Bank of Tanzania

Monetary Policy Report

July 2024

Bank of Tanzania Monetary Policy Framework

The Bank of Tanzania is mandated to formulate and implement monetary policy, among others. Monetary policy involves actions or decisions taken to influence the amount of money circulating in the economy, which contributes to the determination of interest rates banks and financial institutions offer to customers.

Monetary policy's objectives are to maintain price stability, defined as a low and stable inflation rate over time, and to support economic growth. Inflation is measured as an annual change in the consumer price index, expressed in percentage. In the medium term (up to 5 years), the inflation target is 5 percent.

To fulfil these objectives, the Monetary Policy Committee (MPC) assesses economic conditions and determines the policy rate that is consistent with maintaining low and stable inflation and supporting the economy's growth. The Bank of Tanzania strives to steer the 7-day interbank interest rate (the operating target variable) along the policy rate.

The Bank uses a variety of monetary policy instruments to align the operating target along the policy rate. The main instruments are repurchase agreements (repo and reverse repo), 35-day and 91-day Treasury bills, statutory minimum reserve requirement ratio (SMR), and sale or purchase of foreign currency in the inter-bank foreign exchange market. There are also standing lending facilities, intraday and Lombard loan windows, granted to all banks on demand to ensure efficiency and facilitate smooth and efficient settlement of payments.

In implementing the Policy, the Bank exercises a high degree of transparency in its actions and decisions. The Chair of the MPC communicates the MPC decisions, which include setting policy rates, to banks through post-MPC meetings with Chief Executive Officers of banks and the public through the media. In addition, the Bank publishes MPC meeting statements, Monetary Policy Report, and other periodic reports containing outcomes of monetary policy implementation, monetary policy stance, decisions on policy rate, and the performance of the economy at large. The reports are available on the Bank of Tanzania website (www.bot.go.tz).

Table of Contents

Summary

The MPC maintained the central bank rate (policy rate) at 6 percent for the quarter ending September 2024. The decision was reached at its quarterly meeting held on 3rd July 2024. The MPC's decision is supported by a successful implementation of monetary policy in the previous two quarters, which helped to anchor the inflation forecast below the target of 5 percent. A positive outlook for the domestic and global economies complements the basis for the decision of the MPC.

The implementation of monetary policy was successful during April-June 2024. The 7-day IBCM rate was within +/-200 basis points of the CBR, varied narrowly, and at lower levels compared to the preceding quarter. The outturns indicate improvement in monetary policy operations. Auctions of reverse repo and liquidity papers contributed the most to monetary policy operations. Banks accessed short-term liquidity needs through the Lombard loan facility. The Bank will continue to implement reforms to improve the functioning of the IBCM, which include activities for developing the market through the umbrella guarantee facility under 'Frontclear'. In addition, the Bank is reviewing the collateral framework for government securities, the regulatory framework for liquid assets eligibility, and the pricing framework for monetary policy instruments.

Global economic activity is improving. Growth outturns in the first and second quarters of 2024 were high in most countries, inflation declined, financial conditions eased, and central banks in most countries receded the interest rate hiking cycle. Crude oil prices declined slightly before edging up towards the end of June. The price of gold remained elevated. These global economic conditions are expected to prevail in the outer period of 2024 and the subsequent year despite facing a risk of further escalation of geopolitical conflicts and trade disputes.

Domestic economic conditions have improved significantly against the backdrop of increased investment and implementation of policies and reforms. The outlook is positive, driven by the ongoing implementation of reform programs to spur economic growth, public and private investment, and favourable weather and investment in agriculture.

Real GDP growth was 5.1 percent in 2023, compared with 4.7 percent in the previous, driven by agriculture, mining, quarrying, construction, and financial intermediation. Tourism, which cuts across many activities, also contributed the most. Outturns of economic variables indicate strong growth in the first and second quarters of 2024, at around 5 and 5.4 percent, respectively. The Zanzibar economy expanded by 7.4 percent in 2023, compared to 6.8 percent in 2022, driven largely by accommodation (mainly tourism activities and food services), construction, and real estate. Growth in the second half of 2024 and 2025 is projected to be high.

Inflation remained low, below the target of 5 percent and consistent with the EAC and SADC convergence criteria. In April and May 2024, inflation was 3 percent and 3.1 percent, respectively, on account of low food inflation and prudent monetary and fiscal policies. Inflation in Zanzibar also declined to the medium target of 5 percent, owing to a decline in both food and non-food prices. Inflation is projected to remain low in the second half of 2024 and 2025, ranging from 3-4 percent, attributable to prudent monetary and fiscal policies, adequate food supply, stable power supply, and moderate consumer goods prices in the world market.

Economic and monetary conditions contributed to strong private sector credit growth and stability of the financial sector. Private sector credit growth is estimated at 16.4 percent during the second quarter of 2024, compared with 17.1 percent in the preceding quarter. The banking sector remained liquid, profitable, and capital was adequate. Deposits, assets, and loans increased. Asset quality improved, as reflected by a lower NPL ratio of 4.4 percent in May 2024, below the tolerable level of 5 percent and 5.5 percent recorded in the corresponding period in 2023. These satisfying conditions are expected to prevail in the period ahead.

Fiscal performance was satisfactory, with expenditure aligned with revenue. Revenue performance improved during the quarter, estimated at 95 percent of the target. Zanzibar's revenue surpassed the target by 0.3 percent, largely due to improved taxpayer compliance and payment of tax arrears. For 2024/25, the Government will implement fiscal consolidation to align expenditure with resources.

The current account position continued to improve, bolstered by services receipts (mainly tourism), and exports of gold and traditional crops. Imports increased but to a lesser extent than exports. The current account deficit is estimated to have narrowed to USD 959.2 million in the quarter ending June 2024 compared with USD 977.8 million in the corresponding quarter in 2023. In Zanzibar, the current account is estimated to have reached a surplus of USD 421.5 million in the year ending June 2024, compared with a surplus of USD 411.5 million in the corresponding period in 2023, attributed to an increase in service receipts, particularly tourism. The current account deficit is expected to continue gradually improving, reaching 3.2 percent of GDP in the subsequent quarters.

Foreign exchange reserves remained adequate, above USD 5 billion at the end of June 2024, sufficient to cover more than 4 months of projected imports. Foreign currency liquidity improved slightly towards the end of June 2024, attributable to a gradual increase in foreign flows from tobacco, gold, and tourism. There is anticipation of a further increase in foreign exchange inflows from tourism, mining, traditional exports, and the export of food to neighbouring countries. The projected improvement in global economic conditions and moderation in the commodity prices in the global market will also contribute. Furthermore, measures to limit transaction dollarisation are expected to increase foreign exchange flows in the banking system. Meanwhile, the Bank plans to continue increasing the diversification of its foreign reserve portfolio by purchasing gold from local markets.

Foreign exchange liquidity and exchange rate pressures moderated towards the end of June 2024 in the wake of the improvement of inflows from gold and tobacco exports. In the Interbank foreign exchange market (IFEM), the exchange rate depreciated by around 2.2 percent during the quarter compared with 1.8 percent in the quarter ending March 2024. The retail exchange rate depreciated by around 3.2 percent compared with 1.9 percent.

Chapter 1: Monetary Policy Implementation

1.1. MPC decision

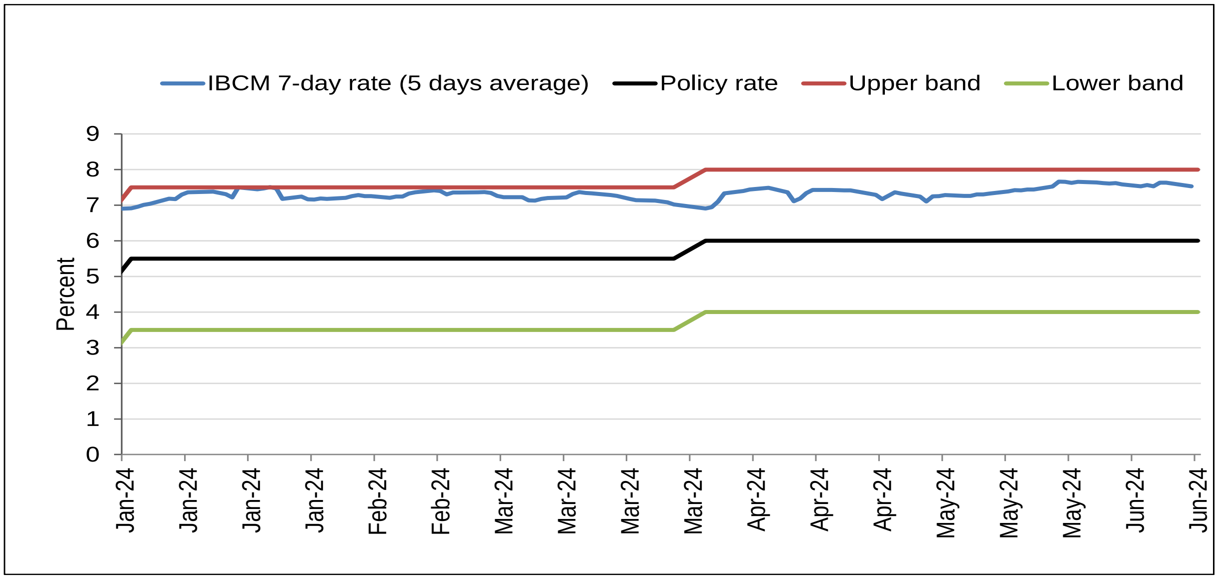
At its meeting in April 2024, the MPC observed that the headline inflation in Mainland Tanzania was low, ranging between 3-4 percent for more than a year, while for Zanzibar, where inflation was above the country's medium-term target of 5 percent, it was declining. The 12-month ahead forecast indicated the headline inflation was below the target but edging up slightly, driven by core inflation. The increase in core inflation largely reflected the pass-through effect of exchange rate depreciation on inflation and the second-round impact of high crude oil prices on domestic consumer goods. Against this backdrop, the MPC raised the Central Bank Rate (CBR) by 50 basis points to 6 percent for the quarter ending June 2024 to mitigate the pass-through effect of exchange rate depreciation on inflation while safeguarding economic growth to reach 5.4 percent in 2024 and 5.8 percent in the subsequent year[1].

1.2. Monetary Policy Implementation

Consistent with the MPC's decision on CBR, the Bank implemented a monetary policy to ensure the 7-day interbank rate evolves within +/- 200 basis points of the CBR. The implementation of monetary policy was successful. The 7-day IBCM rate was within +/- 200 bps of the CBR (Chart 1.1). It also oscillated narrowly and was lower than the preceding quarter. This indicates improvement in monetary policy operations. Auctions of reverse repo and liquidity papers contributed the most to monetary policy operations, with banks accessing overnight liquidity needs through the Lombard loan facility (Chart 1.2). The Bank is implementing reforms for improving the money market through the umbrella guarantee facility under the 'Frontclear' initiative. In addition, it is reviewing the collateral framework for government securities, the regulatory framework for liquid assets eligibility, and the pricing framework for monetary policy instruments.

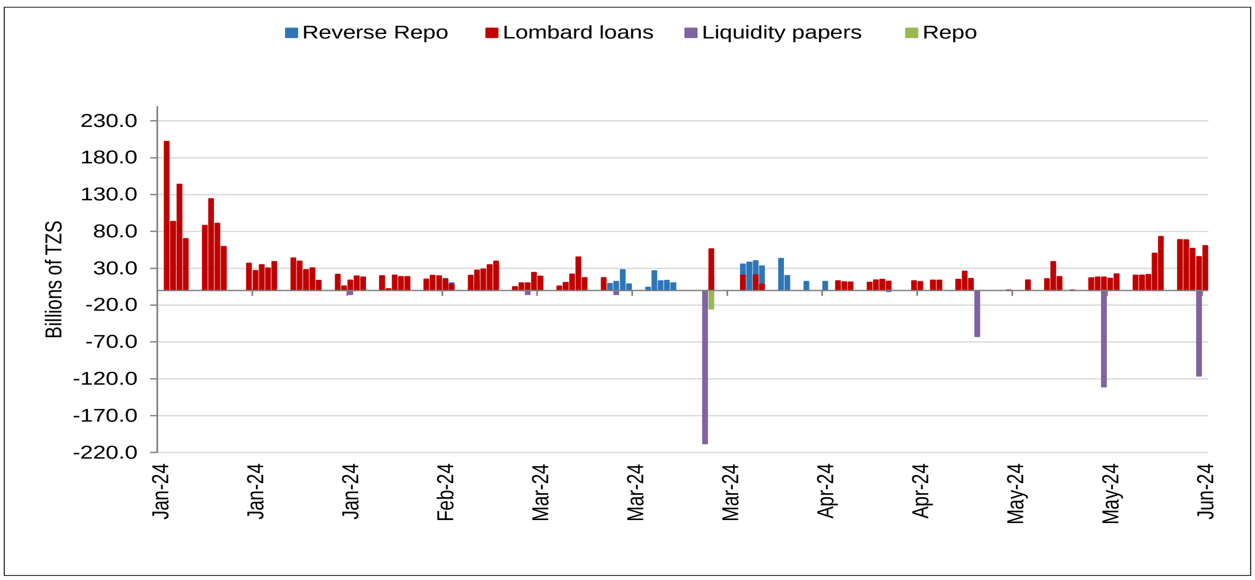
[1] GDP was revised from the earlier projection of 6 percent in June 2024.

