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# A CHRONOLOGICAL OVERVIEW OF THE FINANCIAL SYSTEMS IN TANZANIA

***This paper highlights — in a chronological order — some of the monetary reforms and developments that have taken place in Tanzania during the past 3 decades. The country's financial sector consists mainly of the central bank — popularly known as the Bank of Tanzania (which is the apex institution), the commercial banks, the development banks, the Postal Bank, contractual savings institutions (e.g., National Insurance Corporation, National Social Security Fund etc.), hire-purchase companies, savings and credit societies, informal deposit and credit groups, and the Dar-es-Salaam Stock Exchange (DES). Unlike many other developing countries, Tanzania adopted a gradualist approach to financial reforms. Likewise, the sequence of the financial reforms during 1990-2000 conforms generally to the standard sequence recommended for developing countries.***

**Keywords:** *Tanzania; financial reforms; reforms; central bank; commercial banks; currency exchange.*

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## ХРОНОЛОГІЧНИЙ ОГЛЯД ФІНАНСОВИХ СИСТЕМ ТАЗАНІЇ

***У статті описано — у хронологічному порядку — монетарні реформи та розвиток фінансового сектору Танзанії за останні 3 десятиліття. Фінансовий сектор країни складається з центрального банку (Банку Танзанії), комерційних банків, банків розвитку, Поштового Банку, контрактних заощаджувальних установ, компаній з купівлі в розстрочку, заощаджувальних та кредитних товариств, неформальних депозитних та кредитних груп, а також фондової біржі Дар-ес-Саламу. На відміну від багатьох країн, що розвиваються, Танзанія проводила реформи поступово. Черговість фінансових реформ протягом 1990-2000 рр. у Танзанії відповідає порядку, рекомендованому для країн, що розвиваються.***

**Ключові слова:** *Танзанія; фінансові реформи; центральний банк; комерційні банки; обмін валют.*

***Табл. 1. Літ. 15.***

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## ХРОНОЛОГИЧЕСКИЙ ОБЗОР ФИНАНСОВЫХ СИСТЕМ ТАНЗАНИИ

***В статье освещены — в хронологическом порядке — монетарные реформы и развитие финансового сектора Танзании за последние 3 десятилетия. Финансовый сектор страны состоит из центрального банка (Банка Танзании), коммерческих банков, банков развития, Почтового Банка, контрактных сберегательных учреждений, компаний по покупке в рассрочку, сберегательных и кредитных обществ, неформальных депозитных и кредитных групп, а также фондовой биржи Дар-эс-Салама. В отличие от многих развивающихся стран, Танзания проводила реформы постепенно. Очередность финансовых реформ на протяжении 1990-2000 гг. в Танзании соответствует порядку, рекомендованному для развивающихся стран.***

**Ключевые слова:** *Танзания; финансовые реформы; центральный банк; коммерческие банки; обмен валют.*

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**1. Introduction.** Immediately after its independence in 1967, Tanzania adopted the Arusha Declaration, empowering the government to rationalise private financial institutions – as a way of mobilising financial resources – for economic growth and fighting the poverty. This policy was intended to provide credit to the private sector, to promote growth and make the country self-reliant (Ziorklui, 2001). However, under the repressive policies of the government this did not succeed. With time, the implementation of the Arusha Declaration turned to be increasingly difficult, later it became clear that the Declaration could not transform the economy of Tanzania into that of a self-reliant state.

By 1979, the economic distress in Tanzania was obvious. Some of the shortcomings that constrained the Tanzanian financial sector were: i) monopolistic and uncompetitive financial institutions; ii) pervasive government intervention into the financial system; iii) inadequate and ineffective resources mobilisation instruments and strategies; iv) large portfolios of non-performing loans within the banking sector; v) low and inadequate capital requirements for financial institutions; vi) weakness in the management and accounting systems and policies; vii) the loss of public confidence in the financial system; viii) the existence of institutional gaps in the financial system; and ix) an inadequate and inefficient payment system (Ziorklui, 2001).

