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LIST OF ACRONYMS

Bank	-	Bank of Tanzania
CMSA	-	Capital Market and Securities Authority
DB	-	Defined Benefits
DC	-	Defined Contributions
DCB	-	DCB Commercial Bank
DIB	-	Deposit Insurance Board
DSA	-	Debt Sustainability Analysis
DSE	-	Dar es salaam Stock Exchange
EAC	-	East African Community
EGM	-	Enterprise Growth Market
EU	-	European Union
FDI	-	Foreign Direct Investment
FSAP	-	Financial Sector Assessment Programme
FSR	-	Financial Stability Report
FYDP	-	Five Year Development Plan
GDP	-	Gross Domestic Product
GFC	-	Global Financial Crisis
HIPC	-	Highly Indebted Poor Countries
IMF	-	International Monetary Fund
MFI	-	Micro Finance Institution
MFS	-	Mobile Financial Services
MNO	-	Mobile Network Operators
NGO	-	Non-Governmental Organization
NPLs	-	Non- Performing Loans
SACCOS	-	Savings and Credit Co-Operative Societies
SADC	-	Southern African Development Community
SAGCOT	-	Southern Agricultural Growth Corridor of Tanzania
SDC	-	Sovereign Debt Crisis
SSRA	-	Social Security Regulatory Authority
TBL	-	Tanzania Breweries Limited
TCC	-	Tanzania Cigarette Company
TFSF	-	Tanzania Financial Stability Forum
TIRA	-	Tanzania Insurance Regulatory Authority
TISS	-	Tanzania Interbank Settlement System
TPCC	-	Tanzania Portland Cement Company
TRWA	-	Total Risk Weighted Assets
TZS	-	Tanzania Shilling
USD	-	United States Dollar
VICOBA	-	Village Community Bank

FOREWORD

This Financial Stability Report (FSR) is released at the time when the global economic condition is projected to recover gradually from the sovereign debt crisis and the instability particularly in the Euro Zone, following interventions to forestall declining recovery momentum during the third quarter of 2012**.** The interventions involved on the one hand injecting liquidity in their economies through non-traditional monetary policy and on the other extending the horizon of low interest rates. These problems are likely to be carried on in the next six months posing challenges on the global economy that could pose a threat to the growth gains in the emerging and developing economies.

On the domestic front, the economy has generally been resilient to external shocks, as real GDP grew at 6.9 percent in 2012, up from 6.4 percent in 2011. This achievement was contributed by among others, sustained investment, improved power supply and implementation of prudent fiscal and monetary policies. These have helped to bring down inflation and maintain the stability of the exchange rate of the Tanzanian shilling against other currencies. The obtained macroeconomic stability coupled with strong regulatory and supervisory oversight contributed to the stability of the financial sector as a whole. It is expected that the economy will sustain the upward growth trend in 2013. However, the intensification of global challenges may pose downside risks as reflected by weak demand in advanced economies, moderation of economic growth in emerging markets and volatility in world commodity prices.

Against this background, a number of regulatory and institutional measures have been undertaken during the period under review aimed at enhancing financial system stability. The Bank of Tanzania is in the final stages of reviewing the existing banking prudential regulations with a view to accommodate changes which have taken place in the industry since their issuance in 2008. Agent Banking Guidelines were issued in February 2013 to provide a framework for introduction of agent banking operations in the economy, a development which is expected to accelerate banking services outreach. The credit reference data bank was launched in September 2012 with the objective of facilitating information sharing among lenders, thereby minimizing credit risks and fostering credit access in the economy. To operationalize the credit reference system, the Bank licensed two private credit reference bureaus which will have access to the credit reference data bank for processing credit reports to be used by credit providers. Additionally, the preparation of Mobile Financial Services Regulations is at an advanced stage. The regulations will enhance the regulatory oversight of this rapidly growing sector.