Chart 1.1: Central Bank Rate and 7- Day Interbank Rate



Source: Bank of Tanzania

Chart 1.2: Banks' Access to Monetary Policy Instruments and Stand-by Credit Facility



Source: Bank of Tanzania

The implementation of monetary policy also facilitated the attainment of net domestic assets and net international reserves targets for the quarter ending June 2024, as set forth under the ECF Program.

1.3 Foreign Exchange Markets

The foreign exchange market continues to experience liquidity shortages, but the situation improved somewhat towards the end of June 2024, attributable to increased foreign exchange inflows from tourism, gold, and cash crops. In the interbank foreign exchange market (IFEM), exchange rate quotes moved slowly in narrower spreads compared to the preceding quarter. The market turnover in the IFEM was USD 87.5 million (as of 25th June 2024), compared to USD 129.8 million recorded in the first quarter of 2024 and USD 208.6 million in the corresponding quarter in 2023 (Chart 1.5a). The exchange rate depreciated by around 2.2 percent in the quarter (q-o-q), somewhat faster than 1.8 percent in the first quarter of 2024 (Chart 1.5b).

In the retail market, the exchange rate depreciated by around 3.2 percent in the quarter (q-o-q), relatively faster than 1.9 percent during the first quarter of 2024. On an annual basis, the depreciation rate was 9.2 percent as of 20th June compared with 9.4 percent at the end of March 2024. Following the fast depreciation of the retail rate compared with the IFEM, the spread widened slightly to 2.8 percent from 1.6 percent in the preceding quarter (Chart 1.5c). The movement of the real effective exchange rate (REER) relative to the equilibrium path was small (Chart 1.5d). Foreign currency liquidity is expected to improve further following the ongoing policy interventions, including measures taken to reduce domestic transactions denominated in foreign currency, coupled with improved current account.

Chart 1.5a: IFEM turnover and exchange rate movement

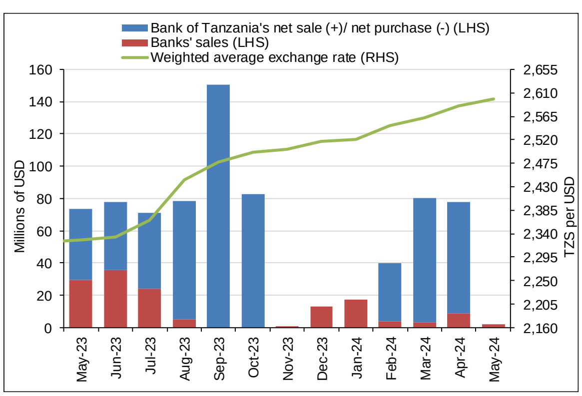


Chart 1.5b IFEM Rate Quarterly Depreciation

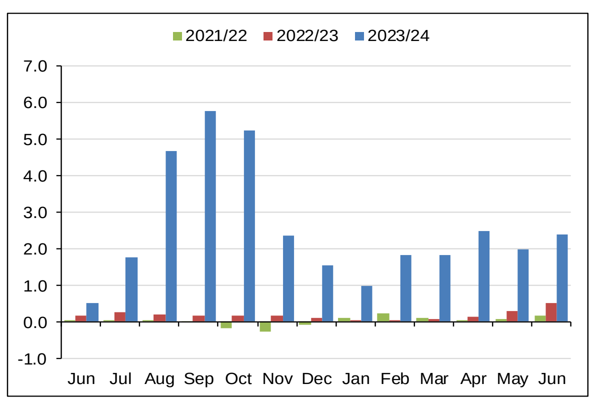


Chart 1.5c: Exchange Rates Spread between IFEM and Retail Market

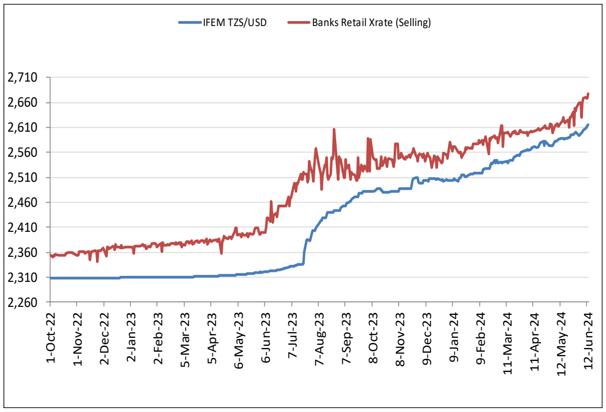
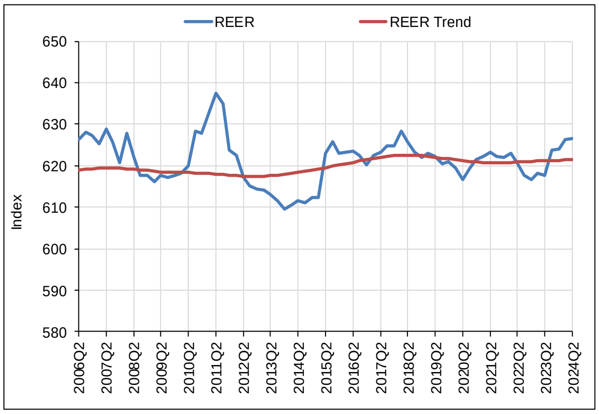


Chart 1.5d: Movement in REER



Source: Bank of Tanzania

Chapter 2: Global Economy

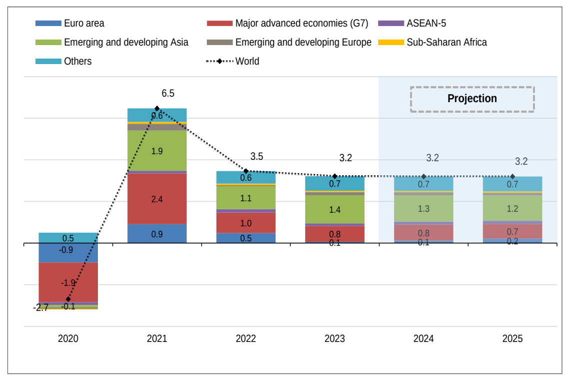
Recent growth outturns in most advanced and emerging market economies have been strong, although risks remain, mostly from geopolitical and trade conflicts (Chart 2.1). This occurred at the back of easing inflationary pressures, improving supply conditions, and strengthening labour markets in advanced economies. Emerging and developing Asia markets contributed the most to global growth outturns from 2021 to 2023, compared to advanced economies that were the highest contributors to global growth before 2021 (Chart 2.1).

Table 2.1: Quarterly Real GDP Growth

	Actual					Projections
	2023				2024	
	Q1	Q2	Q3	Q4	Q1	Q2
USA	0.6	0.0	1.2	0.9	0.3	0.6
Euro Area	0.1	0.1	0.0	-0.1	0.3	0.2
Japan	2.0	4.2	-3.7	0.4	-1.8	2.2
UK	0.1	0.0	-0.1	-0.3	0.6	0.3
China	2.1	0.5	1.8	1.2	1.6	0.9
South Africa	0.3	0.7	-0.4	0.3	-0.1	0.4

Source: Bloomberg

Chart 2.1: Contribution to global growth

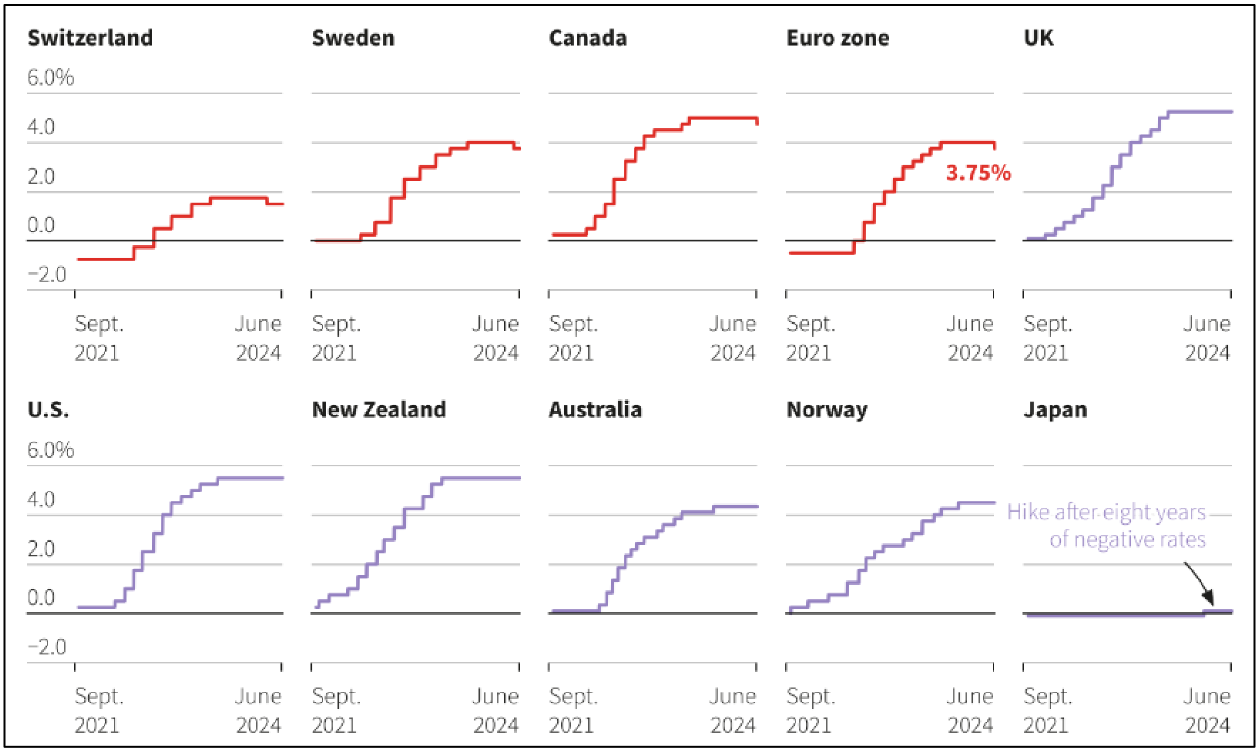


Source: World Economic Outlook database, April 2024.

Inflation continues to decline in most countries due to the lagged impact of monetary policy tightening and easing energy and food prices. Central banks in advanced economies, including the Fed, ECB, and BoE, have receded their interest rate-hiking cycles to address inflation concerns (Charts 2.2). The main emphasis is ensuring a smooth transition to reach target levels before shifting towards policy easing. The decrease in food inflation is largely associated with the increased supply of essential products. At the same time, worldwide oil prices eased due to lower risk premiums from the Middle East conflict and increased supply from non-OPEC+ producers. Inflation in emerging market economies, particularly India, China, and South Africa, also fell compared to the previous quarter (Chart 2.3a). In the EAC and SADC blocs, inflation was consistent with the convergence criteria, except in a few countries (Charts 2.3b and 2.3c).