In order to reinvigorate the depressed financial sector, the Tanzanian government undertook a number of financial reforms. The main aim of these reforms was to develop a strong financial sector that could mobilise and allocate financial resources to the private sector for growth. Subsequently, a comprehensive restructuring of the financial institutions was carried out. The Financial Sector Reform Commission's (1990) report showed that savings mobilisation declined continuously between 1979 and 1986. In addition, financial assets, in equivalent nearly 50% of GDP in 1979, had fallen to 28% of GDP in 1986. The domestic savings rate, which had peaked at 25% of GDP in 1977, fell to 8% in 1985. This led to the initiation of the following financial reforms: i) liberalisation of interest rates; ii) restructuring of existing formal financial institutions through write-offs of non-performing assets; iii) reforming the policy environment in which the existing institutions were operating; iv) promoting competition by encouraging the establishment of domestic and foreign-owned private banks, including joint ventures with Tanzanian interests; v) strengthening the Bank of Tanzania's (BOT) prudential regulatory and supervisiory roles; and vi) creating new instruments that could foster an efficient money market.

Aside from these financial sector reforms, new legislation was put in place, in order to restructure the legal framework (Nyagetera, 1997)[2]. The new legislation introduced since 1991 includes the Banking and Financial Institutions Act (1991 and 1993), which repealed and replaced the Banking Ordinance of 1960. This legislation provided for the licensing of banks and other financial institutions, capital adequacy requirements, central bank supervision, regulation of financial institutions and a deposit insurance fund. The legislation later culminated in liberalisation of the banking sector in 1992. The Treasury bills auction was also launched in August 1993.

The second legislation included the loans and advances realization Trust Act of 1991; this provided for acquisition of non-performing assets of financial institutions,

[2] See also Ziorklui (2001).

as well as a machinery for their recovery. The third legislation was the Foreign Exchange Act of 1992, which provided for elimination of exchange controls and establishment of a free foreign exchange market and foreign exchange bureaux. The Capital Markets and Securities Act (CMSA) of 1994 was the fourth significant legislative reform.

This legislation provided for establishment of the Capital Markets and Securities Authority. In addition, the Bank of Tanzania Act of 1995, which repealed and replaced the 1965 Act was also passed. On the government policy front, a number of measures were implemented. Firstly, government intervention in the financial sector was eliminated. This was achieved by eliminating the government administrative price setting in the financial sector. This, subsequently, gave financial institutions greater autonomy in setting interest and exchange rates. Secondly, administrative resource allocation mechanisms in the financial sector were dismantled. Likewise, restrictions on competition and free entry into the financial sector were also lifted. As a result, new commercial banks, merchant banks, bureaux de change, insurance companies, and other financial institutions and intermediaries were licensed (Ziorklui, 2001).

Although Tanzania initially adopted a gradualist approach towards financial sector reforms, the country has – since the 1990s – successfully implemented substantial financial reforms. Its financial sector is, consequently, relatively strong compared with those of some other African countries. For instance, interest rates are now fully liberalised, although at times, they are still negative in real terms. The primary market has also been established. The 182- and 364-day Treasury bills are being auctioned on a regular basis, while 91-day central bank bills are also auctioned occasionally, to mop up any excess liquidity.

All these auctions function relatively well. An interbank market exists, although it is very small, and loans are mostly non-collateral. The 'repos' and 'reverse repos' are carried out informally. The country has also put in place the basic legal framework necessary to ensure a competitive, efficient, and sound financial system. A competitive and efficient banking system is already emerging. New banks have been licensed, and the process of restructuring publicly owned banks is at an advanced stage. Banks have been operating in a relatively competitive environment, especially since the state-owned National Bank of Commerce (NBC) was split in 1997. The country has recently attracted a number of private banks, non-bank financial institutions, and other financial institutions. Currently there are about 18 banks, 11 non-bank financial institutions, 80 foreign exchange bureaux, 11 insurance companies, and 2 state-run pension plans. The country has also a stock exchange (namely, the Dar-es-Salaam Stock Exchange), which commenced operations in April 1998.

**2. An Overview of the Domestic Financial Sector in Tanzania.** At the apex of Tanzania's financial sector is the central bank of Tanzania, which is known as the Bank of Tanzania (BOT). Tanzania's central bank (BOT) was established in 1965, following the decision to dissolve the East-African Currency Board (EACB). Tanzania's central bank was formed by the Bank of Tanzania Act of 1965, which empowered the BOT to perform all traditional central banking functions. Currently, the BOT is empowered by the Bank of Tanzania Act (1995), and has the following primary objective: to formulate and implement monetary policy, directed towards the economic objective of maintaining price stability and soundness of the financial system over time. In addition, the Bank has other subsidiary functions that include currency issuance, banker's bank, government's bank, advisor to government, guardian of the country's international reserves, supervisor of banks and financial institutions, and promoter of financial development.

