THE 2008 GLOBAL ECONOMIC CRISIS:

MECHANISMS OF IMPACTS AND RESPONSES IN BANKS IN TANZANIA

HONEST PROSPER NGOWI

A THESIS SUBMITTED IN FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF DOCTOR OF PHILOSOPHY OF THE OPEN UNIVERSITY OF TANZANIA

2013

SUPERVISORS' CERTIFICATION

I certify that I have read this work titled "The 2008 Global Economic Crisis: Mechanisms of Impacts and Responses in Banks in Tanzania" and I approve it for partial fulfilment of the requirements for the award of the degree of Doctor of Philosophy (PhD) in Economics of the Open University of Tanzania (OUT).

....

Dr. Deus Ngaruko

Date……………………………………

STATEMENT OF COPYRIGHT

DECLARATION BY THE CANDIDATE

I, Honest Prosper Ngowi do hereby declare that this thesis is my own original work. It has not been submitted to any other institution for the purpose of award of any kind of degree.

....

Signature

....

Date

DEDICATION

This work is dedicated to my father, Mwalimu Joseph Leyaro Ngowi and my late mother Mwalimu Mamelta Kokuhirwa Ngowi who were the first to teach me how to read and write. It is also dedicated to my dear wife Bahati Matimba Ngowi, our son Alpha Mchili Ngowi and our daughters Nana Mwangaza Ngowi and Omega Malaika Ngowi.

ACKNOWLEDGEMENT

The accomplishment of the study that informs this dissertation is a result of contributions of many individuals and institutions. I would like to thank them all for their various kinds of inputs. This acknowledgement will not be complete without mentioning some specific individuals and institutions that have played very big role in making the accomplishment of the study possible. First and foremost, I would like to thank the Open University of Tanzania (OUT) administration in general and Directorate of Postgraduate Studies and the Faculty of Social Sciences in particular for the great support provided in the whole process of working on this thesis.

Specifically, I would like to thank the two supervisors that have guided me in the process of the research and at various stages. Dr. Hildebrand Shayo of OUT was my supervisor at the early stages of the research especially at the proposal preparation and presentation stage. Dr. Deus Ngaruko also of OUT guided me for most part of the research especially after the proposal stage. I would like to thank them all for very critical, constructive and professional advice throughout. I also benefited a lot from very good inputs from the scholars who participated in the presentation of the draft report of this study (mini viva) in August 2013 and the September 2013 viva. I extend my gratitude to them too as well as to the external examiner who gave very important inputs in improving this work. I would also like to thank my employer – Mzumbe University – for availing resources needed for undertaking the study.

I would also like to sincerely thank all those individuals and institutions that made the accessibility and availability of the information that has made the writing of this thesis possible. Specifically, I would like to thank all the banks that have given information that was requested for the purpose of the research that informs this thesis. These are the Bank of Tanzania (BoT), Barclays Bank Tanzania Limited and Tanzania Investment Bank (TIB).

Last but not least, I would like to sincerely thank my immediate and extended family for all the support and understanding throughout my study time. I thank my children Alpha Mchili Ngowi, Nana Mwangaza Ngowi, Omega Malaika Ngowi and my wife Bahati Matimba Ngowi for their moral and material support throughout the study. Shortcomings in the report however are my own responsibility.

LIST OF ABBREVIATIONS AND ACRONYMS

AAPAM	-	Association of African Public Administration and Management
ACF	-	Agricultural Credit Facility
ADB	–	African Development Bank
AIG	-	America International Group
ATM	-	Automatic Teller Machines
AU	-	African Union
BoP	-	Balance of Payment
BoT	-	Bank of Tanzania
BoU	-	Bank of Uganda
CDC	-	Commonwealth Development Corporation
CDS	-	Credit Default Swaps
CEO	-	Chief Executive Officer
CSOs	-	Civil Society Organizations
CSR	-	Corporate Social Responsibility
DFI	-	Development Finance Institution
DSE	-	Dar Es Salaam Stock Exchange
EABC	-	East African Business Council

EAC	-	East African Community
ECA	-	Economic Commission for Africa
ECB	-	European Central Bank
EIB	-	European Investment Bank
ESF	-	Exogenous Shock Facility
ESF	-	Economic Stability Fund
FDI	-	Foreign Direct Investment
GDP	-	Gross Domestic Product
GFEC	-	Global Financial and Economic Crisis
GNP	-	Gross National Product
ICT	-	Information and Communication Technology
IFS	-	International Finance Corporation
ILO	–	International Labour Office
IMF	–	Iinternational Monetary Fund
MDAs	-	Ministries, Departments and Agencies
MDGs	-	Millennium Development Goals
NAADS	-	Millennium Development Goals
NBC	-	National Bank of Commerce

NCU	-	Nyanza Cooperative Union
NDC	-	National Development Corporation
NMB	-	National Microfinance Bank
NOK	-	Norwegian Kroner
NPLs	–	Non Performing Loans
ODA	-	Official Development Assistance
OTC	-	Over-the-counter
OUT	-	Open University of Tanzania
PFA	-	Prosperity For All
PIIGS	-	Portugal, Ireland, Italy, Greece and Spain
PROARCO	-	French Development Corporation
RBC	–	Real Business Cycle
SHIRECU	-	Shinyanga Regional Cooperative Union
SMEs	-	Small and Medium Size Enterprises
TA	-	Total Assets
TEA	-	Total Earning Assets
TIA	-	Thematic Issues Analysis
TIB	-	Tanzania Investment Bank

TIC	-	Tanzania Investment Centre
UK	–	United Kingdom
UN	–	United Nations
URT	–	United Republic of Tanzania
USA	-	United States of America
USD	–	United States of America Dollar
WB	-	World Bank

ABSTRACT

The thesis explored the mechanisms through which banks in Tanzania were affected by the 2008 global economic crisis and the way they responded to the same. The Bank of Tanzania (BoT), Barclays Bank Tanzania Ltd and Tanzania Investment Bank (TIB) were taken as case studies. Secondary and primary data were used to inform the study. It was found that there are over twenty two (22) mechanisms through which banks can be affected by the crisis. The general mechanism through which the banks can be affected is through the impacts of the crisis on their customers. Mechanisms of impacts include defaults, debt re-scheduling, reduced lending and profits, stagnation in assets, more credit risk and reduced liquidity. Generally, BoT responded to the crisis in banking sector through various measures to ensure stability in the sector in the short and long term. Responses by individual banks included but are not limited to more carefull risk assessments, stress-testing, more adherence to regulations, provision of emergency liquidity, discussion with affected customers, capital injection in selected businesses and taking more long term and developmental view of customers. Conclusively, the 2008 economic crisis affected the Tanzanian banking sector through second-round effects of the crisis. It is recommended that authorities and banks should be virgilant in times of economic crisis. They should respond accordingly so as to avoid the danger of such crises leading into collapse of individual banks and eventually the banking and financial system as a whole.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

Page

CHAPTER ONE

INTRODUCTION

1.1. Background Information

The global economy has seen several economic crises. Among them is the Great Depression of the 1930s (Duhigg, 2008, Robert and Ben, 2007 and Cochrane, 1958). The other crises include the Asian crisis of the late 1990s, (Kaufman et al 1999, Pettis, 2001, Blustein, 2001 and Pempel,1999), crisis of the Commonwealth of Independent States of 1997 – 1998, Finnish Recession of 1990 – 1991 and the Euro Zone Sovereign Debt Crisis of 2010 (Matlock, 2010, Haidar, 2012).. Among the latest developments in the Euro zone sovereign debt crisis of 2010 by the last week of March 2013 was the bailing out of Cyprus due to the bad shape of its banking system.

In the more recent times, the world economy underwent an economic crisis of more or less similar magnitude and impacts as the Great Depression of the 1930s. This is the 2008 Global Financial and Economic Crisis (GFEC), which is the economic crisis of focus in this work. According to Adei (2010), Sikod (2010), Rwegasira (2010) and Ngowi (2010), the 2008 economic crisis started to manifest itself officially on 15th of September 2008 in the United States of America (USA). Since then, it spread not only to the financial sector of the global economy but also to its real sectors.

Geographically, it spread to many parts of the world especially in Europe and Asia where the first-round effects were rapidly experienced. In Africa in general and Tanzania in particular, the contagious crisis was mainly seen and felt in the form of second-round effects (bounce-on effects) in the real sectors of the economy such as tourism, agriculture, mining and transport. Given the fact that these real sectors are financed by the banking sector, the impacts of the crisis in the real sectors of the economy are assumed to affect the banking sector indirectly. The 2008 crisis is also termed the credit crunch, the economic turmoil, the economic downswing, the global downturn and financial meltdown (Adei, 2010). For the purpose of this work, the term economic crisis will be used. The crisis has been termed 'the current' (see for example, Ngowi, (2009a) to distinguish it from a similar crisis that was experienced in the 1930s that resulted into the Great Depression. According to IMF (2009), Adei (2010), Rwegasira (2010) and Ngowi (2010), the 2008 crisis manifested itself in form of severe credit, banking, currency, and trade crisis.

According to Adei (2010), Rwegasira (2010), AfDB (2009), and Eghan (2010), among others, the 2008 crisis had many closely linked causes, impacts and responses. The causes include but are not limited to weaknesses in the financial regulations in the United States of America (USA). Within short time after the crisis, there had been many, far-reaching and closely linked and at times self-reinforcing impacts of the crisis. They include reduced aggregate demand, production, employment, incomes, liquidity and credit. These have been felt virtually in all sectors of the economy at individual, household, community, country, sub-region, region and global levels. There had also been many and far-reaching responses to the crisis. They include various policy responses. The responses have aimed at inter alia, halting the crisis, reducing its negative impacts, preventing a new crisis in the future and even exploiting opportunities that have unfolded from it.

The crisis became among the leading current and contemporary global discourse issues since September 2008. This has been so in the academia, policy and decision making, among practitioners, captains and titans of the industry as well as the general public.

Among the key issues of discussion have included the meaning and causes of the crisis as documented in inter alia, Eghan (2010), Ngowi (2010, 2013), Rwegasira (2010), Norris (2008), Adei (2010), Moyo (2010), Sikod (2009), Minja (2009), Oke (2009) and Akbar (2008).

Discussions on the 2008 economic crisis have also centred on its many and far-reaching impacts. Among the works on the impacts of the crisis include but are not limited to AfDB (2009a), Ikome (2008), IMF (2009), Ngowi (2013) and Kasekende (2008). Generally, the impacts outlined by the authors include reduced aggregate demand, reduced production, reduced employment, reduced incomes, reduced liquidity and creditt, reduced economic growth, reduced aid and weakened banks.

Other discussions have revolved around various responses to the 2008 economic crisis. Among the works that have dwelt on responses to the crisis include those of the ILO (2008), Aryeetey (2009), IMF (2009), Krugman (2008), Ngowi (2010a), Ngowi (2009d), UN (2008), Fagbohun (2009), Barrell et al (2009) and Tumusiime-Mutebire (2009).. generally, responses outlined by the authors include various policy responses including economy-wide stimulus packages and sector-specific bailouts.

In the research that informed this thesis, the focus has been on identifying and discussing the mechanisms through which the 2008 economic crisis potentially and actually affected banks in Tanzania. The focus has also been on various responses to the crisis in the banking sector with illustrations from three case studies. These are case studies on the Bank of Tanzania (BoT) which is the central bank and regulator of the banking sector. in Tanzania and Barclays Bank Tanzania Limited and Tanzania Investment Bank (TIB) which are among the 32 banks that were licensed by BoT when this study started in 2010.

1.2. Definitions of of Economic Crisis

The research that forms the basis of this thesis was on the mechanisms through which banks were affected by and responded to the 2008 economic crisis in Tanzania. In order to place the study on the 2008 crisis in broader context, a brief description of economic crisis is given in what follows.

According to Eghan (2010), economic crises usually refer to a long-term economic state characterised by slow growth or setback in economic activity; rising unemployment; low prices; and low levels of trade and investment. These are among the characteristics that have been seen in the 2008 global economic crisis. There has been a worldwide decline in economic activities of production, distribution and consumption in virtually all sectors of the economy. Unemployment increased across the globe and prices of most goods and services declined mainly due to reduced aggregate demand which in turn was a result of reduced incomes.

Similar to Eghan (ibid), the Business Dictionary (undated) describes economic crisis as a situation in which the economy of a country experiences a sudden downturn brought on by a financial crisis. An economy facing a crisis will most likely experience a falling Gross Domestic Product (GDP), a drying up of liquidity and rising or falling prices due to inflation or deflation, respectively. The sudden downturn in economic activities is correctly described as a depression in Pass et al (2000).

Similar to Pass et al (ibid), the Business Dictionary (op cit), correctly state that economic crisis can take the form of a recession or a depression depending on its magnitude and intensity. Typically, economic crises are punctuated by periods of low, or even negative economic growth as a result of many and self-reinforcing factors such as dwindling aggregate demand. Low and negative economic growth imply that production levels for goods and services in economies are lower than normal, resulting in increased unemployment and its many and far-reaching implications including negative impacts on banks that finance economic activities in the real sectors of the economy.

According to Pass et al (2000), depression is a phase of the business cycle characterized by a severe decline in the level of economic activity. During depression, real output and investment are at very low levels and there is high level of unemployment. A depression is caused mainly by a fall in aggregate demand and can be reversed provided that the authorities evoke expansionary fiscal and monetary policy and their appropriate instruments. Whereas the crisis of the 1930s was of a depression level, the 2008 one was of recession level.

1.3 Banking Sector in Tanzania

The research that informs this thesis focused on the Tanzanian banking sector. In order to place the study in the broader context, this part of the thesis is dedicated to documenting some key features of the banking sector in Tanzania in general and the banks that were studied in particular.

The Tanzanian financial sector in general and its banking sub-sector in particular has evolved and developed relatively fast in the past 50 years or so. This is mainly the case since the major and far-reaching reforms in the management of the economy in the mid-1980s. Among other things, there has been an increase of the number of banks. The official March 2nd 2013 Bank of Tanzania (BoT) list of licenced banks has a total of 32 banks (online at http://www.bot-tz.org/BankingSupervision/RegisteredBanks.asp). Some of these are locally owned while others are internationally owned.

According to the Bank of Tanzania – BoT (2010), as at 31st December 2010 Tanzania had 42 banking institutions. Out of these, a total of 28 (about 66.7%) were fully-fledged commercial banks. The remaining 14 (about 33%) were financial institutions. The discussion on the overview of the banking sector in Tanzania below draws much from BoT (ibid).

1.3.1 Network of Banking Institutions and Ownership Structure

As at 31st December 2010, total number of operating branches/agencies was 473. This is an increase by 43 branches/agencies (1%)) as compared to 430 reported in 2009. As at 31st December 2010, five (11.9%) institutions were majority state-owned and 37 (88.9%) were majority privately owned. Therefore banks in Tanzania are largely private-sector owned. Twenty two (52.4%) of the banking institutions were locally owned and 20 (47.6%) were foreign owned. Theoretically, this relatively huge foreign onwership of banks can have many and far-reaching implications if economic crisis shakes parent banking companies in a way that would negatively affect the branches located in Tanzania.

1.3.2 Market share

The financial system in Tanzania is dominated by banking institutions which accounted for about 75 percent of the total assets. This partly justifies the focus of the study in the banking sub-sector of the financial institutions sector. As at 31st December 2010, the banking sector had total assets of Tshs 12,570 billion. The banking sector assets were equally shared between local and foreign banks. This verifies the view above that the 47.6% foreign ownership, although minority compared to the 52.4% of local banks, may have many and far-reaching implications if economic crisis affects negatively these entities.

1.3.3 Employment in the Banking Sector

According to BoT (ibid), as at 31st December 2010, the banking sector had 10,647 employees as compared to 8,782 reported in 2009. This is an increase of 1865 (21.24%) staff and was mainly due to the increase in the number of licensed banks and financial institutions, branch expansion and newly introduced products and services provided by banks and financial institutions. The 10,647 employees are substantial number of labour force.

If the banking sector is negatively affected by economic crisis in such a way that would lead to these staff loosing jobs, the direct and indirect impacts in the economy would be substantial. The study on the impacts of and responses to the 2008 crisis in the banking sector therefore is essential in identifying the possible labour market implications of the crisis via the effects on banking sector employees.

1.3.4 Capital Structure

Total capital of the banking sector as at 31st December 2010 reached TZS 1,516 billion compared to Tshs 1,266 billion recorded in year 2009. This is an increase of 19.75% from the 2009 figures. Major components of capital were paid up share capital (38.19% of the total capital), retained earnings and profits (54.78%), share premium (3.76%), and general reserves (1.75%).

1.4 Introduction to the Studied Banks

The thesis focused on three specific banks in Tanzania. These are the Bank of Tanzania (BoT), Barclays Bank Tanzania Limited and Tanzania Investment Bank (TIB). In order to understand and put the responses from these banks in correct contexts and perspectives, a brief description of these banks is documented in this part.

1.4.1 Introduction to the Bank of Tanzania (BoT)

Information about BoT was obtained from its website (www.bot-tz.org). What is presented here is a summary of what BoT is and its functions. Most importantly, there is the researcher's description why it was important to include BoT in this study. The Bank of Tanzania (BoT) is the country's central bank. It is the leading monetary authority and regulator in the financial sector and its banking sub-sector. BoT was established by the Bank of Tanzania Act, 1965 (ammended in 1995 and 2006) that was passed by the National Assembly in December 1965. The Bank was opened on June 14th 1966. The Act empowered BoT to perform all the traditional central banking functions.

BoT has several objectives and functions. Among its primary objective anf function is that of maintaining longer term price stability. Under this objective, BoT is required to formulate, define and implement monetary policy, directed to the economic objective of maintaining domestic price stability, conducive to a balanced and sustainable growth of the national economy of Tanzania.

Apart from the primary function, BoT has important subsidiary central banking functions. These include: the Bank of Issue in which it has the sole right to issue notes and coins in Tanzania. Other subsidiary functions include those of being the bankers' bank, the governments' bank, promotor of financial development, the advisor to the government on any matter relating to its functions, powers, and duties. It is also the guardian of the country's international reserves and a supervisor of banks and financial institutions.

It is mainly in the context of the BoT's function of supervision of banks and financial institutions that the Bank was involved in this study. In this function, BoT has the role of ensuring that commercial banks and other financial institutions conduct their business on a sound prudential basis and according to the various laws and regulations in force. The function includes supervision of banking conduct and the licensing of financial institutions.

According to the Banking and Financial Institutions Act of 1991, and the 2006 BoT Act, BoT has to implement prudential controls concerning capital adequacy, liquidity, concentration of credit and risk diversification, asset classification and provisioning, and prohibited activities. It also licenses banks and financial institutions; facilitates monitors a Deposit Insurance Fund, and modifies and monitors the Minimum Reserve Requirements and foreign exchange exposure.

In the context of mechanisms through which banks in Tanzania were impacted by the 2008 global economic crisis and responses to the same, it was assumed by the researcher that BoT would have adequate information given its role as the sector's regulator.

1.4.2 Introduction Barclays Bank Tanzania Limited

Unless otherwise stated, the source of the information contained here is the bank's website. Barclays Bank Tanzania Limited has a long history in Tanzania. The bank first entered the Tanzanian market well back in 1925. It continued to operate in the country until 1967 when its operations were nationalized to become National Bank of

Commerce. This was a result of the Arusha Declaration that embraced Ujamaa policy which among other things placed all major means of the economy under the state.

Following the major and far-reaching reforms in Tanzania's economic management in the mid 1980s and 1990s, Barclays Bank Plc made a decision to re-enter the Tanzania market. It re-opened its doors in the country in the year 2000. The bank has about 22 branches, 41 Automatic Teller Machines (ATMs), over 400 employees and over 110,000 customers.

The bank serves a wide range of customers including large corporate. These consist of large local and multinationals, public sector and development organizations as well as supranational organizations. Products offered under the large corporates segments include corporate banking services, cash management services, treasury products, structured financing and trade financing.

The bank offers a range of commercial lending products. These include overdraft facilities for periods of up to 12 months, lease finance for periods of up to 36 months either to acquire specific assets or as part of structured finance packages and short and medium-term loans. These are available for between one and five years for businesses seeking to borrowing funds for capital expenditure requirements.

The bank is able to access funds through its contacts with the European Investment Bank (EIB), the International Finance Corporation (IFC), the French Development Corporation (PROPARCO) and the Commonwealth Development Corporation (CDC). It is the researcher's views that Barclays Bank Tanzania Ltd can have been negatively affected if these institutions making borrowing of foreign currencies possible were affected by the 2008 crisis.

Apart from the large corporate customers, Barclays Bank Tanzania Ltd also has products for Small and Medium Size Enterprises (SMEs). It also offers trade finance products including imports trade financing/import letters of credit. The bank's correspondent banks across the globe enable it to issue letters of credit to beneficiaries in virtually all countries worldwide and in all freely convertible currencies. It is the researcher's views that if the correspondent banks that Barclays Bank Tanzania Ltd transacts with were negatively affected by the crisis, this could affect the bank as well through contagious effects. Other trade finance products offered by the bank include standby letters of credit.

1.4.3 Introduction to Tanzania Investment Bank (TIB)

Unless otherwise stated, the source of information about Tanzania Investment Bank

(TIB) is the bank's website (http://www.tib.co.tz). TIB was established in 1970 as a development finance institution (DFI). After about 25 years, the bank was transformed into an investment cum development bank. Similar to Barclays bank, TIB provides a comprehensive range of deposit services, in both Tanzania shillings and foreign currencies.

1.4.3.1 TIB Business Areas

TIB has various business areas. These include corporate banking services, complex trade finance arrangements in conjunction with its correspondent banks, others bank products such as Bonds and Guarantees and a wide range of treasury services to corporate clients. Other products offered by TIB include personal banking services, stock broking services through its subsidiary company, Rasilimali Ltd. It is also involved in trade inancing, agriculture financing and support to Small and Medium size

Enterprises (SMEs).

1.5 Statement of the Research Problem

Very little is known about the 2008 global economic crisis in general and whether it affected banks in Tanzania in particular. In case it affected banks in Tanzania, the mechanisms through which this took place and the way the Bank of Tanzania (BoT) as the leading monetary authority and regulator of banking sector as well as individual banks responded to the crisis are not known either.

According to Kothari (2004) the statement of research probem consists of the issues that the researcher wants to adress and find answers to. The issues that this study wanted to find out were: what are the potential and actual mechanisms through which banks in

Tanzania were affected by the 2008 economic crisis? How did the Central Bank and other banks respond to the crisis? Therefore the problem that the study set out to research included identification, documentation and discussion of the mechanisms through which banks in Tanzania were affected by and responded to the 2008 global economic crisis.

If no systematic scientific study on these mechanisms and responses and their understanding becomes neglected, there can be many and far-reaching negative implications to the economy. These implications include lack of scientific knowledge on how banks can be affected by recurring or future similar crises and shocks as well as lack of scientific knowledge on how to respond to similar crises and shocks. Lack of such knowledge can lead to a collapse of the banking and even the whole financial system in case of similar future crises and shocks.

1.6 Research Objectives

The study was guided by both general and specific objectives. These are outlined below.

1.6.1 General Objective

The general research objective of the study was to identify and have understanding of mechanisms through which banks could have been impacted by and responded to the 2008 global economic crisis.

1.6.2 Specific Objectives

The study was guided by the following specific objectives:

i) To identify mechanisms through which banks were potentially and actually impacted by the 2008 global economic crisis.

ii) To identify the way the Bank of Tanzania and other banks responded to the 2008 global financial and economic crisis.

1.7 Research Questions

The study that informs this report was guided by the following research questions:

i) Through which mechanisms were banks in Tanzania impacted by the 2008 global economic crisis?

ii) What have been the responses by BoT and other banks in Tanzania to the 2008 global economic crisis Tanzania?

1.8 Justifications of the Study

The need for research on an economic global phenomenon that is as new, large, potentially dangerous, current and relevant as the 2008 economic crisis in general and its impacts on and responses in the banking sub-sector in particular cannot be overemphasized. When the research informing this thesis was conceptualized in 2009, it was still a new area of research. Even at the time of writing this thesis, the 2008 economic crisis still remained a new, virgin and very relevant area of research. It was and still is a new research area with a lot of aspects not yet thoroughly researched on in a study of this magnitude if at all. The study therefore was and still is very important in creating new scientific knowledge in this area of study.

1.9 Significance of the Study

Systematic scientific knowledge of the mechanisms through which banks can be impacted by economic crisis and the way they can respond to the same is important for policy and decision makers as well as for practitioners and the general public. This is because of the centrality of the banking sector in the emerging modern economy like that of Tanzania.

Scientific knowledge of the possible mechanisms through which banks in Tanzania were affected by and responded to the 2008 crisis has been missing. Yet, such knowledge is extremely important in designing interventions to reduce or even prevent impacts of a possible future similar crisis and shocks in the banking sector and even beyond. It is also important to scientifically establish how the BoT and other banks responded to the crisis with a view of, among other things, designing interventions by way of responses to deal with possible future similar crises and shocks.

The knowledge that has been created in this research in general and the field study part of it in particular is envisaged to have many and far-reaching implications to policy and decision makers, the academia, practitioners, captains and titans of the industry in general and its banking section in particular as well as the general public at local and international levels. The study findings and their wide disseminations have added and still will add new value in the existing body of knowledge.

The findings from the study informing this thesis are of great value in understanding the crisis, its impacts, various responses to it and most importantly how to avoid possible future crises and/or their many and far-reaching negative impacts. Furthermore, it is expected that the findings of this study will stimulate academic and policy discussions and debates and become a source of further researches for many researchers including the author of this work.

The significance is further strengthened by the 2010 Euro zone sovereign debt crisis that is arguably an extension of the 2008 global economic crisis and was still unfolding when the study informing this report was on-going and even at the time when this report was written.

1.10 Scope of the Study

The study limited itself in identifying, documenting and analyzing the mechanisms through which the 2008 global economic crisis actually and potentially impacted banks in Tanzania and the way kinds of responses that were given to the crisis. Apart from the general over view at global level, the study focused on the banking sector in Tanzania in particular. It is important to point out that this was not an impacts assessment study in which one would empirically measure the actual impacts of the crisis in the banks and establish clear causal-effect relationship. To the contrary, the scope of the study was limited to exlporing the mechanisms through which banks were affected by the crisis and the way they responded to the same.

1.11 Limitations and Delimitations of the Study

A number of limitations were encountered in this study. These are various constraints and challenges that threatened successful accomplishment of the study. These limitations had to be circumnavigated by the researcher by way of delimitations so as to ensure a smooth and successful implementation of the study, the limitations notwithstanding. The key limitations that were encountered and the way each of these were solved in order to ensure success in the study are described below.

Academic literature on the 2008 global financial and economic crisis in general and in the context of mechanisms of impacts and responses in the banking sub-sector in Tanzania in particular is limited. This is because the crisis was relatively new and therefore no many systematic scientific works had been written in this area. As a delimitation (solution to the limitation) some authoritative grey literature were also be used to inform the study

Willingness and readiness for banks to give the needed data was foreseen due to possibility of some data being too sensitive to be given to the public domain. This limitation was partly reduced by ensuring confidentiality to the banks.

Another limitation related to the respondents that was foreseen is their time to respond to the data collection instruments. This is partly because most bank staff with authoritative knowledge to respond to the data collection instrument are generally very busy. In order to reduce this limitation, the researcher prepared a rather short and direct questions that aimed at collecting the required information without unnecessarily bothering the respondents. Time for the study was another limitation. This is because although the researcher had been granted a study leave on the second year of the study, the researcher was at times requested by the employer to support lecturing of Masters students as well as supervising their research works (this was the case in the whole first year of the study). The time limitation was solved by prioritizing the study as well foregoing leisure in order to concentrate on the study

CHAPTER TWO

THEORIES BEHIND ECONOMIC CRISES

2.1. Overview

This chapter presents an overview of theories that describe economic crises. These are various schools of thoughts that partly describe why economic crises occur and how they can be responded to. There are various theories that attempt to explain reasons behind economic crisis. These theories include demand-driven theories, monetarist's theories, break of international trade theories, debt deflation theories, Austrian school theories, heterodox theories and Marxist theories. These theories are briefly reviewed in the context of the 2008 global economic crisis

2.2. Demand-driven Theories

According to Klein (1947), the demand-driven theories of economic crisis are by and large Keynesian economics in nature. They attribute economic crisis to under consumption and over-investment. According to the theory, under consumption and over investments do cause economic bubbles. It also attributes economic crisis to malfunctioning of banks, industrialists or incompetence by government officials.

Klein (ibid) informs that the consensus among demand-driven theories of economic crisis is that a large-scale loss of confidence in the market would lead to a sudden reduction in consumption and investment spending. When panic and deflation have set in, many economic agents will believed that they can avoid further losses by keeping clear of the markets.

According to Keynes (1936), lower aggregate expenditures in the economy contribute to a massive decline in income and to employment that was well below the average. In such a situation, the economy reaches equilibrium at low levels of economic activity and high unemployment.

As a response to this economic situation, governments have to intervene in order to keep people fully employed. Such government interventions include running budget deficits when the economy is slowing. This is because the private sector would not invest enough to keep production at the normal level and bring the economy out of recession. According to the Keynesian school of thought, governments have to respond to economic crisis by increasing their spending and cutting taxes. (Keynes, 1936).

All of the above were partly seen in various parts of the world in response to the 2008 economic crisis. Governments across the world introduced massive stimulus packages and bail out plans. Central banks on the other hand reduced borrowing interest rates. All these aimed at rescuing and stimulating economies so that they could be back to the pre-crisis growth paths.

In the 2008 crisis, some of these elements of the theory have been reported in among others, Adei (2010), Ngowi (2010, 2013), USA (2009) and IMF (2009). Therefore the above theoretical triggers of economic crisis can partly describe why the 2008 global economic crisis happened.

2.3. Monetarists' Theory

According to the monetarists such as Bernanke (2000), economic crisis such as the Great Depression of the 1930s which was very similar to the 2008 economic crisis starts as an ordinary recession before becoming a depression. According to Pass et al

(2000), a recession is milder than a depression in terms of its size and impacts in the economy. Describing the 1930s depression, Bernanke (op cit), argues that significant policy mistakes by monetary authorities such as the Federal Reserve in the case of US and central banks in other countries caused a shrinking of the money supply. This shrinking, according to the monetarists, greatly exacerbated the economic situation, causing a recession to descend into a depression. (Bernanke, 2000).

Subscribers of the monetarist theory of economic crisis argue that the Great Depression was mainly caused by monetary contraction. This was the consequence of poor policy-making by the American Federal Reserve System. This continued the crisis in the banking system. Therefore, by not acting, the Federal Reserve allowed money supply to shrink. This transformed a normal recession into the Great Depression. According to Adei (2010), Ngowi (2010, 2013) and USA (2010) among the causes of the 2008 economic crisis is weakness in the US monetary authority, the Federal Reserve. Partly therefore the monetarist theory explains the causes of the 2008 crisis.

2.4. Debt Deflation Theory

According Fisher (1933), the predominant factor leading to the Great Depression of the 1930s which was very similar to the 2008 economic crisis, was over-indebtedness and deflation. According to Fisher (ibid) loose credit led to over-indebtedness. This in turn fueled speculation and asset bubbles**.** This seems to partly describe the 2008 crisis when considering sub-prime mortgage part of its cause in which prior to the crisis there was very easy access to credit and predatory behaviour of banks that resulted into among other things subprime mortgage problem.

According to the dept deflation theory, banks will begin to fail as debtors default on debt. This seems to be the case in the 2008 crisis in which the financial crisis graduated to the real sectors of the economy thereby making businesses struggle and at time default. The theory correctly states that depositors will attempt to withdraw their deposits en masse. This is what is termed run on bank. If it leads to multiple bank runs, the result would be a collapse of the banking system. For details, see among others, Bernanke, (1983).

The danger of run on bank was observed in Cyprus in March 2013 following the Euro zone sovereign debt crisis which is arguably a result of the 2008 crisis. As a response to prevent this from happening, the authorities imposed maximum amount of money that could be withdrawn in Cyprus. Therefore the debt deflation theory partly describes not only the Great Depression of the 1930s but also the 2008 economic crisis and the 2010 Euro zone sovereign debt crisis.

The debt deflation theory suggests that bank failures can snow-ball when borrowers do not have time or money to repay due to the impacts of economic crisis including job losses. In times of economic crisis, there is generally poor future profits outlook.

Therefore investors' sentiments tend to be very low or cease completely. In the environment of Non Performing Loans (NPLs), and worsening future economic prospects, the surviving banks tend to respond by becoming more conservative in their lending. See among others, Fortune (2000) for details.

Among other things**,** banks would be more cautious in their loans assessments. They are also likely to build up their capital reserves and end up with accumulation of excessive reserves. The implications include the fact that with conservative approach to lending, banks are likely to end up making fewer loans. Since their profits are mainly a function of lending, they will end up with reduced profit levels in times of economic crisis. This phenomenon has been partly observed in the 2008 economic crisis in the studied banks. Therefore, the debt deflation theory too, as do the demand-driven and monetarist theories, partly describes the causes, impacts of and responses to the 2008 crisis. For details see Fisher (1933), Bernanke (1983) and Mishkin (1978).

2.5 New Classical Theories of Economic Crises

According to Kehoe and Edward (2007), neoclassical perspectives of economic crises focus on the decline in productivity. This causes initial decline in output and a prolonged recovery due to policies that affect the labour market. The authors decompose economic decline into a decline in the labor force, capital stock, and consequently the productivity with which these inputs are used. According to Kehoe and Edward (ibid), theories of the Great Depression have to explain an initial severe decline but rapid recovery in productivity, relatively little change in the capital stock, and a prolonged depression in the labor force. Given the nature of the 2008 economic crisis, this theory does not seem to explain it. Decline in productivity was more of a result rather than a cause of the 2008 global economic crisis.

2.6 Austrian School of Economics Theory of Economic Crises

Economic crises have also been theorized by the Austrian School of economics. In this theory and similar to the monetarists theory, the Federal Reserve, is held responsible for the Great Depression of the 1930s. Contrary to the monetarists however, the Austrian School argues that the key cause of the Depression was expansion of the money supply in the 1920s that led to an unsustainable credit-driven boom. In the context of the 2008 crisis, this can partly be the case especially in some years preceding the crisis.The Austrian school correctly argues that excess money supply led to an unsustainable boom in both asset prices (stocks and bonds) and capital goods. By the time the Fed belatedly tightened in 1928, it was far too late. Therefore a significant economic contraction was inevitable. See Murray (2000) for details. Contrary to Keynesian Economics, the Austrian School argues that government efforts to prop up the economy after the crash of 1929 only made things worse.

In the context of the 2008 crisis, this view of the Austrian School is opposed because largely the various interventions by various governments helped to reduce the intensity and spread of the crisis. These interventions include but are not limited to economy-wide stimulus packages and sector specific bail outs. According to Diego (2009), the Austrian School partly believe that the Federal Reserve further contributed to the problems of the Depression by permitting the money supply to shrink during the earliest years of the Depression.