Chart 2.2: Central bank rates in advanced economies

Percent



Source: Reuters

Chart 2.3a: Inflation in Advanced Economies

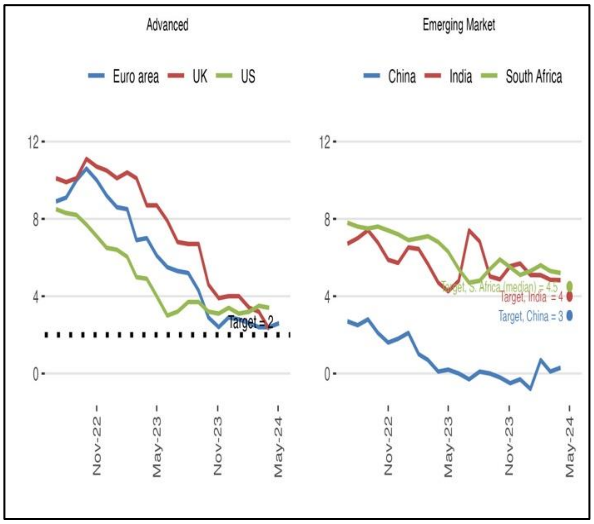
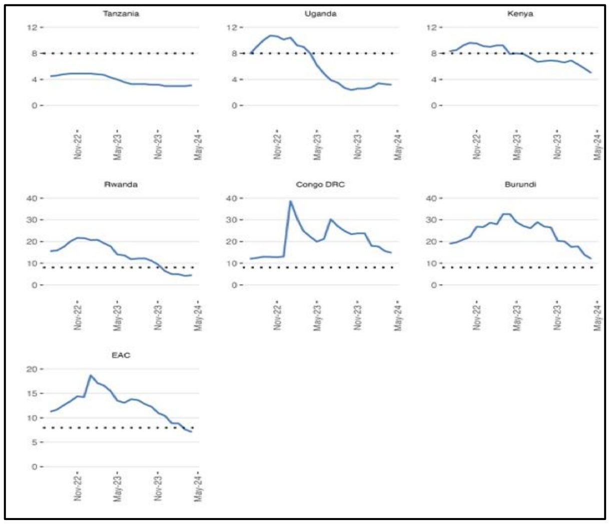


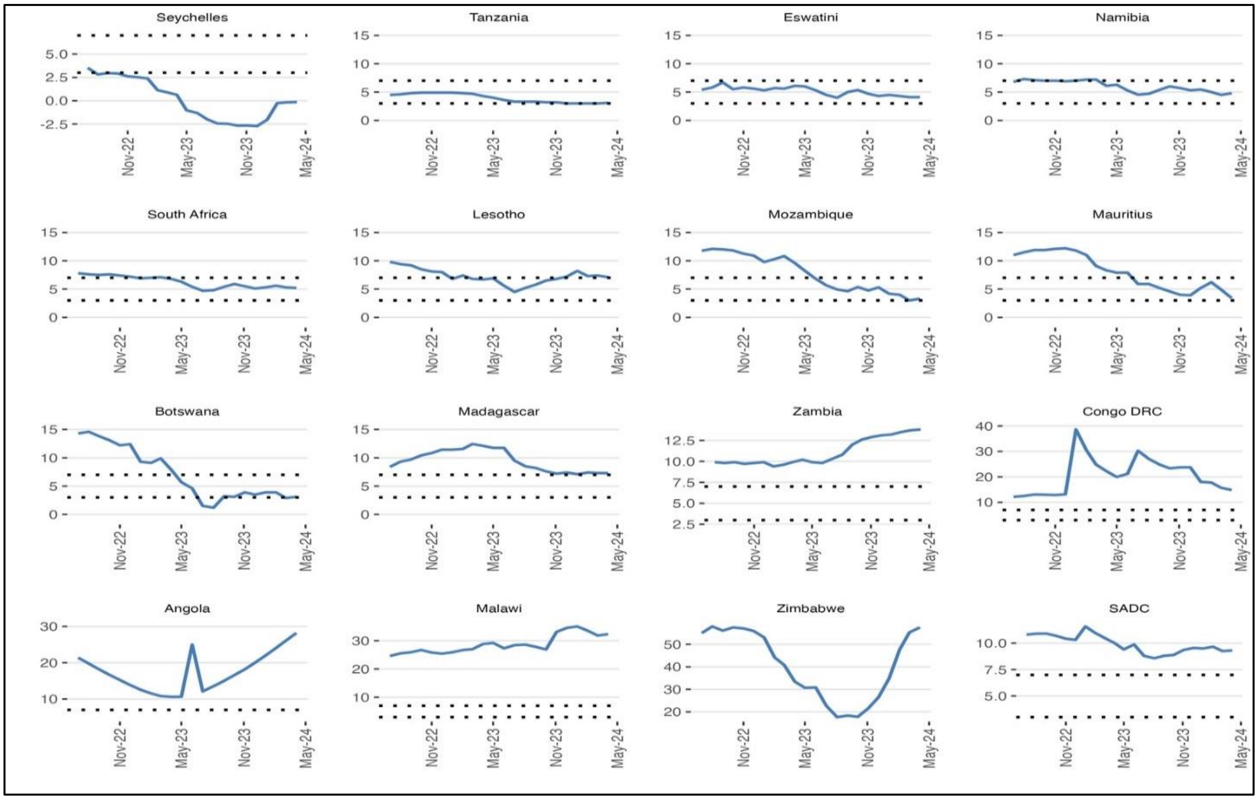
Chart 2.3b: Inflation in EAC Countries



Source: Respective National Statistics Offices.
Notes: Dotted lines indicate targets

Chart 2.3c: Inflation in SADC Countries

Percent



Source: Respective National Statistics Offices
Notes: Dotted lines indicate targets

Commodity prices exhibited somewhat of a mixed trend. Crude oil prices declined to an average of USD 81.45 per barrel at the end of the quarter on account of an increase in supply by OPEC+ and a fall in demand due to a slowdown in economic activities caused by high interest rates by the Federal Reserve. Similarly, prices of edible oil, fertilizer and sugar fell, while wheat prices experienced a slight increase at the end of the quarter amid adverse weather conditions affecting supply (Chart 2.4). Meanwhile, prices of traditional exports (tobacco and tea), maize, and gold recorded an uptick, with gold prices remaining elevated, reaching USD 2,351.13 per troy ounce as its demand increased amid currency depreciation and geopolitical tensions (Chart 2.5).

Chart 2.4: World Market Prices of Import Commodities

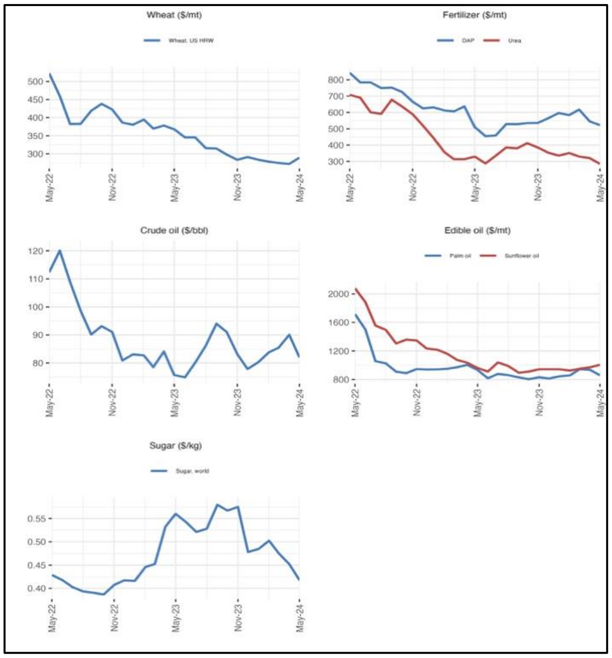
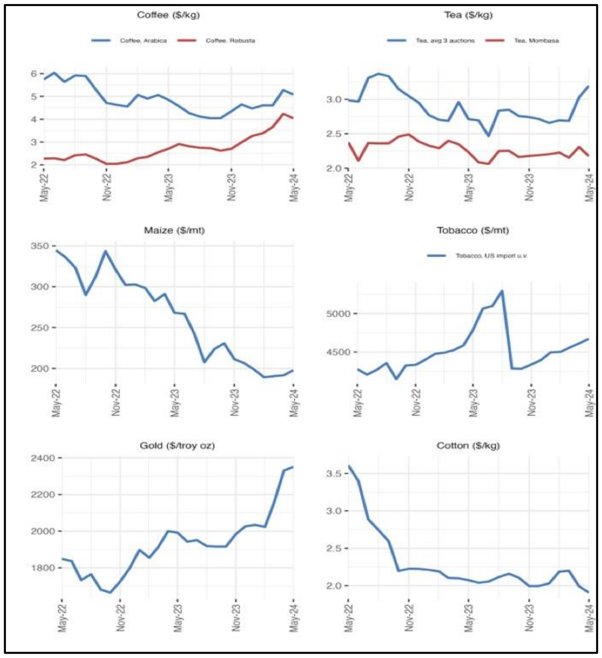


Chart 2.5: World Market Prices of Export Commodities



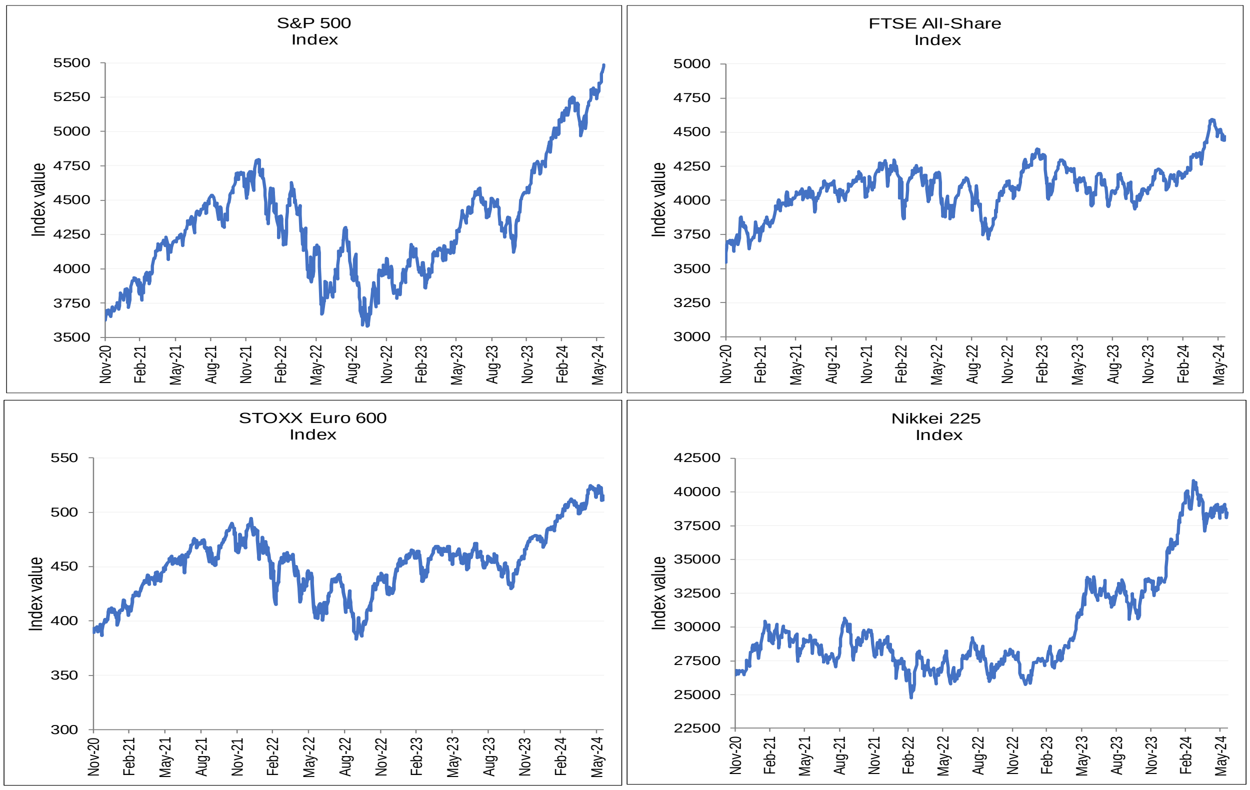
Source: http://www.worldbank.org/prospects, Bloomberg

The stock market improved during the period under review in various advanced economies, especially the United States (Chart 2.6). This outturn was attributed to strong corporate earnings from major companies and rising investors' appetite for risk assets. However, risks to the stock market, including escalation of geopolitical tensions, continue to impact interest rates.

The US dollar index, measuring the value of the USD against a basket of currencies, fluctuated but remained broadly constant over the second quarter of 2024 (Chart 2.7). This development was due to moderation in inflation in the US and its trading partners. The US dollar is poised to weaken slightly going forward on account of expected future policy rate cuts.

