

**ADDRESS BY HONOURABLE OMAR YUSSUF MZEE (MP),
DEPUTY MINISTER FOR FINANCE AND ECONOMIC
AFFAIRS, AT THE TANZANIA BANKERS ASSOCIATION
COCKTAIL HELD AT THE MÖVENPICK ROYAL
PALM HOTEL, DAR ES SALAAM,
ON 28TH MAY 2008**

Mr. Ben Christiaanse;

The Chairman of the Tanzania Bankers Association,

Ministers and Deputy Ministers;

The Governor of the Bank of Tanzania,

Deputy Governors;

Permanent Secretaries;

High Court Judges;

Chief Executives of Tanzania Bankers Association Member

Banks;

Invited Guests;

Ladies and Gentlemen.

It is my great pleasure to join you this evening. As you have rightly said, **Mr. Chairman**, this is my first opportunity to meet representatives from the banking sector as a group since I was appointed by the President. Indeed, this is a historical day to me as I am meeting people whose speciality is the provision of

financial services including mobilization and reallocation of financial resources. I therefore wish to extend my sincere appreciation for inviting me to this cocktail party.

Mr. Chairman, Ladies and Gentlemen;

Tanzania has a strong overall economic performance in recent years, grounded on a sound macroeconomic policy framework and structural reforms. The country's GDP is growing at a fast rate, and is projected to reach 9.2 percent in the year 2011, from 7.3 percent in 2007. With the Government's efforts to encourage more investment in the country, we are very optimistic that, the growth targets will be achieved. However, one of the biggest challenges for accelerating economic growth, is the rising of oil prices in the world market which is currently about USD 120 per barrel from USD 27 in 2000. Tanzania, as the net oil importer, is mostly affected by the higher prices, as they are translated into higher transport and production costs. Last year, the Government tried to mitigate the problem by reducing Value Added Tax (VAT) on oil. Unfortunately, the effort did not work as expected, as world oil prices continued to rise. The Government is concerned about the problem and is continuing to work on alternative ways to ease the problem.

Consequently, the rising cost of energy is feeding into inflationary pressure in the economy. This is compounded by higher food prices which have recorded significant increase in the world market. The inflation rate reached 9.0 percent in March 2008 compared to 4.7 percent in March 2002. Although, inflation is still in single digit, but it has an impact on cost of living to our population. Nevertheless, the Government is determined to reduce inflationary pressure; accelerate economic growth and reduce poverty.

Ladies and Gentlemen;

Banking sub-sector plays a critical role in any country's development process. For instance, the sub-sector amalgamates and combines economic resources, thus generating large pools of capital. If economic agents are to rely entirely on their own capital resources, to fund their activities, they would be unable to make large-scale capital investments.

The Government, therefore, considers the banking sub-sector as an important player in accelerating economic growth and reducing poverty. To maximize the sub-sector's contribution, the Government, since 1991 initiated and implemented

comprehensive financial sector reforms. Currently, we have 35 banks and financial institutions operating in the country, in addition to many private forex bureaus and insurance companies, and the stock market is also growing at a very good speed. I commend you for being responsive to the reforms through your good work, which have resulted into service expansion and sizeable contribution to government revenue.

I have also noted an impressive move by banks to expand their network so as to ensure that many Tanzanians have access to banking services. As the Chairman has said, the banking sector prides of a network of 319 branches and agencies all over the country.

Ladies and Gentlemen;

The Business Activities Registration Act (BARA) was passed by Parliament. The main aim of this act is reduce regulation and cost of compliance to the minimum, especially cost of starting up the business.

The other area is the Land laws which have been amended to accommodate the provision of mortgages. I am glad to note, the Tanzania Bankers Association was involved in the review of the Land Act. The Government is now working on expanding the

scope of land reforms with a view of developing an efficient registration system for land. Labour laws are also undergoing reforms to address the concerns of stakeholders including the banking system. The underlying objective is to promote a better and efficient labour market and labour relations.

Mr. Chairman, Ladies and Gentlemen;

Despite the current good performance of the banking sector in the country, Tanzania still lags behind in its development. In terms of actual banked population, Tanzania is among the lowest in the SADC region, with only 1.6 million people banked out of 35 million, this shows that less than 5% of our people enjoy banking services. Some countries have up to 45% banked populations. Although there are more than 2.8 million bank accounts held in 35 banks and financial institutions in Tanzania, but there is a significant overlap of accounts, since the majority operate two or more bank accounts. I strongly believe we can raise this number, to over 5 million banked individuals, if current trends in technological developments continue.

Ladies and Gentlemen,

Whereas the agricultural sector accounts for 26 percent of the GDP, it receives less than 5 percent of the total loans from banks and financial institutions. I am taking this opportunity to request all banks and financial institutions to revisit your expansion programmes. You should also divert your attention to the rural areas, which are currently virtually un-banked. With the improvements in communication, you could also venture into mobile banking, as some of you have started thinking in that direction.

Mr. Chairman, Ladies and Gentlemen;

After my explanation, allow me now to leave some of the challenges to you. Firstly, you need to be more aggressive in exploring alternative investment avenues, this include agricultural financing.

Secondly, you should move to reduce the cost of credit. I am told that some banks are lending as high as 24 percent, while offering a mere 1 to 2 percent interest rate for saving deposits. I appeal to you to bring the cost of credit down to a reasonable level so as to expand your business by including small businesses who are in production.

Thirdly, I expect to see more banks taking a keen interest in mortgage financing, to enable Tanzanians acquire own houses. On its part, the Government is in the process of staging the Mortgage Finance Act, which should provide an enabling environment for housing finance.

Fourthly, it is my contention that the financial sector has to act as a lubricant in the economy. I think you should visit SMEs operation sites. This will be easier for you, to make informed decisions on how to support SMEs which is a fast growing sector. The growth of SMEs makes vital contributions to job creation, income generation and exports growth. It increases business opportunities for women and youths and thus promotes more equitable distribution of wealth.

Mr. Chairman, Ladies and Gentlemen;

As Bankers, you are an integral part of the economy and the financial sector forms a common denominator to all other sectors. You also play a key role in consolidating our macro-economic performance and strengthening our growth prospects. You are therefore obliged to perform your rightful role effectively. Your strategic role of pushing up the economy of the country by linking all the other sectors is important. Without banks and financial

institutions, development process may be held back, even if other conditions are met.

Mr. Chairman, the Government appreciates your assistance in combating fraud and money laundering which are now becoming disastrous world wide. This made the Government in 2006 to enact a law to govern these issues. The Government will work with the banks to combat this crime.

Likewise, the Government greatly appreciates, your positive response for assisting the communities. I call upon those banks which are still silent on this to follow suit.

Mr. Chairman, Ladies and Gentlemen,

To end my speech, let me assure you my personal and the Ministry's commitment, to the development of a sustainable and efficient financial sector in Tanzania. Having said that, once again, I thank the Tanzania Bankers Association for giving me the opportunity to meet and interact with you. Thank you very much for your kind attention and please enjoy your Cocktail (meal).

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