In the context of the 2008 crisis and even the 2010 Euro zone sovereign debt crisis, this view is supported. This is because in times of economic crisis, there is a need for expansionary rather than contractionary monetary policy. Austerity economic measures that were partly applied as a response to the 2008 crisis and largely as a response to the Euro zone sovereign debt crisis have been described as bad economics in Ngowi (2013). This is because they contribute to deepening of rather than to the recovery from economic crisis.

2.7 Marxist Theories of Economic Crisis

According to Harman (2009), the Marxist theory of economic crisis sees recession and depression as unavoidable under free-market capitalism. This is because, according to Marxists, there are no restrictions on accumulations of capital other than the market itself. In the Marxist view, capitalism tends to create unbalanced accumulations of wealth, leading to over-accumulations of capital which inevitably lead to a crisis. Marxists urge that economic crisis like the Great Depression of the 1930s is a regular feature of the boom and bust pattern of chaotic capitalist development. According to this school of thought, economic crises are inevitable. They will be increasingly severe until the contradictions inherent in the mismatch between capitalist mode of production and the development of productive forces reach the final point of failure.

Marx's theory of economic crisis has also been described by Easterling (2003). The author points out that capitalism is an economic system that is inherently crisis-prone. It is driven by forces which cause it to be unstable, anarchic and self-destructive. According to Easterling (ibid), understanding the drive toward economic crisis is central to Marx's analysis of capitalism and to his arguments for the possibility and necessity of revolutionary change.

The lack of profit and accumulation as a describing factor behind economic crisis as captured in Easterling (ibid) does not seem to be appropriate in the context of the 2008 global economic crisis. Lack of profit and accumulation was more of results than causes of the 2008 crisis. These have been well captured in Ngowi (2010, 2013), Adei (2010) and Rwegasira (2010), among others.

Where Marx's theory in solving economic crisis seems to be relevant is on government intervention in forms of Keynessian economics in which governments intervene to correct market failures of the capitalist system. This has been seen in forms of various stimulus packages and bail out plans. The challenge in this, especially in poor developing countries like Tanzania include the ability of governments to sustain such interventions for a long time if crises continue for substantially prolonged period of time. According to the Marx's theory therefore, economic crisis is a problem that is confined to capitalist system. This is not the case with the 2008 global economic crisis that affected all countries both socialist and capitalist.

Marx's theory of economic crisis is not sufficient and relevant in explaining the 2008 global economic crisis. It focus much on exploitation of labour by capital and creation of surplus as a result of exploitation. Marx's theory assumes that economic crisis is essentially a problem of capitalism. By implication, only capitalist countries would experience the 2008 global economic crisis. Based on the literature that has been reviewed it is clear that the crisis was not confined in capitalis countries only. It affected virtually all countries across the globe.

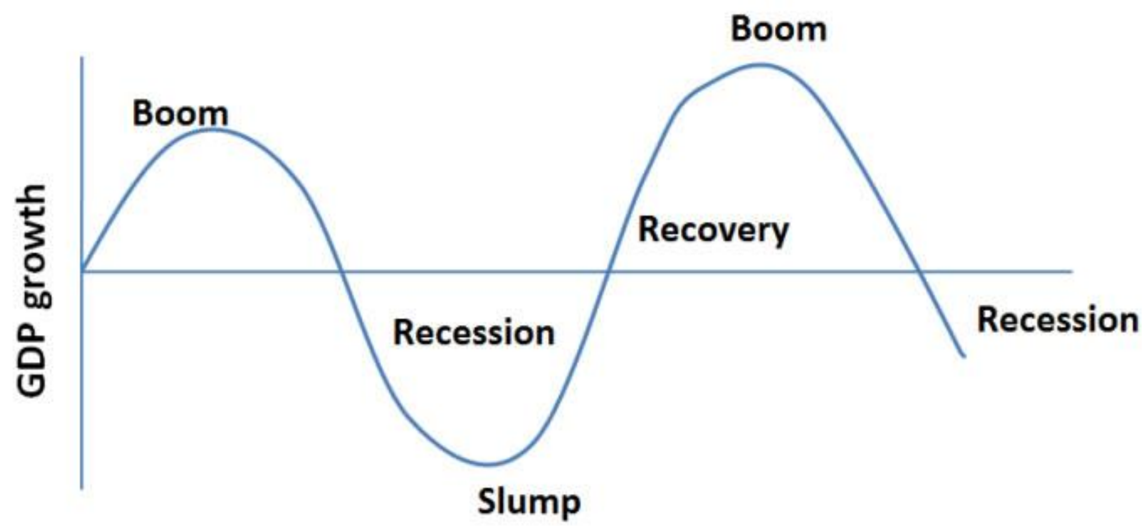
2.8 Business Cycle Theory of Economic Crisis

The concept of business cycle is described by Pass, Lowes and Davies (2000: 50 – 51) as fluctuations in the level of economic activity alternating between periods of depression and boom conditions. Business cycle is characterized by four phases. The first one is depression which is a period of rapidly falling aggregate demand accompanied by very low levels of output and heavy unemployment. This eventually reaches the bottom of the trough.

The second phase of business cycle is recovery which is an upturn in aggregate demand accompanied by rising output and a reduction in unemployment. The third phase is boom in which aggregate demand reaches and then exceeds sustainable output levels (potential Gross National Product – GNP) as the peak of the cycle is reached. Full employment is reached and the emergence of excess demand causes the general price level to increase. The fourth phase of a business cycle is recession in which the boom comes to an end. In this stage, aggregate demand falls, bringing with it, initially, modest falls in output and employment but then, as demand continues to contract, there is an onset of depression. The 2008 GFEC is seen as the recession stage of the business cycle.

Pass *et al* (ibid), correctly point out that there are several causes of economic fluctuation as described in the business cycle theory. According to the authors, one prominent factor behind business cycle is the volatility of fixed investment and inventory investment expenditures (the investment cycle), which are themselves a function of business' expectations about future demand. At the top of the cycle, argues Pass *et al* (ibid), income begins to level off and investment in new supply capacity finally catches up with demand. This causes a reduction in induced investment and, via contracting multiplier effects, leads to a fall in national income, which reduces investment even further. As described by Pass *et al* (ibid), at the bottom of the depression, investment may rise exogenously or through the revival of replacement investment. In this case, the increase in investment spending will, via, expansionary multiplier effects, lead to a greater volume of induced investment. The figure below depicts a typical business cycle.

Figure 2.1: Business Cycle



Source: Adopted from Pass *et al* (2000)

There are a number of scholarly works on the business cycle theory. These include but are not limited to the works of Alvarez *et al* (1999) on Labor Market Policies in an Equilibrium Search Model; Abel (1990) on Asset Prices under Habit Formation and Catching up with the Joneses; Altig *et al* (2004) on Firm-Specific Capital, Nominal Rigidities and the Business Cycle; Ambler, Cardia, and Zimmermann (2004) on International Business Cycles: What are the Facts?; and Andolfatto (1996) on Business Cycles and Labor-Market Search.

Other scholarly works on business cycle theory include those of Baxter (1995) on International Trade and Business Cycles; Bernanke, Gertler and Gilchrist on The Financial Accelerator in a Quantitative Business Cycle Framework; Lawrence and Eichenbaum on Current Real Business Cycle Theories and Aggregate Labor Market Fluctuations; and Prescott (1986) on Theory Ahead of Business-Cycle Measurement. Some of these works are reviewed as a point of departure in applying the business cycle theory as the theoretical framework guiding the study that informs this work.

Rebelo (2005) reviews the contribution of real business cycle models to the understanding of economic fluctuations. In the context of this work, such economic fluctuations include the ones observed in the 2008 global financial and economic crisis and those associated with the 2010 Euro zone sovereign debt crisis. The author also discusses open issues in business cycle research. Citing Lucas and Prescott (1971), Rebelo (op cit) correctly argues that business cycles can be studied using dynamic general equilibrium models.

He also argues that is possible to unify business cycle and growth theory by insisting that business cycle models must be consistent with the empirical regularities of long-run growth. Rebelo (ibid: 1) informs that the wave of models that first followed Kydland and Prescott's (1982) work were referred to as real business cycle (RBC) models. This is because of their emphasis on the role of real shocks, particularly technology shocks, in driving business fluctuations.

In the context of this work however, the role of technology shocks is not the major focus as is the role of financial shock that is seen to be behind the 2008 global financial and economic crisis. According to Chari and Kehoe (1999), RBC-based models have been used in analyzing policies especially in studies related to optimal fiscal and monetary policies. This work on the 2008 GFEC has elements of responses to the crisis including fiscal and monetary policy responses through various fiscal and monetary policy instruments. That is partly why the business cycle theory forms the theoretical framework and foundation of this work.

Rebelo (ibid: 2) correctly discusses the Great Depression of the 1929 to 1933 in the context of business cycle theory. Now that the 2008 GFEC is very similar to the Great

Depression, business cycle theoretical framework is used in this study. The Depression was characterize by, inter alia, large output decline, stock market crash and financial crisis that occurred between 1929 and 1933. These characteristics are seen as part and parcel of massive market failures. These could be prevented if governments played larger roles in the economy. Similar views do emerge in the context of the 2008 GFEC.

Rebelo outlines an observation on responses to the Great Depression of the 1930 that is very similar to what we have witnessed with the 2008 GFEC. This is the dramatic

increase in government spending as a fraction of Gross Domestic Product (GDP). This happened seen since the 1930s as part of policy response to the Great Depression. As for the 2008 GFEC, policy responses include generous expenditure by governments through massive economy-wide stimulus packages and sector as well as industry-specific bail outs.

The causes and results of shocks from the Great Depression are outlined in the context of business cycle theory by Rebelo (ibid:3). The shocks include huge drops in the global agricultural products prices and financial system instability. These are very similar with the impacts of the 2008 GFEC. That is why therefore the 2008 GFEC is studied in the context of business cycle theory.

CHAPTER THREE

AN OVERVIEW OF THE 2008 GLOBAL ECONOMIC CRISIS

3.1. Introduction

This thesis is on the 2008 economic crisis. More specifically it is about the mechanisms through which the crisis impacted banks in Tanzania and the way they responded to it. The research that forms the basis for this thesis identified the mechanisms through which banks were potentially and actually affected by and respond to the 2008 economic crisis in Tanzania. In order to place the study in broader context of the 2008 economic crisis an overview of the crisis is documented in this chapter. However, the theories that explain the 2008 crisis are outlines here first. These are sythesized from the theoretical underpinnings of economic crisis presented in chapter two.

3.2. Theories Behind the 2008 Global Economic Crisis

Given the theoretical underppining of economic crisis reviewed in chapter two, the 2008 crisis can be interpreted and explained in light of several theories. The theories that are more relevant to the 2008 crisis include the demand-driven theory, the monetarists theory, the debt-deflation theory, new clasical economics theory, the Austrian School theory and the business cycle theory. These theories can be used to describe and understand various aspects of the 2008 economic crisis in general and its causes, impacts and responses in particular. The Marxists theory however does not seem to be relevant in interpreting and describing the 2008 crisis.

The theory that best explains the 2008 economic crisis however, is the business cycle theory. Therefore the business cycle theoretical framework has been used to guide the study. Therefore the business cycle theoretical framework is the general theoretical framework that formed the foundation and guidance of the study. More particularly it is the recession stage or phase of the business cycle theory that informed the part of the study on the impacts of the 2008 economic crisis in general and in the banking sub-sector in Tanzania in particular. Interventions by way of responses to the 2008 crisis, have aimed at attaining recovery and eventually reaching the boom stage or phase of the business cycle theory.

3.3. Meaning and Nature of the 2008 Economic Crisis

IMF (2009), Adei (2010), Ngowi (2010) and Akbar (2008) among others correctly inform that, the 2008 economic crisis started officially in United States of America (USA) on September 2008. This crisis is also termed the credit crunch, economic turmoil, economic downswing, global downturn, and financial meltdown. The crisis has been termed 'the current crisis' to distinguish it from a similar crisis that was experienced in the 1930s that resulted into the Great Depression. The crisis manifested itself in many forms. These forms include but are not limited to severe credit, banking, currency and trade crisis which emerged in September 2008.

The crisis became prominently visible in September 2008 with the failure, merger or conservatorship of several large United States-based financial firms. These firms include Goldman Sachs, Morgan Stanley, J.P. Morgan, Bank of America, Merrill Lynch, Citigroup, Wells Fargo, Bank of New York Mellon and State Street.

3.4. Causes of the Crisis

There are many and at times closely interlinked and self-reinforcing causes of the 2008 economic crisis. According to Akbar (ibid), -Pritchard (2007), Adei (2010), Ngowi (2013) and Norris (2008) and others, the failures of large financial institutions in the

United States rapidly evolved into a global crisis resulting in a number of European banks failures and declines in various stock indices and large reductions in the market value of stocks and commodities worldwide.

The collapse of Lehman Brothers in September 2008 when it filed for bankruptcy was a symbol of the global financial crisis. Broadly, it is seen that lack of adequate regulations (laisser-faire) of the financial markets by the appropriate authorities in the US (The Federal Reserve Bank) is among the major explanations behind this crisis.

Adei (2010) identifies many causes of the crisis. These include prolonged economic boom for two decades preceding the crisis accompanied by surging house prices at a rate which was unsustainable especially in United States of America. These were also rapid expansion of credit (similar to the Finnish crisis). The expansion of credit led to accumulation of debt that was several times the size of GDP. This partly explains why there was a credit crunch. Significant proportion of this debt according to Adei (ibid) was owed by marginal, doubtful and barely credit-worthy clients (sub-prime borrowers) in the U.S.

Another key cause of the crisis, according to Adei (ibid) is the emergence of new, complex and innovative types of financial instruments due to financial engineering.

This arguably made it difficult for regulators to follow up these very rapid, innovative and dynamic developments in the financial sector in general and its banking sub-sector in the context of this work in particular. The 2008 crisis was also caused by over-expansion of predatory lending practices by financial houses – both banking and none-banking. These lending practices include but are not limited to adjustable rate mortgage that tended to obscure the true position of lenders and capacity of borrowers (mainly sub-prime borrowers) to service their liabilities.

Many other authors have documented findings that are similar to those of Adei (ibid) on the causes of the 2008 global economic crisis. These authors include but are not limited to Akbar (ibid), Pritchard (ibid), Moyo (2010), Pianim (2009), Sikod (2009), Minja (2009), Rwegasira (2010) and Oke (2009). Mutahi (2009) argues that the crisis began in July 2007 when a loss of confidence by investors in the value of securitized mortgages and banks in the United States started. However, this is not exactly the case. This was just among the signs of the crisis and not the beginning of the crisis itself. Akbar (2008) on his side argues that the crisis has been a major financial crisis.

The 2008 economic crisis became prominently visible in September 2008 with the failure, merger or conservatorship of several large United States-based financial firms including but not limited to Goldman Sachs, Morgan Stanley, J.P. Morgan, Bank of America, Merrill Lynch, Citigroup, Wells Fargo, Bank of New York Mellon and State Street. The views of Muthai (ibid) are also shared by Pritchard (2007), Norris (2008), Salmon (2009) and and Baily et al (2009).

3.5. General Impacts of the 2008 Economic Crisis

Many and far-reaching impacts have emanated from the 2008 global financial and economic crisis. These have been felt at global, national, corporate/organization, household and individual levels across the world. These impacts include but are not limited to liquidity problems in financial institutions and others, reduced production of goods and services as a result of reduced aggregate demand and increasing unemployment as a result of reduced production.

Other impacts include declining gross domestic product (GDP), reduced economic growth rates, reduced foreign currency earnings due to reduced export volumes and prices, reduced domestic revenue collections due to decline in economic activities, reduced Official Development Assistance (ODA) for most donor-dependent countries due to the impacts of the crisis on the donor countries and many other direct and indirect, positive and negative, short-term and long-term impacts.

A number of works have documented some impacts of the 2008 crisis. These works include but are not limited to the AfDB (2009a) on the impact of the crisis on Africa; Ikome. (2008) on social and economic consequences of the crisis on developing countries and emerging economies; the IMF (2009) on impacts of the crisis on Sub-Saharan Africa; IDS (2009) which gives accounts of the crisis on poor people's experience of food and fuel in five countries (Bangladesh, Indonesia, Jamaica, Kenya and Zambia).

Kasekende's (2008) work is on the impacts of the financial crisis on Africa while Rahman et al (2009) dealt with impact of the global economic crisis on employment and labour markets of Bangladesh; AfDB) (2009b) made an update on the impact of the crisis on African economies. Naudé (2009) conducted a study on the crisis and the developing countries. Biekpe (2009) documented impact of credit crunch on foreign aid in Africa while Kiptoo (2009) documented potential impacts of the crisis on African economies.

Mtango (2008) worked on the African growth, financial crisis and implications for TICAD IV. Ngowi (2009a) dwelled on the impact of the crisis on employment and Official Development Assistance (ODA) while Ngowi (2010) looked at the current crisis and its impacts and solutions in Tanzania. Ngowi (2009b) dwelled on the impacts of the crisis on the environment both positively and negatively. Ngowi (2009c) focused

on the crisis and its impacts on investment in human capital and Ngowi (2009c) dealt with the impacts of the crisis on the construction industry. Mwamanga (2010) studied the impacts of the crisis on employment while Kamugisha (2010) researched on the impacts of the crisis on airlines in East Africa as Rang'a (2009) studied the impacts of the downturn at household level in Tanzania.

Osakwe (2008) worked on the Sub-Saharan Africa and the global financial crisis while Stiglitz (2008) worked on a crisis of confidence as Akbar (2008) looked at the global financial meltdown and the demise of neo-liberalism. Ringer (2008) focused on the financial crisis and severe impact on humanitarian funding while the IMF (2009a) looked at the impact of the crisis on Sub-Saharan Africa. Pianim (2009) worked on the current economic meltdown in the West and its implications for corporate entities in Ghana.

3.6. Impacts of the 2008 Crisis in Tanzania

As is the case for other countries, the literature indicates that Tanzania too was affected by the 2008 economic crisis. Most of the literature however do not show causal-effect relationship (causality) between the stated impacts on one hand and the 2008 economic crisis on the other. However, given the circumstance of the economy during and just after the crisis, it is easy to see the correlation between the impacts on one side and the crisis on the other even if a counter-factual situation is not established.

IMF (2010), correctly points out that the 2008 global recession has had a significant impact on economic performance and outlook in Tanzania. For example, export sectors led a decline in real GDP growth to about 5.5% in 2009, from some 7½ percent in 2008. FDI and syndicated loans from abroad contracted. IMF (ibid) argues that better performance in some sectors such as construction, telecommunications, and food crops as well as fiscal stimulus of 5% of GDP helped to moderate the slowdown with GDP growth.

According to Velde and Lunogelo (2009), the crisis affected economic growth projections in Tanzania negatively. Due to the crisis, the growth was projected downward to less than 5% in 2009 compared with historical levels of above 7% per annum. Without giving figures, it is further reported in Velde and Lunogelo (ibid) that Tanzanian exporters experienced reduced demand for goods and services through reduced demand for tourist attractions and education facilities. This is a typical second-round effect of economic crisis.

Other impacts were through import trade from the rest of the world in which there was erratic and escalating importation costs of goods and services. This finding from Velde and Lunogelo (ibid) is contrary to expectations because in times of economic crisis one expects prices to decline due to reduced demand. This is what happened with prices of most agricultural commodities and minerals – except gold that were exported from Tanzania as documented in URT (2009) and Ngowi (2009, 2013).

Velde and Lunogelo (ibid) have various findings on the impacts of the crisis in Tanzania that are very similar to those of URT (ibid) and Ngowi (ibid). These include reduced capital inflows due to dwindling foreign direct investment (FDI)and declining diaspora remittances. They also document that there were both reduced demand and declining markets for traditional agricultural commodities such as cotton (more than 130,000 bales of cotton lacked a market early this year). Also companies and cooperatives were affected as well as the manufacturing sector which recorded a drop in export revenue of about 50%, mostly due to cancelled apparel orders from the US.

Velde and Lunogelo (ibid) inform that traders of traditional export commodities like cotton had severe loan repayment problems. In the context of this study, this implies increase in Non Performing Loans (NPLs), reduced profits as well as asset quality in the affected banks. Naturally these banks had to respond to these impacts to avoid or reduce loss and possibilities of eventual collapse.

According to Velde and Lunogelo (ibid), exporters of non-traditional crops like cashew nuts and simsim managed to repay 74% and 68% of their loans, respectively. The decline in horticultural products export orders by 30% threatened the jobs of about 50,000 Tanzanians already employed and earning Tanzania about $130,000 annually. This implies that the banks that were exposed to these sectors stood a big risk of being negatively affected by the crisis. Minja (2009) has also reported similar impacts of the crisis.

Alcorta and Nixson (2011) point out that in general, the impact of the 2008 crisis has been highly uneven. The more integrated into the global economy is an individual economy, the more vulnerable is the economy to external shocks such as those of the 2008 crisis. Tanzania, as are most other parts of Africa exceopt South Africa is not very much integrated into the global economy in general and its financial sector in particular. This is partly due to the relatively infancy nature of its financial and banking sectors.

URT (ibid) also documents without establishing attribution and causality that over 48,000 people had lost jobs directly in Tanzania by April 2009 due to the crisis. This is assumed to have impacts on the personal loan portfolio of some banks where some of these employees were actual and/or potential customers.

According to Ngowi (2009f), benefits of FDI inflows include employment creation, increased sources of capital, technology transfer and creation of inter-sectoral linkages within the economy. Similar benefits have been identified by Dunning (1994), Blomstrøm and Kokko (1997), Røvik and Frøyen (1997), Ayiku (1995) and Ngowi (2001a, 2001c). Such FDI benefits can potentially benefit banks too through various transactions. Therefore when FDIs shy away from Tanzania due to the crisis then it implies that these and other potential benefits that the country could benefit will not be forthcoming.

Citing and borrowing much from URT (2009), Ngowi (2010, 2013) documents several impacts of the 2008 economic crisis in Tanzania's various areas of the economy. These include negative impacts on economic growth in which growth forecast was reversed dowwards from about 7% to 5%. Balance of payment (BoP) and national reserves were also negatively affected as did employment. There were about 48,000 direct unemplyment in Tanzania due to the crisis. It was estimated that FDI inflows to Tanzania would decline by about 10% in 2009 due to the crisis. The crisis also affected negatively various sectors of the economy such as tourism where there have been cancellation of hotel booking by 60% in 2009 and reduced tourists arrivals by 10% as well as reduced revenues by about 18% in 2008 and 30% in 2009. The crisis affected the agricultural sector through reduced export demand and lower prices of agricultural products like coffee and cotton. In the context of inter-sectoral linkages, the banks that transact with these sectors would naturally be affected by the crisis partly due to bad performance of their clients in these sectors.

Whereas the views on limited integration into the global economy are similar to those of Minja (2009) and supported in this work, the other views are contested. For example

there have been report (see URT, 2009) of reduced reserves due to the crisis and even until 2010 the country was still suffering from various direct and indirect impacts of the crisis.

Generally, the impacts of the crisis in Tanzania, as is the case in many other developing countries with no highly developed, sophisticate and globally intergrated financial system was through second round effects which are bounce-on effects. These mainly emanated from reduced aggregate demand both at global and local levels. The crisis resulted into liquidity problems and all-times low consumers' and investors' sentiments in the world market. Foreigners' appetite for goods and services from Tanzania declined on account of the crisis, inter alia. All these are assumed to affect banks that finance these transaction negatively. It is assumed further that banks responded in various ways to the crisis.

3.7. Responses to the 2008 Economic Crisis

The impacts of the crisis necessarily called for a number of responses at the individual, household, community, national, sub-regional, regional and global levels. In the context of this work, the term 'responses to the crisis' is used to mean reactions that were undertaken to deal with the crisis and its impacts. Whereas some responses have aimed at stopping the spread of the crisis and its many negative impacts, others have aimed at reducing possibilities of a future crisis and at best prevent one all together. Other responses have taken the form of exploiting the opportunities that unfolded from the crisis.

Works that have dwelled on responses to the crisis include those of the ILO (2008) on a global policy package to address the global crisis; ILO (2009a) on tackling the global job crisis and recovery through descent work policies; ILO (2009b) on the financial and economic crisis: a descent work response; AfDB (2009) on response to the economic impact of the financial crisis; and Aryeetey (2009) on the global financial crisis and domestic resource mobilization in Africa.

Other works on responses to the crisis include IMF (2009) on world economic outlook: crisis and recovery; Krugman (2008) on bad anti-stimulus arguments; Ngowi (2010b) on the current global financial crisis: its impacts and solutions in Tanzania; Ngowi (2009d) on whether the 2009/10 Tanzanian budget could offer recovery from the crisis; UN (2008) on calling for decisive action to lessen impacts of the global economic crisis; and -Eze (2009) on six measures identified by the ILO to address the crisis.

The work of Fagbohun (2009) dwelt on global financial crisis and corporate environmental governance with a focus on rethinking rationalizations. Barrell et al (2009) worked on fiscal stimulus to address the effects of the global financial crisis on Sub-Sahara Africa while Tumusiime-Mutebire (2009) looked at the global financial crisis and its impact on Uganda and policy response. Walsh (2008) worked on responses to the crisis through going green and asks whether the environment will lose out to the economy or not.

According to Ngowi (2010a, 2013), generally the responses to the crisis would include finding solutions for the same. This should be done by addressing its specific causes in general and reverse its impacts in particular. Among the key to solving the crisis is to address the demand side of the economy. This can be done by various measures to stimulate aggregate demand at national, sub-regions and global level. Ngowi (ibid) points out that among the strategies to stimulate aggregate demand include the use of expansionary monetary and fiscal policies in general and their appropriate policy instruments in particular.

3.8. Implications of the Responses to the Banking Sector

The responses outlined above, especially those at firm, household and individual levels are assumed to have many and far-reaching implications to the banking sector which is a focus of this work. The responses in the above levels mainly imply reduced demand for goods and services, the result of which would be reduced production and reduced investments.

By extension, this implies reduced willingness and ability of firms, individuals and households to borrow from financial institutions including banks. This implies reduced sales volumes, sales revenues, profits and asset quality of these banks. When such responses are prolonged, they could lead to collapse of individual banks and eventually of the whole banking system. To avoid this from happening, it is assumed in this study that the regularors of banking sector (Central Banks) and individual banks would respond in various ways. Part of the study that informs this work researched on the way the central bank in Tanzania – BoT – , Barclays Bank Tanzania Limited and Tanzania Investment Bank (TIB) responded to the 2008 economic crisis.

3.9. Empirical Literature Review

This part of the thesis covers most recent studies done on the impacts of and responses to the 2008 economic crisis in the banking sector locally and globally. As noted earlier there is a general inadequacy in the availability of academic literature on the 2008 economic crisis in general and on its impacts on and responses to the same in the banking sector in general and in Tanzania in particular. This is due to the infancy nature of this study area. However, an attempt has been done to review the limited available literature both locally and globally.

3.9.1. International Literature

Among the leading global authority in the banking sector is the Basel Committee on Banking Supervision. Partly in response to the 2008 economic crisis impacts in the banking sector, Basel Committee issue a global regulatory framework for more resilient banks and banking systems. The regulatory framework is contained in Basel (2010). Among its contents include strengthening of the global capital framework; raising the quality, consistency and transparency of the capital base;enhancing risk coverage; supplementing the risk-based capital requirement with a leverage ratio; reducing procyclicality and promoting countercyclical buffers; and addressing systemic risk and interconnectedness. The framework also covers global liquidity standard; minimum capital requirements and buffers.

Basel III framework aims at among other things, to strengthen global capital and liquidity rules. The goal is to promote a more resilient banking sector. The objective of the reforms is to improve the banking sector's bility to absorb shocks arising from financial and economic stress, such as the 2008 crisis. According to Basel (2010), the ability of the banking sector to absorb the shocks would reduce the risk of spillover from the financial sector to the real economy.

The Committee also aims to improve risk management and governance and strengthen banks' transparency and disclosures. The Basel III reform package includes the Committee's efforts to strengthen the resolution of systemically significant cross-border banks. The reforms were necessary in order to have stronger and more resilient banks. This is important because strong and resilient banking system is the foundation for sustainable economic growth, as banks are at the centre of the credit intermediation process between savers and investors. Most central banks, including BoT are expected to adhere to the Basel III regulations, among others. This will take place by the central banks' overseeing that the banks they regulate, such as commercial and investment banks do adhere to the Basel III regulations accordingly.

Choudhry et al (2010) found that the 2008 economic crisis caused disruptions in the working of banks and credit systems in across the world general. It also caused systemic banking crises in some countries in which case corporate and financial sectors experienced large number of defaults and financial institutions and corporations face great difficulties repaying contracts on time. The authors note that if non-performing loans increase sharply, all or most of the aggregate banking system capital can be exhausted. According to the authors, responses to the crisis in the banking sector include but are not limited to easy monetary policies, rescue plans for banks and financial institutions, as well as attempts to reform the international financial systems.

According to Reavis (2012), European financial institutions have pushed the global financial system to the brink of systemic meltdown. In May 2009, the results of the stress tests conducted on the 19 largest banks in the United States to test their capacity to withstand a further economic downturn were less negative than feared. A total of 10 out of the 19 banks subjected to the test were ordered to raise $75 billion in new capital.

As part of the impacs of the crisis in the banking sector, the auhor infprms tha smaller banks were left saddled with loans that they had borrowed. Banks started defaulting on their loans and many banks were facing insolvency. Their assets were too small to cover their liabilities. As a result, credit markets started to freeze up, and individuals and businesses could not get loans. There was liquidity runs on financial institutions including banks and there were posssibilities of run on banks. Banks were afraid pf lending to each other partly on fear of run on banks.

According to Reavis (2012), as part of responses to the crisis, starting in the fall of 2008 the U.S. government stepped in with financial assistance in form of hundreds of billions of dollars in bailout. The responses by the government are in line with the recommendations from Austrian schhool of though and from Marxists school of though as well who propose government intervention in form of Keynesian economics to adress economic crisis.

In a study on the 2008 crisis imoact and response by the European Union (EU), Jackson (2009) informs that throughout the crisis, the European Central Bank and other central banks have assumed a critical role as the primary institutions with the necessary political and economic clout to respond effectively. The author further informs that within the United States, the Congress appropriated funds to help recapitalize financial institutions including banks. European governments on the other hand adopted fiscal measures to stimulate their economies and wrestle with failing banks. The crisis, according to Jackson (ibid), has shown that financial markets are highly interdependent. Whereas this is true for more developed parts of the world such as Europe and America, it is not the case for Africa, except South Africa.

In their study on the impacts of the 2008 economic crisis on emerging Asia, Goldstein and Xie (2009) point out that the crisis was assumed to affect credit flow. Credit growth, including bank lending to the private sector stands to dry up and adversely affect real economic activities. They found however that neither bank lending growth nor private credit growth indicated much of a decline in emerging Asia during this crisis. For example, bank lending growth in China has surged at an annual rate of over 30 percent in 2009. The authors attribute this to the fact that banking systems in most

Asian economies had benefitted from a strong rise in bank deposits in the run-up to the crisis; hence, their balance sheets were very liquid and (with the notable exception of Korea) they were not highly dependent on international wholesale funding.Among the responses to economic crisis in the banking sector, according to Goldstein and Xiel (ibid) is bank restructuring.

In a study on evaluation of the implications of the 2008 global economic crisis on the performance of Nigerian banks, Ruth (undated), points out that the crisis had the potential to escalateinto unmanageable proportions for the Nigeria financial system which is dominated by banking sector.

According to the author, incessant bank failurecalls for appropriate measures capable of stemming the tickle. This is because eventual bank failures have many and far-reaching implications. Bank failures woud affect bankers, customers, government and the general public. Using secondary data, the study found that the crisis impacted Nigerian

banks through the mechanisms of of profitability and liquidity. Using multiple regression analysis, Ehiruth (ibid) found that the crisis had a negative impact on the performance of banks in term of liquidity. The author recommended that the federal government should put up proactive measures to conserve the foreign reserves and timely injection of liquidity into the banking system. Whereas the recommendation on icreasing liquidity into the banking system seems to be in line with the author's findings, the one on conserving foreign reserves does not. What is recommended by the author in as far as increasing liquidity is concerned is in line with the monetarists and Austrian schools of thoughts of economic crisis.

In another study by on the impacts of the 2008 crisis on the Nigerian banking system, Ashamu and Abiola (2012), found that because the global economy is inter-related, the Nigeria banking system was vulnerable to the 2008 economic crisis. The authors inform that the crisis could snowball into worse scenario for the Nigeria banking system and the entire economy. It was also found that the crisis caused a drop in the quality of part of the credit extended by banks for trading in the capital market, tightening of liquidity, greater loan-loss provisioning, slower growth rate of banks' balance sheet in response to the crisis and higher provisioning leading to lower profitability among others. As a response to the crisis, the authors recommended that the federal government should, among other things, put up proactive measures to conserve the foreign reserves and timely injection of liquidity into the banking system. These recommendations are similar to those of Ehiruth (undated).

Drawing experience from Kenya, the study by Were and Tiriongo (2012) focused on the central bank’s response to the 2008 economic crises from a developing African economy perspective. The authors found that the policy interventions were initially effective in restoring confidence, lowering the short term interest rates and maintaining macroeconomic stability. However, the loose monetary policy stance, which was alao applied in Tanzania, could not be sustained. This is because of increased inflationary pressures and unprecedented depreciation of the exchange rate.

The abrupt shift to a tight monetary policy stance on the other hand, led to a sudden rise in both short term and long term interest rates. This, according to the authors partly counteracted the gains that had been achieved. In their assessment of the effectiveness of monetary policy using simple Vector Autoregression(VAR) analysis, the authors found that there was weak monetary policy transmission mechanism. The authors recommended that in responding to economic crises, there is a need for a clear exit strategy. There is also a need for a wholistic approach to addressing structural weaknesses and vulnerability of most African economies to shocks such as the 2008 economic crisis. This is partly because monetary policy on its own is not adequate in addressing such shocks.

What has emerged from the global literature such as Ssonko (2009), indicates that due to the 2008 economic crisis, foreign parent banks investing in Africa could withdraw funds from subsidiaries and local banks. This can negatively affect the sector in the continent. Besides the possible withdrawals, there can be stopping of investing local profits in local subsidiaries and economies. This calls for among other things,

monitoring of the sector vigilantly in order to minimize vulnerabilities from such withdrawals and mitigate risks.

According to Ssonko (ibid), the 2008 crisis affected among other sector, the financial one in Uganda. Ssewanyana et al (2009), without establishing causality argue that as a result of the crisis, Uganda's financial sector was affected by the drop in demand for government securities. This is because investors retreated to safer destinations. For example the Bank of Uganda (BoU) had to suspend a number of Treasury bill auctions in the first quarter of 2009 due to the crisis. Citing BoU (2009), Ssonko (op cit) informs that in order to encourage lending, the BoU had to cut its lending rate to the commercial banks by 3.4 percentage points, from 19.3% to 15.8%. This in line with some banks in such developed countries like Japan as documented in Ngowi (2013).

