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Comparative Analysis of Financial Performance between Public and Private Sector Banks in Tanzania

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ABSTRACT: The research compares the financial health of public and private sector banks in Tanzania using key metrics such as profitability, asset quality, liquidity, and capital adequacy. By utilizing key financial indicators such as profitability ratios, asset quality, liquidity ratios, and capital adequacy, the research aims to highlight the strengths and weaknesses of both sectors. The analysis is based on data collected from a representative sample of banks over a specified period. The study reveals that private sector banks typically surpass public sector banks in profitability and operational effectiveness, likely due to their more aggressive business strategies and superior management practices.However, public sector banks tend to have stronger asset quality and stability, benefiting from government support and less exposure to risky investments. The research underscores the importance of regulatory frameworks, management practices, and market dynamics in influencing bank performance. The results offer crucial information for policymakers, investors, and banking professionals seeking to understand the operational strengths and weaknesses of Tanzania's public and private sector banks. This analysis also lays the groundwork for future research in optimizing financial strategies and policies to enhance the overall banking sector's stability and growth.

KEYWORDS: Financial Performance, Assess quality, Liquidity ratio, Banking sector, Capital adequacy

I. INTRODUCTION

The banking sector is a cornerstone of economic development, acting as a critical channel for allocating financial resources and stimulating growth. In Tanzania, the sector is divided into public and private banks, each contributing uniquely to the nation's financial landscape. Public sector banks, often state-owned, prioritize financial inclusion and social welfare, extending services to underserved regions. Private sector banks, on the other hand, focus on profitability, innovation, and efficiency, driven by competition and market forces. This study aims to compare the financial performance of these two bank types, assessing how they differ in terms of key financial metrics and overall stability.

Analysing the financial performance of public and private sector banks involves examining profitability ratios, asset quality, liquidity ratios, and capital adequacy, among other indicators. This analysis is crucial for understanding the strengths and weaknesses inherent in each sector's operational model. By comparing these metrics, the study seeks to provide insights into how each sector manages resources, responds to market conditions, and fulfils its financial responsibilities. Such a comparison not only highlights the competitive dynamics between public and private banks in Tanzania but also offers valuable lessons for policymakers, regulators, and stakeholders in the financial industry. The findings can inform strategic decisions and policy formulations aimed at enhancing the robustness and efficiency, ultimately contributing to sustainable economic growth.

[1].The study examined the financial performance of Tanzanian commercial banks over a seven-year period from 2006 to 2012. Key findings include overall bank performance improvement, stability during the global financial crisis, and significant differences in Return on Equity (ROE) and Net Interest Margin (NIM) among different banks. The study offers valuable insights for policymakers, investors, and researchers seeking to understand the Tanzanian banking sector's dynamics.

[2]. Haule compares the financial performance of domestic and foreign banks in Tanzania over a decade from 2007 to 2016. The research employs financial ratio analysis to assess

the banks' performance and ANOVA to identify significant mean differences in profitability. The findings reveal that domestic banks exhibit higher profitability than the average profitability of foreign banks. Notably, the study contributes to the understanding of the Tanzanian banking sector by analyzing and comparing the financial performance of these two bank categories

[3].Haule's study employed Data Envelopment Analysis (DEA) to compare the efficiency of Tanzanian domestic and foreign banks between 2007 and 2016. The research revealed that foreign banks outperformed domestic banks in terms of overall efficiency, indicating superior cost management. Beyond this, the study delved into specific areas where efficiency gaps existed between the two groups, aiming to identify opportunities for improvement in domestic banks. Based on these findings, the research offered policy recommendations to enhance the efficiency of domestic banks, such as fostering competition, refining regulatory frameworks, and promoting technological advancements.

[4].Lyimo's research explored the factors influencing the financial performance of Tanzanian commercial banks. By analyzing data from 18 banks over nine years using the GMM model, the study found that bank size and asset quality positively influenced performance, while the diversity of bank activities negatively affected profitability. Additionally, macroeconomic factors like GDP and inflation exerted a negative impact on bank performance.Furthermore, the study examined the role of capital adequacy and liquidity in influencing bank performance. The findings indicated that a higher capital adequacy ratio positively correlated with financial performance, suggesting that well-capitalized banks are better equipped to withstand economic shocks. Similarly, adequate liquidity levels were found to be crucial for maintaining financial stability and supporting growth.The research concluded by emphasizing the importance of effective risk management practices in enhancing bank performance**.** By identifying and mitigating potential risks, banks can improve their overall financial health and resilience to economic downturns.

[5]. The study examined the impact of regulatory changes on the financial performance of Tanzanian commercial banks**.** By comparing performance before and after the Regulatory Requirements Reviews (RRRs) of 2008 and 2014, the study found that Return on Equity (ROE) and Saving Mobilization Ratio (SMR) significantly improved post-RRR. While Return on Assets (ROA) also increased and Non-Performing Loans (NPLs) decreased, these changes were not statistically significant. Notably, larger banks outperformed smaller banks in terms of ROE and SMR, indicating differential impacts based on bank size. Furthermore, the study analyzed the impact of the RRRs on other financial performance indicators, such as capital adequacy and liquidity ratios. The findings revealed that the regulatory changes had a positive influence on these metrics, contributing to the overall improvement in bank stability and resilience.Finally, the study highlighted the importance of continuous monitoring and evaluation of regulatory frameworks. The results emphasized the need for regulatory authorities to assess the impact of regulations on the banking sector and make necessary adjustments to ensure a balance between financial stability and promoting competition and innovation.