Currently, the BOT is using the following instruments to implement its monetary policies:

***i) Discount Rate Policy:*** In order to ensure that the activities of banks continue smoothly, the BOT uses its refinancing and open-market policy to accommodate banks and to assist them in meeting their interbank obligations. Within the framework of the refinancing policy, the BOT establishes conditions for refinancing commercial banks. The refinancing policy used for this purpose may either be discount policy or Lombard policy. Within the framework of the discount policy, the BOT buys from and sells to banks trade bills, Treasury bills and other specified securities at a rate (discount rate) set by itself. Under the discount rate policy, the BOT uses one or both policies: qualitative discount and quantitative discount.

***ii) Minimum Reserve Policy:*** The BOT determines the minimum reserve requirements of commercial banks to be held with the BOT, interest-free, including all shilling deposits and borrowing from the general public. The minimum reserve ratio is uniformly applied to all the banks, although, according to the Bank of Tanzania Act, the ratio may differ according to the type of deposit. In April 1994, the minimum reserve requirement was lowered from 10% to 8%. However, in September 1994, the minimum reserve requirement was increased again up to 12%.

In January 1995, it was increased further to 15%; and thereafter, to 18% in June 1995. In September 1995 the commercial banks were allowed to hold up to 50% of the statutory minimum reserve requirements in Treasury bills. This measure was aimed at enhancing financial intermediation in the economy and improving the liquidity position of the commercial banks. In October 1995, the minimum reserve requirement was reduced from 18% to 12%. In 1996, the requirement of the commercial banks to hold up to 50% of their statutory minimum reserve in Treasury bills was abolished. Although the minimum cash reserve ratio was reduced from 12% to 6% in January 1997 (whereby cash in vaults was excluded from available reserves), the reserves against deposits and borrowing were later amended in March 1997. The minimum cash reserve ratio was raised from 6% to 12%; and this included cash in vaults as part of the available reserve.

***iii) Open Market Policy:*** Although the institutional framework for carrying out open market policy in Tanzania is still somewhat limited, the BOT has been resorting to Treasury bill auctions and repurchase agreements to tap sales of Treasury bills and direct the sale of certificates of deposits. The auction proceeds from Treasury bills, and bonds have, to a large extent, been for the government (in the form of Financing papers), though some have been for sterilisation by BOT (Liquidity papers). The effect of open market operations in Tanzania has recently been subsequently enhanced by the increased amount of sterilised Treasury bills and the suspension of a government overdraft with BOT.

Apart from the Central Bank, there are other key players in the Tanzanian financial sector. These include: commercial banks, development banks, Postal Bank contractual savings institutions (e.g. the National Insurance Corporation, National

Social Security Fund etc.), hire-purchase companies, savings and credit societies, informal deposit and credit groups, and the Dar-es-Salaam Stock Exchange (DES). In particular, the banking sector has grown significantly during the last decades. Currently, there are about (+/-) 29 commercial banks and (+/-) 8 regional banks. In addition, there are non-bank financial intermediaries (for example, institutions offering leasing and hiring services), and the informal financial sector. This last category includes informal commercial money-lenders, as well as financial associations among neighbours.

**3. An Overview of the Foreign Exchange Market in Tanzania.** Before the 1990s, foreign exchange transactions in Tanzania were largely controlled. However, following the enactment of the Foreign Exchange Act of 1992, foreign exchange controls were gradually eased by the Bank of Tanzania. The Foreign Exchange Act (1992) replaced the Exchange Control Ordinance, which prevailed during the era of financially repression.

The main aim of the Foreign Exchange Act (1992) was to provide an enabling environment for efficient allocation of foreign exchange resources. Another aim was to facilitate market-determined exchange rates. Since then, individuals were allowed to hold foreign currency and maintain foreign exchange accounts at commercial banks inside Tanzania. This was followed by the introduction of foreign exchange auctions in July 1993. In the same year, the BOT began using foreign exchange auctioning as a tool for both liquidity management and determination of market-based exchange rates. The Bureaux and official exchange rates undertaken by the BOT were also unified in August 1993, and thereafter, forex auctions were extended to include commercial banks.