Ssonko points out that the structure of Uganda's banking sector raises concern. This is because about 80% of the banking business is foreign owned (mainly by banks from

South Africa, the UK, Nigeria and Kenya). This is seen as posing potential risks to the Ugandan economy since local banks could face difficulties if due to the crisis their parent companies abroad withdrew funds to support their operations at home as documented in IMF (2009). In Tanzanian context however, this should not be a concern because according to BoT regulations foreign banks in Tanzania are licensed as independent banks with own capital base, not as branches of their parent banks abroad.

According to the BoU (2009) however, the banking sector in Uganda was sound and stable depite the crisis. This is similar to the situation in Tanzania as documented by BoT (2008) among others. BoU (op cit) informs that its capital adequacy ratios were well above the regulatory requirements. BoU admitted that Uganda is a home to many subsidiaries of international banks. However, the local subsidiaries have no exposures to the subprime products of other toxic debts. While some banks such as Citi Bank International and Barclays Bank (Uganda) Ltd have their own capital base and no exposure to toxic assets, the two subsidiaries have a stand-alone capital requirements and are decoupled from the parents.

Ssoko (ibid) citing BoU (ibid) informs further that the abrupt decline in capital inflows has contributed to the reduction of liquidity in the banking system in Uganda. There is also some anecdotal evidence that some large local companies access to credit abroad was curtailed causing an increase in domestic demand for credit. This is further reflected by the nominal average interest rates which peaked at 23.2% in August 2008, but declined subsequently to 18.9% in January 2009 before increasing to 20.9%. in March 2009.

3.9.2. Literature on Impacts of the 2008 Economic Crisis in Banking Sector in Tanzania

There is a general lack of academic literature that give general objectives of research works; methodologies used including but not limited to research design, sampling, data collection and data analysis; and general conclusions on the impacts of and responses to the 2008 economic crisis in Tanzanian banking sector. This shows the need for and value added by the research informing this dissertation that is likely to be a pioneering and ground-breaking work in this area of research.

However the available limited literature on the impacts of the 2008 economic crisis in the banking sector in Tanzania is reviewed here. In an article without the author's name titled 'Tanzania Banking not Deterred by Global Financial Crisis (Online at http://www.tanzaniainvest.com/banking-finance/news/97-tanzania-banking-not-deterred-by-global-financial-crisis), the Bank of Tanzania informed that the country's banking system was still secure, safe, stable and sound.

This is contrary to what banks in more developed part of the world such as US and Europe had experienced. Due to the crisis, such banks as Merril Lynch, Bank of New York Mellon, Goldman Sachs, Morgan Stanley, J. P. Morgan, Wells Fargo and Citi Group were arguably no longer secure, safe, stable and sound. (See Ngowi, 2013).

The BoT report informed further that the banking sector was adequately capitalized. On the basis of such financial indicators as capital adequacy ratio, the sector was considered resilient to the 2008 crisis shocks and liquidity in Tanzanian banking sector remained high. Therefore banks were able to meet any maturing obligations. This is contrary to what some banks in the US and Europe experienced. They experienced liquidity problems leading to credit crunch. Without establishing clear causality, Velde and Lunogeno (2009) informs that by March 2009, CRDB Bank had suffered defaulted repayment worth Tshs 168 billion due to the 2008 economic crisis. This is just six (6) months after the crisis started officially in September 2008. The amount of default (Tshs 168 billion) is a relatively substantial amount of money and should be a reason for concern for the bank and its shareholders. This is because default of payments implies reduced profit margins and can even lead into loss.

The impacts of the crisis in Tanzania (compared to more developed countries), according to Velde and Lunogelo (ibid) were somehow shielded by some factors. These factors include, among others, Tanzania's low level of integration with the international capital and financial markets. It is understood that Tanzania's capital and financial markets are still in their relative infancy stage of development. They are yet to be sophisticated and fully integrated into the global markets in the likes of those in more developed parts of the world such as America and Europe.

Another factor that shielded Tanzania's banking sector from the 2008 crisis according to the authors is the relatively small component of foreign assets in the country's commercial banks. Velde and Lunogelo (ibid) argue that the foreign asset component in the commercial bank system is less than 11% of total commercial bank assets in Tanzania. Velde and Lunogelo (ibid) partly attribute the low exposure to volatilities of foreign-owned banks in Tanzania to their not operating as branches of parent banks abroad but as independent subsidiaries. They document further that most businesses and banks had limited amounts of foreign borrowing while none held securities in the international banks that were affected by the crisis. This position is similar to that of Minja (2009).

In discussing the impacts of the 2008 crisis in Tanzanian banks, Minja (ibid) points out that foreign banks operating in Tanzania (about 47% of the total banks) are governed by laws that treat them as independent banks rather than as branches of parent foreign banks. The implication is that these banks will not automatically be exposed to volatilities caused by the crisis inter alia, of their parent companies.

Some multinational banks such as Citi Bank, Bank of Baroda, Barclays, Standard Chartered Bank and Federal Bank of the Middle East with branches in Tanzania might have been affected by the crisis. However, their operations in Tanzania might not have been necessarily affected as a result of the effects of the crisis in the parent banks. Minja (ibid) argues that, the strength of bank regulation and supervision based on the Bank and Financial Institutions Act (2006) has led to limited number of foreign resources in the Tanzanian banks. These, according to Minja (ibid), are to the tunes of 11% only and do not constitute toxic assets.

The views of Velde and Lunogelo (ibid) and Minja (ibid) above can be contested and interrogated. In BoT (2010) for example, it is documented that about 47% of banks in Tanzania are foreign-owned and have a 50% share of capital in the sector. This may imply that the sector is not all that shielded as claimed by Velde and Lonogelo. From foreign direct investment (FDI) point of view, a foreign investor may flag out and invest in another economy if investment conditions in the original location are no longer favourable. Therefore if economic crisis reduces profitability of the foreign-owned banks in Tanzania, they can flag out even if they are not operating as branches of their parent companies and with their own capital base.

Minja (ibid) argues that Tanzania's financial supervision and regulatory system managed to limit damages of the crisis in the country's banks. This is contrary to the situation in the US where weak and too liberal supervision and regulations of the banking sector by the Federal Reserve Bank (the Fed) has been cited as among the causes of the 2008 economic crisis. Among others, see USA (2009) and Adei (2010) for details on how weak supervision and regulation by the Fed contributed to the emerging of the 2008 crisis.

Economic crisis can lead to a flight to currencies perceived as safe or even a run on banks. This, according to Minja (ibid) can be caused by information asymmetry which may throw firms and individuals into a panic mode. Possibilities of run on banks where customers would draw as much of their deposits as possible is not far-fetched. It was observed in Cyprus in March 2013 when the banking sector in the country was highly troubled. Banks had to be closed for about a week and opened on the 28th March 2013. Limits had to be put on how much customers could draw from their deposits. This implies that economic crisis can have very serious and far-reaching impacts on banks and their customers.

As noted in Ngowi (2010, 2013), Minja (2009) and Rwegasira (2010) among others, IMF (2010) correctly informs that Tanzanian banks were not directly affected by the global financial crisis. However they were affected by second-round effects through the real sector of the economy. These second round effects of the crisis intensified risks to the financial sector. The IMF (ibid) informs that Tanzanian banks were well-capitalized and not exposed to the asset classes (toxic assets) that led to large losses in major financial centers.

Exposure to distressed real sectors of the economy such as agriculture including cash crops and horticulture; tourism; construction; hotel; and transportation however, affected loan quality in a number of banks. Due to the crisis the sectors were distressed for various reasons. In the agricultural sector for example, there was reduced exports due to reduced demand abroad. In the tourism sector there was reduced tourist inflows which affected all various nodes in the tourism commodity chain. All this implies that the distressed sectors could not repay their loans as per pre-crisis agreements.

Without giving details, IMF (2010) informs that part of impacts of the crisis in Tanzania include considerable domestic liquidity tightening. It is argued that there was tightening of liquidity by way of restriction of issuing credit. As a response to liquidity tightening, according to IMF (ibid) there was a significant loosening of monetary policy to help mitigate the downturn. From Ngowi (2013) it is understood that liquidity tightening implies contractionary monetary policy which is bad economics in the context of mitigating economic crisis and its impacts. This is because it takes expansionary rather than contractionary monetary and fiscal policies and their instruments to mitigate against economic crisis and attain recovery.

The 2008 economic crisis has affected Tanzanian banks by way of inter alia, increasing Non Performing Loans (NPLs). According to IMF (2010), NPL rates in Tanzanian banks peaked in mid-2009 due to the 2008 crisis. NPLs exhibited large variation among banks, partly reflecting different exposures to distressed sectors. The sectors that are more distressed and exposed to the crisis would logically report higher rates of NPLs. According to IMF (ibid), system-wide NPLs rose to 7.8% in June 2009 from 6.2% (increase by 1.6%) in December 2008 due to the 2008 crisis. However, NPLs declined by 0.5% to reach the 6.7% mark partly as a result of the government rescue package for distressed borrowers.

According to IMF (ibid), NPL rates varied not only across sectors but also across banks. The IMF informed that NPLs for systemically important banks at the end of

June 2009, ranged from 1.8% to 14.2% which is a range of 12.4%. Although the Fund did not mention these systemically important banks, it is assumed that they include some of the biggest banks in the country in terms of, inter alia, assets, customer base, deposits and number of branches. These banks include CRBD Bank Ltd, the National

Microfinance Bank (NMB) and the National Bank of Commerce (NBC).

As documented in Ngowi (2010 and 2013), banks that had advanced loans to various investors suffered from borrowers' inability to repay. Some cooperative unions and about 24 companies borrowed from CRDB Bank Ltd and were unable to repay. Shinyanga Regional Cooperative Union (SHIRECU) and Nyanza Cooperative Union

(NCU) borrowed some 6.6 billion Tshs to purchase cotton. They were unable to pay 4.6 billion out of the sum. This is a failure to pay a total of 69.7% of the total loan. Out of the 24 companies that borrowed from CRDB a total of 20 or 83.3% were made none-credit worth by the crisis.

According to Lunogelo et al, (2010), the banking sector in Tanzania started worrying that trade finance was increasingly becoming more risky due to the 2008 economic crisis. This is because the country's export commodity prices continued to decline in the global market. This is a result of reduced demand for the export commodities which in turn is a result of the economic crisis.

Lunogelo et al, (ibid) informs that export orders were reduced and at times cancelled while revenues from the tourist sector dwindled. Using various indicators such as profitability and liquidity criterial, the authors argue that by the third quarter of 2009, the financial sector in Tanzania was still sound. However, similar to the views of the IMF

(2010) the authors noted that some banks in Tanzania experienced an increase in their NPLs.

Without establishing causality, the literature informs that the 2008 crisis also affected Tanzanian banks through reduced bank businesses. Velde and Lunogelo (2009)

identifie reduced bank lending and other bank transactions owing to reduced business, exchange rate and interest rate changes as among the impacts of the 2008 economic crisis. Reduced bank lending in times of economic crisis can be a result of banks extra risk assessments that reduces the number of none credit worth clients. It can also be a result of borrowers reduced inability and/or willingness to borrow for various reasons including bad business prospects due to the crisis.

3.9.3. Literature on Responses to the 2008 Crisis in the Banking Sector in Tanzania

There have been various responses following the various potential and actual impacts of the 2008 economic crisis in general and in the banking sector in Tanzania in the context of this work in particular. Generally the responses aimed at mitigating the many and far-reaching negative impacts of the crisis. In the banking sector these are arguably the responses that were taken by individual banks Some responses also arguably aimed at preventing a similar crisis and its severe impacts in the future. These are arguably the responses that were undertaken by the Central Bank.

Minja (2009) states that due to the economic crisis, some financial institutions might have taken a more cautious stance when advancing credit. According to the author, this kind of response to the crisis is caused by reflecton by the financial instritutions on the consequences of irresponsible lending and financial engineering. This is logical because the the main cause of the crisis as partly documented in Adei (2010), Ngowi (2010, 2013) and USA (2009) is irresponsible lending and financial engineering. Cautious stance towards lending would include being more risk averse by inter alia having more stringent risk assessments prior to advancing credit to a particular borrower. As detailed in the chapter on field findings, some banks responded to the crisis in this way.

IMF (2010) correctly notes that the policy response of the Tanzanian authorities to the 2008 crisis included a rescue package that was designed to support sectors affected by the crisis and by extension bail out banks. As mentioned in Ngowi (2013) these sectors include the agricultural sector especially cash crop such as cotton. The rescuse package was to the tunes of 1.7 trillion Tanzania Shillings that were injected in the 2009/10 national budget.

The funds were channeled through banks to ensure that they were used for resolving nonperforming loans (NPLs) rather than for other purposes. In the context of this wor, this was a response to bail out banks against the many negative impacts of NPLs. It is worth noting that there have been controversies and questions – for example in the

Parliament - on how this rescue package was used. It is beyond the scope of this work to dwell on the controveries.

According to IMF (ibid) stress tests were carried out as part of responses to the crisis in the banking sector.It was found that the main vulnerability for banks in Tanzania stems from credit risk, particularly from large exposures. The stress tests, according to IMF (ibid) found that substantial concentration in the loan portfolio leaves banks exposed to the failure of large borrowers.

In the context of this study, banks can be affected by economic crisis due to failures in the real sectors of the economy they fund. Partly this can be among the reasons for the response to the crisis by injecting the 1.7 trillion Tshs rescue package in the 2009/10 national budget. The tests also found that a sharp increase in short-term rates would hurt a number of banks in Tanzania.

3.10. Knowledge Gap Bridged by the Study

The reviewed literature has shown that there are some works that have been done on the

2008 global financial and economic crisis. These include Adei (2010) on Africa and the global economic downturn – causes, responses and future options; AfDB (2009a) on impacts of the global financial crisis on Africa; AfDB (2009b) on response to the economic impact of the financial crisis; Biekpe (2009) on impact of credit crunch on foreign aid in Africa; Brambila et al (2009) on the global financial crisis effects of slowing private capital inflows on growth in Sub-Saharan Africa and Ikome (2008) on the social and economic consequences of the crisis on developing countries and emerging economies.

Other works include those of IMF (2009) on impact of the global financial crisis on Sub Saharan Africa; Massimilano and Salvatore (2009) on the global financial crisis and remittances; Ngowi (2009a) on the impact of the crisis on employment and official development assistance; Tumusiime-Mutebire (2009) on the global financial crisis and access to finance and Velde et al (2009) on the global financial crisis and developing countries.

Despite the various literature above, there was still a knowledge gap on the impacsts of and responses to the 2008 economic crisis in Tanzanian banks. The little literature that exists such as Minja (2009), Lunogelo et al (2009), URT (2009), IMF (2009) and

Ngowi (2010, 2013) is inadequate in bridging the knowledge gap on the general and very specific mechanisms through which banks in Tanzania were affected by and responded to the 2008 economic crisis.

Understanding the mechanisms through which banks were affected is important in order to, among other things, design national level and bank-specific interventions to address the impacts shoul another crisis emerge. The knowledge on the nature of responses too is very important in establishing possible ways in which banks should be responding to similar crises and shocks. All these are very important in safeguading the banking sector and its clients, knowing that economic crises and similar shocks can lead into collapse of banks and the real sectors of the economy that transact with these banks. This study therefore has been a humble attempt to bridge the hitherto existing knowledge gap on the mechanisms through which banks in Tanzania were affected by and responded to the 2008 economic crisis. However, some areas for further research still exist as this thesis could not exhaust all the existing knowledge gap in this very new research area.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Overview

This chapter describes the methodology that was used in the research that informs this thesis. The contents of the chapter are partly guided by the works of Kothari (2004, 2011), Ndunguru (2007), Adam and Kamuzora (2008), inter alia.

4.2 Type of the Research

The research that informs this report was an exploratory type of research. As outlined in Ndunguru (2007: 17) exploratory types of research are for new study areas that are little known about. This view of exploratory research is also shared by Kothari (2011: 4) and Adam and Kamuzora (2008:7). The authors correctly point out that exploratory researches are for unfamiliar research problems or a new research area or topic. The study aimed at exploring the mechanisms through which banks in Tanzania were impacted by the 2008 economic crisis and the way they responded to the same.

There are several rationale and justifications for adopting exploratory type of research on the mechanisms through which banks were impacted by the 2008 global economic crisis and their response to the same. As a new study area, there was a need to explore so as to discover and unearth as many of these mechanisms and responses as possible. This is because they were unknown. Research on impacts of and responses to the 2008 economic crisis in general and in the Tanzanian banking sector in particular falls in a new and virgin research area. This is because the 2008 economic crisis was (when this study began in 2010) and still is rather new and much is yet to be known and scientifically established. The crisis that started officially in September 2008 was about two years old in 2010 when the proposal for this study was developed. Therefore, there was and still there are many issues that were and still are not yet known and need to be explored.

Among these issues that were unknown include mechanisms through which banks were impacted by the crisis and responses to the same in Tanzania. As discussed under justification for the research, and consistent with Kothari (2004: 35 – 36), these unknown issues are better unearthed using exploratory type of research, hence a justification for exploratory research.

There are several possible approches in undertaking exploratory type of research. According to Kothari (ibid: 36 -37), these approaches include but are not necessarily limited to the survey of the literature and experience survey in which people with practical experience would give insight to the issues being explored. Another approach in exploratory type of research is analysis of insight-stimulating examples which involves intensive study of selected instances – impacts of and responses to the 2008 crisis in banks in Tanzania in the context of this study.

For this study, various approaches of exploratory type of research were used. These approaches included very intensive and extensive reviewing the literature. Both academic and non academic (grey) literature were widely reviewed. Books, journals, dissertations, various reports, newspaper and magazine articles as well as various other documentations were reviewed with the view of exploring the various mechanisms through which banks were potentially and actually impacted by the 2008 economic crisis.

It is a fact that the 2008 global economic crisis is still a relatively new phenomenon.

There are a number of insights, knowledge, facts and opinions about the mechanisms through which banks were impacted by and responded to the 2008 crisis that are not yet documented. It was necessary therefore to explore beyond the literature. This was done through carrying out field studies in efforts to explore the nature of impacts and responses to the same in the banking sector in Tanzania in particular.

4.3 Research Design

This study adopted a case study research design. The justification of this choice is based on the objectives of the study. The study aimed at exploring detailed and case-specific mechanisms through which selected banks were impacted by the 2008 crisis and the way specific banks responded to the crisis. In line with what Kothari (2004, 2011), Ndunguru (2007) and Adam and Kamuzora (2008) describe about case study design, specific banks were chosen for the purpose of exploring their detailed and very specific inputs on the impacts mechanisms of and responses to the crisis.

The choice of a case study design is justified on various grounds. Firstly, the study aimed at exploring detailed and bank-specific views on impacts mechanisms and responses to the same. The aim was to study very specific study units, in this case banks. The choice of case study design is also justified by the fact that the study aimed at exploring the mechanisms of impacts and responses to the same in-depth rather than breadth. It aimed at full exploration of limited number of study units and intensive investigation of each particular bank.

Apart from Kothari (2004, 2011), Ndunguru (2007), Adam and Kamuzora (2008), the choice of case study design is also guided by Odum and Katharine (1929) who correctly informs that case study design is for a fairly exhaustive studying of individual unit or units. It is also justified by descriptions of Burgess (1949) who correctly points out that case study designs are social microscopes in that they give very close and in-depth investigation of a study unit. Case studies allow for carefull and almost complete study of a unit.

The aim of the case studies was to have few in-depth and specific cases to illustrate how banks in Tanzanian context can be affected by economic crisis and respond to the same. The general views from the literature are that findings from case studies should not be generalized to the rest of the population. However, it is argued in this thesis that the way the chosen banks have been affected by the 2008 economic crisis and responded to the same reflects how other similar banks in Tanzania and banks in similar environment elsewhere can be affected and respond in times of economic crisis. However, the findings from the Barclays and TIB case studies cannot be generalized to other banks especially those in different environment. The findings from BoT case study however, can be generalized to other banks in Tanzania since it gives an over view of all banks under its jurisdiction.

4.4 Case Study Units

The study units for the case studies were three banks in Tanzania. These are the BoT, Baclays Bank Tanzania Limited and Tanzania Investment Bank (TIB). In the population of central banks in Tanzania, BoT is the only available study unit since there is only one central bank in the country. On the other hand, Barclays and TIB are just units out of a population of 32 banks that were licensed by BoT at the start of this study. This is just 6.3% of the total population of banks. By all standards this is not a representative sample. Neither does it need to be because the study was not a survey but a case study design.

The limitation of the case studies to these two non central bank units was based mainly on time and financial resources constraints as well as on the volume limitations imposed on the thesis. If it was a survey research design a total of at least ten (10) banks would be sampled in which the sample would be about 31.3% of the total population.

A summary description of each of the study unit has been presented in chapter two of this thesis. The executives of each of the study units were contacted with official request to provide responses for the study. Introduction letters and interview guides were mailed to these executives (Governor's office for th case of BoT and Managing Directors for Barclays and TIB).

Senior officials of various departments of the three banks were the main sources of the information in the study. For BoT, the researcher was directed to the Department of Research which provided the information that was requested. For Barclays Bank

Tanzania, the researcher was directed to the Department of Treasury which provided the requested infomation while for TIB the point of contact was the Strategic Planning Department. Raw responses from all the three banks and follow up questions that were asked by the researcher as well as the documents that were availed to the researcher by the banks for further review to complement the interviews are attached as appendices in this thesis.

4.5 Sampling Procedure

The three study units were sampled using purposefull sampling technique. The BoT is naturally the only central bank in Tanzania. Since there was a great need to explore the mechanisms through which banks were affected by the crisis and responses to the same from the central bank, the BoT was purposefully sampled as one of the case study banks. This is because as the financial sector regulator, it was only BoT that constitutes the total population of such regulators in Tanzania. Therefore it is the only one that would have the kind of information needed from a financial sector regulator for this study.

Barclays and TIB were also sampled purposefully. The researcher aimed at exloring inputs from at least one investment bank in Tanzania on the mechanisms through which that specific bank was affected by the crisis and its response to it. The aim was to explore investment-bank-specific detailed elaborations of the impacts mechanisms and responses that would otherwise be missing in the general BoT inputs. By the time of the study, TIB was the only known and large investment bank in Tanzania. It was therefore natural to have it as a case study.

The researcher was also interested in having one international bank case study. This would help to explore whether the mechanisms through which local banks were affected by the crisis and responded to the same are the same or different from the international one. Barclays bank was purposefully selected as a case study due to the researcher's earlier professional engagement with the bank as a guest speaker to its management team, hence relative easier support and access to information.

4.6 Types of Data and Their Sources

The study was informed by two types of data. These are secondary and primary data. As stated in Kothari (ibid), Adam and Kamuzora (ibid) and Ndunguru (ibid), secondary data are those data which already exist. They are data that have been collected by others for various purposes. The main source of the secondary data are various documentations including academic and non-academic (grey) literature . Primary data on the other hand are fresh and new data collected for the purpose of a specific research. The main source of primary data for this study are various departments of the three study units (BoT, Barclays and TIB) as outlined under the description of study units of this thesis.

4.7 Data Collection Techniques

Each of the two types of data (secondary and primary) were collected using various techniques.

4.7.1 Secondary Data Collection Techniques

Secondary data from various sources including libraries, documentation centres, the study units as well as online were used to inform this thesis. Secondary data collection was an on-gong activity throughout the study. This is because new literature kept on emerging in the whole due course of the study. Relevant documents were collected by the researcher over time. These were both hard and soft copies. They were systematically sorted according to the type of information they would provide in the various parts of the study. Then, the collected information was systematically and scholarly reviewed in the context of this study.

Several challenges were encountered in getting and accessing secondary data. The main challenge is associated with the newness of the theme and topic of the study. Academic literature including books, book chapters, journal articles, theses and dissertations on the 2008 economic crisis in general and its impacts on and responses in the banking sector in Tanzania is particular is highly limited.

This has made it necessary for the researcher to make use of both the limited academic literature and some authoritative and informative none acad.

4.7.2 Primary Data Collection Techniques

It was very necessary to collect primary data in order to explore and bring new insights and perspectives of the study units (the three banks) on the mechanisms through which banks were impacted by and responded to the 2008 crisis. The primary data supplemented and complimented secondary data and vice versa.. Primary data were also important in updating and cross-checking some of the secondary data as well as identifying, documenting and analyzing new information/data on the ground.

Primary data collection techniques were determined by the respondents. Understanding how busy the respondents in the banking sector (senior staff) are, the researcher gave each of them an option to choose the best way to respond to the research questions that were availed to them in advance. The primary data were collected through various techniques as outined below.

4.7.2.1 Face to Face Interviews

Barclays Bank opted for a face to face discussion with the researcher. Interview guide were mailed to the senior treasury officer at the Treasury Department about one week before the appointment day for the interview. The contact person shared the interview guide with two other senior staff from the same department. The respondents requested for some elaborations and clarifications for some questions. The elaborations and clarifications were given accordingly well in advance of the scheduled interview day. On the interview day, the respondents had prepared some of their responses and were discussed with the researcher. Responses from Barclays were followed up by follow up questions from the researcher and these are attached as appendices in this report. The researcher requested for documents from the bank that were reviewed to suppliment the responses from interview.

4.7.2.2 Mailed Questions

As opposed to Barclays, BoT and TIB opted for mailed questions as their preferred technique of responding to the researcher's questions. As was the case for Barclays, the questions were mailed to the contact persons in these two banks. These were the BoT

Governor's secretary for BoT who forwarded them to a senior researcher at the research department of the bank. Responses were mailed back to the researcher with a substantial list of specific documents including page numbers that were reviewed by the reseacher to complement the mailed responses.

For TIB, the contact person was a senior economic researcher at the Strategic Plan department. The detailed research questions were answered and mailed back to the researcher. These are attached as appendix in this report. Similar to Barclays and BoT, a number of key documents (annual reports from 1998 to 2010 inclussive) were availed to the researcher in hard copy. Both data collection techniques proved usefull in getting responses. However, the face to face interviews and discussions with Barclays gave the researcher an opportunity to instantly probe in some questions so as to understand better the issues under discussion. In all the three banks therefore, the start point in collecting information was through written questions that led to interview (for Barclays) and written responses (for TIB and BoT). Then all the three resulted into substantial documentary review.

4.8 Data Processing and Analysis

4.8.1 Data Processing

Data processing was mainly done by editing the raw data and classifying the same according to the major aspects of the study. Data on mechanisms of impacts were separated from those on responses. For the BoT data the researcher classified data on responses by BoT to the crisis separate from the BoT data on responses by banks on the crisis. As part of data processing, some data had to be tabulated, some had to be processed into charts, graphs and histograms.

4.8.2 Data Analysis

Both qualitative and quantitative data were collected. Each of these category of data was analyzed differently using different approaches and techniques best suited to the kind of data and objectives of the study.

4.8.2.1 Qualitative Data Analysis

Since qualitative data mainly contains words rather than numbers, it was natural to use qualitative data analysis techniques for such data. The main qualitative data analysis technique that was used in this study is content analysis technique. Content analysis or textual analysis is a methodology in the social sciences for studying the content of communication. According to Babbie (2010), it is the study of recorded human communications. For Joubish and Muhammad (2011) content analysis is considered a scholarly methodology in the humanities by which texts are studied as to authorship, authenticity, or meaning. For Taylor-Powell and Renner (2003), content analysis enables analysis and interpretation of qualitative data so as to bring meaning and understanding. It is a science and art that requires creativity and systematic approach.

This study adopted the content analysis process and steps proposed in Taylor-Powell and Renner (2003). This choice is justified by the relevance of the process in the context of this study. Taylor-Powell and Renner (ibid), recommend five steps to be followed in

analysing qualitative data using content analysis techniques. These steps are understanding the data, focusing the analysis, identifying patterns and connections within and between categories and lastly categorizing information and interpretation.

In line with Taylor-Powell and Renner (2003) model, in the first step of content analysis, the various and massive data that was collected was put into context so as to undersstand it within the realm of the study. Data were read and re-read several times. Impressions and meanings in the context of the study were noted down. This enabled clear understanding of the mechanisms through which banks were impacted by the crisis and responses to the same. This step of analysis also made it possible to identify similarities and differences in the various impacts and responses within and between the study units.

In the second stage of content analysis in the adopted model, the study objectives were reviewed with the view of identifying the extent to which the qualitative data are likely to answer the research questions thereby atatining the research objectives. A review of how each respondent responded to each reseach question was done. Relations between each question and responses were examined. This was followed by categorization of narrative data.

Although Taylor-Powell and Renner (2003) propose categorization of data into preset and emergent categories in the second step of content analysis, this study departed from this advise and adopted the latter. The responses were read and re-read with the view of identifying the mechanisms and responses instead of making preset categories. The latter would imply using preconceived themes or categories (interpreted as impacts mechanisms and responses in this study). Since this is an exploratory research, the impacts and responses were not preconceived. Therefore it was more logical to make emergent categories by reading the responses – including the secondary data – and then identify impacts and responses.

Categorization of the narrative data into emergent categories allowed the mechanisms of the impacts of and responses to the 2008 crisis to emerge from the data. The impacts and responses were therefore known after as a result of working with the qualitative data. This step of content analysis made t possible for the researcher to develop initial list of impacts and responses. This was expanded from time to time as new texts were read and old ones re-read.

The third step of the content analysis model that was employed in this study is categorization of information. This is similar to coding and indexing in quantitative research. In content analysis technique of quality data analysis however, no number are used. Impacts and responses were identified and organized into coherent categories. Categories were built until when no new ones were identified.

In the fourth step of the content analysis technique used in this study, patterns of mechanisms of impacts and responses were identified. Also connections within and between the mechanisms through which banks were impacted by and responded to the 2008 economic crisis were identified as can be seen in the findings of the study.

The step of content analysis in this study was interpretation of the qualitative data in the context of the study before writing up the report. All the analyzed qualitative data were brought together and connected to present the study findings in the context of the research objectives. Findings were synthesized in order to make sense out of them in the context of the study and its objectives.

4.8.2.2 Quantitative Data Analysis

Although this was basically a qualitative research, some quantitative data were collected and therefore had to be analyzed. These data were analyzed in various ways depending on their nature and objective of analysis. Some descriptive statistical analytical tools were employed to make sense out of the collected data in the context of the study. For example, some totals, percentages and averages were computed accordingly.

This was an exploratory research that aimed at identifying as many mechanisms through which banks were affected by and responded to the 2008 economic crisis as possible. The objective was not to quantify the magnitude of the impacts, but to understand their mechanisms and the way banks responded to the same. Most of the data collected therefore are qualitative although there are some quantitative data to support them. Therefore quantitative analysis such as multivariate analysis which would analyse more than two variables on a sample of observations was not used as it was not appropriate for this kind of study and its objectives.

Following Kothari's (ibid: 130) advise, if multivariate analysis was appropriate, among the analysis that could be done include but are not limited to multiplr regression analysis, multiple discriminant analysis, multivariate analysis of variance and canonical analysis. Since this was not impact assessment study but identification of the mechanisms of impacts, the before- and after analytical procedure that would involve establishing causality between the crisis on one hand and impacts on the other was not used either.

After identification of the mechanisms of impacts (22 different mechanisms have been identified in this exploratory research), the next research frontier by way of areas for further research include emperical study and analysis of these mechanisms of impacts with the view of establishing causal-effect relationship with the crisis. Among the challenges that are foreseen however are adequate time series and panel data. This is because the 2008 crisis was a shock that lasted for relatively short period of time before recovery sat in sometimes in 2010.

Therefore the after -the crisis data would be only for some two years. To complicate the matter, the data for 2010 are likely to be polluted by the 2010 Euro zone sovereign debt crisis that emerged in 2010. Therefore this would create causality problem as some of the data could be attributed to the 2008 crisis while others would be attributed to the 2010 Euro zone crisis. Filtering which impacts are emanating from the 2008 crisis and which are emanating from the 2010 Euro zone crisis would pose substantial methodological challenges that would most most likely lead to interrogations of results of data analysis.

CHAPTER FIVE

FINDINGS FROM THE BANK OF TANZANIA (BoT) AND DISCUSSIONS

5.1 Introduction

In this chapter the findings on the mechanisms through which banks in Tanzania in general have been affected by the 2008 economic crisis and the way they have responded to the same from the perspectives of the Bank of Tanzania (BoT) are presented together with discussion of the same.

As pointed out earlier, the objectives of the research included identifying the mechanisms through banks in Tanzania were affected by the 2008 economic crisis from the point of view of these banks. It was beyond the scope of this study to measure and quantify the actual impacts of the crisis in each mechanism through which the banks were affected. The focus of the research was on identifying the conduits/mechanisms through which the banks were affected by the crisis. Measuring and quantifying the actual and potential impacts through which each bank was affected by each mechanism remains among the major areas for further research once the mechanism are understood.

5.2 Findings From the Bank of Tanzania (BoT)

The Bank of Tanzania (BoT) is the leading monetary authority in the country. It is the regulator of the banking sector. Therefore it was assumed by the researcher that the bank will have an overview of the impacts of the 2008 economic crisis in the banking sector in Tanzania and responses to the same. This is why it was important to get the views of BoT on the mechanisms through which banks in Tanzania were impacted by and responded to the 2008 economic crisis in general.

5.2.1 Mechanisms of Impact of the 2008 Economic Crisis in the Banking Sector in Tanzania

According to responses from the BoT, the banking sector in Tanzania was affected by the 2008 economic crisis through various mechanisms. These mechanisms include the following.

5.2.1.1 Second Round Effects

Unless otherwise stated, the findings on the second round effects are from the BoT's written response to the researcher's questions. According to responses from BoT, the banking sector in Tanzania was not affected directly by first round of the impact of the crisis. The impact was more felt in the advanced economies such as in the USA and Europe. The rather little impacts of the crisis in Tanzanian banks, according to the BoT responses was partly due to the fact that banks in Tanzania were not holding the 'toxic' securities and debt instruments that had spread the crisis across the international financial system. This response is similar to the literature by such authors as Adei (2010) and Ngowi (2013, 2010) who have pointed out that it was the second round impacts of the crisis not the first one that was felt in most part of the developing world including Tanzania.