To coordinate inter-agency cooperation in the financial system, the Tanzania Financial Stability Forum was launched in March 2013. The Forum provides a mechanism for coordinating macro-prudential oversight, financial crisis management and financial sector deepening initiatives among the financial sector regulators and the governments. At regional level, a Sub-Saharan Africa Regional Consultative Group held its meeting in February 2013 to exchange views on vulnerabilities affecting financial systems and discuss initiatives to promote financial stability in the region[1]. The Bank's participation in periodic Group consultations is yet another opportunity that provides inputs to its financial stability oversight role.

I am confident that this Financial Stability Report will offer useful insights and information to financial stability stakeholders.

Prof. Benno Ndulu
Governor
March 31, 2013

[1] The Sub-Saharan Africa Consultative Group is among the six groups under the Financial Stability Board.

EXECUTIVE SUMMARY

The global economy was characterized by low growth in 2012, declining to 3.2 percent from 4.0 percent recorded in 2011, mainly attributed to weak and uncertain recovery in advanced economies and sluggish growth in emerging markets and developing countries. Growth in advanced economies fell to 1.2 percent from 1.6 percent, while in emerging markets and developing countries growth dropped to 5.1 percent from 6.4 percent. The IMF projects a slow growth of the global economy from 3.2 percent in 2012 to 3.3 percent in 2013, buoyed by growth in emerging and developing economies. Sub-Saharan Africa maintained an output growth record of about 5.0 percent per annum in the past three years and is projected to grow at 5.6 percent in 2013 and 6.1 percent in 2014. East Africa maintained an average growth rate of 5.7 percent in the past three years and is projected to grow by 6.1 percent in 2013 and further to 6.6 percent in 2014. Tanzania is projected to grow by 7.0 percent in 2013 and 7.2 percent in 2014.

The major growth driving sectors in Tanzania include trade and repairs, transport and communication, manufacturing and agriculture. These were also the sectors to which the bulk of credit from the banking system was channeled. In the year to March 2012, trade, manufacturing, agriculture, transport and communication accounted for 52.2 percent of the total bank credit to the private sector. The steady growth of these sectors bodes well with the stability of the financial system because it enhances performance and fosters credit repayment. Nevertheless, the concentration of banks' credit and non-performing loans in the sectors calls for close monitoring of developments in the respective sectors, particularly those vulnerable to risks emanating from volatility of global commodity prices and those vulnerable to weather and climatic conditions.

Inflation continued to exhibit a downward trend, reaching 9.8 percent in March 2013 from a peak of 19.8 percent recorded in December 2011. Meanwhile, fiscal performance continued to be on track, on account of increasing revenue collections, while good performance in exports of goods contributed to offset the effect of the increase in imports. As a result, the current account narrowed to a deficit of USD 3,642.9 million in 2012 from USD 3,992.2 million recorded in the previous year. The exchange rate of the Tanzania shilling against the US dollar was relatively stable at an average of TZS 1,586.0 from December 2011 to March 2013, on account of narrowing of the current account deficit and the Bank's efforts to foster an orderly foreign exchange market.

The banking sector which continued to dominate the Tanzania financial landscape, accounting for about 74.0 percent of the total financial assets, has remained sound as depicted by financial soundness indicators. The industry's ratio of core capital to total risk-weighted assets at the end of March 2013 was about 19.0 percent, well above the minimum regulatory requirements of 10.0 percent. The banking sector recorded a return on assets of 2.9 percent down from 3.0 percent recorded in the corresponding period last year. The ratio of liquid assets to demand liabilities was about 40.0 percent, twice the regulatory minimum limit of 20.0 percent. However, the quality of assets as measured by the ratio of Gross Non-performing Loans (NPLs) to Gross Loans was 7.9 percent in March 2013, above the acceptable ratio of 5.0 percent. The Bank is closely monitoring the banks to ensure they are taking necessary measures to address the anomaly. The resilience of the banking sector was also confirmed by stress test conducted in March 2013 covering credit, interest rate and foreign exchange risks primarily attributed to strong capital positions of most banks.