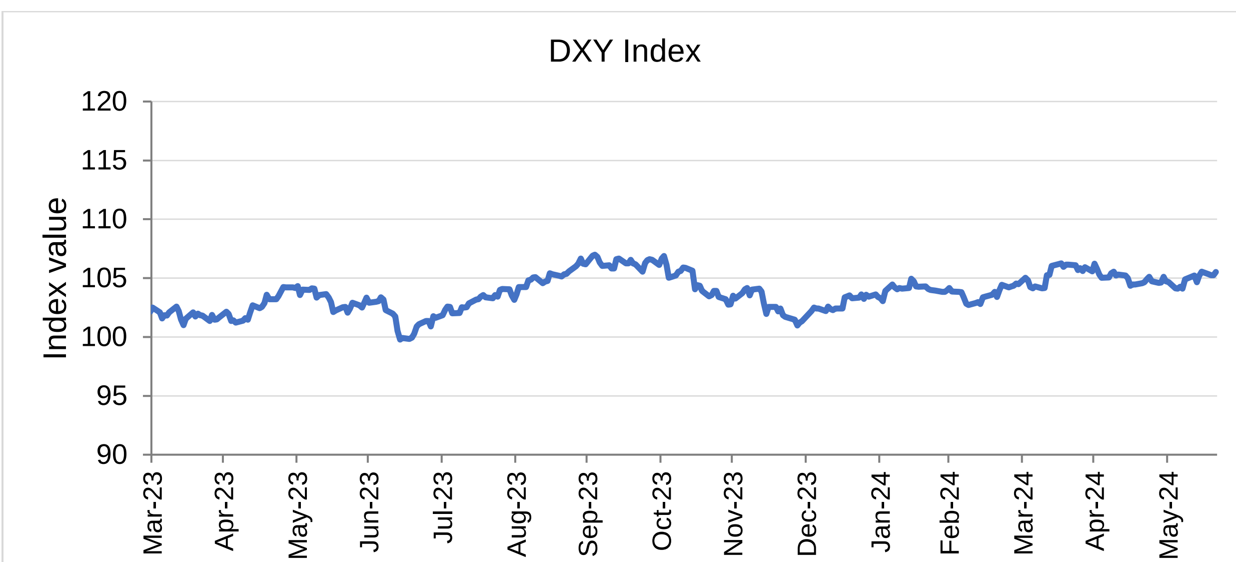
Yields for benchmark bonds in major economies showed a sideways trend during the second quarter, though it has decreased recently. The yield reduction was due to market expectation of lower inflation in the near term. Central banks in advanced economies, such as the European Central Bank and Bank of Canada, have also commenced lowering policy rates, further supporting a fall in yields (Chart 2.8). The outlook suggests that interest rates in some advanced economies could be reduced in coming quarters, pointing to reduced currency depreciation pressures in developing countries.

Chart 2.6: Stock Indices (US, UK, Europe & Japan)



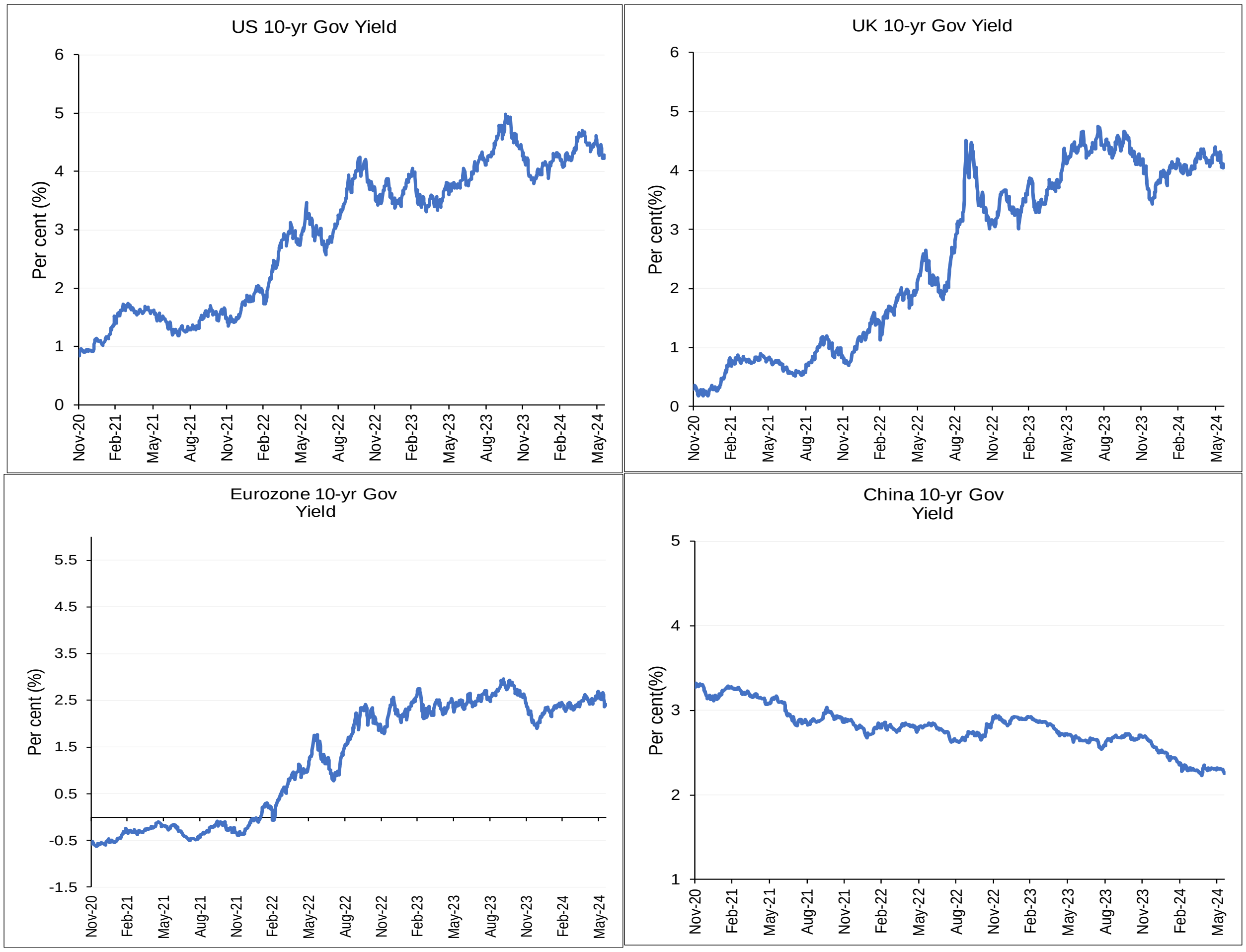
Source: Bloomberg

Chart 2.7: US Dollar Index (DXY)



Source: Bloomberg

Chart 2.8: Evolution of Bond Yields in Various Markets



Source: Bloomberg

Chapter 3: Domestic Economic Conditions

The economic performance continued to improve, recording a growth of 5.1 percent in 2023, higher than 4.7 percent in the previous year (Chart 3.1a). This growth was mainly driven by agriculture, mining, and quarrying, as well as construction and financial intermediation activities following Government initiatives, a conducive business environment, and ongoing recovery of economic activities (Chart 3.1b). The fastest growth was observed in arts, entertainment and recreation and financial and insurance, as well as mining and quarrying activities (Chart 3.1c). The NBS are yet to release GDP growth for the first and second quarters of 2024 hence, BOT estimates a strong growth of 5 percent and 5.4 percent, respectively. The performance reflects improving global and domestic conditions that include stabilization of power generation and good harvest.

Chart 3.1a: Real GDP growth in Mainland Tanzania

Percent

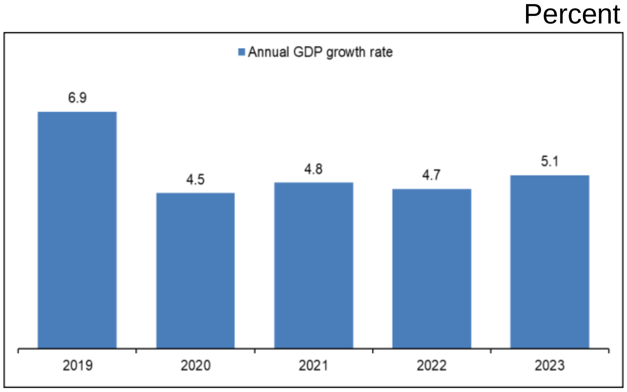


Chart 3.1b: Contribution to GDP Growth in Mainland Tanzania

Percent

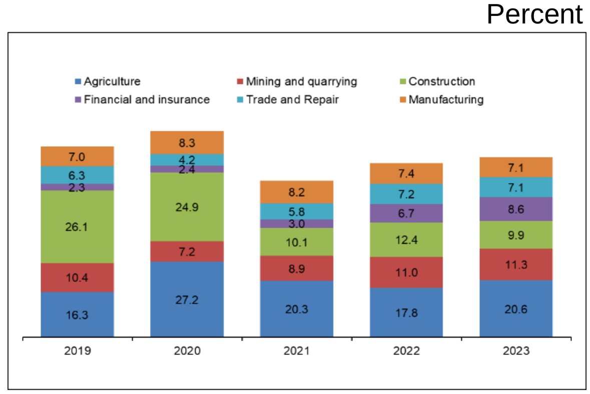
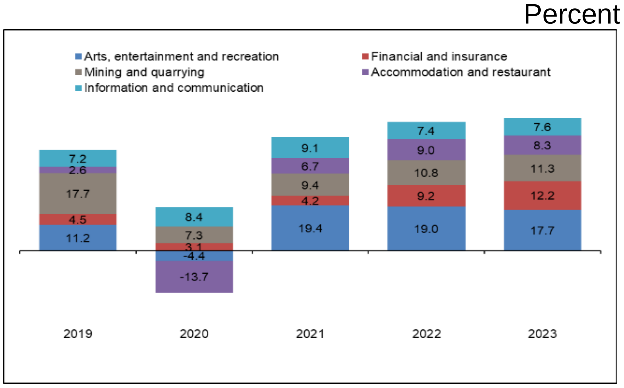


Chart 3.1c: Growth of Selected Economic Activities

Percent



Source: National Bureau of Statistics

In the case of Zanzibar, the economy grew by 7.4 percent in 2023 compared with 6.8 percent registered in 2022, contributed largely by accommodation and food services—mainly related to tourism activities, construction, and real estate (Chart 3.2a and Chart 3.2b). The highest-growing activities were financial and insurance and arts, entertainment, and recreation (Chart 3.3). The outstanding performance is largely associated with improved business conditions and the rebound in tourism.