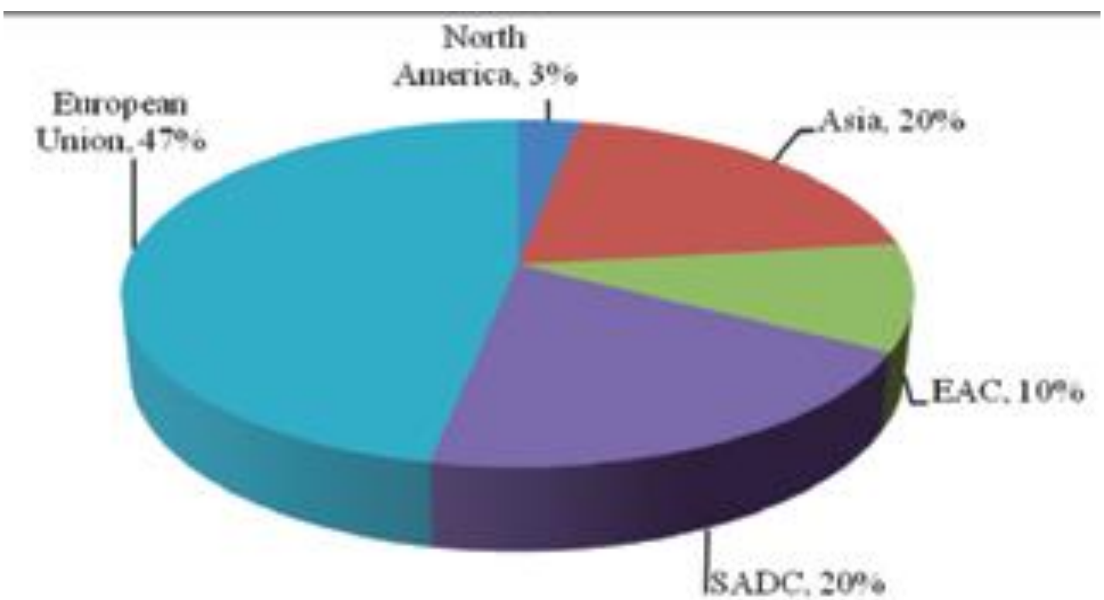
This second round or bounce-on effect is the result of collapse in the demand for exports which in turn affected cash flows of export-based activities. This caused banks to be more cautious to lending to the establishments involved in such activities, leading to a substantial slow down in credit growth from 44.6%t in 2008 to 9.6% in 2009. This is a decline by a whole 35%. Table 5.1 and chart 5.1 below show the share of Tanzania's exports in the period 2004 to 2008.

Table 5.1: Tanzania's exports by destinations, 2004 – 2008

Region	**Share**
Europe	47%
Asia	20%
SADC	20%
EAC	10%
North America	3%

Source: Adapted by the researcher from BoT (2010d)

Figure 5.1: Tanzania's exports by destinations, 2004 – 2008



Source: BoT (2010d)

The table and chart above show that Tanzania's exports destinations in the period 2004 – 2008, which are four years leading the 2008 crisis, were skewed to Europe (47%). This is among the continents that were much affected by the crisis. When one adds the exports to Asia (20%) and North America (3%), it becomes clear that about 70% of Tanzania's exports were destined to parts of the world that were substantially affected by the crisis. The implications of this include second-round impacts of the crisis through decline in exports. By extension, this affected banks whose clients were in businesses exporting to these markets.

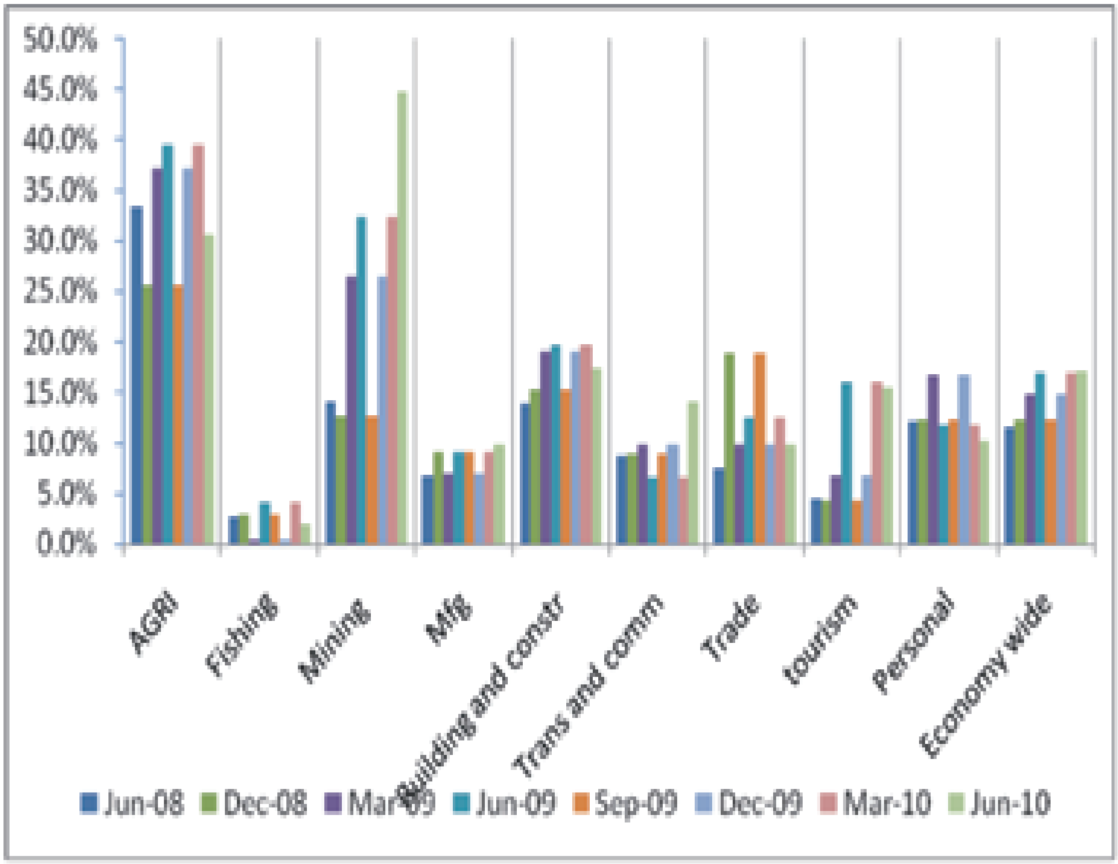
Second round effects of the crisis were also caused by decline in tourism. This is partly because the countries hat are sources of tourists to Tanzania were also affected by the crisis thereby reducing the ability and willingness of the would-be tourists to visit Tanzania. In the table below, the top ten countries that are sources of tourists in Tanzania are listed.

BoT (2010d) correctly points out that the first round effects of the 2008 crisis were rather limited. This is largely due to two major reasons. The first is the low level of integration of domestic financial markets with the international financial markets. The second one are the remaining restrictions on capital account, which lowered exposure to the toxic financial assets. BoT (ibid) points out that at the time of the crisis, foreign assets component in Tanzania's banking sector was about 11% of total assets of the banking system. This implies minimal exposure to direct effects of the crisis.

5.2.1.2 Increase in Non-performing loans (NPLs)

As a result of the crisis, there was also a deterioration of the overall quality of the banking sector's loan portfolio. Non-performing loans (NPLs) increased during the height of the crisis (mid 2009) and return on assets declined as interest rates fell. According to BoT (2011: 66), in 2010, NPL ratio increased to 9.3% compared to 6.6% recorded in the previous year. This is an increase by 2.7%. BoT (ibid) attributes the increase in NPLs mainly to poor performance of loan portfolio of some big banks which had suffered from the second round effects of the global financial crisis. The bank informs further that the 2.7% increased in NPLs did not pose a systemic risk due to a strong capital position in the banking system. For the affected individual banks however, the increase in NPLs is bad to their operations especially in their profit targets. The chart below shows NPLs in selected sectors.

Figure 5.2: Quarterly NPLs of the selected economic activities



Source: BoT (2010d)

5.2.1.3 Decline in Personal Loans

As part of mechanisms through which banks were impacted by the 2008 crisis, BoT (2010b) states that personal loans registered slowdown in annual growth but maintained their dominant share in total credit.

It accounted for 20.4% of the total stock of outstanding loans in December 2009, down from 21.2% recorded in December 2008. This decline by 0.8% does not seem to be big but it lead to reduced bank sales revenues and profits associated to this particular product. Therefore, this does not seem to be an important mechanism through which banks were impacted.

5.2.1.4 Banking Sector Soundness

BoT (ibid) informs that Tanzania's financial sector remained sound despite the global financial turmoil. By December 2009, all major financial soundness indicators of the banking sector were strong. These include capital adequacy ratio (CAR) - measured as a ratio of core capital to total risk weighted assets, asset quality, liquidity ratio and profitability level. It informs further that the banking system was adequately capitalized against any potential financial risk. The CAR was at 18.0% compared to the legal minimum requirements of 10%. This implies 8% above the minimum regulatory threshold. Therefore, banks were not impacted through the mechanism of reduced bank soundness.

5.2.1.5 Banks' Assets Quality

With regard to asset quality of the banking system (measured by level of NPLs), BoT (ibid) informs that during the year ending December 2009, the ratio of NPLs to total loans remained relatively stable and below the prudential limit of 10%. It moved from 6.3% in November 2008 to 6.4% (an increase by 0.1%). The rather slow decline is attributed to the rescue plan which, inter alia dampened the impact of the second round effects of the global financial crisis on the banking system.

According to BoT (2011b), in order to manage the asset quality within prudential levels, BoT directed banks with high NPLs to submit Action Plans for improving their portfolio performance. By December 2010, the quality of assets of the banking system was satisfactory. This is reflected by the declining ratio of NPLs to total capital. It eclined from 30.5% in December 2009 to 28.5% in December 2009. The ratio of NPLs to total loans declined to 6.7% from 7.0% in the same period.

Generally, this is an important mechanism through which banks were impacted.

5.2.1.6 Resilience of Banks

The stress tests conducted by BoT in 2010 showed that the Tanzanian banking system was resilient to adverse changes in interest rates, exchange rate and credit quality. Liquidity levels were sufficient to cushion the system against extreme liquidity risk.

5.2.1.7 Banks' Liquidity

According to BoT (ibid), throughout 2009, the banking system in Tanzania had enough liquidity to operate smoothly and cover their liabilities without much recourse to liquidity windows at the Bank. The overall liquidity of the banking sector continued to be high. The ratio of liquid assets to demand liabilities rose to 46.6% in December 2009 from 41.7% at the end of December 2008. This is much above the regulatory minimum limit of 20.0% by 26.6% and 21.7% respectively. Gross loans to total deposits ratio declined to 61.8% from 68.4%. This is a decline by 6.6%. The 61.8% deposit ratio is within the maximum regulatory limit of 80% required for each individual institution.

5.2.1.8 Banks' Profitability

On the impacts of the crisis on banks' through the mecahnism of profitability, BoT informs that the banking business continued to be profitable, although profitability level declined slightly during 2009. During the year ending December 2009, the Return on Equity was recorded at 20.1% compared with 22.7% (decline by 1.6%) recorded in the previous year. Return on Assets declined to 2.85% in the first half of 2009/2010 from 3.45% (decline by 0.6%) in the same period of 2008/2009.

5.2.1.9 Financial Soundness

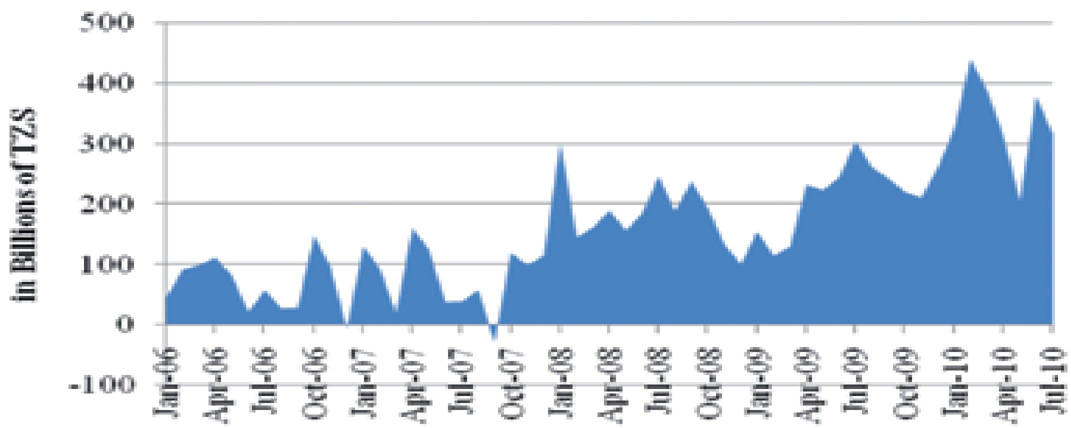
According to BoT (2011), indicators of the financial soundness of the banking system by the end of December 2010 show that the system continued to be sound and stable in aggregate terms. Most banks were well capitalized with liquidity levels above the regulatory requirements. The ratio of core capital to total risk weighted assets was at 18.8% compared to the minimum requirement of 10%. Therefore this was 8.8% above the minimum threshold.

5.2.1.10 Accumulation of Excess Reserves

According to BoT (2010d), since the on-set of the 2008 economic crisis, banks have been accumulating excess reserves on account of lack of demand from their main

borrowers and a cautious lending attitude on their part. Excess reserves of banks increased from Tshs 100.7 billion in December 2008 to a peak of Tshs 440.6 billion in February 2010. This is an increase by Tshs 339.9 billion or by a whole 337.5%. This excess reserve is equivalent to idle cash that should have instead been lent out to increase banks' sales volume and profits. The chart below shows the excess reserves in Tanzanian banks.

Figure 5.3: Excess Reserves of the Banking System



Source: BoT (2010d)

5.3 Responses by BoT and Banks to the 2008 Economic Crisis

As with the impacts, there are various ways in which the 2008 economic crisis was responded to in the Tanzanian banking sector. Responses in this category inlude those by BoT which is the country's leading monetary authority and regulator as well as responses by individual banks. The responses to the crisis based on the findings from BoT are presented below.

5.3.1 An Overview of BoT Responses

From the responses from the BoT, it was made clear that the bank responded to the 2008 crisis in various ways. These include introduction of daily surveillance meetings and reports reports, more closer monitoring and supervsion of banks to know the state of banks including lending and deposits trend in each bank on daily basis, stress-testing, increase of reserve requirements on government deposits held in commercial banks to cushion the financial system against eventual liquidity dry up; formation of crisis committee, formation of Financial Sector Regulatory Authority, establishment of an early warning system to intensify oversight of the banking system, establishment of a financial stability department to produce regular financial stability reports. The general responses above are followed by specific responses that are mainly based on the review of documents that were availed to the researcher by the bank.

The general analysis of the responses to the 2008 economic crisis by the BoT indicates that they are in line with the theoretical underpinnings of the monetarists and Austrian schools of thoughts as presented in chapter two of this work. More specifically, they are in line with the views of the theories that attribute economic crisis to weaknesses of monetary authorities such as central banks. The theoretical underpinnings call for monetary authorities (central banks) to intervene in various ways as necessary responses to adress economic crisis in the banking sector. The various BoT responses documented below are in line with the theoretical underpinnings.

5.3.2 Enhanced Monitoring of the Sector

According to responses from BoT, the bank enhanced monitoring of the activities of the financial sector through introduction of daily surveillance of selected performance indicators of banks. These indicators have ever since been presented and discussed in the surveillance meeting on daily basis. This response is natural given some of the causes of the crisis including in adequate surveillance by the Federal Reserve Bank as outlined in Adei (2010), among others. Increased surveillance by BoT is a necessary response to ensure that necesary corrective measures are applied in the sector before it is too late. This is also in line with the monetarists ans Autrian schools of thought on what monetary authorities ought to do in response to economic crises.

5.3.3 Easy Monetary Policy

In its response to the research questions, the BoT informs that as a measure to respond to the 2008 economic crisis, it pursued a relaxed monetary policy in 2009. This monetary policy stance was a countercyclical measure to mitigate the impact of the 2008 economic crisis. Inter alia, it aimed at warding-off the downside effects of the crisis. It also aimed at sustaining a low interest rate environment in order to enhance credit flow to the private sector. Monetary policy targets were revised upwards to accommodate monetary expansion. This response is in line with the views of the monetarists and Austrian schools of thought on expected response from monetary authorities in times of economic crisis.

According to BoT (2010b), the bank reduced the volume of most monetary instruments sold. In the first half of 2009/2010 the Bank supplied a total of Tshs 1,518.3 billion worth of Treasury bills against a demand of Tshs 2,557.3 billion which is an oversubscription of 68.4%. In a similar period of 2008/2009, the Bank supplied Tshs 1,445.9 billion worth of Treasury bills against a demand of Tshs 1,662.2 billion which is an oversubscription of only 15.0%. This response is in line with the fact that the crisis reduced liquidity in the financial system across the world as documented in inter alia, Ngowi (2013, 2010).

5.3.4 Increase in Banks' Capital Requirements

According to BoT (2010b), in order to improve the resilience of the financial sector to shocks in the medium to long-term, BoT raised the minimum capital requirements of commercial banks from Tshs 5.0 billion to Tshs 15.0 billion in 2010. This is an increase by a whole Tshs 10 billion or by 200%.

Whereas this was an important response to the crisis, it has negative implications to small banks that were unable to raise the new capital requirement. This may have negative implications to most Tanzanians who are not banked and it may have negative implications for financial inclusion efforts. The new capital requirement was to be attained within three years by the existing banks. New banks had to start with this amount of capital.

5.3.5 Establishment of Financial Sector Stability Department

According to BoT (2010d), in order for the Bank to carry out its financial stability mandate, it established a Financial Sector Stability Department in 2009. Its main responsibility is to undertake overall surveillance and assessment of the financial system, in order to identify any financial imbalances/risks and their implications to financial stability. BoT will be publishing semi annual Financial Stability Reports to inform stakeholders about the health of the financial sector and its ability to mitigate risks and absorb shocks. This is important in building public confidence on the Tanzanian financial system.

Among other things, it is likely to help in reducing possibilities of a run on banks in case of a crisis similar to the 2008 one. The inagural volume of BoT's financial stability report was released in September 2010. Among the key issues covered in this inagural volume include macroeconomic and financial environment globally and in Tanzania; financial sector development in Tanzania including the structure of the financial system, financial system resilience, financial system infrastructure and regulation, national payment and settlement systems as well as safeguarding payment systems stability through risk reduction measures. In September 2011, BoT released another financial stability report.

5.3.6 Enhancement of Financial System Stability and Efficiency

BoT (2010d) informs that as part of responses to the crisis, the bank will seek to enhance the stability and efficiency of the financial system which is mainly composed of banks (75%). This will be mainly done through the following priority areas:

Sustenance of daily surveillance of the financial transactions in the banking sector and through the payment and settlement systems. This intensive approach enables the Bank to identify early warning signals of systemic risks to the financial system, and hence take appropriate measures.

i) Sustenance of prudential surveillance and supervision over banks in order to strengthen the resilience of the banking system.

ii) Ensuring compliance by banks to the new increased capital requirements within the agreed grace period.

iii) Speeding up of the establishment and operationalization of Credit Reference Bureau to facilitate the sharing of information on creditworthiness of customers in the banking system – as one of the measures of managing credit risk. This is important especially when one takes into account that the 2008 economic crisis was caused by, inter alia sub prime morgages

iv) Enhancement of crisis response mechanism through development of an effective and coordinated national financial crisis management and resolution framework.

v) Coordination in harmonizing the East African Community (EAC) member states' financial stability frameworks in a bid to develop a regional framework for financial stability analysis and reporting. This is in line with the growing exposure to cross-border risks as banks increase their regional operations.

5.3.7 Prudential Oversight

According to BoT (2011b), the bank responded to the crisis by maintaining confidence in the banking system thereby promoting financial stability. This was done in various ways including maintaining adequate liquidity level, ensuring that banks are solvent by all times having sufficient capital and requiring banks to continuously improve risk management of their operations.

5.3.8 Establishment of Financial Regulators Forum

As part of safeguarding financial stability, BoT formed financial sector regulators forum as stated in BoT (2010a: 42). The aim of he forum is to take joint responsibility in safeguarding the sector and coordinating crisis management and resolution.

5.3.9 Strengthening Crisis Preparedness

BoT also responded to the 2008 economic crisis by strengthening crisis preparedness in case another crisis emerges. The measures taken include raising commercial banks' minimum capital from Tshs 5 billion to Tshs 15 billion and from Tshs 2.5 billion to Tshs 7.5 billion (200%) for non banking financial institutions.

Another measure in strengthening crisis preparedness was the increase of insurance coverage per depositor from Tshs 500,000 to Tshs 1,500,000. This is an increase by Tshs 1,000,000 or 200%. This increased insurance cover is interpreted by the reseacher as a way of letting banks write their living wills so that if they are troubled by a future crisis, they can bail out themselves instead of relying on tax payers' money for bail out.

5.3.10 Liquidity Management

According to BoT (2010b), it responded to the 2008 crisis through liquidity management. It strived to balance the instrument mix so as to ensure that they reflect the economic fundamentals. It also continued to promote transparency in monetary policy. This was done in various ways including but not limited to various regular publications, meetings with the media and through its monthly meetings with chief executive officers of commercial banks. These kinds of liquidity management in times of economic crisis such as the 2008 one are important because among the possible severe impacts of the crisis is liquidity dry up.

5.3.11 Review of Rates

As part of responses to the crisis, BoT reviewed the Lombard and discount rates downward with a view to making them more active instruments of monetary policy and to enhance flexibility in provision of liquidity to the economy. According to BoT (2010d), Lombard Facility is an overnight facility established to enable commercial banks to borrow at their own discretion, bypledging eligible government securities as collateral. Lombard rate on the other hand is the rate payable for the use of the Lombard Facility. The rate is based on the prevailing 35-days Treasury bill yield, REPO rate and overnight inter-bank rate, whichever is higher.

According to BoT (2009), there was a decline of the Lombard rate from 7.35% in June to 4.13% in July 2009. This is a reduction of 3.22% points. There was also a drop in the discount rate from 10.31% to 6.95% in the same period. This is a reduction of 3.36% points. According to BoT (ibid), both rates remained low, at an average of 3.7% for Lombard and 4.6% for discount rate, in the first half of 2009/2010.

5.3.12 New Capital Requirement

According to BoT (2011), the Bank responded to the crisis by raising the required minimum core capital for banks from Tshs 5.0 billion to Tshs 15.0 billion (200% increase) with a view to enhance the capability of the banking sector to absorb losses caused by inter alia, economic crisis similar to the 2008 one. Three years grace period was provided for the existing banks to comply with the new capital requirement. Newly established banks are required to comply with the new regulation on licensing.

It can be seen that some of the responses by BoT above are reactive in nature. These are those responses that aimed to reduce impacts and spread of the crisis. Some responses however are proactive in that they aim at preventing future crisis in the banking sector and reducing impacts of the same in the sector if it happens.

Generally, the responses by the BoT to the 2008 economic crisis are in line with various theoretical underpinnings on what monetary authorities ought to do in response to economic crisis. For example, the responses are in line with the monetarists' theory on hat monetary authorities ought to do in times of economic crisis. According to Benanke (2000) for example, monetary authorities need to prevent shrinking in money supply in times of economic crisis. This is partly seen in BoT's response to the crisis by ways of, inter alia, embracing easy monetary policy stance in 2009, establishing financial sector stability department, prudential oversight, strengthening crisis preparedness as well as reviewing the Lombard and discount rates downward.

5.4 Responses by Banks

The responses above are those that were undertaken by BoT. Besides the responses to the crisis by the central bank, the research at BoT found out that there were some general responses to the crisis by banks in general. These responses are outlined in this part.

5.4.1 More Cautious Lending

According to the findings from BoT, banks in Tanzania became more cautious to lending to businesses in risky sectors such as agriculture, tourism and exports. The

cautious lending stance taken by banks, which was triggered by the effects of the global financial crisis, caused the annual expansion of credit to the private sector to decelerate. According to BoT (2010c), the rate of growth of credit to the private sector was 9.6% in January 2010 compared with 12.2% recorded in December 2009 and 44.6% recorded in the year ending December 2008.

The sustained slower growth rate of credit to the private sector, according to BoT was mainly driven by continued cautious stance taken by banks in extending credit to the private sector, following the 2008 economic crisis. The views that banks became more cautious in lending are consistent with Velde and Lunogelo (2009) who inform that there was tightening of lending rates in the banking sector due to the crisis. They are also consistent with Minja (2009) who reports that banks in Tanzania adopted a more cautious stance when advancing credit.

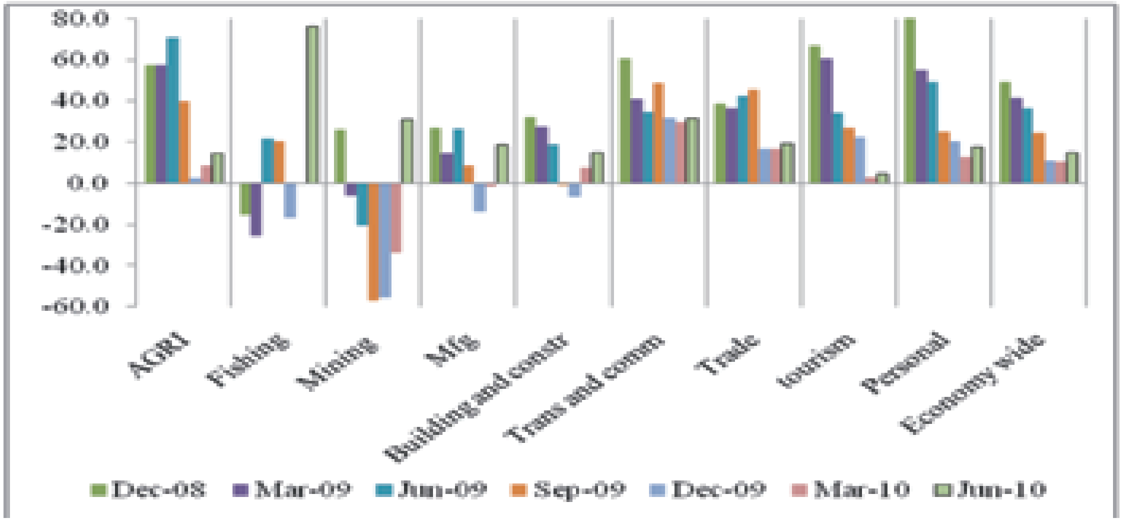
5.4.2 Preference for Safer Money Market Instruments

With the pace of expansion of credit to the private sector declining, accordong to BoT (2010b) banks increased their preference for safer money market instruments. These include Treasury securities, repurchase agreements and foreign currency. The stock of government securities held by banks rose by Tshs 202.7 billion in the year ending December 2009 compared to a decline of Tshs 137.5 billion in the year to December 2008. There was also a sharper increase of Tshs 599.9 million registered in foreign assets of banks in 2009, compared to a decline of Tshs 138.8 million in 2008.

5.4.3 Resumed Lending

According to BoT (2010d), banks resumed lending in the second half of 2010. This is in response to signs of recovery from the 2008 economic crisis. In the first quarter of 2010 assessment of the economy shows that excess reserves declined from peak at Tshs 440 billion recorded in February 2010 to Tshs 377.6 billion by end June 2010. This is a reduction by Tshs 62.4 billion or by 14.2% According to BoT (ibid), lending across most economic activities recorded positive growth rates in the quarter ending March 2010 as shown in the chart 5.4 below.

Figure 5.4: Quarterly annual growth rate of credit to selected sectors



Source: BoT (2010d)

According to BoT (2011), in the year ending December 2010, credit grew by 20%. This is far above the 9.6% growth recorded in the corresponding period a year earlier. It is slightly higher than the target of 19.2% for December 2010.

Generally, the theoretical underpinning of the Debt-deflation theory do explain the general responses to the 2009 economic crisis by banks in Tanzania. The theory, according to Fisher (1933), indicates that banks will avoid collapsing due to economic crisis. They will therefore undertake various response measures. As documented above, it is seen that according to BoT responses, that banks in Tanzania responded to the 2008 economic crisis as predicted in the Debt-deflation theory. To avoid collapsing, as predicted in Fisher (ibid), banks in Tanzania practised more cautious lending. They also had preference for safer money market instruments. When recovery had started setting in and dangers of collapsing reduced from the second half of 2010 however, they resumed lending. Therefore the responses by banks can be undersood by the theoretical underpinnings of the Debt-deflation theory.

CHAPTER SIX

FINDINGS FROM BARCLAYS BANK TANZANIA

6.1 Introduction

In this chapter the findings on the mechanism through which Barclays Bank Tanzania has been affected by the 2008 economic crisis and the way it has responded to the same are presented together with discussion of the same. Barclays Bank Tanzania is among the banks that were studied with the aim of understanding the mechanisms through which it was affected by the 2008 economic crisis and the way it responded to the same. Information on the impacts of the crisis and responses to the same in the bank were mainly collected through face to face interviews with three staff of the bank. The researcher mailed the research questions and interview guide to the bank's management.

6.2 Mechanisms of Impacts of the 2008 Economic Crisis on Barclays Bank

In the discussions with Barclays Bank Tanzania Ltd, it was stated by the respondents that the bank was affected by the 2008 economic crisis through various mechanisms as documented below.

6.2.1 Impacts Through Defaults by Borrowers

According to the bank, the 2008 economic crisis led to defaults by borrowers. Among the borrowers that defaulted on loans are those in the tourism sector. This is because the sector was negatively affected by the 2008 crisis. Tourist hotels operators experienced cancelled bookings and therefore their sales revenues and profits declined substantially amidst a number of fixed costs. The result was inability of the borrowers to honour their debt obligations to the bank and had to default.

The impacts of defaults on banks include not reaching revenue and profits targets as well as being in danger of making losses and even going bankrupt. If this becomes the situation for pivotal banks in the country, it could lead to collapse of the banking and financial sector. This in turn would have many and far-reaching negative implications in the economy.

The bank's views that it was affected by the 2008 crisis through defaults in the tourism sector can be partly supported and understood in the light of the available literature although establishing clear causality is challenging. As documented in the literature review part of this report, acording to URT (2009), the tourism sector experienced a decline in revenue by about 18% in 2008 and by some 30% in 2009. URT (ibid) reports further that there was a 60% cancellation of bookings in the tourism sector due to the crisis in 2009.

The sector experienced reduced tourist visits of about 10% in Tanzania mainland and 10.4% in Zanzibar. Tourism income in the mainland was reduced in the first quarter of 2009 (USD 241.7 million) compared to USD 283.3 million in the same period in 2008. This is a reduction of some USD 41.6 million or 14.7% of the initial income. Tourist number was expected to drop by between 15% and 50% in Zanzibar in the 2009/10 season. It was beyond the scope of this study to establish how many of the tourism sector players that were affected by the crisis were actual or potential customers of Barclays Bank Tanzania Limited. Looking at the figures however, it makes sense that the bank was affected by such shocks in the sector.

According to the bank, the manufacturing sector was not affected by the crisis in the same way as the tourism sector. Whereas tourism sector clients were and still are mainly foreign and very much affected by the crisis, those of the manufacturing sector are mainly local and not as severely affected by the crisis as foreigners. It is the author's interpretation that the bank's manufacturing customers were not exporters or if they were then were not exporting to the countries that were severely affected by the crisis. This is because the literature has documented that the crisis affected the exporting manufacturing sector. By implications, this would also affect the bank in similar way to that of the tourism sector.

According to URT (ibid) for example, various industries in Tanzania were affected by the 2008 economic crisis. Among these include textile industries that depend on export markets. The textile industries that were affected include Sun Flag, 21st Century, Tabora Textile, Mbeya Textile and Kilitex. Tannery industries too were affected by decline in skin and hides export price from USD 1,500 to USD 500 per ton for salt-dried skin. This is a decline by 1000 USD per ton or 66.7% of the pre-crisis price. The decline was from USD 1,100 to USD 350 per ton for raw skin. This is a decline by USD 750 per ton or 68.2% of the original pre-crisis price. If the manufacturing sector was so much affected by the crisis but the bank reports not to have been affected then the explanatory factors include the possibilities that the specific firms that were affected were not customers of the bank.

The argument that the bank was more affected by the impacts of the crisis in tourism sector that depends much on foreign market implies that strong domestic market including domestic tourism could be among the strategies of reducing the impacts of the crisis. However, when taking into consideration the relatively low purchasing power of domestic tourists one doubts on whether this strategy could could offer recovery in the sector in particular and economy in general. Without giving evidence, the bank argues that the manufacturing sector was mainly affected through raw materials price hikes. This is not likely to be the case because during the crisis prices of many goods and services declined.

The implications of defaults include increase in Non Performing Loans (NPLs) in the bank. Without reference to a particular bank, IMF (2010) informs that the crisis increased the rate of NPLs in Tanzanian banks. It informs that the rate peaked in mid-2009 due to the 2008 crisis. According to the Fund, NPLs exhibited large variation among banks, partly reflecting different exposures to distressed sectors. According to IMF (ibid), system-wide NPLs rose to 7.8% in June 2009 from 6.2% in December 2008 due to the 2008 crisis. This is an increase by 1.6%. A 1.6% increase in NPL may look small, but may have many and far-reaching negative implications in monetary terms.

The Fund informs further that NPLs declined by 0.5% to reach the 6.7% mark partly as a result of the government rescue package for distressed borrowers. According to IMF (ibid), NPL rates varied not only across sectors but also across banks. It informed further that NPLs for systemically important banks at the end of June 2009, ranged from 1.8% to 14.2% which is an average of 8% and a range of 12.4%. Although these figures are not specifically for Barclays, they send some signals on the possible rate of NPL in the bank due to the crisis.

6.2.2 Impacts Through Debt re-Scheduling

The bank was affected by the crisis as it had to reschedule debts of its troubled and struggling customers. Payment time, frequencies and amounts to be paid had to re-negotiated and re-cheduled on case by case basis depending on the position of each client. For some borrowers, repayments had to be negotiated and rescheduled by the bank's NPLs unit. For example, some five-years loans had to be extended to six years and re-amortized.

The bank had to renegotiate loan portifoli in the tourism sector that were worth about 10 million Sterling Pounds. This is about 10% of the bank's corporate book. Customers in this category had to be put in special unit care of the bank. However, some customers still had hopes for more business and did not have to renegotiate and reschedule payments. The results of renegotiating and rescheduling payments include delayed revenue and profits for the bank. It also implies bank's longer exposure of expected revenues and profits to risks.

6.2.3 Impacts Through Reduced Issuance of Loans

Due to the uncertainties caused by the crisis, the bank was obliged to reduce issuance of loans to its customers. This was done in two major ways. Firstly, headroom was cancelled in order to limit exposures to some risky sectors. Secondly, the bank evaluated high risk sectors like tourism, whole sale and trade (buying commodities abroad). Loans in these sectors were frozen considerably. This was especially so for new businesses than known ones.

The bank also froze personal lending as a cautious strategy to reduce possible losses. This affected the bank negatively because it reduced some of its customers who

arguably went to less risk-avers lenders. Reducing a bank's customer base amidst cut-throat competition in a competitive banking market structure with over 40 banks implies reduced potential bank revenues and profits.