The health and soundness of the banking sector supported strong growth in deposits and credit in the economy. Increase in the number of banking institutions, branches and Automated teller Machines (ATMs) contributed to increase in banking sector outreach. In addition, the growing linkage between banking and micro finance institutions also contributed to the increase in outreach while the introduction of agent banking is expected to substantially expand outreach and thus increase the usage of banking services. These developments will contribute to increased access to financial services in the country currently at 12.4 percent of the adult population compared with 23.0 percent in Uganda and 19.0 percent in Kenya. The government has undertaken to reach a target of 50.0 percent by 2015.

During the period under review, good performance was also recorded in the insurance, pension and capital markets sectors. Net assets of the insurance sector increased by 5.4 percent to TZS 133.7 billion in the period to December 2012, while that of pension sector increased by 27.2 percent to TZS 5,266 billion in the period to June 2012. Similarly, total investment of the two sectors increased by 2.6 percent and 24.5 percent respectively. Likewise the Dar es Salaam Stock Exchange (DSE) recorded strong growth in market capitalization during the year to March 2013, increasing by 14.7 percent to TZS 13,515.84 billion, on account of appreciation of listed companies shares and rights issues by Kenya Airways and DCB Commercial Bank. The recently introduced Enterprise Growth Market (EGM) segment of the DSE is expected to promote access to capital markets by start-up companies and existing Small and Medium Enterprises (SMEs).

In view of the global and domestic macro-financial environment, the banking system is expected to remain stable over the next six months. This is subject to a continued close monitoring of the global and regional macroeconomic and financial developments and effective use of macro prudential policy tools to mitigate any unforeseen risks. The Bank is in the process of amending the current banking regulations to accommodate developments in the industry, and evolving banking supervision international good practices. To address regulatory gaps in the microfinance sector, the Ministry of Finance is reviewing the National Microfinance Policy, 2002.

The Bank is working to improve operations of the national payments system to keep pace with new developments including mobile payments. In addition, it has finalized the Draft Mobile Financial Services Regulations to provide a framework for regulating this rapidly growing sub-sector. Other developments in the regulatory infrastructure include the issuance of Social Security Schemes Investment Guidelines, 2012 to facilitate supervisory oversight of the investment component in the sector.

Finally, measures to strengthen macro prudential oversight and policy in the country were undertaken. First, financial stability function in the Bank was elevated to a directorate to enhance surveillance, mitigation and crisis management and resolution. Second, the Tanzania Financial Stability Forum (TFSF) was established in March 2013 to provide for inter-agency coordination in handling financial system oversight and policy issues.

1.0 MACRO-ECONOMIC AND FINANCIAL ENVIRONMENT

1.1 Overview

Tanzania's economy has generally remained resilient to external shocks mainly contributed by, among others, sustained investment, improved power supply and the implementation of fiscal and monetary policies. This development has helped to moderate inflation downwards and to maintain exchange rate stability of the Tanzanian shilling against other currencies, as well as keeping fiscal performance on track. It is expected that the macroeconomic stability will prevail onward. Nonetheless, the intensification of global economic challenges may pose downside risks through weak demand for Tanzania's exports and volatility in world commodity prices. In addition, prolonged low interest rates in advanced economies may lead to mis-pricing of credit risks and asset prices while impacting negatively on reserves held in foreign currencies. Going forward, close monitoring of the risks will be paramount.

1.2 Developments in the Global Economy

The global economy was characterized by low growth due to slowdown in recovery momentum experienced during the third quarter of 2012, lowering the annual growth rate to 3.2 percent from 4.0 percent in 2011 **(Table1.1)**.