In June 1994, the daily interbank foreign exchange market (IFEM) was introduced to replace the weekly foreign exchange auctions. The IFEM is a wholesale market, which plays an important role in determination of the country's official exchange rate and provision of forex for accumulation of international reserves. The main objectives of IFEM are: i) to allow banks and other authorised dealers play an active role in developing markets and instruments; ii) to increase the efficiency of allocation of foreign exchange reserves, thereby facilitating market-determined exchange rates; iii) to create favourable environment for foreign investment, which could ultimately pave the way to full liberalisation of the capital account; and iv) to improve the conduct of monetary policy (BOT – Overview of Market Trends).

In 1996, two subsidiary regulations of the Foreign Exchange Act (1992), namely: the Bureau de Change Regulation (1996) and the Foreign Exchange Regulation (1996) were introduced. These two regulations are used directly for regulation purposes, just like the Foreign Exchange Act of 1992. However, the Foreign Exchange (Bureau de Change) Regulations only became effective in April 1999.

The Tanzanian foreign exchange rate is unitary; and it is based on independent floating. The official exchange rate is set within 2% of the current day's market rate. Tanzania signed a clearing agreement within common markets for Eastern and Southern Africa (COMESA), formerly known as the Preferential Trade Area for Eastern and Southern African States. Tanzanian shillings have been freely convertible to Kenyan and Ugandan shillings since July 1996. The administration of foreign exchange controls in Tanzania is delegated to the Customs Department / BOT by the Ministry of Finance. The authority to make payments abroad, however, is delegated to licensed banks in Tanzania. The BOT intervenes in the interbank forex market to smooth the changes that are due to seasonal factors. For example, during the first half of 1997, the BOT intervened in the market through open market operations to sterilise inflows resulting from good export performance[3]. Accounts in foreign and convertible domestic currency may be held domestically by residents and non-residents, but non-residents need prior BOT approval. All transfers of foreign exchange funds from residents to non-residents or to foreign-controlled resident bodies require specific BOT approval. Similarly, transfers of funds from non-residents to residents require BOT approval. Residents are not allowed to hold foreign exchange accounts abroad. Non-residents may transfer their non-convertible account balances abroad with BOT approval. Payments on income transfers by non-residents are permitted – provided that all tax obligations have been met.

All outward capital transfers from Tanzania are the subject to approval by commercial banks, and all foreign investments by residents are subject to the BOT approval. Various controls apply to inward transfers. Prior BOT approval is required for non-resident purchases of securities, derivatives and real estate, and for all credit operations between residents and non-residents. All foreign direct investment must be approved by the Investment Promotion Centre (IPC). In addition, the Tanzanian government, in order to boost the country's attractiveness for foreign investors, accepted the obligations of article VIII of the IMF's Articles of Agreement in 1996.

**4. The Pace of Financial Sector Reforms in Tanzania.** It is now agreed that the speed of financial liberalisation needs to be determined in the context of a country's overall reform program (Odhiambo, 2004). Rapid liberalisation in a country whose enterprises and financial institutions lack experienced management could prove counter-productive and may result in an unsound financial sector. Although liberalising too fast has certain dangers, it has been found that a liberalisation process that is too slow could also hinder the financial reform program (Mehran and Laurens, 1997). When the liberalisation process takes too long to be completed, reforms may lose momentum and new distortions could emerge.

A number of studies, which have been conducted on the role of financial liberalisation, have emphasized timing, sequencing, pace, as well as speed as the major preconditions for financial liberalisation (Odhiambo, 2004). Nissanke (1994), for instance, argues that liberalisation programs need to be realistic about the speed and sequence of financial reforms. Gibson and Tsakalotos (1994) state that difficulties most countries face in liberalizing their financial markets go beyond the problems of macroeconomic stability. Eatwel (1997) argues that financial liberalisation in developing countries has been over-sold, and that the interest that has been expressed by developing countries in the phenomenon of financial liberalisation is very risky. Even McKinnon himself has come to recognise that the order in which the monetary system should be stabilized in comparison to the pace of deregulation of banks and other financial institutions must now be considered more carefully (McKinnon, 1989: 4). Kunt and Detragiache (1998) reiterate that since banking crises are more likely to occur in liberalized financial systems, liberalisation should be approached cautiously – even where macro-economic stabilization has been achieved. In their study on lib-

[3] Mehran et.al (1998).

eralisation and financial fragility, the authors found that financial liberalisation has a strong impact on a fragile banking environment.