From the 2006 to 2012 Barclays Bank Tanzania Ltd's Annual Reports and Financial Statements, it is reported that loans and advances to customers have been declining from 2009 to 2012 as shown in the table below. A clear causality between the 2008 economic crisis on one hand and decline in loans and advances to customers on the other hand can not be established. This is because such a decline is a function of many variables not only economic crisis.

However, there is possibility that the crisis triggered the decline. There was an increase in loans and advances from 192.2 billion Shillings in 2006 to 221.2 billion Shillings in 2007. This is an increase by 29 billion Shillings or 15.1%. However, just after the crisis in 2008, there has been a decline in loans and advances to customers. This can imply that the bank has been more strict than before in issueing loans and advances. It can also imply that customers have been affected by the crisis to the extent that they are no longer willing or able to access loans and advances.

However, after the recovery from the crisis that started to set-in from around 2010, one would not expect decline in loans and advances that continued up to 2012. Therefore, although the figures show decline in loans and advances just after the crisis, this cannot be clearly attributed to the crisis.

Table 6.1. Loans and Advances to Customers, 2006 to 2012

Year	2006	2007	2008	2009	2010	2011	2012
Loans and advances	192.2b	221.2b	No data	Decline by 62b	Decline by 11b	Decline by 25b	Decline 40.4b

Source: Compiled by the author from Barclays Bank Tanzania Ltd, Annual Reports and Financial Statements For the Years Ended 31st December 2006, 2007, 2008, 2009, 2010, 2011 and 2012.

6.2.4 Impacts Through Reduced Sale of Bank Products

Due to the 2008 economic crisis, the bank was obliged to stop saling some of its products. These products include mainly longer-maturing obligations. Long term maturing obligations for Barclays include term loans above two years. These were seen as a problem during the crisis and therefore had to be reduced. The aim was to reduce the bank's exposure to risks associated to long-term maturing obligations. When a bank reduced types and amounts of the products it sells, the implications include reduced sales revenues and profits from these specific products.

Figures from Barclays indicate that there have been losses (negative profits) for all but one year after the crisis as shown in the table below. Partly, the losses can be attributed to the reduced sales of Barclays' products as a result of the crisis.

Table 6.2: Profit Before Tax, 2006 to 2012

Year	2006	2007	2008	2009	2010	2011	2012
Profit before tax	3,950m	14,904m	239m	(39b)	(4.8b)	1.6b	(5.1b)

Source: Compiled by the author from Barclays Bank Tanzania Ltd, Annual Reports and Financial Statements For the Years Ended 31st December 2006, 2007, 2008, 2009, 2010, 2011 and 2012.

6.2.5 Impacts on the Bank's Soundness

The bank's soundness was not significantly affected by the 2008 economic crisis. This is because its buffer capital was still good. Despite the crisis, the bank's ability to do business had not been affected. According to the Barclays Bank's Annual Reports for 2008, 2009, 2010, 2011 and 2012, the bank was sound in all these years. This finding is in line with the BoT (2008) statement that the banking sector in general was still sound as the capital requirements of most banks were good and arguably above the BoT and Basell requirements.

6.2.6 Impacts Through Exposure to Complex Financial Products

Barclays was not affected by the crisis through exposure to complex financial products. This is because the bank did not deal with complex products like derivatives. This was the case despite Barckays having a number of corresponding banks and international financial institutions that it transacts with. These institutions include the European

Investment Bank (EIB), the International Finance Corporation (IFC), the French Development Corporation (PROPARCO) and the Commonwealth Development Corporation (CDC). The institutions do facilitate international trade and access to borrowing in foreign currency by Barclays' clients with medium and long-term projects.

Being based in the developed countries, one would expect that these institutions would be affected by the crisis in various ways including through complex financial products. If this was the case then Barclays too would be affected indirectly. The response that Barclays was not affected through this mechanism implies that these foreign institutions did not trade with Barclays in complex financial products that could have impacted the bank negatively.

6.2.7 Impacts Through Credit Risks

The bank was affected by the crisis through increased credit risks. According to Barclays, credit risk increased by almost 100% during the crisis. Interest rate went up substantially by 5%. This is a disincetive to customers because higher interest rates imply higher cost of borrowing.

According to the bank, some of its corporate customers shied away from borrowing partly due to higher interest rates. This implies reduction of potential and actual customers and related revenues and profits.

As for the case of reduced sales of the bank's products, figures on losses (negative profit) for all but one year after the crisis may imply that credit risk resulted into reduced customers and associated interest incomes as shown in the Table 6.4.

Table 6.3: Profit Before Tax, 2006 to 2012

Year	2006	2007	2008	2009	2010	2011	2012
Profit before tax	3,950m	14,904m	239m	(39b)	(4.8b)	1.6b	(5.1b)

Source: Compiled by the author from Barclays Bank Tanzania Ltd, Annual Reports and Financial Statements For the Years Ended 31st December 2006, 2007, 2008, 2009, 2010, 2011 and 2012.

It is important to note that establishing the number of actual and potential customers that Barclays lost due to increased credit risk and therefore increase in interest rate was beyond the scope of this study. Also the actual and potential revenues and profits lost for this reason was beyond the scope of this study. All these form part of areas for further research. Establishing such lost customers, revenues and profits would require establishing a clear causality between the crisis on one hand and the lost customers, revenues and profits on the other. It would also imply filtering out other possible contributory factors to loss of customers, revenues and profits by the bank.

6.2.8 Impacts Through Losses of Deposits With Troubled Correspondent Banks

Barclays was not affected by the 2008 economic crisis via the route of deposits with correspondent banks. It did not loose its deposits in correspondent banks. Its main bank is Barclays Plc and therefore there were no exposures. Barclays vetted across the world with financial institutions with which it has correspondence in order to make sure that it was not loosing its deposits through troubled correspondent banks.

6.2.9 Impacts Through Exposure to Crops and Other Commodities Financing

Barclays bank was not affected by the 2008 economic crisis through the mechanism of financing crops and other commodities. This is because, contrary to such banks as CRBD Bank Ltd and TIB, the bank does not deal with financing of the agricultural sector. Therefore it was not exposed to the risks associated with crops financing. As noted in the introduction to the bank, Barclays is more active in the manufacturing, tourism, industrial and trade sectors but not in agriculture.

6.2.10 Impacts Through Parent Bank Withdrawing Funds

Barclays Tanzania's parent bank is Barclays PLC of United Kingdom (UK). The bank was not affected by the crisis by the way of the parent bank withdrawing funds from it for various purposes including but not limited to supporting operations at home. Nothing

was withdrawn from Barclay Tanzania. According to Barclays Bank Tanzania, the parent company itself had adequate buffer and would not need to withdraw from

Barclays Tanzania. Besides this, the Qatari Group which is a shareholder of Barclays PLC in UK bought preferential shares in the bank thereby increasing its liquidity and removing any need of the bank to withdraw funds from Tanzania.

6.2.11 Impacts Through Parent Company Stopping Re-investing Profits Locally

Barclays Bank Tanzania was not affected by the 2008 economic crisis through the mechanism of parent company stopping re-investing its profits locally. As noted earlier, Barclays Tanzania operates as an independent bank in Tanzania with its own capital base. It does not depend on Barclays PLC capital for its investment in Tanzania.

6.2.12 Impacts Through Parent Company Repatriating Funds

Tanzanian Investment Act 1997 allows for unconditional repatriation of profits, incomes, dividends and interest by multinational companies investing in Tanzania. However, in the context of this study, this did not happen to Barclays Bank Tanzania due to a number of reasons. Firstly, the bank operates in Tanzania as an independent entity and not a subsidiary of the parent company. Even if the above was not the case, the parent company – Barclays Plc, would not have the need to repatriate funds in forms of profits, dividends, incomes and the like. This is because according to Barclays Tanzania, it had adequate capital. Therefore, it would not need to repatriate funds from Barclay Tanzania.

6.2.13 Impacts Through Parent Company Curtailing Local Operations

Barclays bank Tanzania was not affected by the 2008 economic crisis through the mechanism of its parent company to curtail its operations in Tanzania. This did not

happen firstly because Barclays Bank Tanzania operates in the country as an independent company. The parent company could therefore not curtail its operations in the country. Even if Barclays Tanzania was not operating as an independent company the parent company would not need to curtail its operations in the country due to the crisis. This is because the parent company was arguably liquid enough and would not need to curtail its operations in Tanzania.

6.2.14 Impacts Through Run on the Bank

The 2008 economic crisis could have caused a run on the bank. This would happen if there was a rapid withdrawal of deposits by customers due to fears of the collapse of the bank in particular or the financial system in general. According to Barclays, there was no run on the bank. If run on a bank takes place, the implications include possibilities of liquidity dry up in a particular bank. If this becomes the general case in the country, it would imply a possible collapse of the banking and financial sector. By extention, this implies a possible collapse of the economy that increasingly depends on the banking system for its smooth operation.

A possible response to potential and actual run on the bank would include rationing of cash. In this case, there would be a maximum amount of cash that each individual could draw from a given bank. This would lead to reduced withdraw-related profits of the banks and reduced liquidity in the economy. In March 2013, there was observed a possible run on banks in Cyprus due to the impacts of the Euro zone sovereign debt crisis in the banking sector in Cyprus. Among the banks in Cyprus that were on the verge of collapse due to the crisis include Laiki Bank.

A proper measure of run on banks would be comparing figures on daily, weekly or monthly withdrawals before, during and after the crisis. This would help in assessing whether during the crisis there was extraordinary withdraws that can be translated as a run on banks. In absence of such figures for Barckays Bank Tanzania, figures on customers deposits are used here to discuss the response that Barclays Bank Tanzania did not experience a run on banks.

As shown in the Table 6.5, there was an increase in deposits from 198.9 billion Shillings in 2006 to 249.9 billion Shillings in 2007. This is an increase by 51 billion Shillings or 25.6%. However, in 2009 which is just a year after the crisis, there was a decline in customers deposits by 99 billion Shillings. This can be partly due to the crisis and an indication of fears similar to those that woud result into a run on banks. From 2010 which is the year when recovery from the crisis had started to set-in, to 2012 there have been increased deposits. This may imply that the fears that would have caused a run on banks had been wiped out by the recovery.

The exact reason for change in deposits (decline in 2009) and increase from 2010 to 2012 woud be clear if the views of the depositors were captured. However this was beyond the scope of this work and constitutes areas for further research.

Table 6.4: Customers Deposits, 2006 to 2012

Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Customers deposits	198.9b	249.9b	No data	Decline by 99b	Increase by 70b	Increase by 38.6b	Increase by 6.2b

Source: Compiled by the author from Barclays Bank Tanzania Ltd, Annual Reports and Financial Statements For the Years Ended 31st December 2006, 2007, 2008, 2009, 2010, 2011 and 2012.

6.2.15 Impacts Through Reduction of Liquidity in the Banking System

As a result of the 2008 economic crisis, Barclays bank experienced some reduced liquidity in the banking system in Tanzania. It experienced a reduction in inter-bank borrowing. These went down to some extent.

The bank would get about 40% to 60% only of its request for funds from other banks. However, these other banks did not officially and openly declare that they were reducing the amounts of their cash that could be made available to other banks such as Barclays. Reduction of the amounts of cash available to a bank implies reduced ability of the bank to undertake its various banking activities smoothly

6.2.16 Impacts Through Job Losses

To some extent, Barcalys bank was affected by the 2008 economic crisis through the conduit of job losses by its actual and potential individual clients. The exposure to personal loans happened due to some job losses of some of its individual customers who

had accessed credit through its massive retail lending. Some of these borrowers might have lost jobs due to the crisis that resulted to increase in direct and indirect unemployment.

As noted earlier in this report about 48,000 people lost jobs in Tanzania directly due to the crisis. Based on the rule of thumb that for every one direct job lost there are three jobs that are lost, the indirect jobs that were lost due to the crisis then were 144,000. This makes a total of direct and indirect jobs lost due to the crisis to be 192,000. It is obvious that not all these were potential or actual customers of Barclays Bank Tanzania. The bank could not give the exact number of its customers who lost jobs and therefore were unable to honour their loan obligations. This remains among the areas for further research.

For the actual customers who lost jobs, the implications include their inability to repay their loans that were mainly secured and guaranteed by their employers. For others that lost jobs, the implications include loss of potential borrowers in the bank's credit products for employees. Therefore, unemployment in general and in the context of economic crisis in particular stands to affect banks in various ways including loss of actual and potential borrowers.

6.3 Responses to the 2008 Economic Crisis by Barclays Bank Tanzania Ltd

Similar to the impacts of the 2008 economic crisis to Barclays Bank Tanzania, the research also aimed at identifying the way the bank responded to the crisis. Responses from the interviews with the bank officials are presented and discussed in this part of the report.

6.3.1 Freezing of Lending

As with other banks, the main business activities of Barclays Bank Tanzania include lending to various categories of borrowers, both individuals and corporate. Among the possible responses to economic crisis include banks freezing extending loans to various groups of clients. This would be among the strategies of reducing various kinds of risks including defaults. According to Barclays Bank Tanzania there was no freezing of lending to any of its customer groups.

6.3.2 Reduced Lending

Whereas Barclays Bank Tanzania did not freeze lending, it reduced some of its lending activities. Due to the uncertainties caused by the 2008 global economic crisis, the bank was obliged to reduce issuance of loans. This was done in two major ways. Firstly, headroom was cancelled by the bank in order to limit exposures to some sectors.

Secondly, the bank evaluated high risk sectors like tourism, whole sale and trade (buying commodities abroad).

Loans in these sectors were reduced considerably. This was especially so for new businesses than known ones. The bank also reduced personal lending as a cautious strategy to reduce possible losses. This affected the bank negatively because it reduced some of its customers who might have gone less risk-avers lenders. From the table below it can be seen that there has been a decline in loans and advances at Barclays Bank Tanzania. This can be among the evidence that the bank responded to the 2008 crisis by reducing lending.

Table 6.5: Loans and Advances to Customers, 2006 to 2012

Year	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Loans and advances	192.2b	221.2b	No data	Decline by 62b	Decline by 11b	Decline by 25b	Decline 40.4b

Source: Compiled by the author from Barclays Bank Tanzania Ltd, Annual Reports and Financial Statements For the Years Ended 31st December 2006, 2007, 2008, 2009, 2010, 2011 and 2012.

6.3.3 Injecting Equity in Some Businesses

Among the responses of Barclays Bank Tanzania to the 2008 economic crisis include injecting equity in some businesses it had extended credit to. This was done in order to promote the businesses that were still promising but were struggling due to the economic crisis. These promising businesses, if left without the injected equity, would most likely collapse. If they collapse the implications include the fact that there would be more defaults and more NPL. These in turn would negatively affect the bank's sales volume, revenues and profits. The bank could not give figures on the amount of equity it injected into various businesses.

6.3.4 Debt Re-negotiation and Re-scheduling

Given the situation that some of its borrowers were put in by the 2008 economic crisis, the bank was obliged to reschedule some debts of its troubled and struggling customers.

In some cases, payment time, frequencies and amounts to be paid had to be re-negotiated and re-cheduled. This was done on case by case basis depending on the position of each client. This was done by the bank's Non Performing Loans (NPLs) unit. For example, some five-year loans had to be extended to six years and re-amortized. The bank had to renegotiate loan portifolio in the tourism sector that were worth about 10 million Sterling Pounds. This is about 10% of the bank's corporate book. As part of the bank's response, customers in this category had to be put in special care unit of the bank.

6.3.5 Increased Risk Assessment

Whereas the bank is very keen in risk assessments, this was increased as a result of the 2008 economic crisis. As a result of increased risk assessment, the bank became more risk-averse to such risky sectors as tourism and trade. It also became more risk-averse to new and unknown businesses and clients that wanted to borrow for first time as well as for long maturing obligations. The aim was to reduce risks in all aspects of the bank's undertakings.

6.3.6 Stress-testing

Stress-testing is a kind of test that is performed to determine stability of a given system if a certain shock occurs. As a result of the 2008 economic crisis, Barclay Bank Tanzania conducted stress-testing to determine its stability amidst the crisis. It did stress-testing through simulations on some sectors. The bank used a number of variables to conduct the stress-test.

These variables include profit margin for producers in the manufacturing sector, number of tourist arrivals for the tourism sector and foreign currency-inlows watch for clients exposed to foreign currencies. It also has close watch on cancellation of contracts for its customers exporting to the countries higly affected by the crisis. Among other things, the results of stress-testing led to the decision of reducing credit in the tourism sector.

6.3.7 Adherance to Regulations

Baclays Bank Tanzania has been adhering to banking regulations such as those provided by BoT and Basel Committee on Banks Supervision. Baclays bank had no problems in adherence to the BoT and Basel regulations. This is because, according to the respondents in the study informing this report, Barclays has a buffer of about 16% above its core capital requirement while the Basel requirement is 10%. Therefore the bank had 6% more of the needed buffer. See Bank for International Settlements (2013) and Bank for International Settlements (2011) for details in Basel regulations.

6.3.8 Economic Stimulus and Financial Sector Rescue Packages

Barclays Bank Tanzania did not benefit from the Tanzanian government’s response to the economic crisis by way of issuing a total of 1.7 trillion Tanzanian Shillings in its

2009/10 national budget. As documented in Ngowi (2013), the government sat aside the fund in the 2009/10 national budget for the purpose of rescuing banks that had extended credit to cash crops traders especially cotton. Since Barclays does not finance this specific activity, it was not a beneficiary of this government response to the 2008 economic crisis.

6.3.9 Increase in Number of Reports to BoT

As a result of the crisis, BoT strengthened its monitoring role as the regulator in the banking sector. As a way of complying, Barclays had to increase the number of reports/returns submitted to BoT. The bank did not establish the number of reports it was submitting to BoT before the crisis and those submitted after the crisis, despite the researcher’s follow up question on this. Therefore the extra number and types of reports that had to be submitted to BoT could not be established.

6.3.10 More Conservative Approach for Collateral Valuations

The crisis made it necessary for Barclays Bank to improve its oversight of credit risk. Among other things, the bank responded to the increased risks by being more conservative in its approach in collateral valuations. This is an understood response when taking into account that according to Adei (2010) inter alia the 2008 economic crisis started partly due to laizefaire in the US banking system that led to, inter alia, sub-prime mortgage.

6.3.11 Contingency Plans to Ensure Full Operations in Times of Stress

Barclays Bank Tanzania did not respond to the 2008 global economic crisis by way of enhancement of contingency plans. This would be done in order to ensure full operations of the bank in times of economic crisis. Barclays bank did not do this kind of response because it had enough buffer capital to operate even under stress. This is consistent to its responses that it remained sound despite the crisis. It is also consistent to the BoT's various reports that banks in Tanzania continued operating during the crisis.

6.3.12 Provision of Eemergency Liquidity

Barclays bank responded to the 2008 economic crisis through provision of emergency liquidity. This was done because, according to the respondents, there is always liquidity crisis in the banking sector with BoT as the lender of last resort. Although Barclays has liquidity contingency plans as per statutory requirements, this was strengthened as a result of the 2008 crisis.

The impacts of the 2008 economic crisis to Barclays Bank can be explained and understood in light of the monetarists school of thought theoretical underpinning. Recession in the real sectors of the economy in general and the bank clients in particular affected the liquidity situation in the bank. This is the case for impacts through defaults by borrowers, , debt re-schedulling, reduced isuance of loans, and increased credit risk.

However, the bank was not affected through some mechanisms that could have affected some. For example it was not affected through the mechanisms of troubles experienced by its parent bank. This can be understood in the light of what Minja (2009) stated as the law requiring foreign banks in Tanzania to operate as independent entities and not as branches of their parent companies abroad. It was aslo not affected by mechanisms related to high intergration with the global financial system. This can be partly understood in light of Tanzania's rather low development and complexity of the financial system as pointed in BoT (2008), Minja (2009) and Ngowi (2013). Adie (2010) has similar views but in the context of the African continent as a whole with exceptions of South Africa and to some extent Nigeria. These two countries have relatively more advanced financial systems that are more integrated in the global system than the rest of Africa.

The responses by Barclays can be understood and interpreted in the context of the theoretical underpinning of the Debt-deflation theory as partly stated by Fisher (1933). The bank avoided collapsing due to economic crisis. It therefore undertook the various response measures to avoid collapsing, as predicted in Fisher (ibid).

CHAPTER SEVEN

IMPACTS OF AND RESPONSES TO THE 2008 ECONOMIC CRISIS IN TIB

7.1 Introduction

Tanzanian Investment Bank (TIB) is among the banks that were studied with the aim of understanding the mechanisms through which it was affected by the 2008 economic crisis and the way it responded to the same. Findings from the bank are presented in this chapter.

7.2 Mechanisms Through Which TIB Was Affected by the 2008 Economic Crisis

In what follows, the mechanisms through which TIB was affected by the 2008 global economic crisis are presented and discussed. Before the discussion of the specific mechanisms through which TIB could have been affected by the crisis, some signals indicating that the bank was affected the crisis are outlined. These signals are drawn from the bank's annual reports for 2008, 2009 and 2010.

TIB (2008:7) dedicates a special sub-section on the impacts of the 2008 global economic crisis. It is noted that the crisis affected several sectors of the economy in Tanzania including those that form the bank's major borrowers. The bank noted also that the economic crisis caused reduction of business activities and the stability of the financial sector was shaken. TIB (ibid: 8) states that the bank was directly affected by the crisis through reduction in access to foreign lines of credit. The report also acknowledges that the year 2008 had a lot of challenges to the bank due to the crisis. See TIB (ibid: 9).

The TIB's board chairman statement in the 2009 annual report started by noting that 2009 was not an easy year for the bank due to the crisis. It notes that the crisis affected the business environment of the bank and posed very uncertain future for most businesses. As noted in TIB (2009: 7) the bank encountered some difficulties in the performance of some of its customers due to the impacts of the crisis on these customers including those in floriculture, tourism, transit trade, mining and cotton.

In TIB (ibid: 9), the bank states that the 2008 crisis threatened not only its customers who were exposed to global markets but also the bank itself. Another signal that TIB was affected by the 2008 crisis is found in TIB (ibid: 1) where it is stated that the bank's profit for 2009 was negatively affected by the crisis. According to TIB's 2009 annual report (pages 13 and 14) the Treasury and Funding Division of the bank faced a lot of challenges as a result of the 2008 crisis. The challenges include foreign exchange volatility. It is also stated that the bank expected better future performance when the global economy was expected to recover from the 2008 crisis although it was expected that the damages inflicted by the crisis would take longer to address.

TIB's 2010 annual report too presents some signals that the 2008 economic crisis affected the bank. In TIB (2010: 8), it is stated that in 2010 there was some recovery from the 2008 crisis that had affected business environment for the bank and its customers. In TIB (ibid: 10) it is stated that majority of the bank's customers whe were badly affected by the crisis in 2008 had started to consolidate gains in 2010. All the above show clearly that TIB, like Barclays was affected negatively by 2008 economic crisis in various mechanisms as discussed in detail below.

7.2.1 Impacts Through Defaults by Borrowers

As noted in the introduction about the bank, TIB finances among others, the agricultural sector. According to the bank, it was affected by the 2008 economic crisis through defaults by some of its borrowers who were affected by the crisis. Those who defaulted include borrowers in the cutflowers industry, in the cotton sub-sector and those dealing with exports. The default was due to reduced demand of the products abroad and the decline in the price of the same which made it difficulty for the borrowers to honour their obligations to the bank.

Page seven (7) of TIB's 2008 annual report is on the impacts of global economic crisis. It is stated that the 2008 crisis affected key sectors in Tanzania. These are sectors that have driven growth over years, especially those that are predominantly export oriented. This is the case for the agricultural, mining, tourism, horticultural and the manufacturing sector. TIB (2008:7) notes further that cotton, coffee and horticulture were among the sub-sectors that were most severely impacted by the crisis. For cotton for example, lint prices went down by about 50% in 2008 resulting in export orders cancellations and huge financial losses. On the part of coffee and flowers, TIB (ibid) informs that export prices went down by about one third.

According to TIB (2008:8), the manufacturing sector was affected by the crisis by both declining global demand and increase in the cost of import of inputs due partly to currency depreciation. The bank informs that the Tanzanian shilling lost its value by about 13% against the US dollar between January and December 2008. Tourism sector, according to TIB (ibid) suffered substantially from the crisis through substantial decline in tourist arrivals and receipts, hotel bookings and air travel.

The general impacts of the crisis to TIB through the sectors affected by the crisis should be partly understood from the sectoral distribution of TIB's actual lending portfolio as at 31st December 2008 which is highly skewed towards the agricultural, transport and communication, trade, hotels and tourism and electricity and gas sectors that have over 10% of the loan portfolio as shown in Table 7.1.

Table 7.1. TIB's Actual Lending Portfolio by Sector as at 31st December 2008

S/n	**Sector**	**Total amount in Tshs**	**Percentage**
1	Agriculture and agro-processing	17,116,217,865	23
2	Manufacturing	4,821,709,564	6
3	Transport and communication	15,190,354,696	20
4	Trade	10,931,146,917	15
5	Hotels and tourism	8,090,976,419	11
6	Electricity and gas	10,056,682,364	13
7	Mining	2,578,389,971	3
8	Small business	2,649,263,162	4
9	Education	1,702,931,819	2
10	Others (including fishing, building/construction, health, private and other services)	1,537,357,221	2
	Total	74,675,029,998	100

Source: TIB Annual Report 2008 for the year ended 31st December 2008, page 7.

It can be seen from the table for example that TIB's lending to agriculture is to the tunes of 23% of its loan portfolio. Given the impacts of the crisis in the demand for and prices of agricultural products, it is understood that the bank stood to be negatively affected by way of the borrowers in the sector being unable to pay. In its annual report 2009, TIB (2009:7) informs that the year 2009 was not easy as it started with the global financial and economic crisis that affected the business environment of various sectors including the banking one.

TIB (ibid) informs further that there were some difficulties in the performance of some of its customers especially those in the sectors that were hardest hit by the crisis. The bank names these sectors as including floriculture, tourism, transit trade, mining and cotton. There is no wonder therefore that TIB was affected by the crisis through, inter alia, defaults of some of its customers in the affected sectors.

The defaults in the cotton sub-sector for example, can be partly understood in the light of what is documented in Velde and Lunogelo (2009), URT (2009) and Ngowi (2010). The authors have documented that there were both reduced demand and declining markets for traditional agricultural commodities such as cotton. About 124,344 bales of cotton remained unsold by April 2009. Cotton price declined from between 400 and 540 Tshs per kilogram to 370 Tshs. This is a decline of about 100 Tshs per kilogram or 21.3%.

According to URT (2009), export of horticultural products including cutflowers and vegetable declined by about 25% due to the crisis. There was a drop in export revenue of about 50%, mostly due to cancelled apparel orders from the US. This does not mean that all those affected were TIB customers. However, some customers of the banks too were most likely affected as well.

The implications of defaults include increase in NPLs in the bank. Without reference to a particular bank, IMF (2010) informs that the crisis increased the rate of NPLs in Tanzanian banks. It informs that the rate peaked in mid-2009 due to the 2008 crisis. According to the Fund, NPLs exhibited large variation among banks, partly reflecting different exposures to distressed sectors. According to IMF (ibid), system-wide NPLs rose to 7.8% in June 2009 from 6.2% in December 2008 due to the 2008 crisis. This is an increase of 1.6%.

The Fund informs further that NPLs declined by 0.5% to reach the 6.7% mark partly as a result of the government rescue package for distressed borrowers. According to IMF (ibid), NPL rates varied not only across sectors but also across banks. It informed further that NPLs for systemically important banks at the end of June 2009, ranged from 1.8% to 14.2% which is an average of 8% and a range of 12.4%. Although these figures are not specifically for Barclays, they send some signals on the possible rate of NPL in the bank due to the crisis.

7.2.2 Impacts Through Reduced Sale of Bank Products

In its response, TIB indicated that as a result of the crisis, there was reduced demand for some of its products due to the crisis. This is partly a result of reduced willingness and ability of potential and actual TIB customers to demand for these products following the crisis. Therefore the bank experienced reduced sales volumes. By extension this implies reduced profit amidst some fixed costs such as wages and salaries of permanent staff, rent, interest rates and other fixed costs.

Although establishing clear causal-effect relationship between the reduced sales of bank products on one hand and reduced profit on the other is tricky, TIB (2009: 10) states that the 2009 profit before tax (Tshs 3.3 billion) were lower than that of 2008 as a result of effects of the 2008 financial and economic crisis.

7.2.3 Reduced Profits

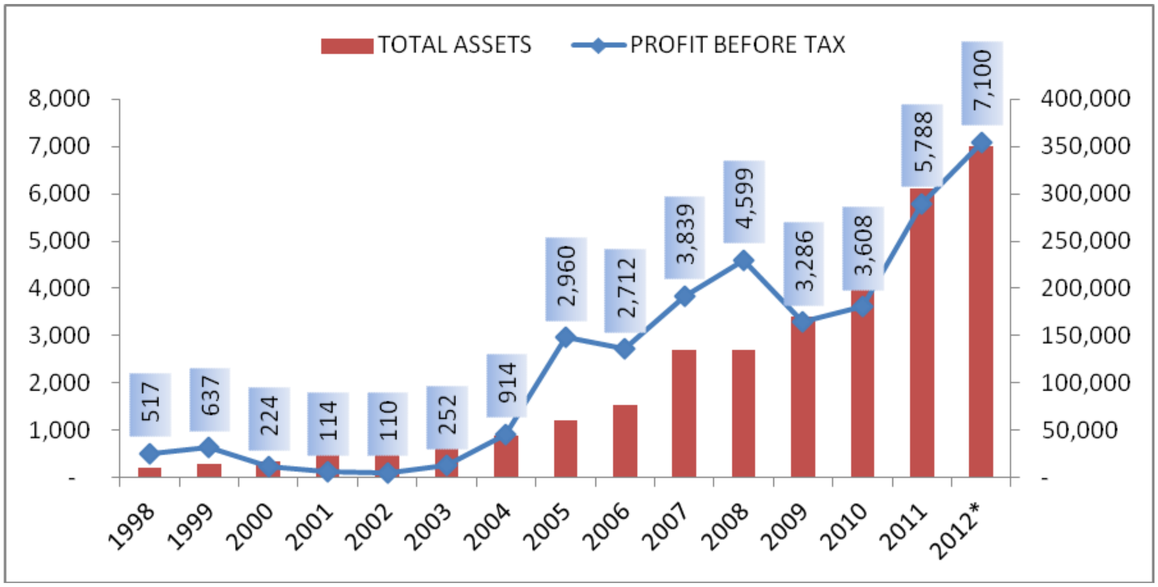
Historical data show that generally, TIB has been posting profits since 1998 to 2012. The pofit has generally shown an increasing trend over time although there have been some decline in profit for some years. In the context of this study, there was a sharp decline in profits in 2009, which is just one year after the 2008 global economic crisis. The profit trend in general and the sharp decline of the same in 2009 in particular is shown in Table 7.2 and Figure 7.1.

Table 7.2. TIB Profit Trend, 1998 – 2012

S/n	**Year**	**Profit in 000,000 Tshs**	Annual change	**Change as % of previous year profit**
1	**1998**	517		
2	**1999**	637	120	23.2%
3	**2000**	224	-413	-64.8%
4	**2001**	114	-110	-49.1%
5	**2002**	110	-4	-3.5%
6	**2003**	252	142	129.1%
7	**2004**	914	662	262.7%
8	**2005**	2,960	2046	223.9%
9	**2006**	2,712	-248	-8.4%
10	**2007**	3,839	1127	41.6%
11	**2008**	4,599	760	2%
12	**2009**	3,286	-1313	-28.5%
13	**2010**	3,608	322	9.8%
13	**2011**	5,788	2180	60.4%
15	**2012**	7,100	1312	22.7%

Source: Computed by the author from TIB historical data provided during field study.

Figure 7.1: TIB's Profit and Asset Trends, 1998 to 2012



Source: TIB historical data provided during field data collection.

It is seen from the table and figure that from 1998 to 2012 (a total of 14 years) TIB made profits in all of the 14 years reported above. The profit increased in total of nine (9) years and declined in a total of five (5) years. Among the years in which the bank posted reduced profit is 2009. This is just one year after the 2008 economic crisis and is the largest decline in absolute terms since 1998. TIB (2009:10) attributes the decline in profit in 2009 to the 2008 economic crisis. It is clear that profit is a function of many variables. This implies that attributing the 2009 decline in profit totally to the 2008 economic crisis may be questioned and needs further interrogation.

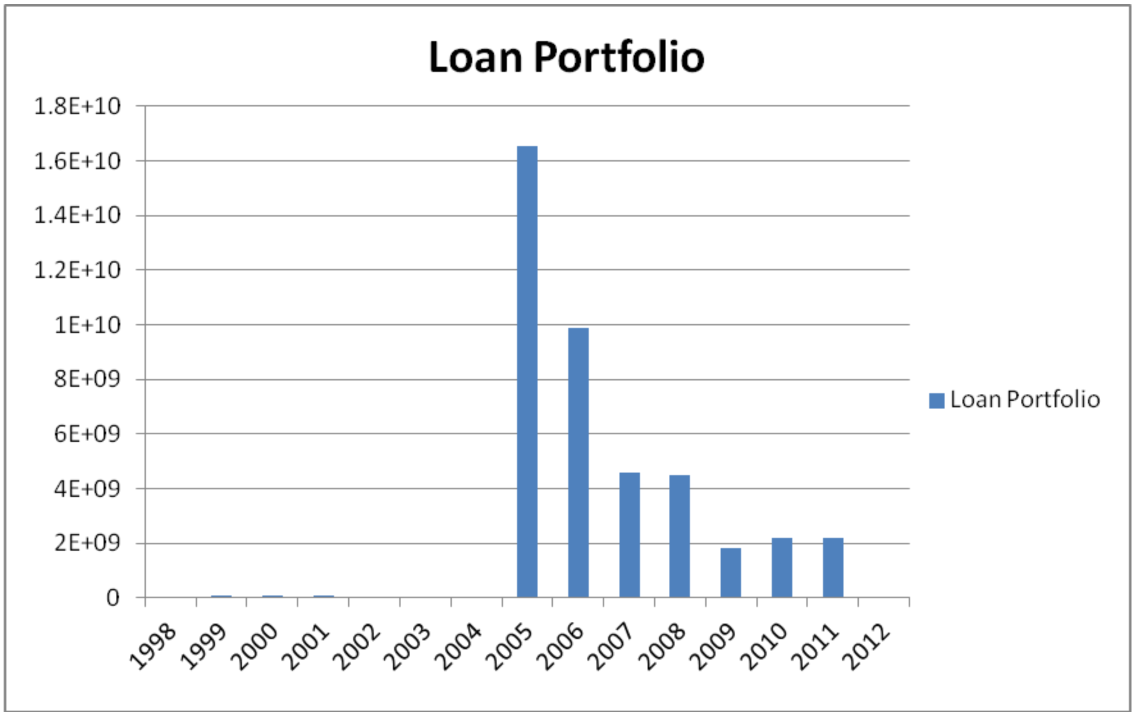
However, given the business environment that led to the reported decline in profit, it makes sense for the bank to attribute a large part of the decline in profit to the 2008 crisis even though a clear causal-effect relationship was not established by the bank. This could have been established by, inter alia, giving a counter-factual situation that would show what would have been the profit level in the same year had the 2008 crisis not existed.