[6]. A study analyzed the financial performance of seven commercial banks listed on the Dar es Salaam Stock Exchange (DSE) between 2016 and 2020. Employing the CAMEL model to assess capital adequacy, asset quality, management efficiency, earning quality, and liquidity, the research found that management efficiency and capital adequacy were the primary determinants of bank performance. These findings underscore the importance of effective management and robust capital positions for the stability and success of Tanzanian commercial banks.

[7].E-banking, as a significant innovation, has transformed banking operations in both urban and rural areas. The researchers adopted a case study design and a quantitative approach. Data were collected through questionnaires, and descriptive statistics and regression analysis were used for analysis. The results indicate that customers actively utilized various electronic banking products, including ATMs, agency banking, mobile banking, and online banking. Importantly, E-banking positively correlates with bank profitability. The study recommends the use of Personal Identification Numbers (PINs) instead of signatures to enhance cybersecurity management.

[8].The TSA policy, implemented in January 2016, aimed to withdraw government deposits from commercial banks and consolidate them in the Central Bank of Tanzania. Using a balanced panel dataset comprising thirty banks from 2010 to 2020, the researchers found that foreign and state-owned banks were more resilient after TSA adoption, while private and domestic banks experienced performance deterioration. Interestingly, small banks managed to survive the

negative TSA shock, whereas larger banks were negatively affected.

[9]. Mligo and Maseko focused their research on the relationship between budgetary processes and the financial performance of three specific Tanzanian banks: NBC, NMB, and CRDB.Employing a mixed-method approach, the researchers combined qualitative and quantitative data. The author's research indicates that the budgetary process has a positive and significant impact on the financial health of commercial banks. Specifically, the R2 value of 58.6% and the F-statistic (8, 87) of 28.86 ($p < 0.000$) underscore the importance of budgeting in enhancing financial performance. The study recommends increased participation and improved internal controls to further enhance the budgetary process.

[10] The author delves into the relationship between corporate governance practices and financial performance. Specifically focusing on CRDB Bank, the study explores how governance structures impact the bank's overall financial health. Although the exact findings are not provided here, this research contributes to the understanding of corporate governance dynamics within the Tanzanian banking sector. Further examination of the thesis would be necessary to gain deeper insights into the specific mechanisms through which governance practices influence financial outcomes.

[11].The study examined the impact of corporate governance on the financial performance of Tanzanian commercial banks**.**By analyzing data from 15 banks over 17 years, researchers found that strong corporate governance positively influenced profitability, asset quality, and capital adequacy.However, it had a negative impact on equity utilization efficiency and liquidity, particularly in relation to board gender diversity and control. These findings highlight the complex relationship between corporate governance and various financial performance metrics in the Tanzanian banking sector.

[12]. Aldasoro, Gatti, and Faia developed a model to understand how banks interact and influence systemic risk**.** Their model shows that banks tend to form interconnected networks with a core group of larger banks and a periphery of smaller ones. This structure can amplify financial crises. The researchers analyzed how regulations like liquidity and capital requirements can impact this network. They found that while both regulations can help reduce systemic risk, liquidity requirements are more effective in this regard. However, they also lead to less investment in the economy. Capital requirements, on the other hand, improve stability without significantly impacting overall investment.These findings support the idea that a combination of both liquidity and capital requirements, as outlined in Basel III, is essential for a stable and efficient banking system.

[13]. The study examined the impact of bank capital, liquidity, and credit risk on profitability in Asian developed economies and the US. It found that while both capital and credit risk influenced profitability similarly across regions, liquidity had a more significant impactSpecifically, a small increase in liquidity led to a larger increase in profit compared to a similar increase in capital. Larger banks benefited more from liquidity, while the relationship was more varied for medium and small banks.

[14]. Al-Harbi's study offers a comprehensive analysis of factors influencing bank liquidity in OIC countries. Using a large dataset spanning 19 years, the research identifies several key determinants. Capital ratios, foreign ownership, credit risk, inflation, monetary policy, and deposit insurance negatively impact liquidity, while efficiency, bank size, off-balance sheet activities, market capitalization, and concentration positively correlate with it. These findings provide valuable insights for policymakers and industry professionals seeking to enhance liquidity within the OIC banking sector.

[15]. A study examining the liquidity of Indian commercial banks listed on the BSE between 2008 and 2017 found that bank size, capital adequacy, deposits, operational efficiency, and profitability positively influenced liquidity, while asset quality, asset management, and return on equity had negative impacts. Macroeconomic factors like interest rates and exchange rates also played a significant role. The research suggests that larger, well-capitalized banks with efficient operations tend to be more liquid. Additionally, the study recommends the Reserve Bank of India establish liquidity benchmarks to enhance the overall liquidity management of Indian commercial banks.

[16].The study examines the long-term influences of regulatory, bank-specific, and macroeconomic factors on Indian banks' liquidity management. Employing a random effects panel data model, researchers analyzed data from 1996 to 2016. The study utilized both asset-based and liability-based liquidity ratios tailored to the Indian banking landscape. Findings reveal varying impacts of independent variables on different liquidity ratios. Interestingly, Indian banks exhibit a stronger reliance on asset-based liquidity compared to

liability-based measures. The liquidity ratio L1 (liquid assets to total assets) demonstrated significant correlations with macroeconomic factors such as interest rates, foreign exchange reserves, exchange rates, inflation, and GDP growth.

[17].The study adopted a qualitative approach to gather data from customers and officials across 32 Tanzanian commercial banks. The findings suggest a negative correlation between banking regulatory reforms and economic efficiency, indicating that these reforms have not significantly enhanced competition among banks. This research provides valuable insights into the impact of financial sector reforms on the Tanzanian banking industry.

[18].The study investigates how banks' capital levels impact their engagement in liquidity transformation. The authors construct a simple model to develop testable hypotheses on this link. Their findings reveal that as banks' capital increases, they tend to engage in less liquidity transformation, indicating that capital and liquidity requirements can be partially interchangeable. Notably, this substitution effect is more pronounced among small banks. These insights have implications for optimizing the joint calibration of capital and liquidity requirements and ensuring proportionality in prudential regulations.

