



## **GUIDELINES FOR MONETARY POLICY FRAMEWORK**

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<p style="text-align: center;"><b>PART I</b></p> <p style="text-align: center;"><b>PRELIMINARY PROVISIONS</b></p>		
<b>1.1 Introduction</b>	<p>The Bank of Tanzania is mandated to formulate, define and implement monetary policy with the primary objective of maintaining price stability conducive to a balanced and sustainable growth of the economy. In pursuit of achieving the ultimate primary objective, the Bank shall determine the policy rate based on inflation forecast and steer interbank market rate along the policy rate using monetary policy instruments. Information about the conduct of monetary policy shall be communicated in a manner prescribed by the Bank.</p> <p>Therefore, these Guidelines describe the way in which the Bank designs, implements and communicates the monetary policy decisions and outcomes.</p>	
<b>1.2 Citation</b>	<p>These Guidelines shall be cited as “Guidelines for Monetary Policy Framework, 2023”.</p>	
<b>1.3 Application</b>	<p>These Guidelines shall apply to the Bank, banks, financial institutions and other stakeholders involved in the conduct of monetary policy.</p>	
<b>1.4 Scope</b>	<p>The Guidelines provide general rules and procedures for conducting monetary policy under an interest rate-based monetary policy framework. Therefore, the Guidelines are not a substitute for the operational procedures manual which provides detailed operational procedures for monetary policy framework.</p> <p>The interest rate-based monetary policy framework is not a full-fledged inflation targeting, which constitutes an explicit commitment to meet a specified inflation rate or range within a specified time frame.</p> <p>Interest rate targeting entails setting the Central Bank policy interest rate as a reference for the determination of short-term interest rates in the economy. This is different from interest rate capping, which constitutes a certain mandatory requirement that interest rates should not exceed.</p>	
<b>1.5 Definitions</b>	<p>For these Guidelines, unless the context otherwise requires, the following definitions shall apply:</p>	
	“Bank”	Has the meaning ascribed to it by the Bank of Tanzania Act, Cap. 197.
	“Bank Management Committee (BMC)”	Constitutes the Governor, Deputy Governors, heads of functional units, heads of the Bank branches (including Bank of Tanzania Academy) and head of legal services.
	“DERP Management”	Constitute of head of directorate responsible for economic research and policy, together with heads and assistant heads of departments under the Directorate.

	"Discount rate"	Means the rate of interest that the Bank of Tanzania charges on rediscounted instruments and/or loans it extends to banks and financial institutions. It uses the Bank policy rate, as a base, plus a loaded factor, which can be changed from time to time depending on the liquidity situation in the economy.
	"Economic and Financial Policies Committee (EFPC)"	Constitutes the Deputy Governor responsible for economic and financial policies, head economic research and policy, head financial markets, head banking, head risk management, head branches (including Bank of Tanzania Academy) and head legal services.
	"Eligible Securities"	Means Treasury bills or Treasury bonds with remaining days to maturity of more than the maturity of the principal loan.
	"Employee"	Means a person employed by the Bank on contract for an unspecified period, for a specified period, or a specific task.
	"Foreign exchange operations"	Means sale or purchase of foreign currency by the Bank in the interbank foreign exchange market and/or conducting inward or outward foreign exchange swaps with banks and financial institutions.
	"Functional Unit"	Means a directorate or an independent department of the Bank.
	"Guidelines"	Means the Guidelines for Monetary Policy Framework, 2023.
	"Intraday Loan Facility (ILF)"	Means an interest free standing lending facility granted by the Bank within a business day to all banks holding sufficient eligible securities as collateral.
	"Inflation"	Means the rate at which the average level of prices for a basket of selected goods and services in an economy is increasing over a period of time. It is often expressed as a percentage of the annual change in consumer price index. Inflation indicates a decrease in the purchasing power of a nation's currency.
	"Inflation forecast"	Means a projected level of change of consumer price index (CPI), by the Bank, based on assessment of the domestic economic conditions and global economic developments, using a combination of model-based analysis and expert judgement. The indicator is expressed as an annual percentage change.
	"Interbank cash market"	Means a money market whereby banks extend loans to one another for a specified period of time.

