be muted in the first quarter of 2025, which is usually characterized by seasonal low inflow of foreign exchange. This is due to a large carryover of foreign exchange liquidity from the preceding quarter, the impact of monetary policy (maintaining the CBR at 6 percent), and moderate prices in the world market. In addition, the implementation of Section 26 of the BOT Act that encourages the use of the shilling in conducting domestic transactions, is expected to continue to reduce unnecessary foreign exchange demand. The Bank also is expected to continue holding adequate foreign exchange reserves of more than USD 5.5 billion, through domestic gold purchases and other sources, thus providing confidence to the market.

v. Fiscal performance was broadly satisfactory, with tax revenue surpassing the target, largely attributable to improved economic activities and enhanced tax administration and compliance. The government continued to rationalize expenditure to match with available resources.

The public debt remains sustainable with a moderate risk of debt distress. In 2023/24, the ratio of public debt to GDP was 41.1 percent, in present value terms, below the national debt sustainability threshold and the EAC convergence benchmark ceiling of 55 percent and 50 percent, respectively. In nominal terms, the debt to GDP ratio was 46.1 percent, below the convergence criteria ceiling of 60 percent for the SADC region.

vi. The external sector of the economy improved remarkably in 2024. In Tanzania Mainland, the current deficit is estimated at 2.7 percent of the GDP, below 3.7 percent recorded in 2023, mainly driven by an increase in the export of goods and services. Exports of goods and services are estimated at 20 percent of GDP compared with 18 percent, on account of improvements in tourism, gold, cashew nut, and tobacco. Imports of goods and services increased slightly to 21 percent of GDP from 20.3 percent. In the fourth quarter of 2024, the current account balance is estimated at a deficit of USD 643.4 million, about half of the deficit realized in the corresponding period in 2023. The current account deficit is projected to remain low, below 3 percent of GDP in 2025.

The current account balance in Zanzibar was a surplus in 2024, as in the preceding year. During the fourth quarter of 2024, the current account is estimated at a surplus of USD 124.5 million, from a surplus of USD 136.6 million in a similar period in 2023, largely due to an increase in imports of goods and services relative to exports. The current account balance is projected to remain in surplus.

The Bank of Tanzania will ensure liquidity remains within the desired levels for keeping inflation in line with the target and facilitating economic activities. Therefore, the Bank will continue to closely monitor developments in the economy and take appropriate measures for the attainment of these objectives.

The MPC will meet again in the first week of April 2025 to assess economic conditions, and decide the policy rate that will be applicable in the second quarter of 2025.

EMMANUEL M. TUTUBA

GOVERNOR