Unlike many developing countries, Tanzania adopted a rather gradualist approach to financial sector reforms (Odhiambo, 2004; 2010). Although the country started pursuing financial reforms in the 1980s, it was only in the 1990s that fully-fledged financial reforms were implemented. This was because the country wanted to avoid a rapid or 'big bang' financial liberalisation strategy. Moreover, it was necessary for the country to attain some level of macroeconomic stability before fully liberalising its financial sector. For example, it was only in 1992 that BOT lifted its responsibility of setting interest rates (except for the maximum lending rate). In the same year, the Foreign Exchange Act 1992 was enacted and replaced the Exchange Control Ordinance. In 1993, the lending interest rate ceiling of 31% was abolished and the 91-day Treasury bill auction commenced. During the same year, a number of foreign exchange reforms were undertaken. A bureaux de change market was introduced in April 1993 as an effort towards foreign exchange liberalisation, and, in July 1993, BOT began auctioning foreign exchange. This had the joint effect of liquidity management and market-based exchange rate determination. In August 1993, bureaux and official exchange rates were unified, and thereafter forex auctions were extended to include commercial banks. In 1994, the requirement of a positive real deposit rate was abolished. A year later the liquidity asset ratio was also abolished. Credit ceiling on commercial banks lending was only abolished in 1996.

**5. A Chronological Sequence of Financial Systems in Tanzania.** Tanzania, unlike many other developing countries, adopted a gradualist approach to financial sector reforms. Although financial reforms in Tanzania started as early as the 1980s, active financial liberalisation only began in the 1990s. For example, interest rates were liberalised between 1993 and 1993, while credit ceilings were only removed in 1996. Tanzania pursued internal financial liberalisation before proceeding with external financial liberalisation. Unlike many developing countries, Tanzania liberalised the deposit rate before liberalising the lending rate. Table 1 presents a chronology of the financial reforms that have been implemented in Tanzania since 1991. This review covers both domestic and external financial reforms. Some of the reforms included in this study include those of interest rates, directed credit, cash reserve requirements, liquidity asset requirements, competition in the financial sector and foreign exchange market.

**Sequence of Financial Reforms in Tanzania (1991-2001)**

| Year | Financial Reforms |
|---|---|
| 1991 | • The Banking and Financial Institutions Act was passed. |
| 1992 | • (March) Foreign Exchange Act 1992 was enacted, replacing the Exchange Control Ordinance. Individuals have been allowed to hold foreign currency and to maintain foreign exchange accounts at commercial banks in Tanzania. |
| 1993 | • (April) A bureau de change market was incepted as an effort towards foreign exchange liberalisation.<br>• (July) BOT began the auctioning of foreign exchange as a tool for both liquidity management and the determination of market-based exchange rates.<br>• (July) BOT removed the maximum lending rate of 31.0% for commercial banks as a step towards the liberalisation of interest rates. |