Table 1.1: World GDP Growth Rates

(In percent)

	Actual			Projections	
	2010	**2011**	**2012**	**2013**	**2014**
World output	**5.1**	**4.0**	**3.2**	**3.3**	**4.0**
Advanced economies	**3.0**	**1.6**	**1.2**	**1.2**	**2.2**
USA	2.4	1.8	2.2	1.9	3.0
Euro area	2.0	1.4	-0.6	-0.3	1.1
Japan	4.7	-0.6	2.0	1.6	1.4
United Kingdom	1.8	0.9	0.2	0.7	1.5
Emerging and Developing economies	**7.4**	**6.4**	**5.1**	**5.3**	**5.7**
Sub-Saharan	5.3	5.3	4.8	5.6	6.1
Great lakes region	6.2	5.9	5.8	-	-
Tanzania	7.0	6.4	6.9	7.0	7.2
Developing Asia	**9.5**	**8.1**	**6.6**	**7.1**	**7.3**
China	10.4	9.3	7.8	8.0	8.2
India	10.1	7.7	4.0	5.7	6.2

Source: IMF, World Economic Outlook April, 2013, Tanzania, National Bureau of Statistics, and Bank of Tanzania estimates.

Note: Great lakes region includes Burundi, DRC, Kenya, Rwanda, Tanzania, & Uganda

In advanced economies, where recovery had been weak and uncertain, growth dropped to 1.2 percent in the period under review from 1.6 percent recorded in 2011. In emerging markets and developing countries, growth dropped to 5.1 percent from 6.4 percent. Even in the high flyers of developing Asia, growth eased to 6.6 percent down from 8.1 percent in 2011. While growth declined across all countries, policy responses were different because of varying economic conditions. Advanced economies adopted nontraditional monetary policy and fiscal consolidation. In contrast, emerging and developing economies implemented tight monetary policy to contain inflationary pressures.

According to the IMF projections of April 2013, the global economy will grow by 3.3 percent in 2013 owing to growth in the emerging and developing economies. The drivers of growth include sustained investment, possible easing of macroeconomic conditions in these countries and strengthening demand from the advanced economies. During the period, growth in advanced economies is expected to stagnate at 1.2 percent on account of weak recovery in the Euro Zone and the USA. High private sector debt in the United States and inadequate institutional development in the Euro Zone will continue to be the main challenges facing advanced economies. These challenges could lead to a protracted period of low growth in advanced economies.

Economic growth in Sub-Saharan Africa (SSA) has performed strongly at 5.1 percent in 2012, and is projected to rose to 5.4 percent in 2013 and further to 5.7 percent in 2014 (**Table 1.2**). Drivers of growth include investment and exports on the expenditure side, while the production will be led by construction, agriculture, and the extractive sectors. Inflation in the region dropped from more than 10.0 percent in 2011 to 7.9 percent in 2012 and is expected to maintain the downward trend in 2013-14. This scenario is predicated on moderation of world food and fuel prices; prior tightening of monetary policies in high inflation countries and improved weather and climatic conditions in both East Africa and the Sahel regions.

The SADC region has been growing at around 4.0 percent and is expected to increase slightly to 5.0 percent during 2013/14. Resource-rich economies are expected to grow at a higher rate of between 6.0 percent and 8.0 percent, while growth in low-income economies will be driven by aggregate domestic demand. The external environment is the main source of risk to growth, particularly for middle-income and mineral-exporting economies.

Table 1.2: Sub-Saharan Africa: Real GDP Growth

(In percent)

	2004-08	2009	2010	2011	2012	2013	2014
Sub-Saharan Africa	**6.4**	**2.7**	**5.4**	**5.3**	**5.1**	**5.4**	**5.7**
Oil exporting countries1	8.5	4.8	6.6	6.1	6.4	6.6	6.8
Middle-income countries2	5.0	2.0	4.0	4.7	3.3	3.6	4.0
o/w South Africa	4.9	-1.5	3.1	3.5	2.5	2.8	3.3
Low-income countries3	7.3	5.5	6.4	5.6	5.7	6.3	6.6
Fragile Countries4	2.5	3.3	4.2	7.4	7.0	6.8	6.5
SADC Region	**6.4**	**0.2**	**4.0**	**4.1**	**4.1**	**4.2**	**4.6**

Source: SSA Economic Outlook -- IMF April, 2013.