[19].This study delves into the long-term factors influencing liquidity management in Indian banks. Utilizing a random effects panel data model, the researchers analyzed 21 years of data from 32 major banks, categorized as government-owned, domestic private, and foreign institutions. The study identified bank size, profitability, leverage, interest margins, capital adequacy, loan quality, and central bank policy rates as key determinants of liquidity. Interestingly, the research also uncovered intricate relationships between liquidity, profitability, and regulatory capital, suggesting that banks can enhance liquidity by sacrificing profitability while mitigating risk through increased liquidity.

[20].The authors investigate liquidity determinants in Indian banks. Using panel data analysis, they find that bank ownership significantly affects liquidity, with different types of banks exhibiting varying trends. Key factors influencing liquidity include deposits, profitability, capital adequacy, inflation, bank size, and GDP. This research contributes valuable insights to understanding liquidity dynamics in India, emphasizing the interplay between bank-specific and macroeconomic factors.

[21].Morina and Qarri explore the critical relationship between liquidity and the banking sector. Liquidity plays a pivotal role in the growth and stability of the financial system.and survival of commercial banks. Regulators mandate that banks maintain liquid assets to meet their ability to fulfill their obligations to depositors and third parties accurately and timely.The study analyzes data from 2012 to 2019, revealing that non-performing loans, capital adequacy, and credit interest rates significantly impact a bank's liquidity position. These findings underscore the importance of managing these factors to ensure stable liquidity and overall bank performance.

[22].This paper offers a ten-year retrospective on the liquidity position of Tanzania's commercial banks (2000-2009). Traditional liquidity ratios, such as deposit-to-core funding, liquid assets-to-demand liabilities, and loan-to-deposit ratios, were employed to assess bank performance. The findings indicate fluctuating liquidity levels across the analyzed period, yet overall, the banking sector maintained a robust liquidity position. Given that commercial banks hold over 96% of total banking assets, their liquidity is crucial to Tanzania's economic stability.

[23].Lotto and Mwemezi delve into the factors influencing liquidity in Tanzanian banks. Using panel regression analysis, the researchers examined secondary data collected from the financial statements of 49 banks between 2006 and 2013.The findings reveal several key determinants: capital adequacy, bank size, interest rate margin, non-performing loans, and inflation. Smaller banks, which focus on short-term loans, tend to be more liquid compared to larger banks that allocate capital to long-term loans. Managing non-performing loans and inflation becomes crucial for maintaining liquidity. Overall, the study emphasizes the delicate balance between profitability and liquidity, urging banks to optimize their operations to meet both financial demands and profitability targets while safeguarding against liquidity risks.

[24]. Josephat Lotto conducted a study analyzing the factors influencing operating efficiency among 36 commercial banks in Tanzania between 2000 and 2017. Using a robust random-effects regression model, Lotto examined the relationship between bank operating efficiency and various determinants.Lotto's research sheds light on the factors affecting banks' operational efficiency, providing insights for policymakers and practitioners. By understanding these determinants, banks can enhance their efficiency, streamline

processes, and contribute to a more resilient financial system in Tanzania.

[25].Fu, Lin, and Molyneux (2016) conducted a comprehensive study examining the intricate relationship between bank capital and liquidity creation within the Asia-Pacific region. Analysing data from 597 commercial banks spanning 2006 to 2019, their research unveiled a complex, U-shaped bidirectional relationship between these two critical factors.Notably, this relationship is moderated by bank size and holds true for both advanced economies (AEs) and during the Basel II and Basel III periods. The research sheds light on the complex dynamics between capital adequacy and liquidity provision, offering valuable insights for policymakers, researchers, and bank managers seeking to enhance financial rationalization and restructuring in the region.

[26].The paper delves into the intricate relationship between bank liquidity and capital regulation. Specifically, it examines the joint constraints imposed by the Basel III Accord, which sets both minimum liquidity standards and minimum capital requirements for banks. The study highlights the challenges faced by banks operating under this dual constraint regime and investigates how their behavior may adapt. By considering both sides of banks' balance sheets, the research underscores the need for a holistic approach to regulatory design that accounts for the costs associated with both capital and liquidity.

[27].The study delves into the complex connection between a bank's required regulatory capital and its ability to maintain sufficient liquidity, examining publicly traded commercial banks in the United States and Europe. Employing a simultaneous equations framework, the study explores how capital and liquidity interact, emphasizing the need to consider both dimensions in regulatory design. Notably, the research reveals that banks tend to reduce their capital reserves when faced with increased liquidity challenges as defined by Basel III standards. However, this trend diverges for smaller U.S. banks reliant on core deposits. These institutions exhibit a contrary behavior, bolstering their solvency standards in response to heightened illiquidity. These findings underscore the importance of implementing minimum liquidity ratios alongside capital requirements, while also recognizing the distinct behavior of large versus smaller banking institutions.

[28]. Carsamer et al. delve into the intricate relationship between bank capital, liquidity, and risk in Ghana. Employing the system generalized method of moments (GMM), their research examines how Basel III's new liquidity ratios influence bank capital, risk adjustments, and liquidity levels. The study reveals a complex interplay among these factors, with banks simultaneously considering and adjusting capital, risk exposure, and liquidity. While increases in capital positively impact risk management, both can negatively correlate with liquidity. Moreover, short-term adjustments to liquidity rules can adversely affect bank capital, underscoring the delicate balance required for effective risk management and capital accumulation in the Ghanaian banking sector.