**Continuation**

| Year | Financial Reforms |
|---|---|
| 1993 | • (August) Bureaux and official exchange rates were unified. Thereafter, forex auctions extended to include commercial banks.<br>• (August) The exchange rate system was tied to the official exchange rate set at the level of the weighted average Bureaux rate.<br>• (August) BOT commenced Treasury bill auctions with 91-day bills as a tool for financing short-term government debts.<br>• (September) 35-day Treasury bill was introduced for Treasury bill auctions.<br>• (December) In order to restrain credit expansion, the BOT raised the minimum reserve requirement from 4% to 10% during the same year.<br>• Interbank Exchange Market (IFEM) was introduced.<br>• Bank interest rates were completely liberalised.<br>• Import licensing was abolished, except for those goods required to fill the import declaration form for statistical and customs clearing purposes. The requirement for exporters to register with the BOT and to obtain a licence from the Board of External Trade was eliminated. The list of goods subject to export permits by individual ministries was cut sharply to only those that the government wishes to control for the purpose of preserving Tanzania's national heritage. |
| 1994 | • (January) Capital Market and Securities Act, 1994 was enacted to promote and facilitate the development of an orderly, fair, efficient capital and securities market in Tanzania.<br>• (January) The discount rate, the rate at which the BOT accommodates commercial banks on a short-term basis, was increased from 27% to 50%. Thereafter, the discount rate was adjusted bi-weekly, and benchmarked on the marginal yields of the 91-day Treasury bill auctions.<br>• (February) The 182-day Treasury bill was introduced.<br>• (April) Minimum reserve requirement was decreased from 10% to 8%.<br>• (June) The daily interbank foreign exchange market auction was introduced to replace the weekly foreign exchange auctions.<br>• (August) The minimum interest rate on 12-month fixed deposits was abolished. Initially, the rate had to be positive in real terms.<br>• (September) The minimum reserve requirement was increased from 8% to 12%.<br>• (October) Computation of the discount rate was determined by the weighted average of Treasury bill auction yields for all maturities.<br>• (December) The 35-day Treasury bill was discontinued from the Treasury bill auction.<br>• (December) A 364-day Treasury bill was introduced in the Treasury bill auction. |
| 1995 | • (January) Minimum reserve requirement was increased from 12% to 15%.<br>• (March) Capital Markets and Securities Authority were inaugurated.<br>• (June) The minimum reserve requirement was increased from 15% to 18%.<br>• (August) The requirement that banks and financial institutions should maintain liquidity assets not less than 20% of the shillings deposit liabilities and borrowing from the public was lifted.<br>• (August) The liquid asset ratio was abolished.<br>• (September) The commercial banks were allowed to hold up to 50% of the statutory minimum reserve requirements in Treasury bills. The measure was aimed at enhancing financial intermediation in the economy and improving the liquidity position of commercial banks.<br>• (October) The minimum reserve requirement was reduced from 18% to 12%.<br>• The Bank of Tanzania Act, 1995, was passed in order to repeal and re-enact the Bank of Tanzania Act, 1965. |

**The End**

| Year | Financial Reforms |
|---|---|
| 1996 | • (April) The entitlement of commercial banks to hold up to 50% of their statutory minimum reserve in Treasury bills was abolished.<br>• (July) The credit ceiling on commercial banks' lending was abolished.<br>• (July) The government reintroduced a 2% tax on traditional exports.<br>• (July) The 10% withholding tax on income from Treasury bills was abolished.<br>• (July) The government accepted the obligations of Article VIII sections 2,3, and 4 of the IMF's Articles of Agreement.<br>• The Co-operative and Rural Development Bank (CRDB) was fully restructured and liberalised. |
| 1997 | • (January) Minimum cash reserve ratio was reduced from 12% to 6% - whereby cash in vaults was excluded from available reserves.<br>• (March) Minimum cash reserve ratio was raised from 6% to 12% and included cash in vaults as part of the available reserve.<br>• (April) New banking and financial institutions regulations were gazetted and published, following a review of the licensing procedures.<br>• The insurance market was liberalised. |
| 1998 | • An interbank money market was established.<br>• The Dar-es-Salaam Stock Exchange was established. |
| 1999 | • (April) The new regulations, referred to as the Foreign Exchange (Bureau de Change) Regulations, 1999 were effected. |
| 2000 | • (March) The privatisation of National Bank of Commerce (NBC) was completed.<br>• (July) The BOT shifted from targeting M3 as intermediate indicator of domestic liquidity to M2. |
| 2001 | • (February) A national microfinance policy was launched. |

Source: Bank of Tanzania Bulletin (various issues); Government Reports (various issues)

**6. Conclusion.** This paper has highlighted some of the monetary reforms and developments that have taken place in Tanzania during the past 3 decades, in the chronological order. The Tanzanian financial sector consists of the central bank – popularly known as the Bank of Tanzania (which is the apex institution), the commercial banks, the development banks, the Postal Bank, contractual savings institutions (e.g. the National Insurance Corporation, National Social Security Fund etc.), hire-purchase companies, savings and credit societies, informal deposit and credit groups, and the Dar-es-Salaam Stock Exchange (DES). The country also has some non-bank financial intermediaries (such as, for example, institutions offering leasing and hiring services), and the informal financial sector – which includes the informal commercial money-lenders, as well as financial associations among neighbours. The country's foreign exchange has also grown significantly over the years. For example, the 182- to 364-day Treasury bills are currently being auctioned on a regular basis. In addition, the 91-day central bank bills are also auctioned occasionally to mop up any excess liquidity. All these auctions function relatively well. There is also an interbank market – although its loans are mostly non-collateral. Unlike many other developing countries, Tanzania adopted a gradualist approach to financial sector reforms. Likewise, the sequence of financial reforms during the 1990-2000 conforms generally to the standard sequence recommended for developing countries.

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