Notes:

[1] **Oil exporting countries**: Chad, Nigeria, Angola, and Cameroon.

[2] Middle Income countries: Senegal, Seychelles, South Africa, Ghana, Namibia, Cape Verde, Botswana, Swaziland, Mauritius, Lesotho, Zambia.

[3] **Low income countries**: Mozambique, Malawi, Benin, Uganda, Kenya, Niger, Burkina, Mali, Tanzania, Rwanda, Madagascar, Sierra Leone, Ethiopia, Tanzania and Uganda.

4 **Fragile Countries**: DRC, Somalia, Sudan, South Sudan, Burundi, Central African Republic, Cape Verde, Eritrea, Guinea Bissau, Sao Tome and Principe, Togo, Zimbabwe,

The IMF projects that the EAC (the fastest growing region in SSA) will grow at a rate of 6.1 percent in 2013, rising to 6.8 percent in 2014. Rwanda leads in the region with a growth rate of 7.7 in 2012 and is projected to drop slightly to 7.5 percent in 2013 and further to 7.2 percent in 2014. Tanzania is the second with a projected growth rate of 7.0 percent in 2013, rising to 7.2 percent in 2014 **(Table 1.3).** Rapid economic growth, improvement in business environment and stable and peaceful political transition were some of the factors attracting investment in the EAC region. Abundant resources and robust aggregate demand were additional drivers.

Table 1.3: Economic Performance in the EAC Region

(In percent)

Country	2010	2011	2012	2013	2014
EAC Overall	6.2	5.9	5.1	6.1	6.8
Kenya	5.8	4.4	5.1	5.6	6.2
Rwanda	7.2	8.6	7.7	7.5	7.2
Tanzania	7.0	6.4	6.9	7.0	7.2
Uganda	6.1	5.1	4.2	5.7	6.2
Burundi	3.8	4.2	4.2	4.2	5.1

Source: Sub-Saharan Economic Outlook – IMF April 2013

1.2.1 Outlook on Global Economic and Financial Environment

Despite unprecedented actions directed at bringing the global economy on track, recovery has been slow and uncertain at best in advanced economies. Four years into the recovery, economic activity is well below its pre-crisis trend and unemployment is still high. Some of the countries have shown signs of recovery but the growth has not been robust enough to significantly lower high levels of unemployment rates which stand at 7.6 percent in the US and an average of 12.1 percent in the Euro Zone, respectively in March 2013. Intensive austerity measures aimed at attaining fiscal consolidation will further weaken demand in advanced economies and impact negatively on global trade. Other vulnerabilities to the global economic and financial conditions include:

- Miss-pricing of credit risks and asset price bubbles in some regions due to low interest rates. Low interest rates can distort market signals leading to misallocation of credit and if prolonged can weaken financial institutions balance sheets and encourage excessive risk taking.

- Substantial decline in income from reserves held in hard currencies due to prolonged low interest rates.

- Upward pressure on exchange rates in fast growing emerging markets arising from a surge in capital flows. **Box 1** shows private equity flows into Sub-Saharan Africa.

- Unwinding of unconventional monetary policy in the US could constrain growth in emerging markets, thus negatively affecting Tanzania's current account.

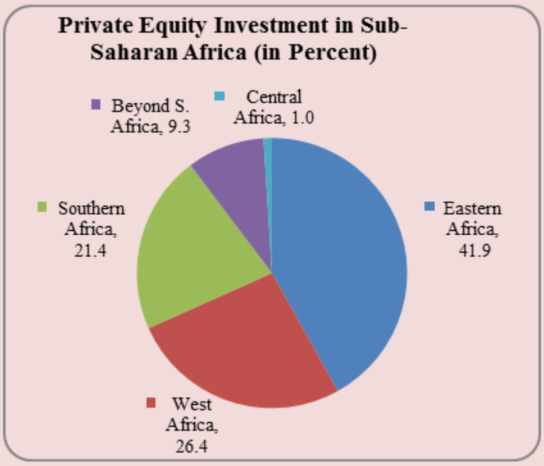
Box 1: Private Equity Funds: Focus on Sub-Sahara Africa

