



BANK OF TANZANIA (BOT) ADOPTS VARIOUS MEASURES TO PROTECT THE ECONOMY

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Introduction,

The Monetary Policy Committee of the Board of the Bank of **Tanzania**, chaired by the Governor, closely monitors monetary policy implementation on a monthly basis. The Monetary Policy Sub-committee discusses, on a weekly basis, progress on monetary policy implementation and plans for the subsequent week. On 8th May 2020 the MPC meet and agreed on various policy measures to cushion the economy of the country from adverse effects of Covid-19, The aim is to protect the stability of the financial sector and continue facilitating the financial intermediation process.

The agreed policy measures include,

The Bank of Tanzania to lower the statutory Minimum Reserve (SMR) required from 7% to 6%, Effective from 8 June; In accordance with Section 44 of the Bank of **Tanzania**: Act, 2006, and Sections 4 and 71 of the Banking and Financial Institutions Act, 2006, all banks in **Tanzania** (Mainland and Zanzibar), are required to maintain **statutory minimum reserves** (SMR) on their total deposit liabilities and funds borrowed from the general public.

The aim is to provide additional liquidity to the banks.

The Bank of Tanzania reduces the discount rate from 7% to 5%, effective from 12th may 2020, the discount rate can refer to either the interest rate that the Federal Reserve charges banks for short term loans. This policy measure aims at proving additional space for banks to borrow from the Bank of Tanzania at a lower cost, hence signaling lower lending rates by the banks.

The Bank of Tanzania to reduce haircut on the government securities from 10% to 5% for Treasury bills and also 40% to 20% for Treasury bonds, effectively from 12th May 2020, haircut refers to the difference between the market value of the particular **securities** and the value at which the same has been kept as collateral. The MPC has agreed on this policy to increase the ability of banks to borrow from the Bank of Tanzania with less collateral than it was before.

Banks and other loan institutions should discuss on the possibilities of restricting loans burden for borrowers, in order to thoroughly assess financial difficulties experienced by borrower I the country during the pandemic eruption (COVID-19) in respect



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to loan payments The Monetary Policy Committee as developed the policy to soften the loan payments and borrowing process.

Encourage digital financing, whereas money operators should increase daily transactions limits to customers from three million (3,000,000) to five millions TSH (5,000,000) and for the case of daily balance should increase from five million (5,000,000) to ten million TSH (10,000,000) this measure will discourage the congestion of people/customers in the banking premises and fasten business transactions. The financial institutions are also encouraged to advise their clients to use a digital platform for financing.

The government initiatives;

The government of Tanzania (GoT) through its responsible bodies is fighting to protect its economy. The Bank of Tanzania has been given the mandate to monitor the impacts of COVID-19 on various sectors of the economy and actions accordingly to limit the impacts.

Also Bank of Tanzania has enough foreign currency reserves for the importation of goods and services purposes. Hence encourage the public when conducting transactions between residents it should be done in shillings so as to the value of our currency remains unaffected by the situation.

This is a great initiative by the government.