"Liquidity papers"	Means Treasury bills (35-day, 91-, 182-day and part of 364-day) or any other instruments used by the Bank to manage supply of shilling liquidity in the economy.
"Lombard loan facility"	Means an overnight standing lending facility established to enable banks to borrow from the Bank at their own discretion, by pledging eligible government securities as collateral.
"Lombard rate"	Means the rate of interest that the Bank charges on overnight loans it extends to banks. It uses Central Bank policy rate as a base plus a loaded factor, which can be changed from time to time depending on the supply of shilling liquidity in the economy.
"Management"	Constitutes the Governor, Deputy Governors, Directors, Managers, Assistant Managers, and such other officers appointed by the Governor.
"Monetary Policy Committee"	Has the meaning ascribed to it by the Bank of Tanzania Act, Cap. 197.
"Monetary Policy Instruments"	Means a variety of instruments that the Bank utilizes to align the operating target along the Central Bank policy rate, while managing the quantity of money supply in the economy.
"Operating target"	Means the 7-day inter-bank cash market interest rate that the Bank aims at steering along the policy rate in its day-to-day open market operations within a specified period.
"Policy rate"	Means the 7-day repo rate that is used by the Bank to implement or signal its monetary policy stance. This rate is also known as Central Bank policy rate or CBR.
"Price stability"	Means a condition in which the domestic currency retains its purchasing power by maintaining low and stable inflation overtime. Price stability does not imply that prices do not change, it means that prices change at a moderate and predictable pace.
"Repurchase agreements (repo)"	Means an arrangement between the Bank and banks involving sale of securities at a specified price with commitment to repurchase the same or similar securities at a fixed price on a specified future date.
"Reverse repurchase agreements (reverse repo)"	Means an arrangement between the Bank and banks involving buying of securities at a specified price with commitment to resale the same or similar securities at a fixed price on a specified future date.

	“Short-term interest rates”	Means daily average interest rates at which loan contracts (such as inter-bank loans) or Treasury bills having maturities of one year or less are effected between financial institutions. Such rates are often referred to as money market rates, measured in percentage.
	“Statutory minimum reserve (SMR) requirement”	Means the legal balances which banks are required to keep with the Bank, determined as a percentage of their total deposit liabilities and short to medium-term borrowing from the public.
	“Standing lending facility (SLF)”	Means a collateralized money market lending facility available to banks during the day and/or overnight at their own initiative without any restriction under normal economic circumstances.
	“Surveillance Committee”	Means Management Committee that includes heads of all functional units chaired by the Governor or Deputy Governor. It meets daily at 9:00a.m. to evaluate liquidity developments and decide on the measures to be taken in order to keep liquidity within the desired path.
1.6 Objective	<p>The overall objective of these Guidelines is to enable the Bank to conduct interest rate-based monetary policy effectively and efficiently, and assist stakeholders to understand the policy intention, processes and procedures involved. The specific objectives:</p> <ul style="list-style-type: none"><li>i. providing clarity on the manner in which the monetary policy is formulated and implemented;</li><li>ii. assisting stakeholders to plan for their operations; and</li><li>iii. enhancing transparency and accountability in the conduct of monetary policy.</li></ul>	
<p style="text-align: center;"><b>PART II</b></p> <p style="text-align: center;"><b>GENERAL PROVISIONS</b></p>		
2.1 Overview	<p>In pursuit of the price stability objective, the Bank shall implement monetary policy using short-term interest rate as the operating target variable. This practice constitutes what is referred to as the interest rate-based monetary policy framework (as opposed to the quantity-based monetary policy framework that uses reserve money as its operating target). This framework involves generating inflation forecast and determining interest rate as an anchor to attainment of the inflation objective. The interest rate-based monetary policy framework is also considered as precursor of fully fledged inflation targeting framework.</p>	


<b>2.2 Setting of Bank of Tanzania policy rate</b>	The Bank shall assess economic conditions and determine the policy rate required to achieve the inflation objective, in consideration of the output growth. The Central Bank policy rate (CBR) shall be approved by the Monetary Policy Committee (MPC) of the Board of Directors and communicated to the general public. The CBR will be used as a reference for determination of short-term interest rates. This means that banks will be free to set their interest rates anchored to the CBR. The policy rate will therefore help to anchor market expectations and stabilize interest rates consistent with monetary policy stance.
<b>2.3 Forecasting inflation</b>	The Bank shall use a number of macroeconomic models to generate short-term and medium-term forecasts of key macroeconomic policy variables, including inflation and output growth. In addition, tools of economic analysis, including market expectation surveys, shall be used to complement macroeconomic models.
<b>2.4 Forecasting process</b>	The forecasting process shall entail: <ul style="list-style-type: none"> <li>i. collection of domestic and external data and formulation of assumptions thereof;</li> <li>ii. application of the obtained information to generate near-term and medium-term forecasts; and</li> <li>iii. submission of the forecasts to the established review and approval channels in place.</li> </ul>
<b>2.5 Choice of monetary policy instruments</b>	The Bank Management shall, from time to time, propose to the Monetary Policy Committee (MPC), appropriate mix of monetary policy instruments at its disposal to steer interbank cash market interest rate along the Central Bank policy rate. The instruments shall include but not limited to, repurchase agreements (repo and reverse repo) primarily for monetary policy operations, liquidity papers, discount rate, foreign exchange operations and statutory minimum reserve requirement for managing structural liquidity.
<b>2.6 Liquidity forecasting and management</b>	The Bank shall assess liquidity in the banking system on a daily basis using a range of indicators and decide on the appropriate instruments to be used in liquidity management as well as their magnitude and maturity.
<b>2.7 Standing lending facilities</b>	The Bank shall grant standing lending facilities (Lombard and intraday loan facilities) to all banks on demand in a manner prescribed in the rules and procedures set forth by the Bank to ensure efficiency and facilitate smooth settlement of payments.
<b>2.8 Re-discount facility</b>	The re-discount facility shall be applicable to counterparties wishing to discount their Treasury bills in accordance with rules and procedures set forth by the Bank.
<b>2.9 Daily fine-tuning monetary policy operations</b>	The Bank shall undertake day-to-day monetary policy operations aimed at fine-tuning supply of shilling liquidity and stabilizing the interbank cash market interest rate along the Central Bank policy rate. The proposed monetary policy actions will be presented at the Surveillance Committee meeting for approval and implementation.