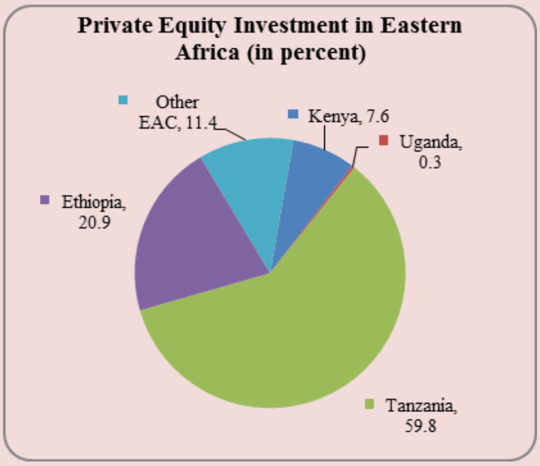
Growing optimism

A Survey conducted by Deloitte in 2012 observed that there was increasing investment optimism across Africa with the exception of some regions where political instability dampens investor appetite. The optimism has contributed to increase in private equity investment in the Sub-Saharan Africa. Private equity is money invested in firms which have not 'gone public' and therefore are not listed on stock exchanges. The survey found that the values of the reported deals were small and typically below USD 20.0 million.

Regional Pull

East Africa continued to draw the largest number of specialist sub-regional funds in Sub-Saharan Africa. Four funds established in 2012 were solely dedicated to the region of which three were first generation funds and the fourth returning second generation fund. East Africa attracted USD 474 million out of the USD 1130.45 million earmarked for Sub-Saharan Africa.





Deal number and value

Kenya attracted six private equity deals in 2012, followed by Ethiopia with three deals and Tanzania, two deals. In terms of value Tanzania's deals were valued at USD 284.0 million compared to Kenya's USD36.1 million.

Most funds were invested in manufacturing, agribusiness and financial services. Manufacturing attracted four deals valued at USD 109.2 million, two deals in the agricultural sector worth USD 304.4 million while the financial sector received two deals worth USD 57.8 million.

The survey revealed that seventy nine percent of the respondents have faith in the growth of overall private equity market across East Africa in the next twelve months while 77.0 percent stated that they were expecting the economic climate to improve in the next twelve to eighteen months.

Overall, expectation of high GDP growth across SSA region, stable political transitions especially in East Africa and global economic recovery have led to increased investment potentials in Africa. Going forward there is greater optimism for the East Africa region in 2013. Rapid economic growth, ease of doing business and stable and peaceful political transition were the main factors attracting private equity funds.

Source: 2013 East Africa Private Equity Confidence Survey by Deloitte

1.3 Domestic Economy

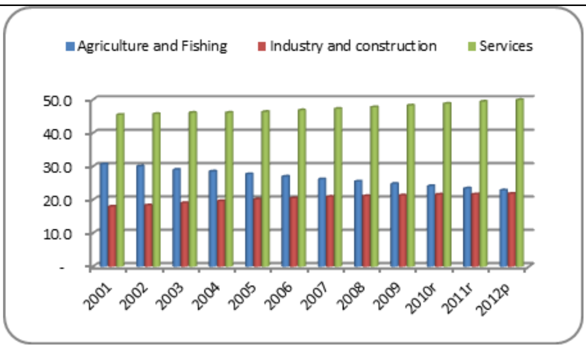
1.3.1 Economic Growth

Real economic growth remained resilient to shocks despite problems of power supply and fuel in 2012. Most manufacturing firms sustained production through the use of alternative sources, namely gas and coal. Tanzania recorded a real GDP growth rate of 6.9 percent, up from 6.4 percent in 2011 and an average of 6.8 percent during the period 2010 to 2012. The major growth driving sectors include: trade and repairs, which contributed an average of 17.1 percent of GDP during the three years to 2012 followed by transport and communication (14.4 percent). Other sectors include manufacturing (11.2 percent) and real estate and business services (10.2 percent). **Table 1.4** summarizes GDP growth and sectoral contribution overtime. As shown in the table, the share of services sector to GDP in the last decade was the largest at around 47.3 percent followed by agriculture at 26.7 percent.