It was beyond the scope of this study to establish such causality. It remains to be among the areas for further research. Among other things, it would also be interesting to interrogate and establish in further research the causes of the decline in profit level posted by the bank in the year 2000 (413 million), 2001 (114 million), 2002 (4 million) and 2006 (248 million) when there was no economic crisis and see whether the same cannot explain the profit decline in 2009.

It can be seen from the table that just after the profit decline in 2009, there was some modest increase in profit in 2010. This might have been caused by some recovery from the crisis albeit weak, fragile and unsustainable. The 2010 modest increase in profit was followed by a huge surge in profit in 2011 and 2012. These are the years in which the global economy in general and that of Tanzania in particular had arguably recovered from the 2008 global economic crisis.

The reduced profit can also be a reflection of the sharply reduced loan portfolio of the bank as (reduced loan portfolio) shown in the figure below. Profit is a function of many variables including but not limited to the amount of loan issued. Ceteris paribus, the higher the loan portfolio, the higher the profit and vice versa.

Figure 7.2. TIB Loan Portfolio, 1998 to 2012 Showing a Sharp Decline in 2009



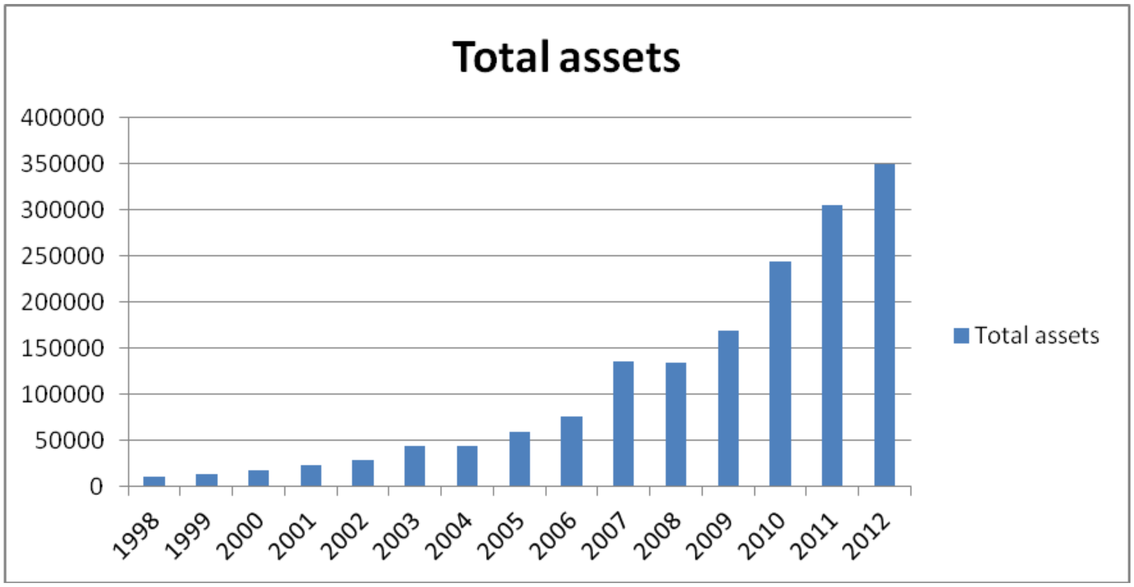
Source: TIB historical data availed to the researcher during data collection

7.2.4 Impacts on TIB's Assets

Based on the data presented in Figure 7.3 below, it can be seen that TIB's assets have generally been increasing over years since 1998. The assets were below the 500 million Tshs mark in 1998 and had reached about 7000 million Tshs mark by 2012. However, a closer look at assets growth trend shows that there was a stagnation in assets growth in 2008.

TIB's assets grew uninterruptedly from below 500 million Tshs in 1998 to about 3000 million Tshs in 2007. Then it stagnated at about 3000 million Tshs in 2008 before growing again from about 3500 million Tshs in 2010 to 7000 million Tshs in 2012. As for profits, it may be challenging to give a clear causal-effect relationship between the stagnation of TIB's assets in 2008 on one hand and the 2008 economic crisis on the other. However, given the economic environment in 2008, it could be fair to attribute the stagnation to the crisis.

Figure 7.3. TIB's Assets, 1998 to 2012



Source: TIB historical data provided to the researcher during data collection.

When combined with the decline in profit in 2008, the asset stagnation in the same year could be reasonably attributed to the 2008 crisis. However, since the crisis started officially on 15th September 2008, its negative effects on stagnation and profits would start to be seen and felt in 2009. This is because normally there is a time-lag between such shock as the crisis on one hand and its effects on many variables such as assets and profits on the other.

7.2.5 Impacts on the Bank's Soundness

Similar to Barclays Bank Tanzania, TIB remained sound despite the 2008 economic crisis. According to TIB (2008:5), there was a strong performance of the bank in 2008 as evidenced by the bank's financial results. TIB (ibid) states further that like in 2007, it continued to register very good results in almost all the key performance areas. Similar statement was given by the bank for 2009 performance as stated in TIB (2009: 7). This implies that the bank's soundness was not affected by the crisis compared to the way the crisis affected

According to The Economist (May 11th – 17th 2013), such American banks as Lehman Brothers filed for bankruptcy, Merrill Lynch collapsed into the arms of Bank of America while America International Group (AIG) and Citigroup had to be bailed out. TIB's soundness can partly be seen from its profit and assets levels that did not go to the red territory. These can be seen in Figure 4.3 of this work and are in line with BoT's various reports that banks in Tanzania largely remained sound during the crisis. As alluded to by Minja (2009) this partly is due to the low integration of the Tanzanian banks to the global financial system. This in turn is a result of relatively low development of the sector in Tanzania.

The reported soundness of the bank conforms to the BoT (2008, 2009) reports that generally Tanzanian banks remained sound despite the crisis. As mentioned in Minja

(2009) the soundness of the banks in Tanzania during the crisis can be partly attributed to the low level of integration of the Tanzanian banking system to the global one due to the former's relative underdevelopment. It can also be attributed to TIB's strict adherence to BoT and Basel requirements.

7.2.6 Impacts Through Exposure to Complex Financial Products

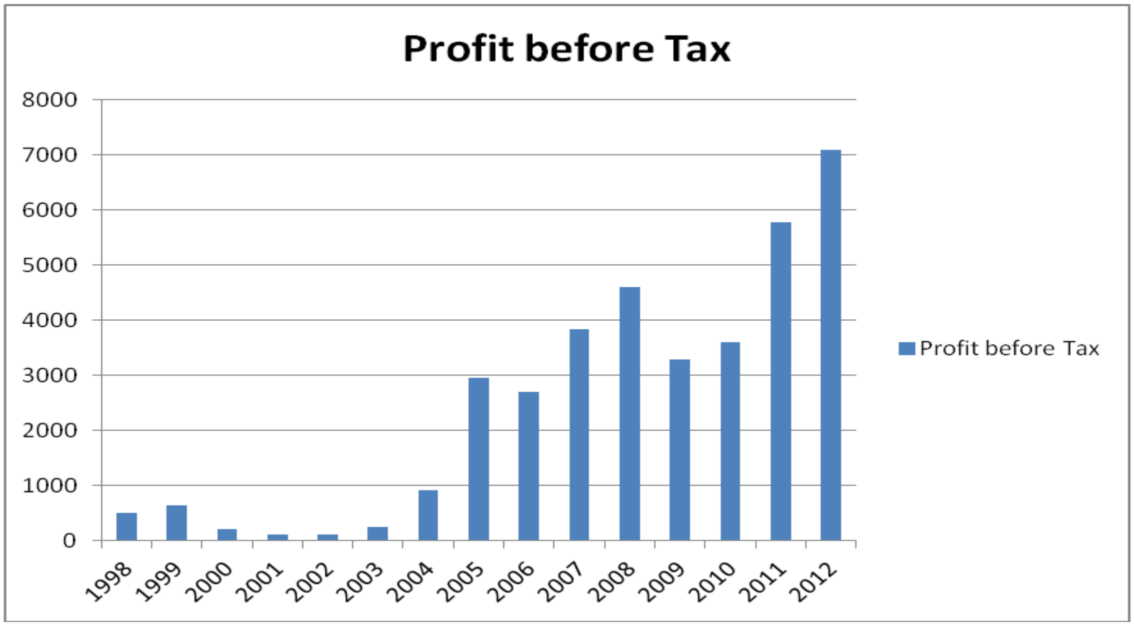
TIB reported that it was affected by the 2008 economic crisis through its exposure to complex financial products. This can be partly understood when considering that, as stated in the introduction to TIB in general and under trade financing and export finance in particular, the bank also engages in complex trade finance arrangements. It does this in conjunction with its correspondent banks. This poses potential exposure to complex financial products like derivatives that were affected by the economic crisis in general and through troubled correspondent banks in particular.

7.2.7 Impacts Through Credit Risks

TIB noted in its response that it was affected by the 2008 global economic crisis through the mechanism of credit risk. As documented in the introductory part on the bank, TIB issues credit to a number of sectors. Among these include generally risky sectors such as agriculture and tourism whose credit risk increases in time of economic crisis such as the 2008 one. It also issues credit to import and export trade that is also exposed to credit risk especially in times of crisis such as that on 2008.

The implications of increased credit risk include greater possibilities of the bank to loose money through defaults and rescheduled debt repayment. These in turn may be reflected in reduced profit in 2009 and 2010 which are just a year and two after the crisis respeftively, as shown in figure 7.4 below.

Figure 7.4. TIB profit before tax, 1998 to 2012, showing decline in 2009 and 2010.



Source: Developed by the researcher from TIB historical data availed during data collection.

7.2.8 Losses of Deposits With Troubled Correspondent and Other Banks

TIB has trade relations with a number of international corresponding banks. These include the Bank of Tokyo Mitsubishi UFJ, Ltd of Japan, Standard Chartered Bank of London, Standard Chartered Bank of New York and Standard Bank of South Africa. According to TIB (2009: 6) the bank's bankers include Stanbic Bank (T) Ltd, National Bank of Commerce (NBC), Svenska Handelsbank AB of Sweden, Bank of Tanzania (BoT).

These, apart from Stanbic Bank (T) Ltd, NBC and BoT are banks located in more developed parts of the world and most likely were affected by the crisis. This is because similar banks and banks in similar countries were affected by the 2008 crisis due to their huge integration in the global financial markets. Besides the trade relations with corresponding banks, TIB has deposits with other banks too.

According to TIB, the bank did not incur any loss of deposits with its correspondent or other banks. According to TIB (2008:12), the bank deposits in other banks were of the tunes of 3,086,434,000 Ths. According to TIB (2009:19) such deposits in 2009 were to the tunes of 5,500,032,000 Tshs. This is an increase by 2,413,598,000 Tshs or 78.2%. There is no clear evidence that TIB did not loose money through deposits with other banks due to the crisis.

However, the increase in such deposits by a whole 78.2% just a year after the crisis is an indicator that there were no losses that is why TIB increased, as a rational actor in the market, increased the deposit. This implies that either TIB did not have deposits with these banks or if it did, the correspondent banks were not troubled by the crisis. If troubled by the crisis, then the troubles were not contagious to TIB. It was beyond the scope of this study to find out whether TIB had deposits with these correspondent banks and whether these correspondent banks were affected by the 2008 economic crisis and if so why TIB was not affected through loss of deposits if it had them in these banks. Therefore further interrogations on these issues are needed in future research.

7.2.9 Impacts Through Exposure to Crops and Other Commodities Financing

Surprisingly, TIB responded that it was not affected by the 2008 economic crisis through the mechanism of exposure to crops and other commodities financing. This is inconsistent with its response that it suffered from defaults from cutflower and cotton exporters through its agricultural sector financing. It is also inconsistent to the fact that in 2008, according to TIB (2008:7) a total of 23% of its loans went to agriculture and agro-processing as did 25% of the same in 2009 according to TIB (2009:11).

To the extent that TIB suffered from defaults in cutflower and cotton sub-sectors but reported not to suffer from exposure to crops and commodities finance, the implications, inter alia can be that TIB does not classify crops and commodities finance under the agricultural sector.

7.2.10 Impacts Through Change in Demand for Government Securities/treasury Bills

According to TIB, the issue of the bank being affected by the crisis through the mechanism of change in demand for government securities/treasury bills is not applicable to it. However, this is inconsistent with the fact that TIB's 100% owned subsidiary, Rasilimali Ltd deals with, inter alia, trading in government securities/treasury bills. In TIB (2008: 12) it is reported that the bank's balance sheet was composed of,

inter alia treasury bills and bonds worth 44,505,526,000 Tshs. The figure for 2009, according to TIB (2009: 19) was 59,551,160,000 Tshs. Therefore, the issue of government securities/treasury bills is of relevancy to TIB, contrary to its response.

Generally, during economic crisis, investors' appetite for government securities/treasury bills is lower than in a situation without crisis. Partly this is explained by the fact that potential investors in these securities are negatively affected by the crisis and therefore short of cash to buy government securities. Secondly, they are likely to perceive investing in such ventures as a risky undertaking because governments too may not be in a position to pay when the securities mature. This is because economic crisis affects negatively governments' fiscal space resulting into inability to honour some financial obligations.

Therefore it is most likely that Rasilimali Ltd did not perform well during the crisis. Being a 100% subsidiary of TIB, it is fair to argue that TIB was most likely negatively affected by the 2008 crisis through the negative impacts of the same at Rasilimali Ltd.

7.2.11 Impacts Through Foreign Parent Banks

From the introduction to TIB above, it is clear that the bank is a 100% Tanzanian local company. According to TIB (2008: 11), the share of the bank are held by the Treasury Registrar on behalf of the Government (of United Republic of Tanzania) to the tunes of 99.83%; Consolidated Holding Corporation (of Tanzania) to the tunes of 0.13% and National Insurance Corporation of Tanzania Limited (0.04%). The share composition in 2009, according to TIB (2009: 17) had changes although the same shareholders remained with shares of 99.91%, 0.07% and 0.02% respectively. Corresponsing figures for 2010, according to TIB (2010: 23) were 99.96%, 0.03% and 0.01%.

Being totally 100% local Tanzanian bank therefore the possibilities of TIB being affected by the 2008 crisis through various mechanisms involving foreign parent company are ruled out. Such possible mechanisms would include impacts through such

would be foreign parent banks withdrawing funds from the would be local subsidiaries, parent banking companies stopping re-investing profits locally, parent banking companies repatriating funds from subsidiaries and parent banking companies curtailing local operations by selling their assets.

Even if TIB was a foreign bank registered in Tanzania – similar to Barclays Bank Tanzania - it would most likely not be affected through the mechanisms of the impacts on the would-be parent company. This is because foreign banks in Tanzania are registered as independent banks and not subsidiaries of their parent companies.

7.2.12 Impacts Through Run on the Bank

Similar to Barclays, TIB did not experience a run on the bank by way of extra high and abnormally rapid withdrawal of deposits by its customers. The bank's customers maintained a normal level of withdrawals of their deposits. This may imply that the depositors were not worried about the security of their deposits which in turn would indicate their trust on the bank's soundness. By extension, this could be a result of the

BoT' 2008 reassuring statement that banks in Tanzania remained stable despite the crisis and that customers did not need to worry by, inter alia running on the banks in general and TIB in this context in particular.

However, it may also imply that there were risks of loosing deposits but the depositors did not see those risks. Reasons of TIB's none-experience of run on the bank were behind the scope of this study and constitute areas for further research in the future. Figures on daily, weekly and monthly withdraws before, during and after the crisis could not be available. If they were available it would be possible to give some empirical evidence of existence or none existence of run on the bank in TIB.

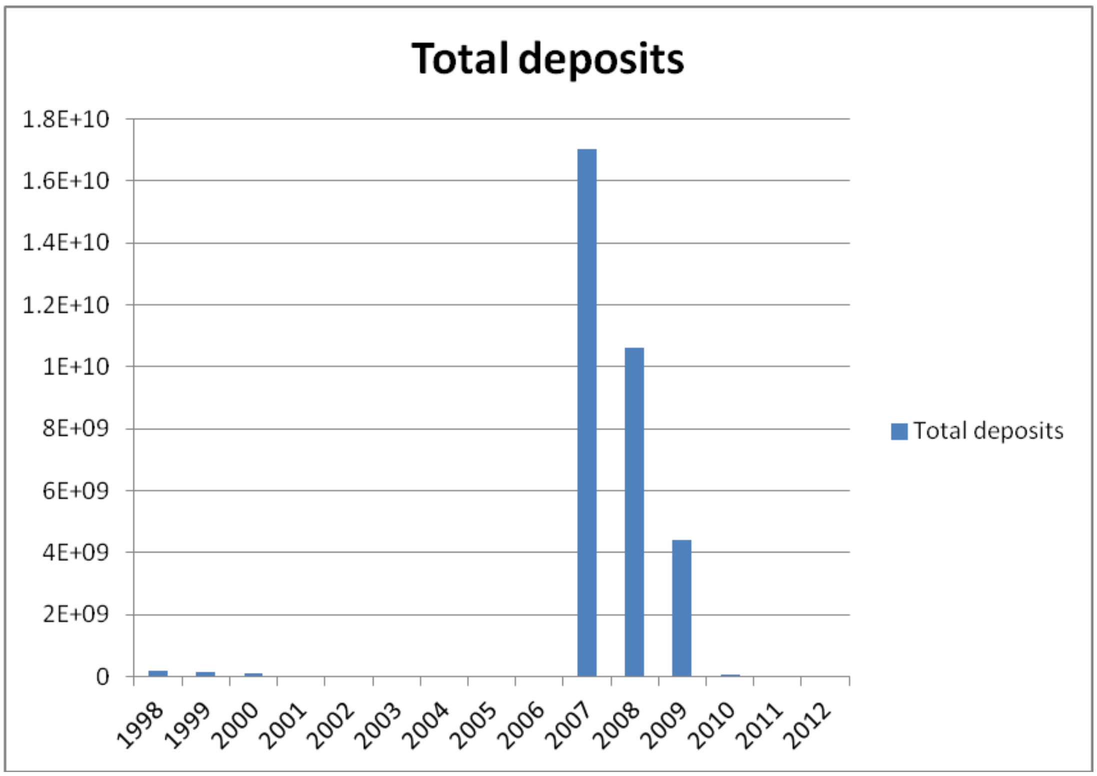
However, a proxy can be used instead. Figures in Table 4.8 and Figure 4.5 below show that there were sharp drop in deposits in TIB in in 2008 and 2009. In the context of run on bank this may indicate customers' fear to deposit with the bank. This is similar to the fear that would lead to a run on the bank by way of extraordinary high and frequent withdraws.

Table 7.3: Deposits in TIB, 2007 to 2010

Year	**2007**	**2008**	**2009**	**2010**
Deposits	17,045,207,314	10,607,085,775	4,418,969,042	50,973,574

Source: Extracted by the researcher from TIB historical data availed during data collection

Figure 7.5: TIB total deposits, 1998 to 2012



Source: TIB historical data availed during data collection

7. 2.13 Impacts Through Reduction of Liquidity in the Banking System

According to TIB, the bank experienced some reduction of liquidity in the Tanzanian banking system. This claim could not be substantiated in the responses by the bank.. Similar response was made by Barclays Bank Tanzania. According to TIB (2008: 19), the bank experienced a decline in deposits from other banks in 2008 compared to 2007. In 2007 the deposits were to the tunes of 13,200,069,000 Tshs while in 2008 it went to the negative territory (-15,917,745,000 Tshs).

In 2009, according to TIB (2009:27), the deposits from other banks were back to the positive territory (3,874,396,000 Tshs). This shows some increased liquidity although short of the 2007 levels by 9,325,673,000 Tshs. Etablishing a clear causal-effect relationship between the decrease in deposits from other banks on one hand and the 2008 crisis on the other is difficulty. However, the bank's attribution of the reduced liquidity to the crisis is justifiable given the economic environment of the time.

7.2.14 Impacts Through Curtailed Access to Credit Abroad

The 2008 economic crisis arguably had some benefits to TIB, albeit minimal. Without supporting data, the bank claimed that as a result of curtailed access to credit abroad, there was increased demand for the same at TIB. This is similar to the findings of Tumusiime (2010) in the case of some banks in Uganda.

7.2.15 Impacts Through Increase in Non-performing Loans (NPLs)

TIB responded that it experienced an increase in non-performing loans (NPL) due to the 2008 economic crisis. According to TIB (2008: 16) the bank's impaired losses on loans and advances in 2007 were 963,267,000 Tshs. In 2008 however, it had increased to 2,196,310,000 Tshs. This is an increase by 1,233,043,000 Tshs or a whole 128.0% in just a year. According to TIB (2010: 26), the ratio of NPL to total advances in 2009 was 25% while in 2010 it was 15%.

The 10% variance can be partly explained by some recovery from the crisis that started setting-in in 2010. Establishing clear causality between the increased NPL on one hand

and the 2008 crisis on the other can be tricky. However, the bank's business environment for 2008 when its customers were severely affected by the crisis can justify the causal-effect relationship.

A proxy of the sharp reduction in profit in 2009 which is just a year after the crisis may be used to indicate possible impacts of NPL. However, it is understood that reduced profit, as shown in Figure 4.6 below is a function of many variable in which NPL is just one.

Figure 7.6;TIB's Profit Before Tax, 1998 to 2012 Showing a Sharp Decline in 2009

Source: TIB historical data availed to the researcher during data collection.

7. 2.16 Impacts Through Exposure to Personal Loans

Banks can have been affected by the 2008 economic crisis through the mechanism of exposure to personal loans. This would happen due to jobs losses of borrowers from banks. Job losses would imply inability of the borrowers to honour their debt obligations that were being met through their salaries. This in turn would affect the involved banks in various ways including but not limited to increase in doubtfull, bad and NPL.

7.3 Responses to the 2008 Economic Crisis by TIB

Similar to the impacts of the 2008 economic crisis to TIB, the research also aimed at identifying the way the bank responded to the crisis. Responses from the interviews with the bank officials are presented and discussed in this part of the report.

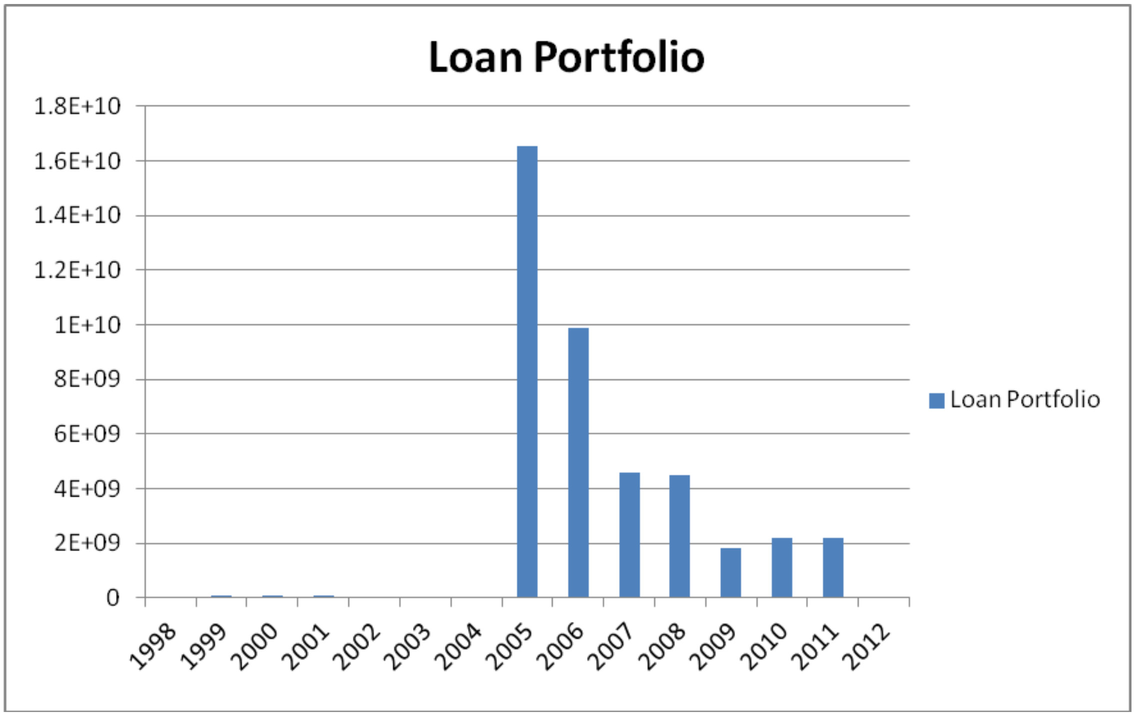
7.3.1 Freezing of Lending

According to the respondents, TIB did not respond to the 2008 economic crisis by the way of freezing of lending. It continued to issue credit to its various clients. Due to risks embedded in some sectors, businesses and individuals in times of economic crisis such as that of 2008, one would expect that banks would freeze some lending. By not freezing any lending amidst increased risks, implications may be that TIB is a risk-taking bank.

7.3.2 Reduced Lending

Similar to the findings on freezing lending, TIB response was that it did not respond to the crisis by reducing lending. The bank kept on issuing loans to its clients. This is not consistent to historial data from TIB which show that there was a stagnation of lending between 2007 and 2008 and sharp decline of the same in 2009 before peaking up slightly in 2010 and 2011 as shown in the graph below.

Figure 7.7. TIB Loan Portfolio, 1998 to 2012



Source: TIB historical data, 1998 – 2012

The methodological triangulation in which the response from TIB and actual figures from historical data have been compared indicates the importance of using various sources of data in research.

7.3.3 Increased Risk Assessment

TIB indicated that it responded to the 2008 economic crisis by increasing its risk assessment of borrowers. This was partly done through improvement of oversight of credit risk and more conservative approach for collateral valuations. According to TIB (2008: 25), the bank carries risk management through its Risk Department under policies approved by the Board of Directors. It manages foreign exchange risk, interest rate risk, credit risk (loans and advances, investments,), market risk, liquidity risk and other operational risks.

It is stated in TIB (2009: 11) that the bank's credit risk management system was to be operational in 2010. This implies that the bank was not very well equipped in 2008 and 2009 to respond to the crisis by way of having a credit risk management system. This is not good in an operating environment with high credit risk as was the case in 2008 and 2009 when the crisis heightened the level of such risk.

7.3.4 Stress-testing

Similar to Barclays Bank Tanzania but without giving details, TIB informed that it responded to the 2008 economic crisis by conducting stress-testing. This is consistent to the requirements by BoT for all banks to conduct stress-testing as among the strategies to respond to the 2008 economic crisis.

A bank stress test is an analysis conducted under unfavorable economic scenarios such as the 2008 economic crisis. The aim is to determine whether a bank such as TIB has enough capital to withstand the impact of adverse developments in the market. Stress-tests are meant to detect weak spots in the concerned bank such as TIB or the banking system at large at an early stage, so that preventive action can be taken by the bank such as TIB and regulator such as BoT.

Conceptually, bank stress tests focus on a few key risks – such as credit risk, market risk, and liquidity risk. Bank stress tests attracted a great deal of attention in 2009, following the 2008 global economic crisis that left many banks and financial institutions across the world severely under-capitalized.

7.3.5 Financial Stability Measures

According to Gadanecz and Jayaram (undated), a financial system can be characterised as stable in the absence of excessive volatility, stress or crises like the 2008 economic crisis. TIB responded to the crisis by adopting some financial stability measures as recommended by the BoT.

7.3.6 More Adherance to Regulations

Similar to Barclays, TIB responded to the crisis by adhering more to the BoT regulations such as those on capital requirement and maintaining the needed ratios. According to TIB (2008: 33), BoT requires each bank to hold a minimum level of the regulatory capital of Tshs 5 billion and maintain a ratio of total regulatory capital to the ris-weighted asses (the Basel ratio) at or above the internationally agreed minimum of 10%. In 2008, TIB's total capital was 36,678,470,000 Tsh which is much above the BoT requirement. TIB (ibid: 15) explains that there was no specific regulatory requirements related to Basel II implementation. However, the bank was undertaking to strengthen its risk management and governance structure.

7.3.7 Enhancing Contingency Plans to Ensure Full Operations in Times of Stress

Similar to Barclays bank and without elaboration even after follow up questions, TIB argued that it responded to the 2008 global economic crisis by enhancing contingency plans to ensure full operations despite the crisis.

7.3.8 Provision of Emergency Liquidity

TIB argued in its response that, it had adequate liquidity. Therefore it did not provide for emergence liquidity as a strategy to respond to the 2008 global economic crisis. The response that TIB had adequate liquidity is in line with BoT's responses that generally banks in Tanzania had adequate liquidity over and above the regulatory minimum.

7.3.9 Discussing With Affected Customers

According to TIB (2008: 7), the bank partly responded to the 2008 economic crisis by discussing with its customers who were affected by the crisis. The aim of the discussions included to find ways of mitigating the impacts of the crisis. The bank did this in its role as a development bank. The response by way of discussion with customers is part of participatory and collaborative efforts between various stakeholders in addressing the crisis.

7.3.10 Long Term and Developmental View

Among the strategic approaches taken by TIB to respond to the 2008 economic crisis, according to TIB (2008: 9) was taking long term and development view of the enterprises and sectors that were affected by the crisis. This was in response to the challenges facing the borrowers as a result of the crisis. This is in contrast to Barclays bank that reported to have responded to the crisis by, inter alia, stopping extending loans to long-term investments beyond two years.

This shows the difference between commercial banks like Barclays bank and development ones like TIB. (when this report was writte, TIB was in a transformation process from investment bank to a Development Financial Institution (DFI). This implies further that compared to purely commercial banks, development banks are likely to be better in serving enterprises in times of economic crisis. Similar to the findings on the impacts mechanisms and responses in Barclays Bank, there are various theoretical underpinnings that can be used to interpret and understand the findings in TIB.

The impacts of the 2008 economic crisis to TIB can be interpreted and understood in context of the monetarists school of thought theoretical underpinning. Recession in the real sectors of the economy in general and on part of the TIB clients in particular affected the liquidity situation in the bank. This is the case for impacts through the mechanisms of defaults by borrowers, reduced demand for its products, increased credit risks, reduced liquidity in the banking system as well as increase in NPLs..

Similar to Barclays bank, TIB was not affected through some mechanisms that could have affected some banks elsewhere in the world especially in developed countries. For example, it was not affected by mechanisms related to high intergration with the global financial system. This can be partly understood in light of Tanzania's rather low and limited development and complexity of the financial system. These facts have been pointed out in BoT (2008), Minja (2009) and Ngowi (2013) in Tanzanian context and in Adie (2010) in the context of the African continent.

Similar to the reresponses by Barclays Bank to the 2008 economic crisis, the responses by TIB can also be interpreted and understood in the context of the Debt-deflation

theoretical underpinning as partly stated by Fisher (1933). TIB undertook the various response to the 2008 economic crisis in order to avoid collapsing, as predicted in Fisher (ibid). These responses include but are not limited to increasing risk assessment for its borrowers, stre-testing, more adherence to regulations, discussing with affected customers as well as taking a long term and developmental view of its promising clients.

CHAPTER EIGHT

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

8. 1 Introduction

In this chapter, a summary, conclusions and recommendations emanating from the study are presented. The summary briefly captures the main issues in the study. The section on conclusions dwells on the main issues that can be concluded on the impacts of and responses to the 2008 economic crisis in the banking sector in Tanzania. The recommendation sub-section covers policy recommendations and recommendations for future research based on this study.

8.2 Summary

This study aimed at identifying the mechanisms through which banks in Tanzania were affected by the 2008 economic crisis and the way they responded to the same. Findings from BoT revealed some nine (9) possible mechanisms through which banks in Tanzania in general could have been affected by the 2008 economic crisis. These mechanisms include increase in NPLs, decline in personal loans, banking sector soundness, banks' assets quality, resilience of banks, banks' liquidity, banks' profitability, financial soundness and accumulation of excess reserves.

When it comes to responses to the 2008 economic crisis, findings from BoT show that the Central Banks responded to the crisis in about twelve (12) major ways. These are responses through stress-testing, increase of reserve requirements on government deposits held in commercial banks, enhanced monitoring of the banking sector, easy

monetary policy, increase in banks' capital requirements by 200%, establishment of

Financial Sector Stability Department at BoT, enhancement of financial system stability and efficiency, prudential oversight, establishment of Financial Regulators Forum, strengthening crisis preparedness, liquidity management and review of lending rates.

The responses to the 2008 crisis by individual banks that were identified by BoT are only three (3). These are more cautious lending, preference for safer money market instruments and resumed lending following signs of recovery.

From the detailed field study of Barclays and TIB, it was found that there are about twenty two (22) mechanisms through which banks could have been affected by the 2008 global economic crisis. These include impacts through the mechanisms of defaults by borrowers, debt re-scheduling, reduced issuance of loans, reduced sale of bank products, bank's soundness, exposure to complex financial products, credit risks and losses of deposits with troubled correspondent and other banks.

Other mechanisms include exposure to crops and other commodities financing, parent banks withdrawing funds, parent company stopping re-investing profits locally, parent company repatriating funds, parent company curtailing local operations, run on bank, reduction of liquidity in the banking system and through job losses of salaried bank borrowers.

Banks could also be affected by the 2008 global economic crisis through other types of mechanisms. These include reduced sale of bank products, reduced profits, reduced banks' assets, banks' soundness, exposure to complex financial products, increased credit risks, losses of deposits with troubled correspondent and other banks, exposure to crops and other commodities financing, change in demand for government securities/treasury bills, impacts through foreign parent banks, reduction of liquidity in the banking system, curtailed access to credit abroad, increase in non-performing loans (NPLs) and exposure to personal loans.

These potential and actual impacts identified from the studied banks confirm as well as oppose some impacts outlined in the literature. They generally show that whereas banks in the more developed world like the United States of America and Europe were affected by the 2008 economic crisis in a direct way, banks in Tanzania were affected indirectly through the impacts of second-round effects (bounce-on effects) of the crisis.

They were affected because the real sectors of the economy they financed were troubled by the crisis. Partly this confirms intersectoral linkages in general and between the real sectors of the economy on one hand and the financial sector on the other. It is also seen from the findings that the mechanisms through which banks were affected by the crisis partly depended on the sectors they fund in general and the proportion of their loans portfolio in these sectors in particular.

The mechanisms through which banks were potentially and actually impacted also show that even when a bank has a foreign parent company, it is not a reason for that bank to be affected by the impacts of the crisis in that parent company.

This is because of the domestic banking regulation that requires foreign banks in the country to be registered and licensed as independent banks with own capital and not

branches of foreign banks. However, the contrary is also the case where even a bank which is 100% locally owned can be affected by economic crisis due to impacts of the crisis in some foreign banks. These include correspondent banks and other banks where local banks hold some of their deposits.