Chart 3.2a: Zanzibar: Real GDP Growth

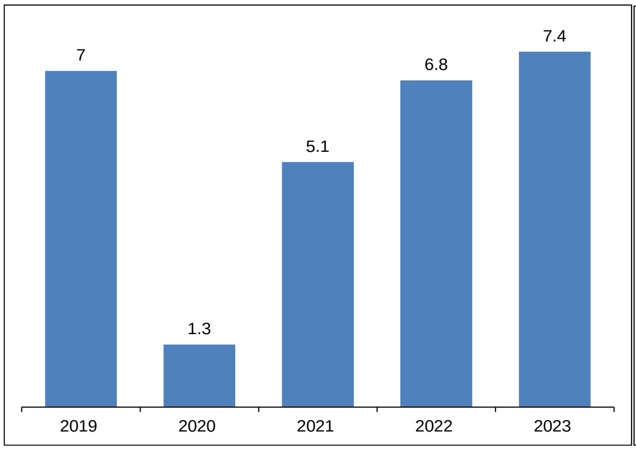
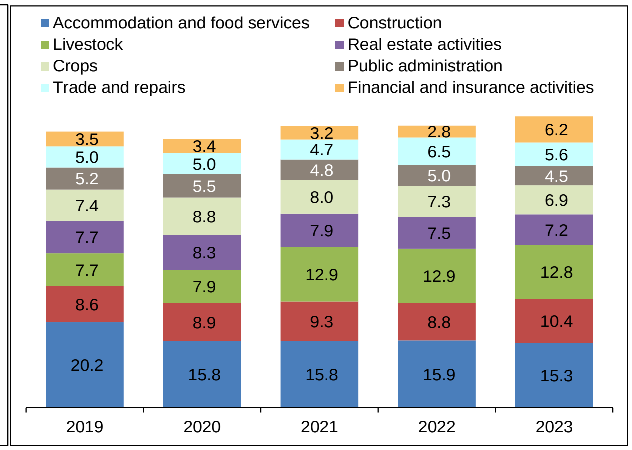


Chart 3.2b: Zanzibar: Contribution to Growth

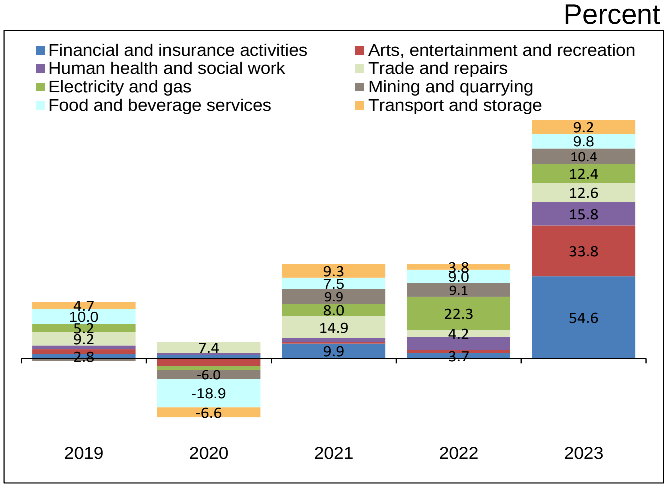
Percent



Source: Office of Chief Government Statistician, BOT Computations

Chart 3.3: Zanzibar: Growth of Major Economic Activities

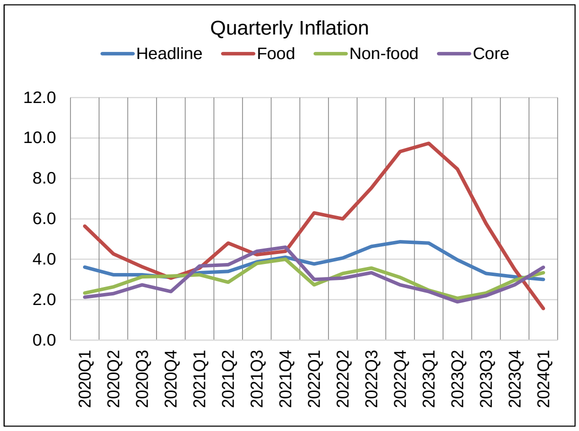
Percent



Source: Office of Chief Government Statistician, BOT computations

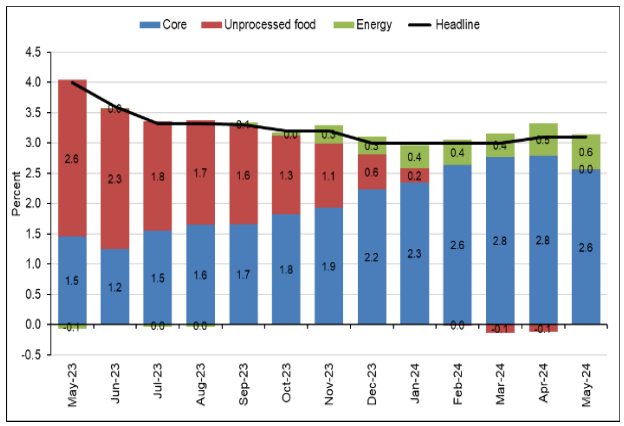
Inflation remained stable and within the country and regional targets. Annual headline inflation remained low and well below the target of 5 percent and was within the EAC and SADC convergence criteria. In April and May 2024, inflation was 3.1 percent, almost the same as the levels recorded in the past year (Chart 3.4c). The stability of inflation was observed in all major components. Core inflation, which has recently been a major contributor to overall inflation, eased, albeit remaining elevated relative to historical levels (Chart 3.4a and 3.4b). The high level of core inflation is attributable to shilling depreciation and high import prices stemming, particularly from the second-round effects of an increase in prices of oil prices on the cost of production. Food inflation remained low, and its contribution to the overall inflation was muted due to adequate food supply in the country.

Chart 3.4a: Inflation and Components



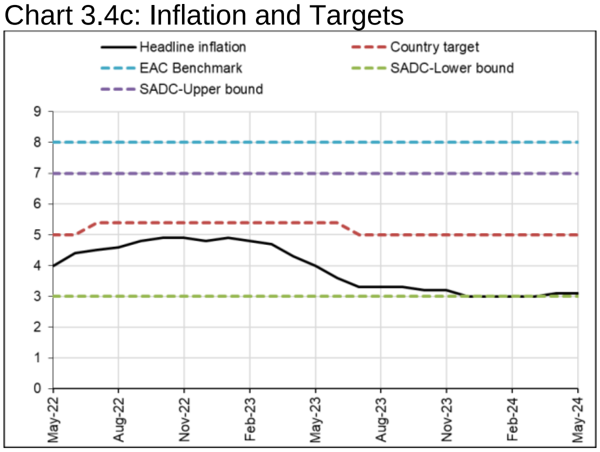
Source: NBS, and BOT computations

Chart 3.4b: Contribution to Headline Inflation



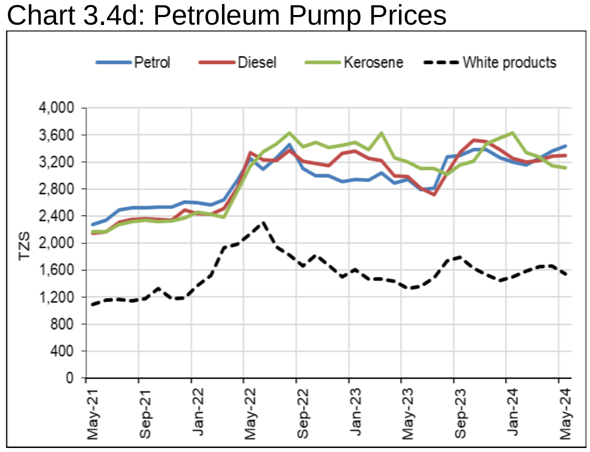
Source: NBS, and BOT computations

Chart 3.4c: Inflation and Targets



Source: NBS

Chart 3.4d: Petroleum Pump Prices



Source: NBS and BOT computations

In Zanzibar, inflation remains at a single digit and within the EAC and SADC convergence criteria. Annual headline inflation was 5.3 percent in May 2024 compared to 4.9 percent in April 2024 and 6.4 percent in May 2023. The annual decline was associated with decreased food and non-food inflation. Annual food inflation decreased to 8.9 percent from 9.5 percent registered in the corresponding month in 2023 on account of the decline in prices of yellow cooking bananas, green cooking bananas and Mbeya rice. Likewise, annual non-food inflation eased to 2.6 percent from 4.3 percent recorded in May 2023.

Adequate food supply was observed in the primary domestic markets, reflected by an increase in food stocks held by the National Food Reserve Agency (NFRA). The upsurge in food stock was mainly attributed to the availability of funds for purchasing food stocks and a continued sufficient food supply from food basket regions in the country (Table 3.2). Sufficient food supply has also been echoed in the slowdown of prices of maize and rice, the most preferred staple foods in the country. This decline was attributed to good harvests during the 2022/23 crop season, ongoing good harvests of the 2023/24 crop season emanating from favourable weather and timely provision of subsidized fertilizers and other inputs. Subdued demand from the neighbouring countries also contributed to the decline in the prices of the two food items. Meanwhile, wholesale prices of beans, sorghum, round potatoes, finger millet and wheat increased. The increase was mainly associated with high transportation costs from the producing regions following the destruction of some road infrastructure due to heavy rains (Table 3.3).

Table 3.2: Food Stocks Held by NFRA

Tonnes

Period	2020	2021	2022	2023	2024	% change 2023-24
Jan	43,597	110,398	207,899	124,736	270,984	117.2
Feb	41,231	110,389	203,297	106,881	326,172	205.2
Mar	39,597	109,231	200,626	80,123	336,099	319.5
Apr	38,053	109,231	190,366	63,808	340,102	433.0
May	38,291	108,284	149,402	51,367	340,002	561.9
Jun	52,725	107,384	141,576	46,665		
Jul	90,255	107,384	140,695	94,088		
Aug	92,991	123,635	144,410	210,020		
Sep	109,733	150,057	149,044	244,169		
Oct	110,895	192,408	151,794	244,289		
Nov	110,289	209,057	147,401	244,223		
Dec	110,398	214,968	137,655	248,282		

Source: National Food Reserve Agency

Table 3.3: Wholesale Prices of Main Food Crops

TZS per '000' Tonnes

Food crop	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
Maize	84,440.1	84,274.5	81,339.1	70,468.0	65,739.5	62,454.8
Rice	262,780.6	255,680.6	254,304.3	245,529.5	239,965.0	224,382.0
Beans	271,071.4	269,558.3	269,513.8	251,484.4	248,905.6	264,593.8
Sorghum	127,197.6	136,582.3	115,085.0	130,798.7	127,530.8	138,562.9
Round potatoes	84,618.8	82,539.6	81,146.6	87,699.6	93,763.3	101,672.5
Finger millet	159,158.5	154,223.3	151,824.8	154,315.7	159,416.0	162,314.0
Wheat	191,250.0	199,027.8	176,000.0	194,788.7	165,773.4	187,816.8

Source: Ministry of Investment, Industry and Trade, and BOT computations

The monetary conditions contributed to strong private-sector credit growth. During the second quarter of 2024, reserve money grew at an average of 10.5 percent, broadly in line with the 9.3 percent recorded in the preceding quarter (Chart 3.5a). The growth of extended broad money supply (M3) is estimated to have moderated at an average of 11.6 percent from 13.2 percent in the preceding quarter (Charts 3.5a). Private sector credit remained the main driver of money supply, as it had been in the preceding quarter (Chart 3.5b)[2].

Private sector credit growth remained robust as ongoing measures to boost credit specific to the agricultural sector, among others, continue to yield results[3]. During the period, credit to the private sector is estimated to have grown by 16.4 percent, slightly lower than the 17.1 percent recorded in the previous quarter (Chart 3.6a). Despite moderating, the credit growth was among the highest in the EAC countries (Chart 3.6b).

Chart 3.5a: Money Supply Growth in Tanzania

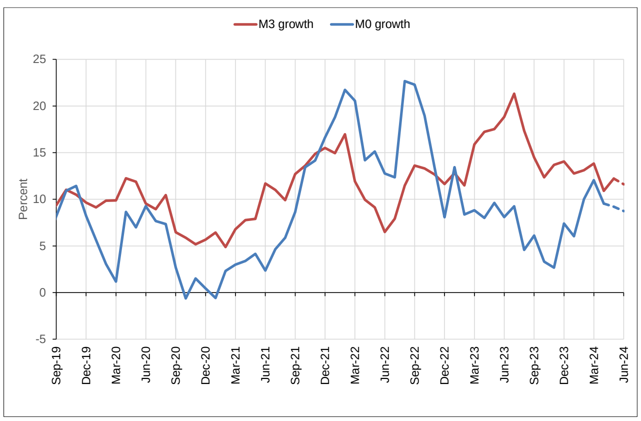
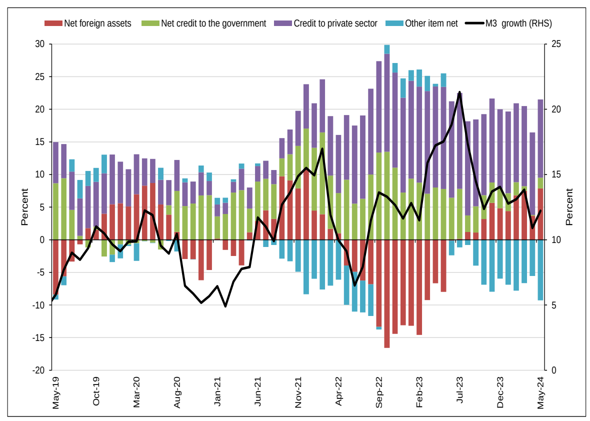


Chart 3.5b: Contribution to M3 Growth by Uses

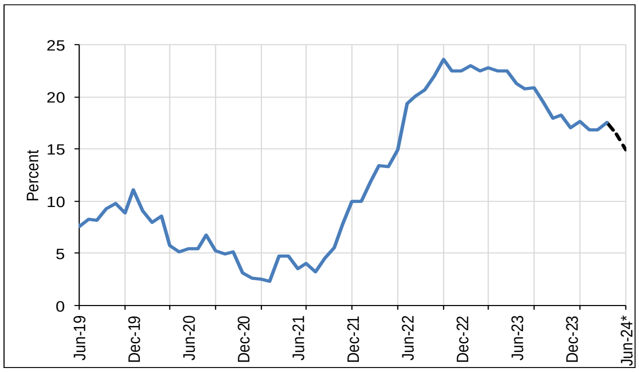


Source: Bank of Tanzania
Note: *the data for June 2024 are provisional

[2] The growth of M3 for April and May 2024 was 10.9 percent and 12.2 percent, respectively. Based on money multiplier the growth of M3 for June 2024 is projected at 11.9 percent.