[29].Annual Report on Financial Sector Supervision by the Bank of Tanzania provides a comprehensive overview of the country's financial landscape. The report covers a broad spectrum of financial sectors, encompassing banking, microfinance, insurance, capital markets, and social security. Notably, the banking sub-sector dominates with approximately 70% of total financial assets. The report also highlights the impact of the COVID-19 pandemic on the banking sector, emphasizing its resilience and recovery. Furthermore, the Bank's regulatory and supervisory frameworks are essential for maintaining a stable and sound financial system. The report serves as a valuable tool for policymakers, industry professionals, and researchers, offering insights into Tanzania's financial sector performance and regulatory initiatives. Its focus on collaboration with international bodies underscores the importance of regional and global cooperation in ensuring financial stability.

[30,31]The Directorate of Banking Supervision Annual Report by the Bank of Tanzania provides valuable insights into the banking sector's performance and key developments. The report covers major activities undertaken by the Directorate, balance sheet structures, financial soundness indicators, and electronic payment services. It also highlights the economy's overview, asset and liability structures, and capital adequacy. Overall, this report serves as a comprehensive resource for understanding Tanzania's banking landscape and regulatory efforts.

[32]. A comprehensive overview of the central bank's evolution and responsibilities from 1961 to 2011. It traces the monetary arrangements in Tanzania before the establishment of the Bank of Tanzania, highlighting the transition from German rule to British influence. The study delves into the bank's role in currency issuance, financial sector reforms, and its relations with the government. Overall, this historical analysis sheds light on the

critical role played by the Bank of Tanzania in the nation's economic development.

This study aims to conduct a comprehensive comparison of the financial performance between Tanzania's public and private sector banks. Specifically, the research aims to evaluate and compare key financial metrics such as profitability, asset quality, liquidity, and capital adequacy between these two sectors. By identifying the strengths and weaknesses in their financial performance, the study seeks to uncover the underlying factors contributing to these differences. This study will also examine how regulatory frameworks, management practices, and market conditions affect the operational efficiency and stability of both public and private sector banks in Tanzania. The research findings will provide valuable insights for policymakers, investors, and banking professionals to make informed decisions and develop strategies to improve the overall efficiency and competitiveness of Tanzania's banking sector.

II. FINANCIAL PERFORMANCE ANALYSIS

Ratio analysis is a fundamental tool in financial analysis employed to evaluate the performance of banks, both private and public sector. The banks considered for comparison is given below:

Private banks	Public sector banks
Exim Bank	GTB
CRDB	ICB
NMB	TACOBA

By comparing various financial ratios, we can get insights into the banks' profitability, liquidity, efficiency, and solvency.

Steps to be adopted to compare Private and Public Sector Banks financial performance

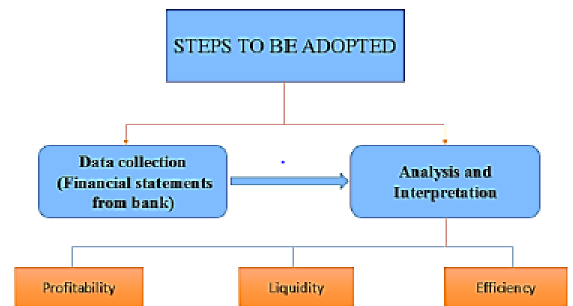
To conduct an effective comparison of private and public sector banks' performance, we can look at the aforementioned ratios over a specific period. Here's how to approach it:

Data Collection:

- Gather financial statements, including balance sheets, income statements, and cash flow statements, for both private and public sector banks.
- Ensure the data is from a reliable source and is consistent over the comparison period.

2. **Ratio Calculation:**
    - Compute the relevant ratios for each bank.
    - Calculate the average ratios for the private sector and public sector banks separately to get a generalized view.

3. **Analysis and Interpretation:**
    - **Profitability:** Compare the NIM, ROA, ROE, and Cost-to-Income Ratio to see which sector is more profitable and efficient.
    - **Liquidity:** Analyze the LDR and Current Ratio to assess liquidity management.
    - **Efficiency:** Use the Asset Turnover Ratio and Operating Efficiency Ratio to gauge operational efficiency.



Steps adopted in the Study

Profitability ratios:
Profitability ratios measure a company's ability to generate profit relative to its sales, assets, and equity.

Types of profitability ratio:
1. Net interest margin
2. Return on assets (ROA)
3. Return on Equity(ROE)
4. Cost to income ratio

Net interest margin:
Measures the difference between interest income generated and interest paid out relative to interest earning assets.

$$NIM = \frac{Net\ Interest\ Income}{Average\ Earning\ Assest}$$

Return on Assets:
Indicates how efficiently a bank is using its assets to generate profits.

$$ROA = \frac{Net\ Income}{Total\ \ Assest}$$

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Return on Equity:
Measures profitability relative to shareholders equity.

$$ROE = \frac{Net\ Income}{Shareholders\ Equity}$$

Cost to income Ratio:
Indicates the efficiency of the bank by comparing the operating expenses to operating income

$$Cost\ to\ income\ Ratio = \frac{Operating\ Expenses}{Operating\ Income}$$

Liquidity ratios:
Liquidity ratios gauge a company's capacity to meet short-term financial obligations. By assessing a company's ability to quickly convert assets into cash, these ratios indicate its potential to fulfill maturing debts and prevent payment defaults. A higher ratio generally signifies a stronger capacity to manage short-term liabilities.

