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November 20, 2018

**The Acting Chair's Summing Up
United Republic of Tanzania—Financial System Stability Assessment
Executive Board Meeting 18/96
November 19, 2018**

Executive Directors concurred with the findings and recommendations of the 2018 Financial System Stability Assessment (FSSA). They welcomed the important progress made by Tanzania since the 2010 Financial Sector Assessment Program, particularly in strengthening financial prudential regulations, putting in place some key elements of a framework for monitoring systemic risks and macroprudential policy responses, and initiating a transition of the monetary framework toward an interest-rate based operating target. To build on this progress and ensure that the Tanzanian financial system is stable, efficient and inclusive, Directors called for policy action to lower risks and raise the resilience of the banking system. In this context, they encouraged the authorities to implement the recommendations of the FSSA.

Directors noted that despite favorable macroeconomic conditions, financial stability challenges are significant with deteriorating asset quality, falling credit growth and liquidity pressures. Directors noted that continued macroeconomic stability, an improved business environment, better execution of fiscal policy and resolution of government payment arrears would help address financial sector vulnerabilities and risks.

Directors stressed the need to improve asset quality, address non-performing loans and increase capital buffers in the banking system. In this context, they cautioned against potential excessive use by banks of the regulatory relief provided by the Bank of Tanzania's circular for loan classification and restructuring. They encouraged the authorities to issue further guidance aimed at preventing banks from overstating capital ratios and earnings.

Directors emphasized the need to enhance surveillance and monitoring of liquidity risks in foreign exchange, and introduce regulations aimed at limiting them. These regulations, buttressed by macroprudential requirements, would complement measures to promote proactive foreign exchange risk management by banks and corporates. Completing operational guidance for emergency liquidity assistance, including in foreign exchange, also remains a priority.

Directors encouraged further efforts to align the prudential framework with international standards and best practices. They welcomed the authorities' plans for Basel II/III implementation in line with EAC harmonization commitments and encouraged the

authorities to advance the framework for identification of domestic systemically important banks. Directors also noted the need to strengthen enforcement of prompt corrective action regulations within an adequate legal framework. Remaining shortcomings in the AML/CFT framework also need to be addressed and risk-based AML/CFT supervision needs to be further developed. Directors underscored the importance of ensuring that adequate staff and resources are available for bank supervision.

Directors underlined the need to deepen financial markets, increase access to formal financial services and address financial infrastructure gaps. Policy actions in these areas would help to enhance financial inclusion and contribute to improved growth prospects.