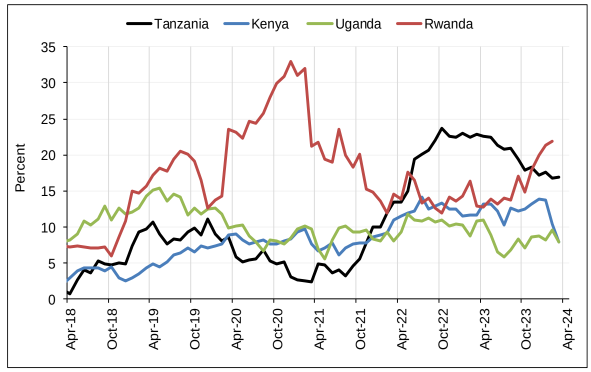
[3] These includes monetary policy measures rolled out by the Bank in July 2021 to promote cost effective credit intermediation (TZS 1 trillion special loan facility and SMR relief to banks that provides loan to agricultural sector) as well as Government initiatives to enhance productivity such as establishing irrigation schemes, enhancing budget allocation to the agricultural sector, provision of subsidies on fertilizers, and enhancing extension services.

Chart 3.6a: Growth of Credit to Private Sector



Source: Bank of Tanzania
Note: *the data for June 2024 are provisional

Chart 3.6b: Private Sector Credit Growth in Selected EAC Countries

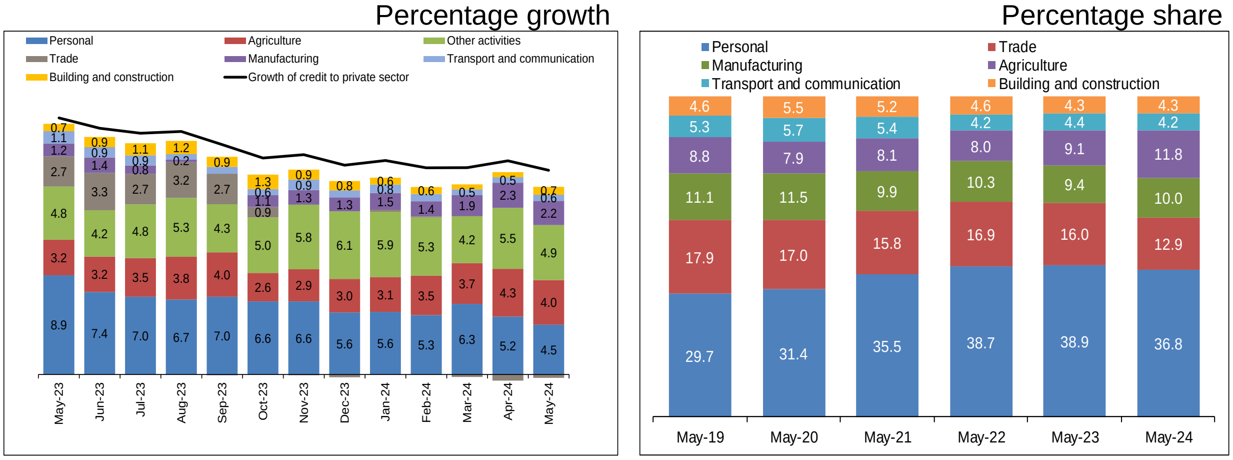


Source: Banks and Bank of Tanzania computations, Respective EAC central banks

Agriculture and personal loans contributed more to the observed credit growth, while personal loans, mainly directed to micro, small, and medium-sized enterprises, accounted for the largest share of total credit to the private sector (Chart 3.7). Growth in Shilling-denominated loans remained stable at an average of 22 percent, relatively similar to the previous quarter. In contrast, foreign currency-denominated loans slowed to 1.7 percent from 2.8 percent during the quarter ending March 2024, reflecting the decline in post-import loans denominated in the foreign currency relative to the corresponding quarter of 2023. Credit to the private sector is expected to remain strong, attributable to the recovery of economic activities coupled with an improving business environment and supportive policies.

Chart 3.7: Private Sector Credit Growth and Share by Economic Activities (Quarterly)

Percentage growth | Percentage share



Source: Banks and Bank of Tanzania computations

Financial dollarization in the banking sector remained relatively high, as in the preceding quarters, primarily due to a shortage of foreign currency liquidity in the economy, particularly US dollars. Banks' foreign currency deposits maintained an upward trend since January 2024, driven by high returns favouring holding and transacting in foreign currency (Chart 3.8a and Chart 3.8b). However, this trend is expected to reverse following the ongoing policy interventions, including measures taken to reduce domestic dollar transactions in the economy and increase foreign currency liquidity highlighted in the 2024/25 Government budget. In addition, the availability of adequate reserves will continue to provide sufficient cover and a buffer against short-term shocks in the foreign exchange market, thereby restoring public confidence in foreign currency liquidity.

Chart 3:8a: Foreign Currency Deposits of Banks

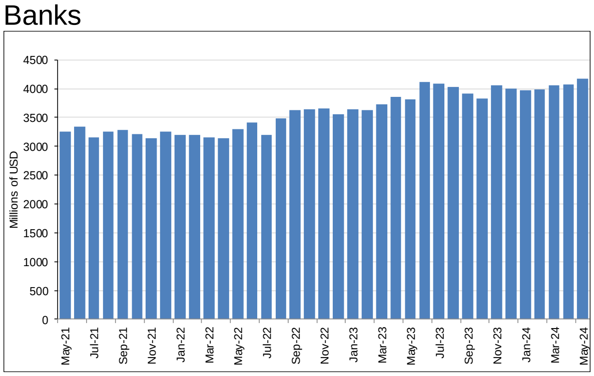
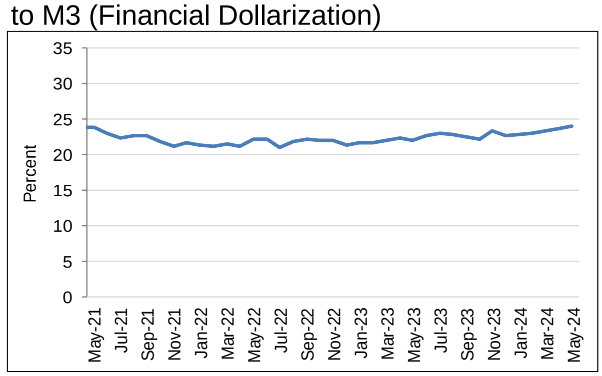


Chart 3:8b: Share of Foreign Currency Deposit to M3 (Financial Dollarization)



Source: Banks and Bank of Tanzania computations

The financial sector was stable and resilient to short-term shocks, with all indicators remaining within the desirable thresholds. The banking sector was liquid, profitable, and adequately capitalized, recording growth in deposits and assets (Table 3.5). The increase in assets was in tandem with deposits, enabled by the agent-banking model, proliferation of financial products, and digital banking services. The expansion of loans was attributable to the improved business environment. Liquidity in banks was adequate and enough for loan provision, with the ratio of liquid assets to demand liabilities, as well as to total assets hovering above the regulatory requirements. Asset quality continued to improve, as reflected by the decline in non-performing loans to gross loans (NPL ratio) ratio to 4.4 percent in May 2024 from 5.5 percent in 2023 (Table 3.6).

This trend is expected to continue as the economy recovers from the global shocks and banks implement measures to improve the quality of assets.

Table 3.5: Trends of Selected Key Balance Sheet Items

TZS Billion

	Dec-19	Dec-20	Dec-21	Dec-22	Feb-23	Dec-23	May-24
Total loans, advance and overdraft (net)	17,884.0	17,884.0	20,822.6	26,132.5	27,868.8	32,039.3	33,992.8
Total assets	33,161.8	33,161.8	39,362.6	46,209.4	49,255.1	54,317.9	58,152.8
Total deposit	23,818.1	23,818.1	28,497.7	32,526.8	34,611.5	37,980.8	40,050.2
Total liabilities	28,135.4	28,135.4	33,145.4	39,251.3	41,864.4	46,188.0	49,247.6
Total capital	5,026.4	5,026.4	6,200.9	6,958.1	7,390.7	8,129.9	8,905.2

Source: Bank of Tanzania

Table 3.6: Banking Financial Soundness Indicators

Percent

Particulars	Dec-19	Dec-20	Dec-21	Dec-22	Feb-23	Dec-23	May-24
Capital Adequacy							
Core capital/TRWA+OBSE	17.0	17.2	19.5	18.0	19.1	17.7	18.8
Core capital/Total deposit	17.2	17.5	17.6	17.5	18.3	17.2	18.8
Total capital/TRWA+OBSE	18.1	18.1	20.2	18.9	19.9	18.4	19.5
Total capital/Total Assets	13.1	13.1	13.2	12.9	13.4	12.5	13.4
Asset quality							
Gross non-performing loans/Gross loans	9.6	9.4	8.5	5.8	5.5	4.4	4.4
NPLs net of provisions/Total capital	37.7	36.6	31.3	23.5	21.8	19.8	18.1
Earnings							
Return on assets-ROA	1.9	1.9	2.8	3.5	4.4	4.4	5.7
Return on equity-ROE	7.1	7.6	11.3	14.6	20.0	20.5	26.7
Interest margin to total income	56.3	55.6	56.6	53.8	53.0	52.1	50.5
Non Interest expenses/Total income	56.6	53.8	49.7	43.7	41.7	40.4	37.0
Personnel expenses/Non-interest expenses	48.2	50.0	52.0	51.4	51.4	49.1	48.7
Liquidity							
Liquid assets/Demand liabilities	32.1	30.7	29.4	26.4	25.7	28.8	28.3
Liquid assets/Total assets	26.9	24.6	25.5	23.1	23.5	23.2	24.7
Liquid assets/Customer deposits liabilities	41.0	37.0	37.2	34.8	35.5	35.2	37.9
Total loans/Customer deposits	88.2	86.8	82.0	89.3	89.3	92.5	92.9
Access to lending							
Claims on the private sector to GDP	14.3	12.5	13.4	16.7	17.8	19.9	21.3
Claims on non-government sector to GDP	14.9	13.1	14.0	17.3	18.4	21.0	22.6
Sensitivity to market risk							
Net open positions in FX/Total capital	8.8	9.0	7.8	2.5	3.2	4.5	4.0

Source: Bank of Tanzania

In Tanzania Mainland, fiscal performance was satisfactory, aligned with the budget, supporting the implementation of monetary policy. Domestic revenue is estimated at TZS 7,719.6 billion, equivalent to 94.5 percent of the target in the quarter ending June 2024[4]Tax revenue is estimated at 98.5 percent of the target, with a notable performance

[4] June and May 2024 figures are figures are purely projections.

from VAT, Corporate, and PAYE tax (Chart 3.9a). Non-tax revenue was about 85.2 percent of the target. Expenditure is estimated at TZS 8,115.3 billion, of which 74.3 percent is recurrent expenditure.

Zanzibar's fiscal performance was satisfactory, with revenue collection improving and expenditure continuing to be aligned with available resources. Government revenue and foreign grants amounted to TZS 1,489.0 billion from July 2023 to May 2024, which is about 92 percent was revenue, and the remainder was grants. Tax revenue was TZS 1,212.6 billion, above the target by 0.3 percent on account of improved taxpayers' compliance and payment of tax arrears. Non-tax was 82.1 percent of the target. The Government expenditure amounted to TZS 1,899.1 billion, of which TZS 1,106.3 billion was recurrent expenditure and the balance was development expenditure.