Types of Liquidity ratio:
1. Loan to deposit ratio
2. Current ratio

Loan to deposit ratio:
The loan-to-deposit ratio (LDR) is a metric used to evaluate a bank's liquidity by comparing its total loans to its total deposits within a specific period.Expressed as a percentage, the LDR indicates a bank's reliance on deposits for lending activities.An excessively high LDR suggests potential liquidity constraints, hindering the bank's ability to meet unexpected funding needs.Conversely, an overly low LDR may imply suboptimal utilization of deposit funds, impacting the bank's profitability.

$$LDR = \frac{Total\ Loss}{Total\ Deposits}$$

Current ratio:
The current ratio is a financial metric assessing a company's short-term liquidity, or its ability to meet obligations within a year. Widely used by creditors to evaluate creditworthiness, this ratio also provides insights into a company's operating cycle. Often referred to as the working capital ratio, it is calculated by dividing current assets by current liabilities.

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

Efficiency Ratios:
Efficiency ratios are metrics that assess a company's resource utilization effectiveness. By examining these ratios, managers can identify areas for improvement in operations, asset management, and other business processes.

Types of Asset ratio:
1. Asset turnover ratio
2. Operating turnover ratio

Asset turnover ratio:
Asset turnover is calculated by dividing a company's total sales or revenue by its average total assets.

$$Asset\ Turnover\ Ratio = \frac{Total\ Revenue}{Total\ assests}$$

Operating efficiency ratio:
The operating ratio is a crucial metric for assessing a company's operational efficiency.By comparing operating expenses to net sales, it indicates the proportion of revenue consumed by running the business.A lower operating ratio generally implies better cost control and higher profitability.

$$Operating\ Efficiency\ Ratio = \frac{Non\ Interest\ Expense}{Net\ Revenue}$$

III. DATA ANALYSIS

Profitability ratios:

- From the bank reports obtained and analyzed we obtain the following: Tanzania's banking sector remained resilient in the face of economic shocks associated with the COVID-19 pandemic. Accommodative policy measures helped increase the sector's capital adequacy, profitability, and liquidity and created room for increased credit to the private sector.
- The Tanzanian banking sector demonstrated robust growth in 2023, with operating income soaring 58.8% to TZS 1.1 trillion, marking the decade's strongest performance. The sector's assets expanded by 14.6%, the highest growth rate since 2015.
- Consolidation efforts, coupled with initiatives to enhance bank performance, and the broader economic recovery from the COVID-19 pandemic have collectively empowered the banking sector to capitalize on opportunities for growth and strengthening.
- Total customer deposits, which accounted for about 83.4% of total liabilities, increased by 17.1% to TZS 27.5 trillion partly associated with enhanced deposit mobilization strategies by banks and growth in the agency banking business. Loans, advances, and overdrafts grew by

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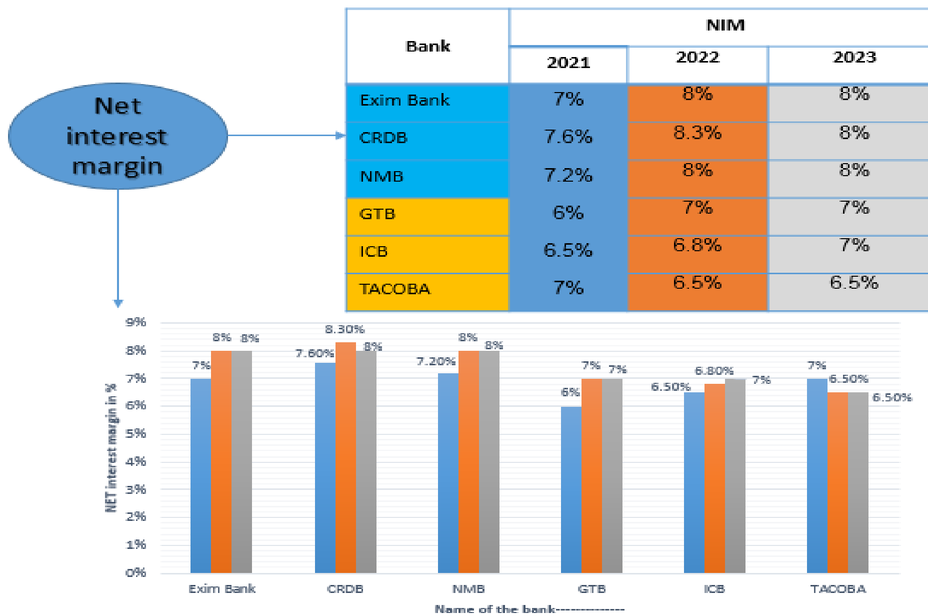
the value of the banking sector's assets increased by 13.0% from TZS 18.4 trillion as of 31st December 2020 to TZS 20.8 trillion as of 31st December 2021. and accounted for about 53.0% of total assets.

Net interest margin:



Bank	NIM		
	2021	2022	2023
Exim Bank	7%	8%	8%
CRDB	7.6%	8.3%	8%
NMB	7.2%	8%	8%
GTB	6%	7%	7%
ICB	6.5%	6.8%	7%
TACOBA	7%	6.5%	6.5%

Public sector banks experienced a marginal decline in their average net interest margin to 7% due to factors such as increased earning assets relative to net interest income, a shrinking interest spread, and lower T-bill yields during the first and third quarters of 2023. Despite this, overall profitability surged due to increased net income stemming from loan portfolio growth, higher non-interest income, improved cost-to-income ratio, and enhanced operational efficiency. Notably, a decrease in the net interest margin ratio to 6.7% in 2023 further contributed to the profitability uptick during the review period.

Return on Assets:

The ROA data from 2021 to 2023 indicates an overall improvement in bank profitability in Tanzania. Exim Bank consistently led with 2%, while NMB and CRDB showed notable gains, reaching 2% and 1.8% respectively by 2023. GTB, ICB, and TACOBA also improved, with TACOBA reaching 1.9%. This trend suggests enhanced operational efficiency and profitability, particularly among private sector banks.

