



PRESS RELEASE

DISCOUNT RATE REDUCTION SHOULD MAKE BANKS THINK ABOUT LENDING RATES

The Bank of Tanzania Governor, Prof. Benno Ndulu, has urged banks and financial institutions to take note of the downward review of the discount rate from 16 per cent to 12 per cent in their operations.

“The Bank of Tanzania’s expectations are that the move will enhance credit growth and reduction in lending rates, he said.

Prof. Ndulu made the call during a meeting with chief executive officers (CEOs) of banks and financial institutions at the Bank of Tanzania headquarters in Dar es Salaam on Thursday.

He, however, cautioned them, when disbursing loans, to ensure that only customers with good track record are being considered. This is due to the recent increase in non-performing loans (NPLs) among many banks.

The Bank of Tanzania reviewed the discount rate from 16 to 12 per cent effective from March 6, 2017. In its letter to banks, the Bank said the revised discount rate took into account the prevailing 91 and 182-day weighted average yields and the monetary policy stance geared towards sustaining price stability. It will also be used to discount Treasury securities.

On their part, CEOs of banks and financial institutions sought assurance from BoT as to the duration of being in force of the newly announced discount rate, lest they adjust their loan policies only for the discount rate to move upward without a warning.

The Governor assured them that the rate can hold for a while and that any adjustments would depend on prevailing economic conditions, but assured them that such changes will not be drastic.

Earlier, the CEOs of banks and financial institutions were briefed about the economic trends nationally, regionally and globally.

Nationally, Tanzania attained a 7 per cent GDP growth during the 2016 which is a good record in the region, the leading sector being mining and quarrying followed by transportation and storage, power generation and manufacturing.

Headline inflation increased to 5.5 per cent in February 2017 from 5.2 per cent the previous month. He attributed the increase to food prices.

The risk of upward inflationary pressures may persist in the coming few months due to rising food prices.

The Governor said the Bank of Tanzania would continue to be cautious of the risk of inflationary pressures coming from the food supply outlook in the East African Community and Southern African Development Community and would be ready to take appropriate measures

Monetary aggregates sustained slow growth of 2.9 per cent in the year ending December 2016 as against 18.8 per cent growth recorded in the corresponding period in 2015. The slow growth is attributed to decline in net foreign assets of the banking system and net credit to the government.

Also credit to the private sector grew by only 7.2 per cent in the year ending December 2016, compared with 24.8% in the year ending December 2015. This was associated with banks' elevated cautiousness in lending in the face of increase in non-performing loans (NPLs) and low foreign budgetary inflows

The report said however, that the shortfall was partially compensated by Increase in transaction velocity.

During the period under review, current account deficit narrowed by 47 per cent, driven largely by increase in receipts from tourism gold and traditional exports, decrease in import bill, mainly of oil, consumer goods, building and construction, machinery and transport equipment.

The government's official reserve amounted to US \$4,331.7.6mn at the end of January 2017, which is about 4.2 months of projected imports.

Exports in 2016 grew by 4.1 per cent to US \$9,285.6m, mainly driven by gold due to recovery of world market price and increase in export volume, travel receipts on account of increase in number of tourist arrivals and traditional goods consistent with increase in prices of some commodities in the world market.

The value of imports in 2016 was \$10,774.5m, which is 13.9 per cent lower than the value for 2015. Imports were largely for machinery, transport equipment, building and construction materials and consumer goods. Value of oil imports declined by 4.9 per cent due to fall in the world market prices.

Zanzibar recorded GDP growth of 4.4 per cent during the first three quarters of 2016 compared with 8.0 per cent in similar period of 2015. The decline in growth was attributed to decline in the slower growth in construction, and information and communication activities. Major contributors to growth were: arts and entertainments, finance and insurance, mining and quarrying and administrative and support services.

CEOs of Banks were told that global and domestic conditions remain favorable for continued price stability and that the Bank of Tanzania will continue to manage liquidity short-term liquidity fluctuations with using various monetary instruments., with the reduction of discount rate also contributing to ease liquidity conditions among banks.

The Governor meets CEOs of commercial banks every two months to discuss about economic trends and get feedbacks from them.

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