Public debt remains sustainable, with a moderate risk of debt distress. The debt stock increased by 2.4 percent, to USD 36,349.5 million at the end of May 2024, from the stock at the end of February 2024, driven by an increase in external debt. Public external debt constituted 67.2 percent of the total public debt and was largely owed to multilateral institutions and commercial creditors (Table 3.7 and Chart 3.13). The private sector external debt was USD 6,770.3 million in May 2024, with economic activities benefiting the most being transport and telecommunication, followed by social welfare and education (Table 3.8).[5]

Table 3.7: Profile of National Debt

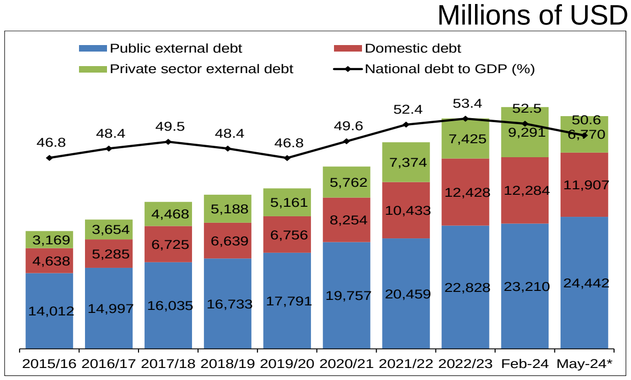
Millions of USD

Details	2020/21	2021/22	2022/23	Dec-23	Feb-24	May-24
National debt stock	33,773.1	38,265.6	42,681.0	43,975.9	44,785.4	43,119.8
% of GDP	49.6	52.4	54.5	51.6	52.5	50.6
Public debt (external and domestic)	28,011.2	30,891.6	35,255.8	34,806.1	35,494.1	36,349.5
% of GDP	41.1	42.3	45.0	40.8	41.6	42.6
External debt (public and private)	25,519.3	27,832.5	30,252.7	31,733.9	32,501.3	31,212.4
% of GDP	37.5	38.1	38.6	37.2	38.1	36.6
Public external debt	19,757.4	20,458.6	22,827.5	22,564.1	23,210.0	24,442.1
% of external debt	77.4	73.5	75.5	71.1	71.4	78.3
% of total public debt	70.5	66.2	64.7	64.8	65.4	67.2
Private sector external debt	5,761.9	7,374.0	7,425.2	9,169.8	9,291.4	6,770.3
% of external debt	22.6	26.5	24.5	28.9	28.6	21.7

Source: Ministry of Finance and BoT

Chart 3.13: Evolution of Debt

Millions of USD



[5] Disbursed outstanding external debt excludes interest arrears.

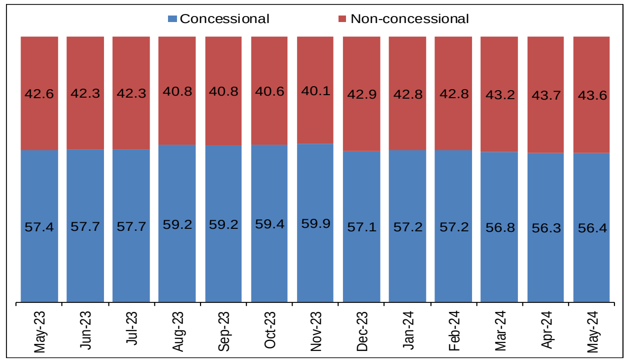
Table 3.8: Private Sector Outstanding Debt by Activity

Millions of USD

Activity	May-23 Amount	May-23 Share (%)	Feb-24 Amount	Feb-24 Share (%)	May-24^p Amount	May-24^p Share (%)
Transport and telecommunicatic	5,530.0	20.4	6,621.5	21.9	6,418.1	21.4
Social welfare and education	4,642.0	17.1	5,655.8	18.7	5,992.0	20.0
BoP and budget support	2,954.0	10.9	4,697.9	15.6	5,381.1	18.0
Energy and mining	4,025.6	14.8	4,462.6	14.8	4,550.2	15.2
Agriculture	1,482.0	5.5	1,541.4	5.1	1,508.0	5.0
Real estate and construction	1,848.3	6.8	1,735.2	5.7	1,472.1	4.9
Industries	1,243.4	4.6	1,394.3	4.6	1,152.5	3.9
Finance and insurance	878.0	3.2	1,361.6	4.5	1,018.3	3.4
Tourism	309.3	1.1	500.1	1.7	463.9	1.6
Other	4,240.6	15.6	2,224.2	7.4	1,969.0	6.6
Total	27,153.2	100.0	30,194.5	100.0	29,925.2	100.0

Chart 3.14: External Debt by Concessionality

Percent



Source: Ministry of Finance and Bank of Tanzania
Note: p denotes provisional data

The domestic debt market performed well, facilitating government resource mobilization and monetary policy implementation. Most government securities auctions were oversubscribed during the period, recording a bid-to-offer ratio of more than 2 percent in the past three months up to May 2024, reflecting the high appetite of investors partly contributed by the re-opening of old Treasury bonds, which had a higher return. The domestic debt stock at the end of May 2024 was TZS 30,969.4 billion, 0.9 percent lower than the stock recorded at the end of February 2024. Domestic debt continued to be dominated by bonds and stocks, accounting for 77.7 percent, while the share of treasury bills in the debt portfolio declined to 7.7 percent from 9.7 percent in February 2024 (Chart 3.15a). Commercial banks and pension funds remained the main creditors to the Government (Chart 3.15b).

Zanzibar's domestic debt stock was TZS 954.2 billion in May 2024, an increase from TZS 926.9 billion in the preceding month, following the new borrowings from government securities. About 50.6 percent of the debt was contracted through direct loans from commercial banks, and 43.4 percent was treasury securities.

Chart 3.15a: Composition of Domestic Debt by Instrument (%)

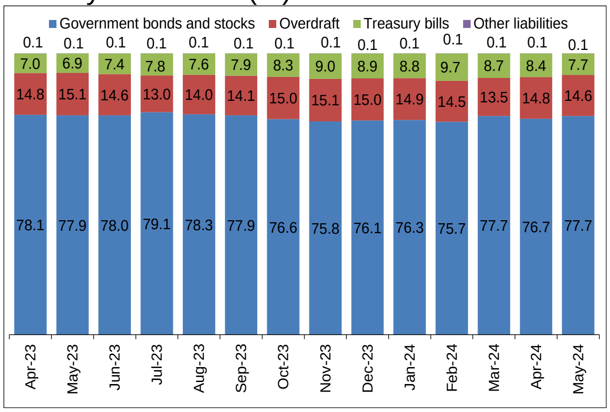
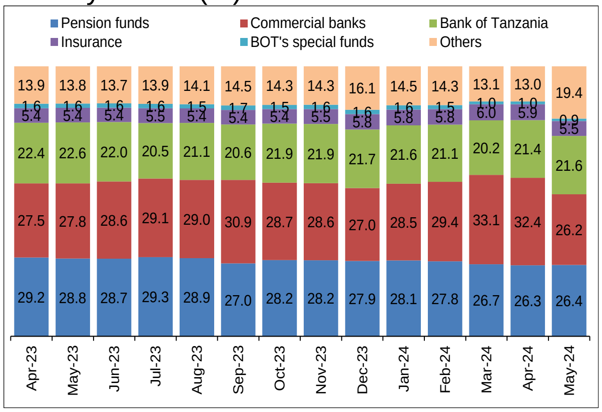


Chart 3.15b: Composition of Domestic Debt by Holder (%)



Source: Bank of Tanzania
Notes: * includes NMB standard loan and duty drawbacks and tax certificate

The current account position continued to improve as the global economy is normalizing from economic shocks which have existed for more than two years. This, however, coupled with domestic policies, especially those geared towards attracting more foreign investment, appear to have contributed to increasing demand for foreign currency. The current account deficit is estimated to have narrowed to USD 959.2 million in the quarter ending June 2024 from a deficit of USD 977.8 million in the corresponding quarter a year ago. During July 2023 to May 2024, the current account deficit was USD 2,317.1 million compared with USD 4,853.9 million in a similar period in 2023. The improvement in the current account was contributed mostly by services (tourism), gold, as well as traditional goods (Table 3.9).

The export of goods improved, reaching USD 1,918.3 million in the quarter ending June 2024, compared to USD 1,722.6 million in the same period in 2023. The increase was manifested in volume for most of the goods exported. As in the recent past, the export of gold was dominant, accounting for nearly a quarter of the total exports of goods. Services exports, dominated by tourism at 45.9 percent, increased markedly to USD 1,477.9 million in the quarter ending June 2024 compared to USD 1,275.7 million in the corresponding quarter a year ago (Table 3.9 or Chart 3.20).

Imports of merchandise (goods) increased, reaching USD 3,415 million in the quarter ending June 2024, compared to USD 3,246.8 million in the same period in 2023. The increase was more pronounced in industrial supplies, white petroleum products, and transport equipment. As in the recent past, white petroleum products remain dominant, accounting for about 20 percent of the total imports of goods. The observed increase in imports, particularly in machinery and intermediate goods, reflects the continued recovery of economic activities and the government's efforts to attract foreign direct investment into the country.[6] Services imports, mostly transport (freight) payments, increased to USD 681.7 million from USD 535.3 million in the previous quarter, owing to higher freight payments consistent with the increase in import bill (Chart 3.22).

In Zanzibar, the current account surplus is estimated at USD 421.5 million in the year ending June 2024**,** compared with a surplus of USD 411.5 million in the corresponding period in 2023, on account of an increase in services receipts, particularly tourism. The export value of goods and services recorded a marginal decrease over the past year, to USD 997.3 million from USD 997.6 million (Table 3.10). Service receipts, which mainly include tourism, increased by 0.04 percent to USD 932.7 million due to an increase in tourists. However, goods exports declined slightly due to a decrease in cloves and seaweed exports. Imports of goods and services in Zanzibar decreased, although at a slower pace, as global prices moderated from the preceding year**.** The imports amounted to USD 494.3 million compared to USD 500.0 million, primarily associated with decreased imports of intermediate and consumer goods.

Foreign exchange reserves remained adequate, amounting to USD 5,162.6 million at the end of May 2024 and USD 5,448.9 million at the end of June 2024, sufficient to cover about 4.5 months of projected imports of goods and services (Chart 3.23). There is anticipation of a further increase in foreign exchange inflows from tourism, mining, traditional exports, and the export of food to neighbouring countries. The projected improvement in global economic conditions and moderation in the commodity prices in the global market will also contribute. Furthermore, measures to limit transaction dollarisation between residents (invoicing or quotation and payment using foreign currency) are expected to reduce the demand for foreign currency and increase foreign

[6] Most of the foreign direct investments come in the form of goods.

reserves. The Bank is expected to increase the diversification of its foreign reserve portfolio by purchasing gold from local markets.