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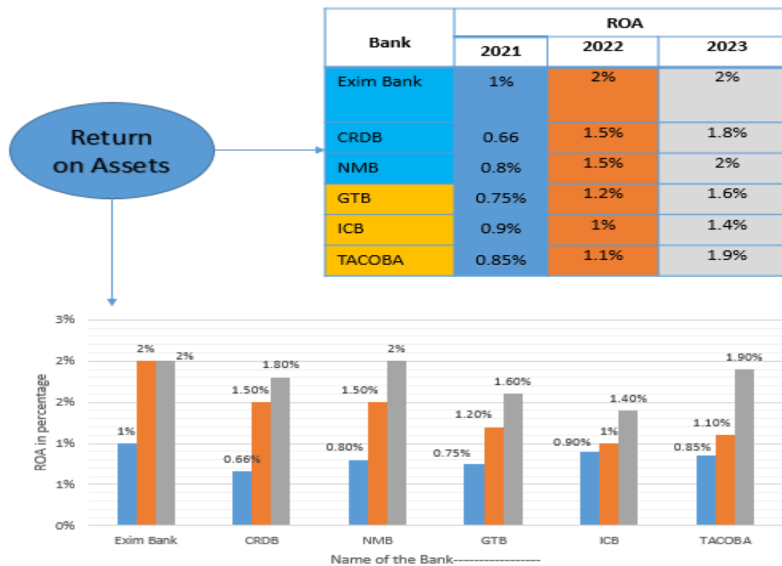
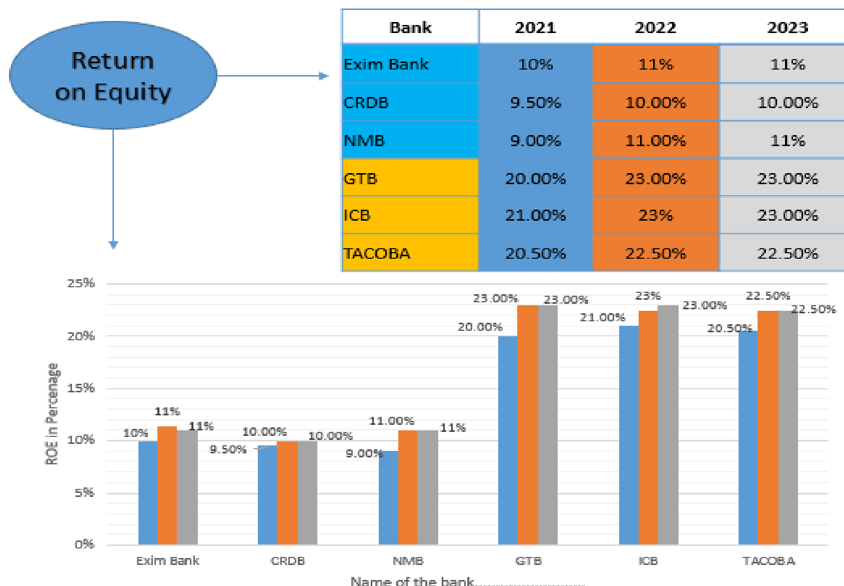


Bank	ROA		
	2021	2022	2023
Exim Bank	1%	2%	2%
CRDB	0.66	1.5%	1.8%
NMB	0.8%	1.5%	2%
GTB	0.75%	1.2%	1.6%
ICB	0.9%	1%	1.4%
TACOBA	0.85%	1.1%	1.9%

Return on Equity:

The banking sector experienced a significant profitability boost in 2023, with Return on Average Equity (ROAE) surging from 7.9% to 11.7% and Return on Assets (ROAA) climbing from 1.2% to 1.8%. This improvement was driven by a stable operating environment characterized by economic recovery, normalized conditions, supportive policies, and enhanced cost efficiency.



Bank	2021	2022	2023
Exim Bank	10%	11%	11%
CRDB	9.50%	10.00%	10.00%
NMB	9.00%	11.00%	11%
GTB	20.00%	23.00%	23.00%
ICB	21.00%	23%	23.00%
TACOBA	20.50%	22.50%	22.50%

Cost to income ratio:

A stable operating environment, characterized by a steady economic recovery, normalized conditions, and supportive policy measures, combined with the sector's improved cost efficiency, fueled strong credit growth and increased banking sector profitability in 2023. The sector's cost-to-income ratio declined to 50.1% in 2021 from the previous year, driven by higher income and effective cost management initiatives implemented by banks.

Bank	2021	2022	2023
Exim Bank	70%	75%	80%
CRDB	66.00%	68.00%	70.00%
NMB	68.00%	70.00%	70%
GTB	80.00%	85.00%	85.00%
ICB	79.00%	80%	80.00%
TACOBA	76.00%	78.00%	80.00%

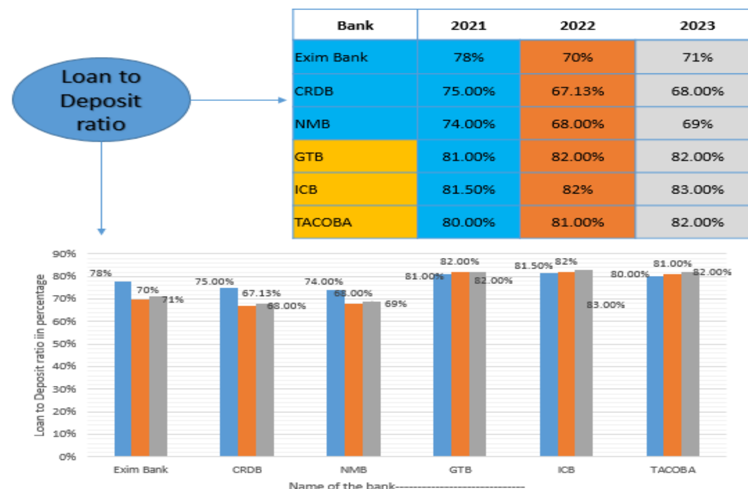
Liquidity ratio

The banking sector maintained robust liquidity levels, sufficient to cover maturing obligations and fund asset expansion.

