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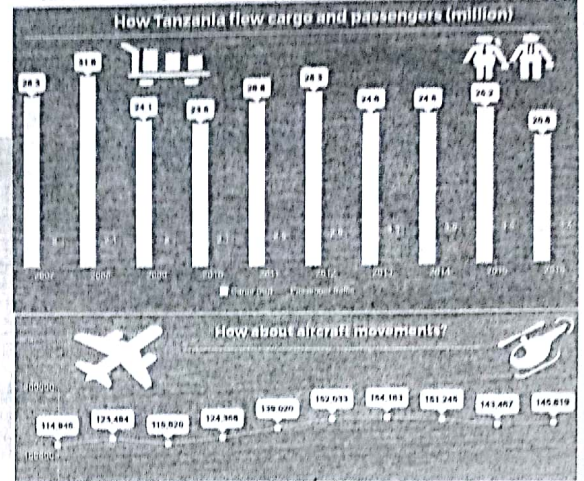
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How Tanzania can steer clear of economic downside risks

UPDATE. The World Bank has lowered Tanzania's growth forecast to 6.6 per cent against the government projection of 7.1 per cent in 2017 due to a number of challenges

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Dares Salaam. Tanzania's economy is facing downside risks this year due to domestic challenges which can be controlled by the government to unlock the growth potential.

The economy is characterised by lower credit growth to the private sector, weak business environment, under-execution of development budget, high level of arrear as well as high levels of the nonperforming loans (NPLs) in the financial sector.

The World Bank in its recent Tanzania Economic Update lowered the growth forecast to 6.6 per cent against the government projection of 7.1 per cent in 2017 due to the challenges that may affect the performance of the economy.

The tight economy influenced the change in the way banks extend loans to private firms and individu-

als as they become cautious of the weakening quality of assets.

Statistics indicate that the lenders now prefer to invest in risk-free government securities – treasury bills and bonds – while shunning the private sector which is considered the engine of the economy.

According to the Bank of Tanzania (BoT), credit to the private sector increased by just 0.2 per cent in the year ending August 2017 compared with a growth of 13.8 per cent in the same period last year.

At the same time, commercial banks net claims on the central government increased to Sh4.8 trillion from Sh3.4 trillion a year earlier – reflecting the banks preference for the government securities.

The bank's NPLs are said to be at an average of 11 per cent while the internationally acceptable threshold rate is 5 per cent.

The execution of the development budget was said to be at 62 per cent in 2016/17 while the domestic payment arrears stood at 6 per cent of the gross domestic product (GDP) which was estimated at Sh103 trillion in 2016.

The private sector concerns

The private sector has cited concerns about overzealousness in tax collection as a number of private sector operators have reported incidences of inflated tax bills, threats of business closure or imprisonment, and the solicitation of bribes by tax officials.

Delays in VAT refunds and payments to contractors and other suppliers is another challenge partly

MORE INFO: BANKING INDUSTRY SUFFERS

Operational challenges the banking industry is facing are not yet over, with the latest results showing that the country's largest lenders registered a drop in profits during the second quarter of this year. CRDB Bank and NMB Bank – which together account for over 50 per cent of the industry's earnings – saw their profits drop during the quarter ending June 2017 in what analysts believe is a result of liquidity tightening which has affected lending and loan repayments. NMB's net profit dropped to Sh35.293 billion from Sh45 billion during the corresponding period last year, financial statements show.

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Finance and Planning Minister Philip Mpango speaks at a press conference. PHOTO: AFP

Economy: How TZ can avoid risks

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attributable to long verification process for refund claims, conducted as part of the anti-corruption drive.

And when VAT refunds and payments to contractors and suppliers are delayed, businesses suffer from cash flow shortages and are not incentivised to be compliant.

Another concern is on the proliferation of regulatory authorities, licences, taxes and charges. The World Bank's document says Tanzania's private sector activities are burdened by the need to comply with a multiplicity of laws and regulations, involving payments for licenses, taxes and other charges, with many regulatory bodies which have overlapping mandates.

"Many of the associated regulatory compliance procedures lack transparency and create excessive burdens for businesses. These burdens are disproportionately intense for MSMEs, which often lack the necessary resources to understand and comply with the cumbersome rules and procedures," states the report.

Way out of downside risks

The World Bank proposed three measures for the government to improve budget implementation and the business environment – the aspects which could facilitate the achievement of the government's growth targets.

First, it suggests clearing verified government payment arrears to private sector contractors and suppliers. The clearance of current arrears and the prevention of their future accumulation would directly improve the cash and borrowing positions of small- and medium-sized domestic firms and reduce the high level of non-performing loans in the financial sector.

"It could also improve the credibility of the budget and reduce the risk premium applied by contractors involved in government projects," the report states.

Second, the government is supposed to speed up VAT refunds, a move that could further increase liquidity and directly improve the cash positions of private sector enterprises.

These measures are expected to support business investments, including by exporting firms.

Third, the government can secure external financing to fund ongoing and planned capital expenditures. While the government should continue to implement reforms to increase domestic resources, in the short term, it will need to mobilize additional external financing, particularly on concessional terms, to ensure debt sustainability.

Tanzania's debt increased by 17 per cent to \$26.1 billion in June 2017 from \$22.3 billion in the same period last year, according to the Minister for Finance and Planning who presented the proposals for the national development programme for 2018/19 financial year.