<b>2.10 Main monetary policy operations</b>	The Bank shall undertake main monetary policy operations on every Thursday and/or reschedule the operations to either a day before or after, if Thursday falls on a public holiday, under the full-allotment system at applicable Central Bank policy rate.
<b>2.11 Communication of monetary policy decisions and outcomes</b>	<p>The Governor shall, within 24 hours after the MPC meeting, issue to the general public, MPC meeting statement to communicate decisions of the meeting, which include approved policy rate and any other monetary policy measure(s) that the Bank intends to implement consistent with the monetary policy stance.</p> <p>The model of communicating the MPC decisions shall also include meeting with Chief Executive Officers of banks, press briefing with the media or any other means that shall be decided by the MPC.</p> <p>The Bank shall also communicate to the public the outcomes of the monetary policy decisions and general economic conditions in its periodic reports or any other means deemed appropriate.</p>
<b>PART III</b> <b>ROLES AND RESPONSIBILITIES</b>	
<b>3.1 Forecasting Team</b>	The Forecasting Team comprising staff in charge of modelling and forecasting and sector experts shall be responsible for collection of data and relevant information, updating forecasting models, as well as preparing and reporting inflation forecasts and other macroeconomic projections to the head of department responsible for modelling and forecasting. Inflation forecasts and other macroeconomic projections shall be produced on a quarterly basis.
<b>3.2 Head of department responsible for modelling and forecasting</b>	The head of the department responsible for modelling and forecasting, shall be the chairperson of all technical meetings, that will include heads of functional units under the directorate responsible for economic research and policy, in reviewing and discussing inflation forecasts and other macroeconomic projections.
<b>3.3 Head of directorate responsible for economic research and policy</b>	The head of directorate responsible for economic research and policy shall review the inflation forecasts report submitted by the head of department responsible for modelling and forecasting, before presenting to the EFP Committee. The head of the directorate may invite selected staff within the Bank to provide expert opinions.
<b>3.4 EFP Committee</b>	The EFP committee shall review and consider MPC report, containing among others, inflation forecasts and recommendations submitted by the head of directorate responsible for economic research and policy. The Committee shall submit the MPC report to the Bank Management Committee (BMC).
<b>3.5 Bank Management Committee</b>	The Bank Management Committee (BMC) shall review and discuss the MPC report and submit the same to the Monetary Policy Committee for consideration and approval.

<b>3.6 Monetary Policy Committee</b>	<p>The Monetary Policy Committee (MPC), in its quarterly meetings, shall review and discuss the MPC report and undertake the following:</p> <ul style="list-style-type: none"> <li>i. decide the monetary policy stance;</li> <li>ii. approve the policy rate consistent with the monetary policy stance;</li> <li>iii. approve any other proposed measures when need arises;</li> <li>iv. approve MPC Meeting Statement;</li> <li>v. endorse and submit the MPC report to the Board; and</li> <li>vi. communicate MPC decisions to the public.</li> </ul>
<b>3.7 Head of department responsible for monetary policy</b>	<p>The head of department responsible for monetary policy shall, on day-to-day, assess liquidity condition, and in consultation with the head of department responsible for financial markets, propose to the Surveillance Committee the monetary policy instruments and magnitude for steering the interbank interest rate along the policy rate in line with the MPC decisions.</p>
<b>3.8 Head of directorate responsible for financial markets</b>	<p>The head of the directorate responsible for financial markets shall implement monetary policy using approved instruments.</p>
<p><b>PART IV</b> <b>COMPLIANCE, ISSUANCE, AND REVIEW</b></p>	
<b>4.1 Compliance</b>	<p>The Bank, banks and financial institutions, and other stakeholders involved in the conduct of monetary policy shall fully comply with these Guidelines.</p>
<b>4.2 Issuance and Review</b>	<ul style="list-style-type: none"> <li>i. The Bank shall issue these Guidelines.</li> <li>ii. These Guidelines shall be reviewed at least once every three years and as need arises.</li> </ul>

**DODOMA**  
**June 28, 2023**

  
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