Loan to deposit ratio

Public sector banks generally exhibit stronger liquidity compared to their private sector counterparts. The gross loans to customer deposit ratio marginally decreased from 81.7% in 2021 to 82% in 2023, indicating a slight liquidity improvement across the sector.

Public sector banks reinforced their liquidity position, with the liquid assets to demand liabilities ratio rising from 80% to 82% in 2023 and the liquid assets to total assets ratio increasing from 38.0% to 39.6% during the same period.



Bank	2021	2022	2023
Exim Bank	78%	70%	71%
CRDB	75.00%	67.13%	68.00%
NMB	74.00%	68.00%	69%
GTB	81.00%	82.00%	82.00%
ICB	81.50%	82%	83.00%
TACOBA	80.00%	81.00%	82.00%

Current ratio

The increase in the liquidity ratio is primarily attributed to a more rapid growth in total liquid assets compared to total liabilities. Liquid assets surged by 19.3%, outpacing the 14.6% growth in liabilities. This surge was driven by substantial increases in balances with the central bank (81.3%), interbank balances (38.8%), and investments in government securities (19.9%).

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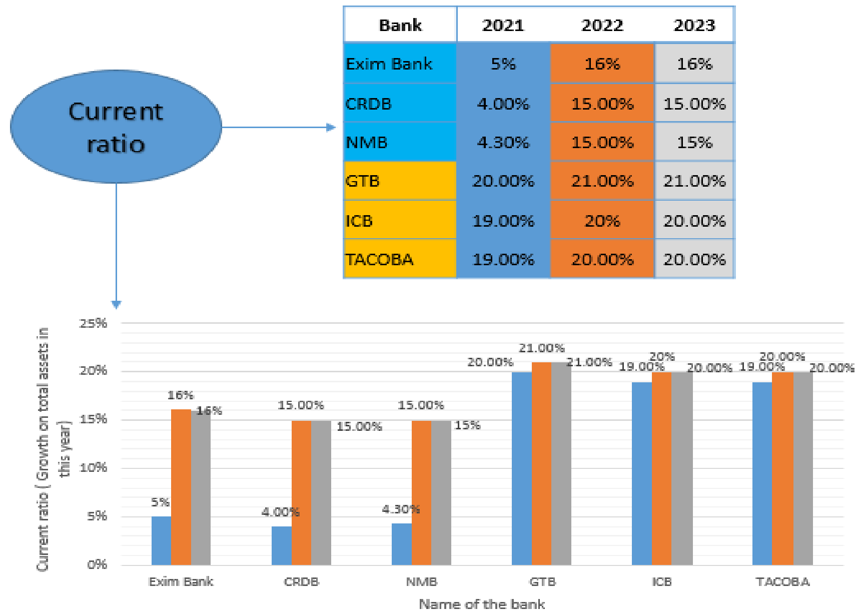
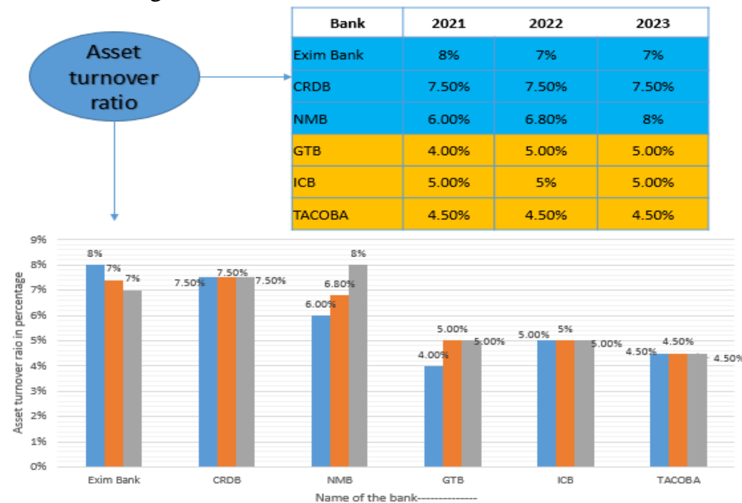


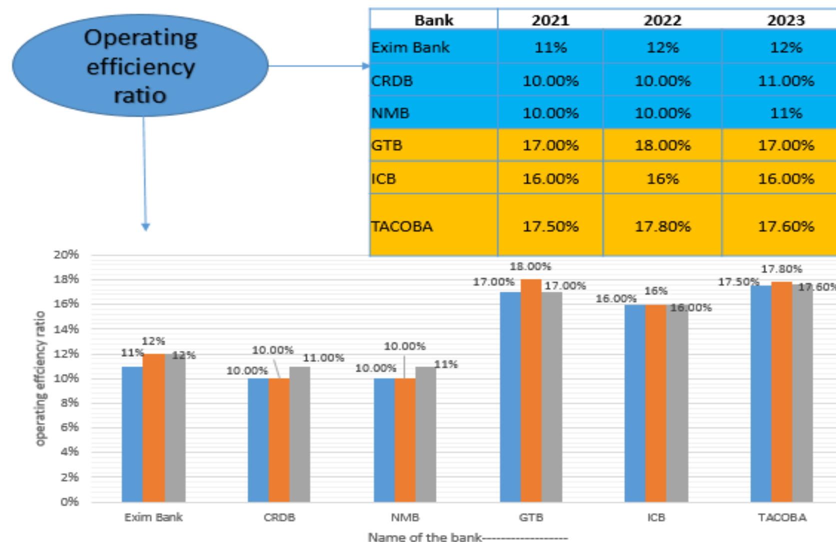
Bank	2021	2022	2023
Exim Bank	5%	16%	16%
CRDB	4.00%	15.00%	15.00%
NMB	4.30%	15.00%	15%
GTB	20.00%	21.00%	21.00%
ICB	19.00%	20%	20.00%
TACOBA	19.00%	20.00%	20.00%