Table 3.9: URT: Current Account Balance

Millions of USD

	July - May		Quarter ending				
	2022/23	2023/24^p	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24^p
Goods account (net)	-6,678.5	-5,599.5	-1,496.3	-1,118.6	-1,857.9	-1,556.5	-1,496.8
Exports	6,727.8	7,201.0	1,722.6	2,308.9	2,016.9	1,690.3	1,918.3
Imports	-13,406.3	-12,800.5	-3,218.8	-3,427.5	-3,874.8	-3,246.8	-3,415.0
Services account (net)	2,550.4	4,105.2	740.5	1,226.1	1,111.3	1,219.8	796.2
Receipts	4,913.3	6,201.6	1,275.7	1,796.9	1,722.2	1,768.3	1,477.9
Payments	-2,362.9	-2,096.4	-535.3	-570.8	-610.9	-548.5	-681.7
Goods and services (net)	-4,128.1	-1,494.2	-755.8	107.5	-746.5	-336.7	-700.5
Exports of goods and services	11,641.2	13,402.6	2,998.3	4,105.8	3,739.2	3,458.6	3,396.2
Imports of goods and services	-15,769.3	-14,896.9	-3,754.1	-3,998.4	-4,485.7	-3,795.4	-4,096.7
Primary income account (net)	-1,270.4	-1,441.5	-423.5	-353.8	-437.1	-286.0	-482.2
Receipts	174.1	176.3	46.3	42.0	53.8	52.4	57.7
Payments	1,444.4	1,617.8	-469.7	-395.8	-490.8	-338.3	-539.9
Secondary income account (net)	544.6	618.7	201.4	141.7	169.4	148.9	223.5
Inflows	649.8	784.2	228.5	186.4	214.5	189.4	273.8
o/w Official transfers	46.0	155.3	56.3	-44.7	-45.1	19.9	95.0
Outflows	105.2	165.5	-27.1	-44.7	-45.1	-40.5	-50.2
Current account balance	-4,853.9	-2,317.1	-977.8	-104.7	-1,014.2	-473.8	-959.2

Source: TRA and BOT computation

Note: p denotes provisional

Table 3.10: Zanzibar: Current Account Balance

Millions of USD

	Year ending June		Quarter ending		
	2023	2024^p	Jun-23	Mar-24	Jun-24^p
Goods account (net)	-434.8	-429.7	-115.2	-82.2	-107.7
Exports	65.2	64.6	5.8	24.6	5.5
Imports (fob)	500.0	494.3	121.0	106.8	113.2
Services account (net)	835.7	835.9	120.8	258.0	125.5
Receipts	932.3	932.7	144.7	278.9	147.7
Payments	96.7	96.8	23.8	20.9	22.2
Goods and services (net)	400.9	406.2	5.7	175.8	17.7
Exports of goods and services	997.6	997.3	150.5	303.5	153.1
Imports of goods and services	596.7	591.1	144.8	127.7	135.4
Primary Income account (net)	9.6	13.4	2.4	3.6	4.1
Receipts	13.2	19.6	3.4	5.2	6.0
Payments	3.6	6.2	1.1	1.6	1.9
Secondary income (net)	1.1	1.9	0.3	0.5	0.6
Inflows	1.9	3.2	0.6	0.9	1.0
Outflows	0.8	1.4	0.2	0.4	0.4
Current account balance	411.5	421.5	8.4	179.8	22.4

Chart 3.19: Export of Goods

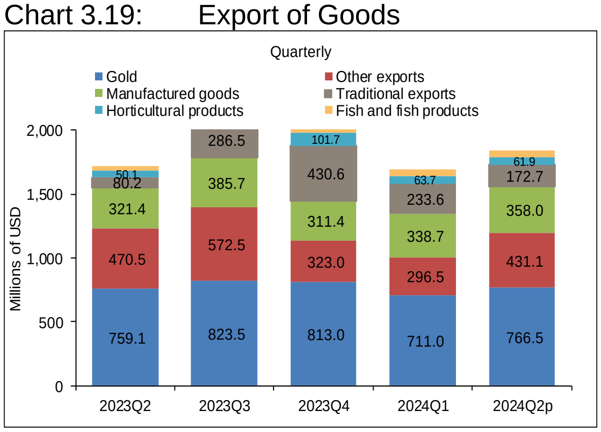
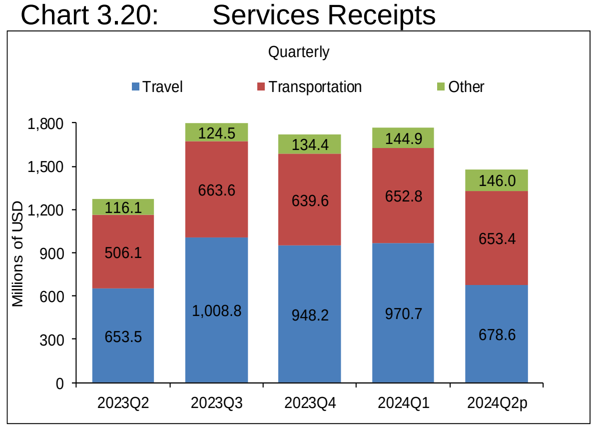


Chart 3.20: Services Receipts



Source: Bank of Tanzania and Tanzania Revenue Authority

Notes: Other services include construction, insurance, financial, telecommunication, computer, and information, as well as charges for using intellectual property, government, personal, and other business services.

Chart 3.21: Goods Imports

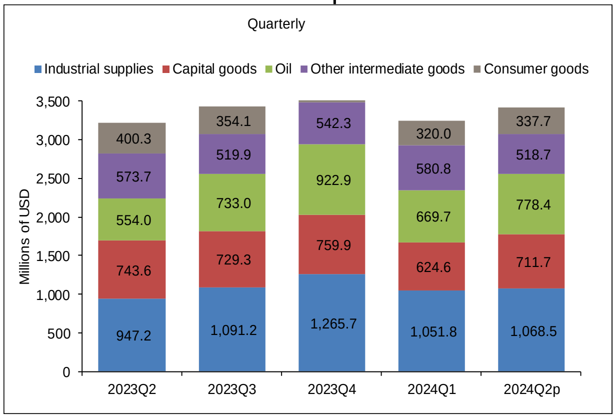
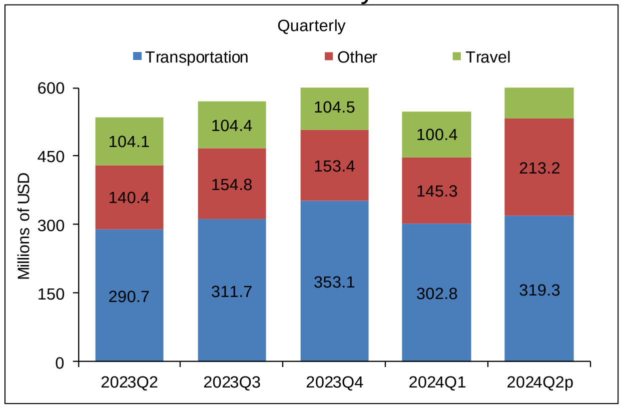


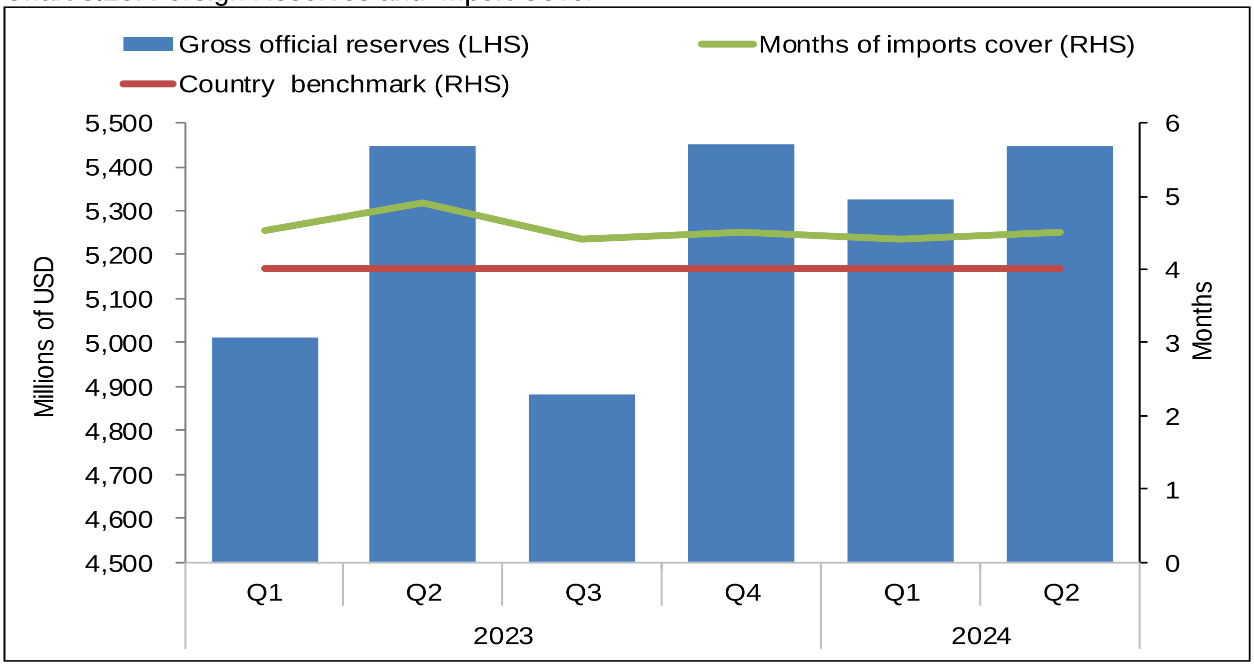
Chart 3.22: Services Payments



Source: Bank of Tanzania

Note: Other services include construction, insurance, financial, telecommunication, computer and information, government, personal, and other business services

Chart 3.23: Foreign Reserves and Import Cover



Source: Bank of Tanzania

Notes: LHS refers to left-hand scale; and RHS, right-hand scale

Chapter 4: Economic Outlook and Recommendation

4.1 Global economic outlook

Global economic activity is projected to continue improving in 2024 and 2025[7]. The growth will be largely driven by easing financial conditions, improving supply chains and increasing consumer demand. The IMF projects a flat growth of 3.2 percent in 2024 and 2025, while the World Bank forecasts a relatively lower growth of 2.6 percent and 2.7 percent, and OECD projects steady growth of 3.1 percent and 3.2 percent, respectively. Steady growth is expected in almost all economies and across quarters (Table 4.1). Inflation is expected to continue declining in most countries, reflecting the lagged impact of monetary policy tightening, falling crude oil prices, and easing supply constraints.[8]. Specifically, global inflation is expected to fall from 6.8 percent in 2023 to 5.9 percent and reach 4.5 percent in the subsequent two years, with most advanced economies projected to attain the targets earlier than expected (Chart 4.1)[9]. The upside risks to the inflation outlook include the potential disruption of supply chains due to geopolitical conflicts and rising energy prices on account of the OPEC+ decision on production cuts.

On the monetary policy front, central banks in most advanced economies are expected to recede from their tightening stance, which has existed for almost two years. The European Central Bank began an interest rate cut in June 2024. This trend is expected to prevail in sub-Saharan Africa. In EAC, the central banks in Kenya and Uganda maintained their policy rate in June 2024, while the National Bank of Rwanda cut its policy rate in May 2024.

[7] IMF WEO April 2024 Edition, World Bank Global Economic Prospects, OECD and Bloomberg (https://www.bloomberg.com)
[8] IMF WEO April 2024 Edition, World Bank Global Economic Prospects, OECD and Bloomberg (https://www.bloomberg.com) and central banks reports.
[9] International Monetary Fund World Economic Outlook, April 2024.

Table 4.1 Projected Quarterly Growth Rates

Percent

	2024			2025		
	Q2	Q3	Q4	Q1	Q2	Q3
United States	0.6	0.4	0.4	0.5	0.5	0.5
Euro Area	0.2	0.3	0.4	0.3	0.4	0.4
Japan	0.6	0.5	0.3	0.3	0.2	0.2
Uk	0.3	0.3	0.3	0.3	0.3	0.3
China	0.9	1.1	1.1	1.1	1.1	1.1
South Africa	0.4	0.4	0.5	0.4	0.4	0.4

Source: Bloomberg

4.2 Domestic Economic Outlook

The economy is expected to continue expanding, with GDP growth in Mainland Tanzania projected at 5.3 percent in the third quarter and 6.8 percent in the fourth quarter of 2024. In 2024, Zanzibar's GDP growth is projected at 7.2 percent on an annual basis. The growth is expected to be supported by improving global conditions, sustained supportive economic policies and reforms, and a favourable harvest, which is expected to increase food supply and exports. Headline inflation is projected to remain low, rising moderately to 3.4 percent in the third quarter and 3.7 percent in the fourth quarter of 2024. Headline inflation in Zanzibar is projected at a single digit. This is based on the expected moderation of commodity prices in the world market, particularly fuel and food. Adequate food supply in the country and neighbouring countries, as well as adequate power supply, are also expected to anchor inflationary expectations. The government's intention to implement fiscal consolidation in 2024/25 by aligning expenditure with resources is expected to contribute to containing inflation within the medium target. The risk to the growth and inflation outlook is on exchange rate depreciation, OPEC+ production decisions, and geopolitical tensions.

4.3 MPC Decisions

The MPC decided to keep the CBR at 6 percent for the quarter ending September 2024 after consideration of the global and domestic outlook and its associated risks. The decision was reached after the assessment of the implementation of monetary policy in the previous two quarters and observed that it successfully anchored inflation expectations well below the target of 5 percent. Also, the positive outlook for the global economy, especially expectations of falling inflation in most countries, easing financial conditions in international markets, and moderate prices in the world market, supported the policy direction. Furthermore, the expectation of continued growth of the domestic economy, adequacy of food supply, and moderating exchange rate pressures owing to increased foreign exchange inflows from tourism, gold, and cash crops, as well as a policy intervention to reduce the usage of foreign currency for transaction in the economy are expected to contribute to price stability. The Bank will continue using its monetary policy instruments to steer the 7-day IBCM rate close to the CBR.