The results also indicate that there is a co-movement of sectors in which case when the real sectors of the economy perform badly the financial one too is in a danger to perform bad and vice versa, ceteris paribus. Therefore the study has tremendously increased the understanding of possible impacts of economic crisis in banks.

The study has also identified about ten (10) ways in which the studied banks responded to the 2008 global economic crisis. These responses include freezing of lending, reduced lending, increased risk assessment, stress-testing, injection of capital in some businesses financial stability measures, more adherance to regulations, enhancing contingency plans to ensure full operations in times of stress, provision of emergency liquidity, discussing with affected customers and long term and developmental view.

The studied banks responded to the 2008 global economic crisis in various ways. Some of the responses were triggered by the requirements of the authorities like the BoT while others were initiatives of the banks themselves. Most of the responses arguably aimed at protecting the banks from severe impacts of the crisis. Some responses however, aimed at protecting the enterprises that they have been financing. Such responses include capital injection in struggling but promising businesses by Barclays and discussion with clients in the case of TIB.

There have also been some sharp differences on some kinds of responses that arguably show the difference between commercial and investment bank. Barclays for example stopped financing long-maturing businesses while TIB took some long term view for some businesses. The former seems to be typical for commercial banks which are by and large short-term oriented in terms of offering credit. The latter is typical for development banks that mainly finance long term ventures.

Although it cannot be generalized from these two observasions, there are signals that investment banks are better in funding businesses in times of economic crisis. This is partly because some repayments are long term in nature in which time economies might have recovered from the crisis.

Findings from the two banks that were covered in the study show some differences and similarities in the mechanisms of impacts through which they were affected. They also show some similarities and differences in the way they responded to the 2008 global economic crisis. These similarities and differences are captured in Table 8.1.

Table 8.1:Similarities and Differences in Mechanisms of Impacts of and Responses to the 2008 Economic Crisis Between Barclays and TIB

S/n	Impacts			Responses		
		Barclays	**TIB**		**Barclays**	**TIB**
1	Impacts through defaults by borrowers	V	V	Freezing of lending	v	X
2	Impacts through debt re-scheduling	V	V	Reduced lending	v	v
3	Impacts through reduced issuance of loans	V	V	Increased risk assessment	v	v
4	Impacts through reduced sale of bank products	V	V	Stress-testing	V	V
5	Impacts on the bank’s soundness	X	X	Financial stability measures	X	v
6	Impacts through exposure to complex financial products	X	X	More adherance to regulations	V	V
7	Impacts through credit risks	V	V	Enhancing contingency plans to ensure full operations in times of stress	X	v
8	Impacts through losses of deposits with troubled correspondent and other banks	X	X	Provision of emergency liquidity	x	X

9	Impacts through exposure to crops and other commodities financing	X	V	Discussing with affected customers	X	V
10	Impacts through parent bank withdrawing funds	X	N.A	Long term and developmental view	X	V
11	Impacts through parent company stopping re-investing profits locally	X	N.A	Stopping long-maturing loans	V	X
12	Impacts through parent company repatriating funds	X	N.A	Financial stability measures	X	V
13	Impacts through parent company curtailing local operations	X	N.A			
14	Impacts through run on the bank	X	X			
15	Impacts through reduction of liquidity in the banking system	V	V			
16	Impacts through job losses of bank clients	V	X			
17	Reduced profits	V	V			
18	Impacts on bank assets	V	V			
19	Impacts through agriculture finance	X	V			
20	Impacts through change in demand for government securities/treasury bills	X	X			
21	Impacts through curtailed access to credit abroad	V	X			
22	Impacts through increase in non-performing loans (NPLs)	V	V			

Source: Developed by the researcher

Key:

V = impacted by the mechanism/responded in that way

X = not impacted through the mechanism/responded in that way

N.A = Not Applicable

It can be seen from Table 8.1 that the banks have been affected by the 2008 economic crisis in many similar ways. Out of the 22 different mechanisms, there are a total of eleven (11) or 50% similar mechanisms through which the banks have been affected. There have been five (5) or 22.7% different possible mechanisms that have not affected the banks. There are four (4) or 18.2% types of mechanisms in which one bank was affected while the other was not affected. It is also seen that there have been four (4) or 18.2% types of mechanisms that have affected one bank but were not applicable (N.A) in the other bank.

It is therefore seen that there is no particular mechanism through which the studied banks were affected by the crisis. The general mechanisms through which the banks have been affected may not be generalized to all other banks. However, they indicate the main mechanisms through which similar banks in similar environment can be affected by similar economic crisis.

Regarding responses to the crisis, there are equal number of ways in which the banks have responded to the crisis. Out of a total of ten (10) ways in which the banks responded to the crisis, there are a total of five (5) or 50% of common responses by the banks. In the remaining five (5) or 50% ways, each bank responded in its own particular way. This can partly show that there are no particular ways in which the banks responded to the 2008 global economic crisis. Although this cannot be generalized to be the way banks should respond to economic crisis similar to the 2008 one, it provides signals of what similar banks in similar environment can do in response to similar economic crisis.

8.2.1 Analysis of the Impacts

From the findings on the mechanisms through which the banks were potentially and actually affected by the 2008 economic crisis, several issues do emerge. Findings on the mechanisms through which banks in Tanzania were impacted by the 2008 global economic crisis are analyzed here.

Findings from BoT revealed some nine (9) possible mechanisms through which banks in Tanzania could have been affected by the 2008 economic crisis. These mechanisms include increase in NPLs, decline in personal loans, banking sector soundness, banks' assets quality, resilience of banks, banks' liquidity, banks' profitability, financial soundness and accumulation of excess reserves. These mechanisms are very few compared to the 22 mechanisms identified by Barclays and TIB. Therefore the detailed study of Barclays and TIB has added much value by identifying thirteen (13) new extra mechanisms through which banks in can be affected by economic crisis similar to the 2008 one.

The mechanisms of impacts that have been identified by BoT however are largely a sub set of those identified by Barclays and TIB. Looking at the 22 mechanisms identified by Barclays and TIB, one sees some impacts that have to do with the situation within Tanzania. Some impacts however are mainly related to the global environment. These are summarized in the figure below.

Figure: 8.1. Local and Global Nature of Impacts of the Crisis to Banks in Tanzania

S/n	Impacts of local nature	Impacts of global nature
1	Defaults by borrowers	Exposure to complex financial products
2	Debt re-scheduling	Losses of deposits with troubled correspondent banks
3	Reduced issuance of loans;	Parent banks withdrawing funds
4	Reduced sale of bank products;	Parent companies stopping re-investing profits locally
5	Bank's soundness; credit risks;	Parent companies repatriating funds
6	Exposure to crops and other commodities financing;	Parent companies curtailing local operations
7	Run on the bank;	
8	Reduction of liquidity in the banking system	
9	Job losses	

Source: Developed by the author from field findings

The impacts of local nature indicate that the banks were mainly affected by the 2008 economic crisis indirectly through the impacts of the crisis in the real sectors of the economy. This shows, inter alia, the very direct linkages that exist between the banking sector on one hand and the real sectors of the economy on the other. It shows close interdependence of these sectors. When the real sectors of the economy that are funded by banks experience shocks, these shocks will be transmitted to the banks involved in particular and possibly to the whole banking system if not checked early enough.

Given the inter-sectoral linkages that exist within the real sectors of the economy and between these sectors and the banking sector, when the banking sector is affected by such shocks as economic crisis, the real sectors of the economy whose main axis is the banking sector will also be affected. It remains as among the possible areas of further research to find out how shocks in the banking sector impact on the real sectors of the economy as this was out of scope of this study.

The impacts of global nature that have been outlined in the figure above have many implications. Inter alia, they show that the studied banks in Tanzania were not very much affected by the 2008 global economic crisis. As noted in BoT (2008) and Minja (2009), this is mainly due to the limited interconnectedness of the banks in Tanzania with the global financial system.

This in turn reflects the relatively low level of international intergration and globalization of the Tanzanian banking system to the international one. It also implies that the Tanzanian Shilling is not widely traded globally. Therefore, the relatively low development of the banking sector in Africa in general (with exception to South Africa) and Tanzania in particular has been a blessing in disguise as it helped to shield and cushion the banking sector from from severely suffering from the 2008 global economic crisis.

It is the researcher's views that if the Tanzanian banks studied were highly globalized and internationnaly integrated, including operations in the geographical areas that were severely affected by the crisis, such as United States of America (USA) and Europe, they would suffer more from the crisis. This is because the mechanisms listed as being of local nature would also apply to their global operations. This in turn would put them in greater exposed positions thereby increasing the actual and potential impacts.

8.2.2 Analysis of the Responses

The findings on the various mechanisms through which banks responded to the 2008 economic crisis in Tanzania are analyzed in this sub-section. Some of the responses by BoT can be seen to be reactive. They aimed at reducing impacts of the crisis and spread of the same. These include such responses as stress-testing, increase of reserve requirements on government deposits held in commercial banks, enhanced monitoring of the banking sector, easy monetary policy, prudential oversight, liquidity management and review of lending rates.

Other responses however are proactive as they aimed at reducing impacts of a possible future crisis in the banking sector. These incluse such responses as enhanced monitoring of the banking sector, increase in banks' capital requirements by 200%, establishment of Financial Sector Stability Department at BoT, establishment of Financial Regulators Forum and strengthening crisis preparedness.

The responses to the 2008 crisis by individual banks that were identified by BoT are only three (3) compared to about ten (10) responses identified by Barclays and TIB. The detailed study of the two banks therefore has added much value by showing many more ways in which banks responded to the crisis compared to the list of responses from BoT. The responses by individual banks that were identified by BoT are more cautious lending which is also reflected in the responses by Barclays and TIB, preference for safer money market instruments and resumed lending following signs of recovery. The last two were not identified by Barclays and TIB.

From the findings on the responses to the 2008 economic crisis by Barclays and TIB, several observations can be made. Among these observations include the fact that whereas some of the responses were basically initiated by individual banks, others were initiated by various authorities. These authorities include but are not limited to the Government of Tanzania, Basel Committee on Banks Regulations and the BoT. These categories of responses are summarized in Figure 8.3.

Figure 8.3. Categories of Responses to the Crisis

S/n	Responses initiated by authorities	Responses initiated by banks
1	Stress-testing	Provision of emergency liquidity
2	Increase in number of reports to BoT	Contingency plans to ensure full operations in times of stress
3	Economic stimulus and financial sector rescue packages	More conservative approach for collateral valuations
4	Adherance to regulations	Stress-testing
5		Increased risk assessment
6		Debt re-negotiation and re-scheduling
7		Injecting equity in some businesses
8		Reduced lending
9		Freezing of lending

Source: Developed by the researcher

8.3 Conclusions

The study on which this report is based aimed at identifying the mechanisms through which banks in Tanzania could be and were affected by the 2008 global economic crisis and the way the banks and authorities responded to the crisis. From the findings of the study, a number of conclusions are made in this section.

It has been found that banks in Tanzania were potentially and actually affected by the 2008 global economic crisis. There are about twenty two (22) different mechanisms through which the 2008 global economic crisis could have affected banks in Tanzania and arguably other banks in similar environment elsewhere. The extent to which the studied banks could be actually affected depend on a number of issues. These include issues that are internal to Tanzania as well as issues that are external to Tanzania. Issues that are internal to Tanzania include the relatively low development level of the banking industry in the country as well as little integration of the banks in the global financial system.

The little integration of Tanzanian banks in the global financial system in turn has reduced potential and actual exposure of the banks to complex financial products. It has also reduced potential and actual exposures to toxic assets that could have negatively affected the banks. Another factor that is specific to Tanzania that has reduced the impacts of the crisis to the banking sector in Tanzania is the legal framework in which foreign banks operate in Tanzania. Such banks are registered as independent banks with own capital base and not as subsidiaries of their foreign parent banks. This is in accordance to the Banking And Financial Institutions Act 2006.

Only two banks out of the 32 that were licensed by BoT when the study began were studied deeply. This is just 6.25% of the banks. This is not a representative sample of all the banks. Therefore they may not give a full picture of the impacts of and responses to the crisis in all banks in Tanzania. However, the results indicate that other similar banks in similar environment as the ones covered in the case study might have been affected by the crisis and responded to it in similar mechanisms and ways. Findings from the BoT arguably give a full picture of impacts and responses across the banking sector in Tanzania. This is because as the regulator of the industry, BoT has an over view of the impacts of and responses to the crisis in all the banks.

It is concluded also that some mechanisms through which banks could be impacted by the crisis and respond to the same are as stated in the literature.. Others however, are not. This implies that some impacts and responses in the literature have been confirmed while others have not. There are also some mechanisms of impacts and ways of responses to the 2008 economic crisis that were not in the literature but emerged from the field case studies.

This implies that the study has improved the understanding of the way economic crisis can affect banks and the way banks can respond to the same. This implies additional knowledge in the body of literature. It is also seen that for some findings from the banks, especially those on the impacts of the crisis there are missing clear causality. Banks have reported some mechanisms through which they were affected by the crisis but have not established clear causal-effect relationship. Therefore, some of the impacts stated by banks may not be conclusive until very clear causal-effect relationships are established. Since this was beyond the scope of this study, there is a need for further study in the future.

8.4 Recommendations

There are a number of recommendations that can be made based on the findings of this study. In this sub-section, some policy implications as well as implications for further research are identified. It is expected that the policy recommendations will help policy and decision makers to formulate and implement policies that will help in avoiding or reducing impacts of economic crisis in banking sector should a similar crisis occur. The recommendations are also important for policy and decision makers in knowing the course of actions to take to respond to eventual similar crisis.

There is no research that can address and answer all issues in a single volume. The study on which this thesis is based is not an exception. It has covered some research issues as stated in the objectives. However it has also raised a number of issues that can be researched on further in the future either by the researcher himself or by other researchers. The recommendations for further research therefore are important in addressing the issues that could not be addressed in this study for various reasons. They are important in taking the issues raised in this work into higher levels and stimulating more bedates thereby adding value to the body of knowledge.

8.4.1 Policy Recommendations

Among the policy recommendations based on the findings of the study include the need for policy and decision makers to ensure that there in place policies that will contribute in preventing and in some cases reducing impacts of economic crisis in the banking sector. From the findings, it is clear that the banking sector in Tanzania was negatively impacted by the 2008 global economic crisis in an indirect way. It was mainly impacted through the negative impacts of the crisis in the real sectors of the economy. It is in these sectors that clients of the banks operate.

The impacts of the crisis to the these clients were contagious. They were partly transmitted into the banks that finance their operations. There is therefore a need of getting correct policy mixture that will prevent the real sectors of the economy from being negatively affected by the crisis. The real sectors of the Tanzanian economy were affected by the 2008 through the bounce-on or second-round effects of the crisis. Part of appropriate policies to prevent or reduce such impacts includes policy measures that reduce dependency on export market.

Such policy measures include having in place fiscal and monetary policy measures and instruments that are conducive for building huge, strong and dynamic domestic market through inter alia value addition to intermediate goods and processing to final products of a number of products that are exported without value addition. These are mainly products from such extractive sectors as agriculture and mining. These would reduce the negative impacts of economic crisis to the dealers in various nodes of various value chains who suffered from reduced demand in export market as a result of the crisis that hit more the developed world than countries like Tanzania.

Other policy measures to reduce the impacts of economic crisis in the banking sctor include fiscal and monetary policy measures and instruments that would stimulate and bail out the real sectors of the economy. These measures would reduce and even remove the possibility of the reals sectors of the economy to collapse thereby dragging the banking sector behind them.

When impacts of the crisis to the potential and actual bank clients are reduced through such policy measures inter alia, the contagious impacts on banks would also be reduced. Therefore, the first area of focus in preventing the impacts of the crisis in the banking sector is first and foremost to prevent the same from the real sectors of the economy.

Among the policy implications in as far as responses to the crisis are concened include the need for policy and decision makers to ensure that there are smart regulations in the banking sector and that these are implemented. The regulators in the banking sector need to continuousy be alert and awake to avoid being taken by surprise in case of another economic crisis.

It has been seen in the research that the 2008 economic cris affected banks across the world, Tanzania included. It is fortunate that the crisis did not lead to collapse of banks in Tanzania. However, it should not be taken for granted that economic crises will not led to collapse of banks in the country always. Policy and decision makers should be proactive and formulate policies that will guide among other things, how depositors' cash will be protected in eventual bank collapse as a result of a future economic crisis.

There also should be policies on how strategically important and too large to collapse banks should be bailed out in eventual future crisis leading to collapse of such banks. Policy options include bailing them out through tax payers' money. Another alternative is to require these banks to write a living will that should show how the banks will rescue themselves from their own fall and collapse. This is important in order to increase confidence on customers and avoid run on banks should another crisis emerge.

8.4. 2 Recommendations for Further Research

As noted above, this study has not been able to cover all the research issues pertaining to the 2008 global economic crisis in general and its impacts to and responses in the banking sector in Tanzania in particular. This was not the objective of the study either. Therefore, there are many issues that have been raised in this study that constitute areas for further research. This is because this study is a pioneering one in this area and level. Many other studies can be generated based on the issues covered as well as those not covered in this work. Some of these areas for further research are outlined below.

This study has identified the way the BoT responded to the 2008 economic crisis in the banking sector in Tanzania. For comparison purposes, future studies can identify the way central banks in other countries responded to the crisis.

The study has also identified about twenty two (22) mechanisms through which banks can have been affected by the 2008 global economic crisis in Tanzania. Each of these mechanisms can form an area for further in-depth study. Among the areas that call for further research in some of the mechanisms is establishment of clear causality between the impacts stated by the banks on one hand and the 2008 global economic crisis on the other. This is so because it is understood that there are possibly many other factors that led to the observed changes than the 2008 economic crisis.

Another area for further research is to replicate and extend the research to many more banks. Due to reason explained in detail in the methodology chapter of this study especially on the type of research design, the field research covered only two (2) out of 32 banks that were licensed by BoT when the study began. This implies that the same study can be replicated in many other banks. The best would be to conduct a census that would give a true picture of the mechanisms through which all the banks were affected by the 2008 global economic crisis and the way they responded to the same.

The next best alternative would be to conduct a survey in which the study would be conducted in a representative sample of banks. This would also give the general situation on the mechanisms through which banks were affected and their resposes to the crisis. Also future researches can be conducted using case studies from other banks that were not covered in this study.

Another area for further research is in distinguishing the impacts of the 2008 global economic crisis from those of the 2012 Euro zone sovereign debt crisis. This is because the 2008 economic crisis started seeing some recovery in 2010. However, its impacts and their results arguably continued beyond 2010. However, the Euro zone crisis started in 2010. It is possible therefore that, banks suffered from the 2010 Euro zone sovereign debt crisis and the 2008 global economic crisis at the same time from 2010 and beyond. Future studies therefore should attempt to separate the impacts of the 2008 global economic crisis from those of 2010 Euro zone sovereign debt crisis.

Apart from the general possible areas for further research above, there are some specific areas from this study that need to be investigated and interrogated more in the future. These are mainly areas that were out of scope of this study and where no data could be immediately obtained partly because the studied banks themselves had not established such data. Based on the findings from this study for example, it is important in the future to establish the number of actual and potential customers that banks lost due to increased credit risk and therefore increase in interest rate that made some clients to move away from a specific bank.

Also the actual and potential revenues and profits lost due to customer loss for the above reason was beyond the scope of this study and the banks did not have data on the same. All these form part of areas for further research. Establishing such lost customers, revenues and profits would require establishing a clear causality between the crisis on one hand and the lost customers, revenues and profits on the other. It would also imply filtering out other possible contributory factors than the 2008 economic crisis to loss of customers, revenues and profits by the bank.

This study could not establish with direct empirical evidence whether there was a run on banks due to the 2008 crisis or not. A proper measure of run on banks would be figures on daily, weekly or monthly withdrawals before, during and after the crisis. This would help in assessing whether during the crisis there was extraordinary withdraws that can be translated as a run on banks. In immediate absence of such figures, figures on customers' deposits were used in this study as a proxy to discuss the response that Barclays Bank Tanzania did not experience a run on banks.

Another area for further research is establishing the exact number of banks customers who lost jobs and for that reason were unable to service their loans and lead to loss to the banks. Based on the rule of thumb that for every one direct job lost there are three jobs that are lost, the indirect jobs that were lost due to the crisis then were 144,000. This makes a total of direct and indirect jobs lost due to the crisis to be 192,000. It is obvious that not all these were potential or actual customers of Barclays Bank Tanzania that indicated that it was affected by the crisis through job losses of some of its customers. The bank could not give the exact number of its customers who lost jobs and therefore were unable to honour their loan obligations. This remains among the areas for further research.

Banks have reported decline in profit due to the 2008 economic crisis. Given the business environment that led to the reported decline in profit, it makes sense for the banks to attribute a large part of the decline in profit to the 2008 crisis. However, future studies can establish a clear causal-effect relationship between the decline in profit on one hand and the 2008 economic crisis on the other. This can be established by, inter alia, giving a counter-factual situation that shows what would have been the profit level had the 2008 crisis not existed. Since it was beyond the scope of this study to establish such causality, it remains to be among the areas for further research.

Findings indicate that the studied banks did not incur any loss of deposits with their correspondent banks. This may imply that the correspondent banks were not troubled by the crisis. If troubled by the crisis, then the troubles were not contagious to these banks. It was beyond the scope of this study to find out whether these correspondent banks were affected by the 2008 economic crisis and if so why the studied banks were not affected through loss of deposits. Therefore further interrogations on these issues are needed in future research. Since the correspondent banks are outside Tanzania (in USA, UK, South Africa, Sweden, Japan etc), such eventual study has to be conducted outside Tanzania.

It was beyond the scope of this study to identify how the TIB subsidiary (Rasilimali Ltd) was affected by the 2008 economic crisis and how this affected TIB in turn. The exact impacts of the crisis on Rasilimal Ltd and through it on TIB could not be established as it was out of the scope of this study. It therefore constitutes an area for further research based on this one.

The areas for further research that have been identified above are by no means exhaustive. Readers can identify many more areas that need further research based on this work. Such futher research can be of various types and levels. They can be simple small research in form of class assignments for students, bachelors, degree reports as well as masters and doctoral theses and dissertations. Other possibilities of forms of future researches include but are not limited to post-doctoral researches as well as researches for conference papers, among others.

REFERENCES

Abel, A. B (1990). Asset Prices under Habit Formation and Catching up with the Joneses. The American Economic Review, Vol. 80, No. 2, Papers and Proceedings of theHundred and Second Annual Meeting of the American Economic Association (May, 1990), pp.38-42Published by: American Economic AssociationStable URL: {http://www.jstor.org/stable/2006539} (Retrieved on December 20th, 2012)

Abel, A. (1988). Asset prices under heterogeneous beliefs: Implications for the equity premium puzzle, Mimeo. (Department of Finance. The Wharton School, University of Pennsylvania, Philadelphia, PA).

Aiyagari, L., Christiano, O., and Eichenbaum, M. (1990). The output, employment, and interest rate effects of government consumption, Mimeo. (Federal Reserve Bank of Minneapolis, Minneapolis, MN).

Adam, J., and Kamuzora, F. (2008). *Research Methods for Business and Social Studies*. Mzumbe, Morogoro.

Adei, S. (2010). Africa And The Global Economic Downturn – Causes, Responses And Future options, in *African Journal of Public A dministration and Management* (AJPAM), Vol XXI, No. 1 & 2 January/July 2010, Special Issue: From Crisis to Opportunities - Africa in the World Financial and Economic Crisis – Pages 1 - 17

AfDB - African Development Bank (2009). Impact of the Global Financial Crisis on Africa, Abidjan: African Development Bank

AfDB - African Development Bank (2009b). The African Development Bank Group Response to the Economic Impact of the Financial Crisis. Tunis. March 2009.

AfDB - African Development Bank (2009c). 'An Update on the Impact of the Financial Crisis on African Economies'. Issues Paper prepared for the C-10 Meeting, Dar-Es-Salaam, Tanzania, 11 March 2009.

Akbar, T., E. (2008). "Global Financial Meltdown and the Demise of Neoliberalism", Global Research (Center for Research on Globalization). {http://www.globalresearch.ca/index.php?context=va&aid=10549}. Visited on 14th January 2009)

Alcorta, L., and Nixson, F (2011). The Global Financial Crisis and the Developing World: Impact on and Implications for the Manufacturing Sector. United Nations Industrial Development Organization Development Policy and Strategic Research Branch. Working paper 06/2010, Vienna. 61 pages

Altig D, Christiano, L. J, Eichenbaum, M and Linde, J (2004). "Firm-specific capital, nominal rigidities and the business cycle," Working Paper Series WP-05-01, Federal Reserve Bank of ChicagoAltig D, Christiano, L. J, Eichenbaum, M and Linde, J (2004). "Firm-specific capital, nominal rigidities and the business cycle," Working Paper Series WP-05-01, Federal Reserve Bank of Chicago

Ambler, S, Cardia, E and Zimmermann, C. (2004). "International business cycles: What are the facts?," *Journal of Monetary Economics*, *Elsevier*, vol. 51(2), pages 257-276, March.

Amnesty International (2009) “Economic Crisis Reveals Deeper Human Rights Problems”, May 28, 2009.

Andolfatto, D (1996). Business Cycle and Labour Market. *American Economic Review*, vol. 86, Issue 1, pages 112 – 32

Aryeetey, E. (2009). ‘The Global Financial Crisis and Domestic Resource Mobilization in Africa’. Paper presented at the African Development Bank Workshop on the Financial Crisis: Strategies for Mitigating its Impact on Africa, 10 April. Tunis.

Ashamu, S, and Abiola, O. J (2012). The Impact of Global Financial Crisis on Banking Sector in Nigeria. British Journal of Arts & Social Sciences;2012, Vol. 4 Issue 2, p251

Ayiku, C.B. (1995). The Political Economy of Foreign Direct Investment in Developing Countries: Trends and Development Effects. Thesis submitted for the award of Master of International Business degree at the Norwegian School of Economics and Business Administration, Bergen, Norway.

Babbie, E. R. (2010). *The Practice of Social Research* (12th ed.). Wadsworth: Cengage Learning

Backus, D., and Patrick, K. (1992). “International Evidence on the Historical Properties of Business Cycles,” *American Economic Review*, 82: 864-88.

Bank for International Settlements (2011) Annual Report 2011

Barsky, R., and Lutz., K. (2004). “Oil and the Macroeconomy Since the 1970s,” *Journal of Economic Perspectives*, 18: 115—134

Barrell, R., Holland, D., and Karim, D. (2009). Tighter financial regulation and its impact on global growth

Barro, R. J. (1977). “Long-Term Contracting, Sticky Prices, and Monetary Policy”, *Journal of Monetary Economics* 3 (1977). 305 – 16, Vol 6, North Holland Publishing Company

Basel (2010). Basel III (: A global regulatory framework for more resilient banks and banking systems, Basel, Switzerland

Basu, S. (1996) “Procyclical Productivity, Increasing Returns or Cyclical Utilization?,” *Quarterly Journal of Economics*, 111: 719-751.

Baxter, M (1995). “Productive Externalities and Business Cycles”, Institute of Theory of Business Cycles, mimeo. University of British Columbia

Bernanke, B. S, Gertler, M., and Gilchrist, S (1999). *The Financial Accelerator in a Quantitaive Business Cycle Framework*. Elsevier Science B. V

Bernanke, B. (1983). "Non-Monetary Effects of the Financial Crisis in the Propagation of the Great Depression". *The American Economic Review* (The American Economic Association) **73** (3): 257–276.

Biekpe, N. (2009). Impact of Credit Crunch on Foreign Aid in Africa; In “*Africa Growth Agenda*”. Vol. 6. April – June 2009 Issue.

Bjorvatn, K. (2000), FDI in LDC: Facts, theory and empirical evidence. Manuscript Norwegian School of Economics and Business Administration and Norwegian Centre for Research in Organization and Management (LOS), Bergen

Blomstrøm, M. and Kokko, A. (1994), Home Country Effects of Foreign Direct Investment: Evidence from Sweden. Stockholm School of Economics, Economics Research Institute, Working Paper No. 3.

Blomstrøm, M. and Kokko, A. (1997), *Multinational Enterprises and Foreign Direct Investment: Their Impacts on Developing Countries*.

Boldrin, M. (2001). *Habit Persistence, Asset Returns and Business Cycle*.

BoT (2011). Bank of Tanzania Annual Report 2010/11

BoT (2010a). Bank of Tanzania Bank of Tanzania Monetary Policy Statement June 2010

BoT (2010b). Bank of Tanzania Monetary Policy Statement February 2010

BoT (2010c). Bank of Tanzania Monthly Economic Review January 2010

BoT (2010d) Financial Sector Stability Report, September 2010

BoT (2011). Bank of Tanzania Monetary Policy Statement February 2011

BoT - Bank of Tanzania, "Recent Global Financial Crisis and Implications to the Tanzanian Economy", (Press Statement, October 22, 2008)

Brambila, M. J. and Isabella, M. (June, 2009) "The Global Financial Crisis and Sub-Saharan Africa: The Effects Of Slowing Private Capital Inflows on Growth", Working Paper 304, Overseas Development Institute: London.

Carlino, G, and Sill, K. (1998). The Cyclical Behaviour of Regional Per Capita Income in the Postwar Period. Working Papers 98 – 111. Federal Reserve Bank of Philadelphia

Carnegie-Rochester Conference Series on Public Policy, 25: 11-44

Chari, V. V., and Kehoe, P. J. (1999). “Optimal Fiscal and Monetary Policy”. NBER Working Paper No. 6891

Choudhry , M, T., Marelli, E., and Signorelli, M (2010). Financial Crises and Labour Market Performance, paper presented at the *69th International Atlantic Economic Conference, Prague, Czech Republic, 24-27 March 2010*

Cho., J. (1990). Market structure and the business cycle. Discussion paper 789 (Department of Economics, Queens University, Kingston, Ont.)

Christiano, L. J., and Fitzgerald (1998). The Business Cycle: It’s Still a Puzzle

Danthine, J. P., and Donaldson, J. B., (1993). Methodological and Emprical Issues in Real Business Cycle Theory. *European Economic Review*, vol 37, No. 1, pages 1 - 35

Danthine, J. P., and Donaldson, J. B., (1993). Methodological and Emprical Issues in Real Business Cycle Theory. *European Economic Review*, vol 37, No. 1, pages 1 - 35

Dunning, J. H. (1994). Re-evaluating the Benefits of FDI. *Transnational Corporations*, Vol. 3 No. 1, pp. 23 –25.

Dunning, J. H. (1998), “Third World Multinationals Revised: New Developments and Theoretical Implications” in Dunning, J. H. (Ed.) *Globalization, Trade and Foreign Direct Investment*. Elsevier, Amsterdam.

Eghan, B. C. (2010). The World Economic Crisis and Public Administration in Ghana. *African Journal of Public Administration and Management (AJPAM)*, Vol XXI, No. 1 & 2 January/July 2010, Special Issue: From Crisis to Opportunities - Africa in the World Financial and Economic Crisis: 99 - 110

Eichenbaum, M. (1991) Real business cycle theory: Wisdom or whimsey, *Journal of Economic Dynamics and Control* 15, 607-626

Eriksson, G. A. (1990), Development of the African Economy by Foreign Direct Investment with Special reference to Nigeria. Åbo Academy

Fagbohun, O. (2009): "Global Financial Crisis and Corporate environmental governance: rethinking rationalizations". The Nation, Lagos. Vintage Press Limited, March 3.

Fisher, I (1933). The Debt Deflation Theory of Great Depressions. *Econometrica*, 1 (4). 337 - 357

Fortune, P. (2000). Bank Failures. Living History Farm

Friedman, T. L. (2009). Climate, Financial Crises: Two Sides of One Coin: New York Times Apr 1, 2009. {http://www.newser.com/archive-world-news/1G1-186488533/financial-crisis-crisis-impact-on-climate-change-package-as-seen-by-veolia.html} Visited on 18th April, 2009

Eghan, B.C (2008): "Enhancing the Performance of the Public Service in a Developmental State: Ghana's Case Study". Submitted at the Africa Association for Public Administration (AAPAM) 2008 Roundtable Conference held in Accra, Ghana

Gadanecz, B., and Jayaram, K (undated). Measures of Financial Stability – a Review. IFC Bulletin No. 31. {http://www.bis.org/ifc/publ/ifcb31ab.pdf} Retrieved on 5th February 2013

Gali, Lopez-Salido, and Valles (2004). Global Financial Crisis by Productive and Manufacturing Industries in Developing

Goldstein, M., and Xie, D. (2009). The Impact of the Financial Crisis on Emerging Asia

Morris Goldstein and Daniel Xie. IMF Working Paper, W P 0 9 - 1 1 o c t o b e r 2 0 0 9, Working Paper S e r i e s

Guillén, M. F. (2009). 'The Global Economic and Financial Crisis: A Timeline'.

Philadelphia: The Lauder Institute, University of Pennsylvania. {www://lauderinstitute.net/pdf/Chronology%20Economic%20%20Financial %20Crisi s.pdf} Retrieved on 5th February 2010.

IDS - Institute of Development Studies (2008) The Impact of the Global Financial Crisis on Developing Countries, Sussex: Institute of Development Studies

IDS - Institute of Development Studies (2009) Accounts of the Crisis: Poor People's Experience of Food, Fuel and Financial Crises in Five Countries: Report of a pilot study in Bangladesh, Indonesia, Jamaica, Kenya and Zambia, Sussex: Institute of Development Studies

Ikome, F. (2008). The Social and Economic Consequences of the Global Financial Crisis on the Developing Countries and Emerging Economies: A Focus on Africa; Paper presented at the "InWent-DIE Dialogue on the Effects of the

Global Financial Crisis on Developing Countries and Emerging Markets. Berlin, 11 December, 2008

Imrohoroglu, A., (1989). Cost of business cycles with indivisibilities and liquidity constraints, *Journal of Political Economy* 97, 1364-l 383.

ILO – International Labour Office (undated). Decent Work for all. {http://www.ilo.org/global/About_the_ILO/Mainpillars/WhatisDecentWork/lang--en/index.htm}. Visited on 10th January, 2009

ILO - International Labour Organisation (2008) A Global Policy Package to Address the Global Crisis, Geneva: International Labour Organisation

ILO - International Labour Organisation (2009) Tackling the Global Job Crisis; Recovery Through Descent Work Policies, Geneva: International Labour Organisation

ILO - International Labour Organisation (2009) The Financial and Economic Crisis: A Descent Work Response, Geneva: International Labour Organisation

ILO - International Monetary Fund (2009) Impact of the Global Financial Crisis on Sub-Saharan Africa, Washington DC: International Monetary Fund

ILO (2009). Tackling Job Crisis: Recovery Through Descent Work Practices

IMF – International Monetary Fund (2009a). Impact of the Global Financial Crisis on Sub Saharan Africa. Washington DC

IMF (2009b) The Implications of the global financial crisis for low-income countries. Washington DC.