Efficiency ratio:
Employee productivity, measured by earnings per employee, increased significantly by 57.6% from TZS 40.7 million in 2021 to TZS 64.1 million in 2023.
Asset turnover ratio:
Asset quality showed improvement, with the non-performing loan (NPL) ratio declining to 6.7% at the end of December 2023 from 7.5% in the same period of 2021. While still exceeding the NMB bank benchmark of 8.0%, leading banks demonstrated significant improvement, driving the overall decline. Approximately 62.5% of banks maintained an NPL ratio above 5.0% during this period.



Bank	2021	2022	2023
Exim Bank	8%	7%	7%
CRDB	7.50%	7.50%	7.50%
NMB	6.00%	6.80%	8%
GTB	4.00%	5.00%	5.00%
ICB	5.00%	5%	5.00%
TACOBA	4.50%	4.50%	4.50%

Operating efficiency ratio:
Operational efficiency, calculated as the ratio of a bank's total expenses to its loan book, measures its ability to generate loans while minimizing costs. Lower ratios indicate higher efficiency. Large banks outperformed others, with the highest earnings per employee, followed by non-bank financial institutions (NBFIs). Conversely, regional and small banks reported consecutive years of negative earnings per employee due to pre-tax losses.The sector's overall operational efficiency deteriorated to a five-year low of 11.6% in 2023 from 16.1% in 2021. Tanzanian public sector banks exhibited a consistent decline in operational efficiency, suggesting that their cost growth outpaced loan book expansion



Bank	2021	2022	2023
Exim Bank	11%	12%	12%
CRDB	10.00%	10.00%	11.00%
NMB	10.00%	10.00%	11%
GTB	17.00%	18.00%	17.00%
ICB	16.00%	16%	16.00%
TACOBA	17.50%	17.80%	17.60%

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IV. SWOT ANALYSIS

As per the bank reports of Tanzanian banking sector in 2023, it is recorded as given below: Although profitable, the sector is overcrowded, with many small banks struggling to significantly increase their market share or invest in expanding their branch networks.

Strength:

- Tanzania's banking sector is still considered stable and resilient, as banks have more than adequate capital buffers and liquidity.
- Banks have effectively leveraged alternative channels like agency, mobile, and internet banking to enhance service accessibility and better meet customer needs.
- Competition is intensifying as banks are looking to grow their profitability by exploring new product lines.
- For instance, with the introduction of bank assurance guidelines in 2021, more than 10 commercial banks in the country have either been granted licenses or partnered with insurance companies.
- Strong and committed Central Bank support including provision of supportive infrastructure and guidelines which have continued to improve the functioning of the banking and financial sector.

Weaknesses:

- The banking sector is over crowded with medium, NBFIs, regional and small banks which struggle to grow.
- The combined market share of these banks contracted from 24.9% in 2021 to 23.7% in 2023.
- Difficulties in assessing credit worthiness mean that banks and financial institutions continue to incorporate high-risk premiums to compensate for the uncertainties.
- TBA indicates that movable assets have significant limitations as collateral, leading financial institutions to generally avoid them for long-term financing.
- The Tanzanian banking industry exhibits a pronounced concentration in urban areas with limited penetration in rural regions. The underdeveloped equity and debt capital markets further constrain growth prospects for both banks and non-bank financial institutions.

Opportunity:

- Fin Tech, mobile penetration, digital and mobile banking are expanding rapidly, attracting more people into the formal financial system.
- Tanzania exhibits a notably low banking sector penetration rate. According to the World Bank's Global Financial Inclusion data, less than 40% of the adult population has a formal

financial account, indicating significant untapped potential for market expansion.

- The low penetration of mortgages coupled with the existence of TMRC as a mortgage liquidity provider presents a favorable opportunity for banks to expand their mortgage offerings.
- Leveraging movable assets as collateral has the potential to expand loan and credit accessibility for customers.

Threats:

- Elevated levels of non-performing loans (NPLs) within regional and small banks pose a significant risk to the stability of the banking and financial system. In 2021, NPLs originating from these institutions constituted
- Approximately 68.7% of NPLs were attributed to the underperformance of credit departments.
- Despite no reported incidents in Tanzania, banks remain a prime target for cyber-attacks.
- The prevalence of cash-based transactions and deeply ingrained cultural habits may hinder the widespread adoption of cashless payment systems.
- Limited product differentiation within the banking sector facilitates customer switching behavior, particularly among those seeking higher returns on their investments.
- The sector's intense competition is further exacerbated by disruptive technologies driven by Mobile Network Operators (MNOs) and FinTech companies.

V. CONCLUSION

In conclusion,a comparison of financial performance between public and private sector banks in Tanzania reveals distinct operational strengths and challenges within each sector. Private sector banks generally exhibit higher profitability and efficiency, driven by competitive market strategies and innovative management practices. Conversely, public sector banks demonstrate stronger asset quality and stability, benefiting from government support and a focus on social welfare objectives. These differences underscore the impact of varying regulatory frameworks and management approaches on bank performance. The study's findings highlight the need for tailored policy interventions to address the unique challenges faced by each sector. By fostering a balanced regulatory environment and encouraging best practices across the board, policymakers can enhance the resilience and growth of the Tanzanian banking sector. This, in turn, will contribute to broader economic development and financial inclusion within the country.

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