Table 1.4: Tanzania: GDP and Sector Performance

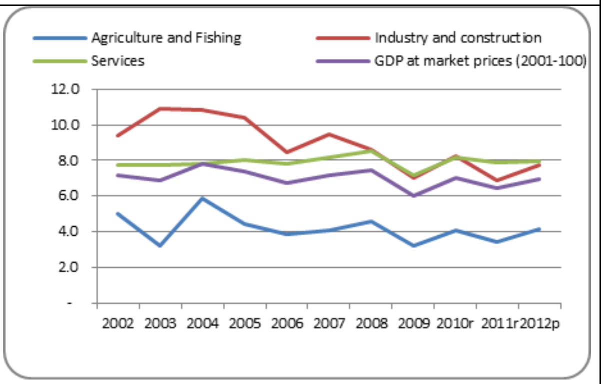
Share in GDP in percent (3 year average)

	2001-03	2004-06	2007-09	2010-12
Agriculture and Fishing	**29.9**	**27.7**	**25.5**	**23.8**
Crops	20.9	19.6	18.2	16.9
Industry and construction	**18.5**	**20.1**	**21.2**	**21.7**
Mining and quarrying	1.9	2.5	2.6	2.3
Manufacturing	8.4	8.9	9.4	9.7
Construction	5.5	6.2	6.7	7.1
Services	**45.8**	**46.4**	**47.8**	**49.4**
Trade and repairs	13.2	13.3	14.1	14.7
Transport & Communications	6.6	6.9	7.5	8.5
Real estate and business services	10.3	10.2	10.2	10.2
Public administration	7.2	7.9	7.9	7.8



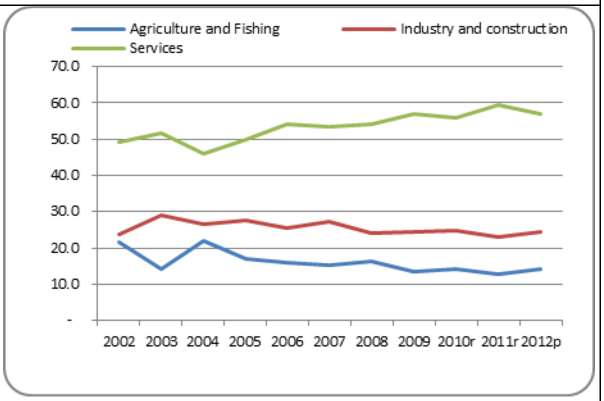
GDP and selected sector growth rate in Percent (3 year average)

	2001-03	2004-06	2007-09	2010-12
GDP at market prices (2001-100)	**7.0**	**7.3**	**6.9**	**6.8**
Agriculture and Fishing	**4.1**	**4.7**	**3.9**	**3.9**
Crops	4.4	5.0	4.3	4.2
Industry and construction	10.2	**9.9**	**8.4**	**7.6**
Mining and quarrying	17.0	15.9	4.8	4.2
Manufacturing	8.2	9.2	8.9	8.0
Construction	12.8	10.8	9.2	9.0
Services	**7.8**	**7.9**	**8.0**	**8.0**
Trade and repairs	9.0	7.3	9.1	8.0
Transport & Communications	6.9	9.5	10.7	12.0
Real estate and business services	6.8	7.2	6.9	6.8
Public administration	9.4	10.5	6.0	6.4



Contribution to GDP Growth rate in percent (3 year average)