IMF (2009c). Regional Economic Outlook on Sub-Saharan Africa for 2009

IMF (2009d) World Economic and Financial Surveys. Regional Economic Outlook. Sub-Saharan Africa. April 2009.

Iroegbu, O. (2009): “World Bank: Women face grave consequences from global crisis”. The Nation, Lagos. Vintage Press Limited, March 13.

Jackson, J. K (2009). The Financial Crisis: Impact on and Response by The European Union, CRS Report for Congress, *Prepared for Members and Committees of Congress*

Jaura, R. (2008). Environment: Climate Action Could Escape Financial Crisis: Enter the global financial crisis - exit action on climate change? {http://ipsnews.net/news.asp?idnews=44158} Visited on 18th April, 2009

Joubish, M. F., Muhammad, A. K. (2011). "Outlook on Some Concepts in the Curriculum of Social Studies". *World Applied Sciences Journal* 12 (9): 1374–1377

Kaira, W. and Ogolen, M. (1993). The Role of Foreign Direct Investment and Foreign Direct Aid on Local Development in Africa – Empirical Study of Five Norwegian Companies (FDI) and NORAD (FDA) on Tanzania and Zambia. Dissertation submitted for the award of the degree of Masters of Business Administration (MBA) at the Norwegian School of Management BI

Kasekende, L (2008). Impact of the Financial Crisis on Africa: A focus on Africa: A paper Presented at the InWent DIE Dialogue on the Effects of the Global Financial Crisis on Developing Countries and Emerging Markets, Berlin, 11 December 2008

Keynes, J. M. (1936). *General Theory of Employment Interest and Money*

King, R. and Rebelo, S. (l989). Low frequency filtering and real business cycles, Working paper 205 (Rochester Center for Economic Research, University of Rochester, Rochester, NY).

Kiptoo, C. (2009). The Potential Impacts of the Global Financial Crisis on African

Klare, M. T. (2008). The Crisis and the Environment. {http://www.commondreams.org/view/2008/10/17-6} Visited on 18th April, 2009

Klein, L. R. (1947). The Keynesian Revolution. New York, Macmillan

Kothari, C. R. (2004): *Research Methodology*, *Methods and Techniquues*, 2nd Edition, New Delhi, K.K. Gupta for new age International (P) Ltd.

Kothari, CR, (2011): *Research Methodology; Methods and Techniques***;** 2nd Edition; New Age International Publishers; New Delhi.

Krishnaswami, O. R. (2003). *Methodology of Research in Social Sciences*. Delhi: Himalaya Publishing House, New Delhi.

Krugman, P. (2008). Bad anti-stimulus arguments, New York Times, December 22, 2008.

Kydland, F. E., and Edward., C. P. (1990). "Business Cycles: Real Facts and Monetary Myth" *Federal Reserve Bank of Minneapolis Quarterly Review*, 14: 3-18.

Lucas, R. E. (1977). Understanding Business Cycles, in: K. Brunner and A. H. Meltzer (eds). Stabilization of the Domestic and Internationak Economy. Carnegie – Rochester Conference Series on Public Policy, Amsterdam and New York, pages 7 – 29

Lunogelo,B., Mbilinyi, A. and Hangi, M. (2011). Global Financial Crisis and Tanzania: Effects and Policy Responses

Markus, R. T and, Venables, J. I. (1998). Foreign Direct Investment as a Catalyst for Industrial Development

Marton, K. (1986), Technology transfer to Developing Countries via Multinationals. World Economy, December 1986.

Massimilano, C and Salvatore, D.E (2009). The global financial crisis and remittances, Working Paper No.303, Overseas Development Institute, London, UK

Motta, M., Fosfuri, A., and Rønde, T. (1999), Foreign Direct Investment and Spillovers through workers' mobility. Discussion Paper Series. No. 2191. Centre for Economic Policy Research, London, UK.

Moyo, T. (2010) Africa's Mining, Industry and Trade Sectors in the Global Economic Crisis. *African Journal of Public Administration and Management* (AJPAM), Vol XXI, No. 1 & 2 January/July 2010, Special Issue: From Crisis to Opportunities - Africa in the World Financial and Economic Crisis – Pages 34 -54

Murray, R (2000). *America's Great Depression.* Ludwig von Mises Institute, pp. 159–163

Mutahi, K. (2009) Impact of the Global Economic Crisis: Sustaining Growth, Poverty Reduction and Human Security in Africa. Paper Presented at the 31st AAPAM Annual Roundtable Conference, Kenya Institute of Administration (KIA), Nairobi, Kenya, 21st – 25th September 2009

Meyn, M and Kennan, J. (2009). The implications of the global financial crisis for developing countries' export volumes and values. Working Paper 305, Overseas Development Institute, London UK.

Mishkin, F. (1978). "The Household Balance and the Great Depression". *Journal of Economic History* **38** (4): 918–37

Mtango, E. (2008). African Growth, Financial Crisis and Implications for TICAD IV. Paper Presented at the GRIPS-ODI-JICA Joint seminar: African Growth in the Changing Global Economy

Mutahi, K (2009). Impact of the Global Economic Crisis: Sustaining Growth, Poverty Reduction and Human Security in Africa. Paper Presented at the 31st AAPAM Annual Roundtable Conference, Kenya Institute of Administration (KIA), Nairobi, Kenya, 21st – 25th September 2009

Mwamanga, C (2010). Effects of 2008/2009 Global Financial and Economic Crisis on Youth Employment. Disseratio submitted for the award of the degree of Masters of Business Administration (MBA) at Mzumbe University

Nabaho, L (2010). "The Employment and Labour Markets in Africa in the Global Crisis – An Assessment". *African Journal of Public Administration and Management*, vol XXI, No. 1 & 2, January & July 2010. Pp. 65 - 77

Naudé, W. A. (2009a). 'The Financial Crisis of 2008 and the Developing Countries'

UNU-WIDER Discussion Paper 2009/01. Helsinki: UNU-WIDER.

Ndunguru, F. C. (2007). *Lectures on Research Methodology for Social Sciences*. Research, Information and Publication Department, Mzumbe University. Morogoro

Ndulo, M., Mudenda D., Lutangu, I., and Muchimba, L. (2009). Global Financial Crisis Discussion Series Paper 10: Zambia, Overseas Development Institute, London UK.

Ngowi, H. P. (2013). *The Economic Crisis of the 2000s and Beyond: Analysis and Perspectives in Tanzanian Context*. Matokeo Publishers, Dar Es Salaam, 199pp.

Ngowi, H. P. (2010). The Current Global Economic Crisis and its Impacts in Tanzania. *African Journal of Business Management (AJBM)*. Vol. 4(8): 1468-1474.

Ngowi, H. P. (2009a). The Impact of the Crisis on Employment and Official Development Assistance. Paper Presented at ILO Discussion Forum, Dar Es Salaam Tanzania (16th January, 2009)

Ngowi, H. P. (2009b). The Earth in the world of global financial crisis: Is the crisis good or bad for the environment? Some Opportunities and Challenges. Paper Presented at the US Embassy in Dar Es Salaam to mark the 2009 Earth Day. Dar Es Salaam Tanzania

Ngowi, H. P. (2009c). Can the budget offer recovery?. *Business Partner*, Issue No: 03, July – September 2009.

Ngowi, H. P. (2009d). The Global Financial Crisis and its Impacts on Investment in Human Capital. Paper Prepared for the CAPAM International Conference, Arusha Tanzania. (April 2009)

Ngowi, H. P (2001a). Can Africa Increase Its Global Share of Foreign Direct Investment (FDI)?. *West Africa Review*". Issue Vol.2. No. 2(2001).

Ngowi, H. P. (2001b). Attracting New Foreign Direct Investments to Tanzania. *Tanzanet Journal*". Vol.1 No.2 December 2001: 23 – 39.

ODI - Overseas Development Institute (2009a) Global Financial Crisis Discussion Series Paper 7: Kenya, Westminster: Overseas Development Institute

ODI - Overseas Development Institute (2009b) Global Financial Crisis Discussion Series Paper 8: Nigeria, Westminster: Overseas Development Institute

ODI - Overseas Development Institute (2009c) Global Financial Crisis Discussion Series Paper 10: Zambia, Westminster: Overseas Development Institute

OECD-DAC - Organisation for Economic Co-operation and Development, Development Assistance Committee – (2007). Correspondence on Official Development Assistance Disbursed.

Oke, L (2010). "Economic Recession and Women Empowerment in Nigeria". *African Journal of Public Administration and Management*, vol XXI, No. 1 & 2, January & July 2010: 78 - 89

Osakwe, P. N. (2008). Sub-Saharan Africa and the Global Financial Crisis.

Othieno, T. (2009). The global financial crisis: Risks for fragile states in Africa. Overseas Development Institute, London UK

Pass, C., Lowes, B., and Davies, L. (2002). *Economics Dictionary*. 3rd Edition. Harper Collins Publishers. Glasgow.

Pianim, K. “The Current Economic Meltdown in the West: Implications for Corporate Entities in Ghana”. Lecture to the Institute of Chartered Administration and Management Consultants at the Professional Development Year Opening, March 2009, Accra

Prescott, E. (1986) “Theory Ahead of Business-Cycle Measurement,”. Carnegie-Rochester Conference Series on Public Policy, 25: 11-44

Rahman, M. (2009). Impact of the Global Economic Crisis on Employment and Labour Markets of Bangladesh: A Preliminary Assessment, Dhaka: Centre for Policy Dialogue

Reavis, C. (2012). The Global Financial Crisis of 2008: The Role of Greed, Fear, and Oligarchs

Rebelo, S. (2005). Real Business Cycle Models:Past, Present, and Future

Reichlin, P. (1997). “Endogenous Cycles in CompetitiveModels: An Overview,” *Studies in Nonlinear Dynamics and Econometrics*, 1:175—185

Ringer, K. (2008). Financial Crisis Has Severe Impact on Humanitarian Funding. {http://www.epc.eu/en/er.asp?TYP=ER&LV=293&see=y&t=2&PG=ER/EN/detail&l=&AI=871.} Visited 9th January 2009

Rogerson, J. R and Wright R. (1991). Homework in macroeconomics II: Aggregate fluctuations, *Journal of Political Economy* 99, 1166-l 187.

Rotemberg, J., Michael., W. (1996). “Imperfect Competition and the Effect of Energy Price Increases on Economic Activity” *Journal of Money Credit and Banking*. 28: 549-577

Ruth, J, E (undated). The impact of the financial crisis on the nigerianbanking industry, online at http://connection.ebscohost.com/c/articles/75129728/impact-global-financial-crisis-banking-sector-nigeria, Accessed on May 25th 2013

Rwegasira, D. (2010). The Global Financial Crisis and Economic Implications for Tanzania. *African Journal of Public Administration and Management (AJPAM)*, Vol XXI, No. 1 & 2 January/July 2010, Special Issue: From Crisis to Opportunities - Africa in the World Financial and Economic Crisis – Pages 55 - 64

Røvik, A., and Frøyen, A. (1997), Multinational Enterprises and Foreign Direct Investment – Their Impact on Developing Countries. Dissertation submitted for the award of the degree of *Siviløkonom* at the Norwegian School of Economics and Business Administration.

Saunders, M., L and Thornhill, A. (2007). *Research methods for business students*, 4th Edition. Prentice Hall, New Tork.

Sikod, F (2010). "The Economic Crisis and Public Administration in Africa". *African Journal of Public Administration and Management*, vol XXI, No. 1 & 2, January & July 2010, pages 90 – 98

Sivakumar, P. V. (2008). Will financial crisis impact environmental issues? Business Line 12 December 2008. {http://www.nlsenlaw.org/copy_of_news/will-financial-crisis-impact-environmental-issues} Visited on 19th April, 2009

Soros, G. (2009). "The Worst Market Crisis in 60 years' Financial Times (London, UK) 22nd January, 2009. {http://www.ft.com/cms/0/24f73610-c91e-11dc-9807-000077b07658.html?nclick_check=1} Visited on 15th May 2010

Spence, M.A. (2009) “Government’s Role in the Financial Crisis.” {www.pimco.com}Retrieved on September 2009

Sswanyana, O. A., Bategeka, L., and Muhumuza, F. (2007) “Uganda Experience with the operationalising pro-poor growth 1992-2003” in Bestey, T (Ed). *Delivering on the promise of pro-poor growth: Insights and lessons from country experiences.* Washington, DC. Proceedings of the Workshop on AU Convention on Preventing and Combating Corruption and Related Offences-Organised by African Parliamentarians Network Against Corruption, Uganda Chapter, Kampala Uganda 30 April 2005

Stiglitz, J. (2008a), Let’s throw away the rule book; Bretton Woods II must establish economic doctrines that work in emerging economies as well as in capitalism’s heartland.

Stiglitz, J. (2008b), A crisis of confidence, The Guardian, October 22, 2008. The Daily News, Friday November 28th, 2008.

Taylor-Powell, E and Renner, M. (2003). Analyzing Qualitative Data. University of Wisconsin, Extension Cooperative, Madison, Wisconsin

The Guardian, Sunday January 4th, 2009. How the Global Crisis Will Affect You in 2009.

TIB – Tanzania Investment Bank (2012). Annual Report 2012, Dar Es Salaam

TIB – Tanzania Investment Bank (2011). Annual Report 2012, Dar Es Salaam

TIB – Tanzania Investment Bank (2010). Annual Report 2012, Dar Es Salaam

TIB – Tanzania Investment Bank (2009). Annual Report 2012, Dar Es Salaam

TIB – Tanzania Investment Bank (2007). Annual Report 2012, Dar Es Salaam

Toshihiko, M. (1985). Recent Developments in Business Cycle Theory, Concordia University and University of Virginia

Tumusiime-Mutebire E (2009a) The global financial crisis and access to finance. A paper presented at the AFDB Ministerial Round table Discussions, Dakar, Senegal 12 May 2009

Tumusiime-Mutebire E (2009b) The Global Financial Crisis: Impact on Uganda and the Policy response. A Paper Presented at EABC Workshop Arusha, Tanzania (March 4th , 2009)

UNDP (2009) The Economic Crisis is in Africa. {www.undp.org/economic_crisis/africa/html}Retrieved on 2009/07/07}

UNCTAD, (2009) Economic Development Report in Africa. UNCTAD. Geneva.

United Nations (2008). Calling for Decisive Action to Lessen Impact of Global Economic Crisis. {http://www.un.org/News/Press/docs/2008/ga10799.doc.htm}. Visited 11th January, 2009

United Nations (2008). Global Response to Financial Crisis: Doha Conference Response to financial crisis. {http://cambridgeforecast.wordpress.com/2008/11/29/global-response-to-financial-crisis-doha-conference/}. Visited on 10th January 2009

USA (2011), The Financial Crisis Inquiry Report: Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States. Official Government Edition

Velde, D.K. (2009): “The Global Financial Crisis and Developing Countries.” An ODI working paper series on the ‘Synthesis of the Findings of 10 County Case Studies’

Venner, D.(Feb. 2009) : “The Impact of the Current Financial Crisis on the Developing Countries”. {www.growthcommissionblog.org}. Retrieved on 30th September 2009

Walsh, B (2008). Going Green: Will the Environment Lose Out to the Economy?

Wangwe, S. and Charle, P. (2009), “Perceptions of Impacts of, and Responses to, the Current Economic Crisis

Williamson, J. (2008). “The Impact of the Global Financial Crisis on Brazil”. Speech delivered at the Brazilian-American Chamber of Commerce on October 13th 2009. Washington DC

Wen, Y, (1998) “Can a Real Business CycleModel Pass theWatson Test?,” *Journal of Monetary Economics*, 42: 185-203

Were, M., and Tiriongo, S (2012). Central Bank’s Response to Economic Crises from a Developing African Economy Perspective: Lessons from Kenya’s Experience

APPENDICES

Appendix 1: Introduction Letter to Respondents

Honest Prosper Ngowi

Mzumbe University

P. O. Box 20266

Dar Es Salaam

Pngowi2002@yahoo.com,

+255 754 653740

Dear Sir/Madam ,

REF: REQUEST FOR INFORMATION

I am a senior lecturer, researcher and consultant in economics and business at Mzumbe University Dar Es Salaam College Campus. I am undertaking a Doctoral research at the Open University of Tanzania (OUT) on the Impacts of and Responses to the 2008 Global Financial and Economic Crisis in Tanzanian Banking Sub-sector. Given its relevance, your organization has been selected as among respondents for this study.

It is understood that the world economy went through hard times of economic crisis from around September 2008. The crisis had many impacts to various sectors including the banking sector. There have been many responses to address the impacts of the crisis in various sector including the banking sector. Some of the responses have been successful while others have not. I would like to know specifically what has been the mechanisms through which your bank has been impacted by and responded to the 2008 global economic crisis. This is important for advising on the stability of this and related sectors in Tanzania especially in times of economic crisis as the one 2010 Euro Zone crisis and other possible economic crises in the future.

I therefore have the greatest honour to humbly request you to respond to the research questions below. The information will be used for the purpose of the said study only. Should you prefer a face to face discussion of the questions it is also very much appreciated. Otherwise, may you send back your responses to me via pngowi2002@yahoo.com or posted to Honest Prosper Ngowi, Box 20266 Dar Es Salaam. I can also collect the responses from your office. In case of need, my mobile number is +255 754 653 740.

Sincerely

Honest Prosper Ngowi

Appendix II: Interview Guide and Responses From TIB

Background Information

1. Name of the bank ……TIB…………………………………………………………

2. Position of the respondent…Senior Economic Researcher…………………………

Questions

i) **What have been the impacts of the 2008 global financial and economic crisis in your bank?**

S/n	**Possible impacts**	**Tick appropriate impacts to your bank in this column**	**Explain the impacts with detailed evidence/data and how it was dealt with by your bank**
1	Defaults by borrowers	✓	Cutflowers, cotton and other exportables defaulted
2	Debt re-scheduling (pay time, frequencies and amounts)	✓	
3	Reduced issuance of loans	✓	
4	Reduced sale of bank products (specify the products)	✓	
5	Reduced profits	✓	
6	Reduced bank soundness	X	
7	Exposure to complex financial products (name them)	✓	
8	Credit risks	✓	
9	Losses of deposits with troubled correspondent	X	

	banks		
10	Exposure to crops and other commodities financing (name them)	X	
11	Drop in demand for government securities/Treasury bills	NA	
12	Parent banking companies abroad withdrawing funds to support operations at home	NA	
13	Parent banking companies stopping re-investing profits locally	NA	
14	Parent banking companies repatriating funds from subsidiaries	NA	
15	Parent banking companies curtailing local operations by selling their assets	NA	
16	Rapid withdrawal of deposits	X	
17	Reduction of liquidity in the banking system	✓	
18	Increase in domestic demand for credit due to curtailed access to credit abroad	✓	
19	Increase in non-performing loans	✓	
20	Exposure to personal loans due to jobs losses	X	
21	Exposure to crop financing	X	
22	Others: Describe please		

ii) **What have been the responses to the 2008 global financial and economic crisis in your bank**?

S/n	**Possible responses**	**Tick appropriate responses taken by your bank**	**Explain the responses in detail with evidence**
1	Freezing of lending	X	
2	Reduced lending	X	
3	Increased risk assessment	✓	
4	Stress-testing	✓	
5	Financial stability measures (explain)	✓	
6	More adherence to regulations (Central bank and Basel regulations)	✓	
7	Economic stimulus and/or financial sector rescue packages	✓	
8	Changes in the financial system	X	
9	More strict regulations: legislative, oversight, and domestic regulatory functions for: Systemic risks Capital standards	✓	
10	Central bank strengthening of monitoring role	✓	
11	Improvement of oversight of credit risk	✓	
12	More conservative approach for collateral valuations	✓	
13	Enhancing contingency plans to ensure full operations in times of stress	✓	

14	Provision of emergency liquidity	X	
15	Improving financial sector supervision/stability assessment	NA	
16	Risk-based assessments of financial institutions and early warning system to spot signs of weakness	NA	
17	Risk-based assessments of financial institutions and early warning system to spot signs of weakness	NA	
18	Others: Describe		

iii) What have been the results of the responses to the crisis in your bank[1]?

S/n	Response taken by your bank	Impacts (results) of the response	Explain the results of each response in detail with evidence
1	Freezing of lending	X	
2	Reduced lending	X	
3	Increased risk assessment	✓	
4	Stress-testing	✓	
5	Financial stability measures (explain)		
6	More adherence to regulations (Central bank and Basel regulations)	✓	
7	Economic stimulus and/or financial sector rescue packages	✓	
8	Changes in the financial system	NA	
9	More strict regulations: legislative, oversight, and domestic regulatory functions for: Systemic risks Capital standards	✓	
10	Central bank strengthening of monitoring role	✓	
11	Improvement of oversight of credit risk	✓	
12	More conservative approach for collateral valuations	✓	
13	Enhancing contingency plans to ensure full operations in times of stress	✓	

[1] What happened to the bank when you responded to the crisis?

14	Provision of emergency liquidity	X	
15	Improving financial sector supervision/stability assessment	NA	
16	Risk-based assessments of financial institutions and early warning system to spot signs of weakness	NA	
17	Risk-based assessments of financial institutions and early warning system to spot signs of weakness	NA	
18	Others: Describe		

Appendix III: Documents Availed by TIB to Supplement Primary Data

1. Tanzania Investment Bank, Annual Report for the Period January – December 1998
2. Tanzania Investment Bank, Annual Report for the Period January – December 1999
3. Tanzania Investment Bank, Annual Report for the Period January – December 2000
4. Tanzania Investment Bank, Annual Report for the Period January – December 2001
5. Tanzania Investment Bank, Annual Report for the Period January – December 2002
6. Tanzania Investment Bank, Annual Report for the Period January – December 2003
7. Tanzania Investment Bank, Annual Report for the Period January – December 2004
8. Tanzania Investment Bank, Annual Report for the Period January – December 2005
9. Tanzania Investment Bank, Annual Report for the Period January – December 2006
10. Tanzania Investment Bank, Annual Report for the Period January – December 2007

11. Tanzania Investment Bank Annual Report For the Year Ended 31st December 2008

12. Tanzania Investment Bank, Annual Report for the Period January – December 2009

13. Tanzania Investment Report 2010

Appendix IV: Interview Guide and Responses From Barclyas Bank

Background Information

1. Name of the bank …………Barclay Bank…………………………………[2]

2. Positions of the respondents: Senior Treasury Staffs

Background

Barclays Tz is more in manufacturing, tourism, construction and real estate. Not much on agriculture

[2] If you do not want the name of the bank to be specifically mentioned in the research report, please indicate so

QUESTIONS

a. What have been the impacts of the 2008 global financial and economic crisis in your bank?

S/n	Possible impacts	Tick appropriate impacts to your bank in this column	Explain the impacts with detailed evidence/data and how it was dealt with by your bank
1	Defaults by borrowers	X	For those in tourisis. So repayment has to be rescheduled. Bank had to negotiate with them (NPL unit). These customers were put in special unit care. Hotels had cancelled bookings. Some 5 years loans had to be 6 years and re-amortized Manufacturing did not face similar challenges – their markets were internal were affected though raw materials price hike. Main worry was on tourism and these customers were put on watch list. Matured business could survive, new ones had to negotiate renogiated about 10m punds of loan portifolio (10% of Barckays corporatebook
2	Debt re-scheduling (pay time, frequencies and amounts)	yes	On case by case depending on their position, eg some with some customers still had hopes for more business. Equity injection was another strategy by the bank – required promoters to inject funds
3	Reduced issuance of loans	x	Two ways: headroom was cancelled – to limit exposures to some sectors 2) Evaluated high risk sectors like tourism; whole sale and trade (buying commodities abroad were frozen considerably – especially for new businesses, than known ones also froze personal lending – this affects the bank because it is reduced customers who went to more risk avers
4	Reduced sale of bank products (specify the products)	X	Longer-maturing obligations were stoped
5	Reduced profits	X	Profits come from interest. If you do not

			led you reduce profit. For controlled profits the bank focued more to mass clients (individuals/retal – this was not done well/controlled so it lead to loss) rather than corporate
6	Reduced bank soundness		Did not collapse, buffer capital was still good, ability to do business is still there but not very well with stakeholders
7	Exposure to complex financial products (name them)	no	Only loans especially long term maturing obligations. Term loans above two years is a problem
8	Credit risks	X	Increase almost 100%. Interest went up substantially by 5%. This is disincemtive to customers…. Corporate world shy away from borronwing this time but personal borrowing increase. Risk averseness inc reased – shy away from new business
9	Losses of deposits with troubled correspondent banks	no	Mainbank is Barclay so no exposures. Were vetting across the world with financial institutions which which it has correspondent
10	Exposure to crops and other commodities financing (name them)	NB	
11	Drop in demand for government securities/Treasury bills	no	No issues. Market not disturbed
12	Parent banking companies abroad withdrawing funds to support operations at home	no	Nothing was taken from Barclay Tz because Barclay UK (parent bank) Qatari Group (shareholders) bought preferential shares instead of taking UK Govt capital …. Buffer was enough but even so
13	Parent banking companies stopping re-investing profits locally	no	Has bigger buffer of capital so did not need to take money from Barclay Tanzania – the buffer was enough and was not desperate
14	Parent banking companies repatriating funds from subsidiaries	no	As abpve
15	Parent banking companies curtailing local operations by selling their assets	no	Liquid
16	Rapid withdrawal of deposits	no	Market run of this ind did not haopen here. But generally financial institutions trading with each other stopped quickly to reduce exposure; Banks reduced selling to each other but did not tell so offcia

17	Reduction of liquidity in the banking system	Yes	Liquidity
18	Increase in domestic demand for credit due to curtailed access to credit abroad	NA	
19	Increase in non-performing loans	Yes	Increased – 60% as watch list : some NPL
20	Exposure to personal loans due to jobs losses	N	Massive in retail lending. Some smaller establishment c;osed
21	Exposure to crop financing		NA
22	Others: Describe please		

b. **What have been the responses to the 2008 global financial and economic crisis in your bank**?

S/n	**Possible responses**	**Tick appropriate responses taken by your bank**	**Explain the responses in detail with evidence**
1	Freezing of lending		
2	Reduced lending		
3	Increased risk assessment		
4	Stress-testing	No	It did stress testing by doing simulations/scenarios eg tourism – resulted in decision to reduce loans to tourism – used profit margin for producers; number of tourist arrivals; foreign currency watch (inflows of forex is thru exports/tourism/remittances – for clients depending on forex, they were changed to Tz; export customers (to watch cancellation of contracts)
5	Financial stability measures (explain)		
6	More adherence to regulations (Central bank and Basel regulations)	x	BoT provided information to see how much capital banks in Tanzania had – Tz banks have about 16% buffer whole Basel requirement is 10%
7	Economic stimulus and/or financial sector rescue packages	No	
8	Changes in the financial system		
9	More strict regulations: legislative, oversight, and domestic regulatory functions for:		

	Systemic risks Capital standards		
10	Central bank strengthening of monitoring role	Yes	Number of returns/reports to BoT increased this town around to monitor bank operation
11	Improvement of oversight of credit risk		
12	More conservative approach for collateral valuations	Yes	Relation of collateral value: 25% for up for upcountry clients
13	Enhancing contingency plans to ensure full operations in times of stress	No	Had enough buffer
14	Provision of emergency liquidity	Yes	There is always liquidity crisis in baning sector with BoT as lender of last resort. Bank has contingency plans as per statutory requirements to deposit pension funds
15	Improving financial sector supervision/stability assessment		
16	Risk-based assessments of financial institutions and early warning system to spot signs of weakness		
17	Risk-based assessments of financial institutions and early warning system to spot signs of weakness		
18	Others: Describe		A number of actions like strengthening capital ratio (buffer); capital requirement is 10% by Basel, but ours is 16% NPL ratio to gross loans and adnaced should not be over 5% ,any other measures to buffer the banks Barclays barel touched by the crisis – don't have complex products like derivatives

c. What have been the results of the responses to the crisis in your bank[3]?

S/n	Response taken by your bank	Impacts (results) of the response	Explain the results of each response in detail with evidence
1	Freezing of lending		
2	Reduced lending		
3	Increased risk assessment		
4	Stress-testing		
5	Financial stability measures (explain)		
6	More adherence to regulations (Central bank and Basel regulations)		
7	Economic stimulus and/or financial sector rescue packages		
8	Changes in the financial system		
9	More strict regulations: legislative, oversight, and domestic regulatory functions for: Systemic risks Capital standards		
10	Central bank strengthening of monitoring role		
11	Improvement of oversight of credit risk		
12	More conservative approach for collateral valuations		
13	Enhancing contingency plans to ensure full operations in times of stress		
14	Provision of emergency		

[3] What happened to the bank when you responded to the crisis?

	liquidity		
15	Improving financial sector supervision/stability assessment		
16	Risk-based assessments of financial institutions and early warning system to spot signs of weakness		
17	Risk-based assessments of financial institutions and early warning system to spot signs of weakness		
18	Others: Describe		

Appendix V: Follow Up Questions For Barclays Bank

SOME FOLLOW-UP QUESTIONS TO BARCLAYS BANK FOR ELABORATION

1. In one of your response I noted that Barclays reduced loans inssuance through "**headroom**?" I am not sure whether I got this well, what does it mean?
2. May you give figures for defaults, associated reduced revenues, profits and loss incured as a result of the 2008 economic crisis please?
3. May you give figures for reduced issuance of loans and associated reduced revenues, profits and loss incured as a result of the 2008 economic crisis please?
4. Due to the 2008 economic crisis, the bank was obliged to stop longer-maturing obligations: May I get some elaboration/examples of these "longer-maturing obligations" please
5. May we have figures on reduction of customers and related revenues and profits due to increased credit risk that made it necessary to increase interest rate please? Interest rate was increased fro xxxxx to xxxxxxxxx
6. Which are Barclays correspondent banks?
7. How many of your borrowers are sallaried employees with employers' guarantees on their loans? How many of these lost jobs due to the economic crisis and therefore were unable to pay their loans as agreed?
8. How many of your customers are based in (i) Tanzania (ii) Europe (iii) USA
9. Among Barclays responses to the 2008 economic crisis include injecting equity in some businesses. May I know how this was done including figures (number of busineses/amount of money involved etc..)

10. How much did the bank reduce lending due to the 2008 economic crisis?: Lending before the crisis was xxxxxxxxxxxxx, Lending after the crisis was xxxxxxxxx
11. Barclays increased the number of reports/returns to BoT: How many were submitted before? How many were submitted after BoT's requirements for more reports/returns?
12. Among the responses to the crisis at Barclays, include More conservative approach for collateral valuations: How was it done before? How is it done after the crisis?
13. Is it possible to get your annual reports for the period 2006/07 – 2011/2012 please

Appendix VI: Documents Availed by Barclays Bank to Complement Primary Data

1. Barclays Annual Report and Financial Statement For Year Ended December 31st 2006

2. Barclays Annual Report and Financial Statement For Year Ended December 31st 2007

3. Barclays Annual Report and Financial Statement For Year Ended December 31st 2008

4. Barclays Annual Report and Financial Statement For Year Ended December 31st 2009

5. Barclays Annual Report and Financial Statement For Year Ended December 31st 2010

6. Barclays Annual Report and Financial Statement For Year Ended December 31st 2011

Appendix VII: Responses From the Bank of Tanzania

Background Information

1. Name of the bank …………Bank of Tanzania
2. Positions of the respondents: Senior Researchers …… ……………………

NB: Dear Ngowi, on top of the written responses, please see the documents listed below for your further review

The Impact of Global Financial Crisis on Banks

The financial sector in Tanzania was not affected directly by first round of the impact of the global financial crisis as was, in the case of advanced economies, partly due to the fact that banks in Tanzania were not holding the 'toxic' securities and debt instruments that had spread the crisis across the international financial system. The second round impact though, was felt in Tanzania as demand for exports collapsed, affecting the cash flows of export based activities. This caused banks to be more cautious to lending to the establishments involved in such activities, leading to a substantial slow down in credit growth from 44.6 percent in 2008 to 9.6 percent in 2009. Banks seemed to substitute credit growth with accumulation of foreign assets.

Second, the overall quality of the financial sector's loan portfolio deteriorated. The non-performing loans increased during the height of the crisis (mid 2009) and return on assets declined as interest rates fell.

Measures taken by the Bank of Tanzania

The Bank of Tanzania took a number of measures to mitigate the impact of global financial crisis.

First, the Bank enhanced monitoring of the activities of the financial sector through introduction of daily surveillance of selected performance indicators of banks. These indicators have ever since been presented and discussed in the surveillance meeting on daily basis.

Second, the Bank of Tanzania adopted a relatively easy monetary policy stance in 2009/10 as a countercyclical measure to mitigate the impact of the crisis. It revised the money supply growth upwards 2009/10, and lowered the Lombard and the discount rates to allow greater flexibility in the provision of liquidity to the economy.

Third, to improve the resilience of the financial sector to shocks in the medium to long-term, the Bank raised the minimum capital requirements of commercial banks from TZS 5.0 billion to TZS 15.0 billion in 2010, (to be attained within three years by the existing banks). It also established a dedicated Financial Stability Unit which, among others, will produce routine financial stability reports and help to coordinate financial sector regulatory activities in the country.

More details can be found in the following references (including their statistical annexes)

Bank of Tanzania Annual Report 2010/11 page 66, paragraph 4;

Bank of Tanzania Bank of Tanzania Monetary Policy Statement June 2010 Section 3.1; Section 6.4

Bank of Tanzania Monetary Policy Statement February 2010 page 7, 8 and 13; page 10;

Bank of Tanzania Monetary Policy Statement February 2011 Section 4.10;

Bank of Tanzania Monthly Economic Review January 2010

IMF Country Report No. 10/351 December 2010 paragraphs 17 to 19, page 38 and 39;

IMF Country Report No: 09/336 December 2009 paragraph 11 to 14 page 29 and 30; paragraph 14 page 13; paragraph 26 page 32

IMF Country Report No: 10/173 June 2010 paragraph 9 page 10; paragraph 27 page 23

Tanzania Memorandum of Economic and Financial Policies Attachment to IMF Country Report No: 10/173 June 2010 paragraph 12-14 on page 39, and paragraph 8 page 81;

Appendix VIII: Documents Availed by BoT to Complement Primary Data

Bank of Tanzania Annual Report 2010/11

Bank of Tanzania Bank of Tanzania Monetary Policy Statement June 2010

Bank of Tanzania Monetary Policy Statement February 2010

Bank of Tanzania Monetary Policy Statement February 2011

Bank of Tanzania Monthly Economic Review January 2010

Bank of Tanzania Financial Stability Report September 2010

Bank of Tanzania Financial Stability Report September 2011

IMF Country Report No. 10/351 December 2010

IMF Country Report No: 09/336 December 2009

IMF Country Report No: 10/173 June 2010