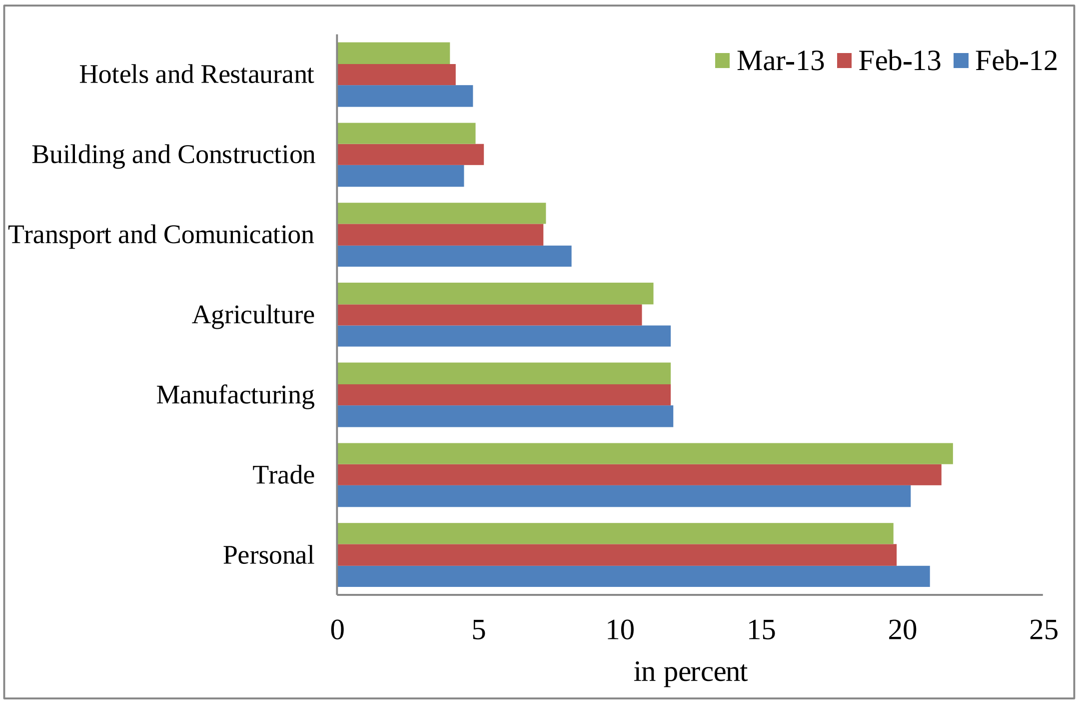
	2001-03	2004-06	2007-09	2010-12
Agriculture and Fishing	**17.8**	**18.3**	**15.0**	**13.7**
Crops	13.4	13.6	11.7	10.6
Industry and construction	**26.4**	**26.5**	**25.3**	**24.1**
Mining and quarrying	4.5	5.0	1.8	01.5
Manufacturing	9.9	10.9	11.9	11.2
Construction	9.8	8.9	8.8	9.3
Services	**50.4**	**50.0**	**54.9**	**57.5**
Trade and repairs	16.8	13.5	18.2	17.1
Transport & Communications	6.5	8.7	11.3	14.4
Real estate and business services	10.0	10.1	10.4	10.2
				7.3
Public administration	9.5	10.8	7.0	



Source: Tanzania National Bureau of Statistics and Bank of Tanzania computations.

Trade, manufacturing, agriculture and transport and communication absorbed more than half of the total bank credit to the private sector **(Chart 1.1).** The steady growth of these sectors bodes well with the stability of the financial system because it enhances performance and fosters credit repayment. However, the concentration of bank credit and non-performing loans in the sectors calls for a need to closely monitor developments in the sectors, particularly those vulnerable to risks emanating from volatility of global commodity prices including manufactured products, agricultural products and minerals; and those vulnerable to weather conditions, such as agriculture.

Chart 1.1: Percentage Share of Banks' Lending to Selected Activities

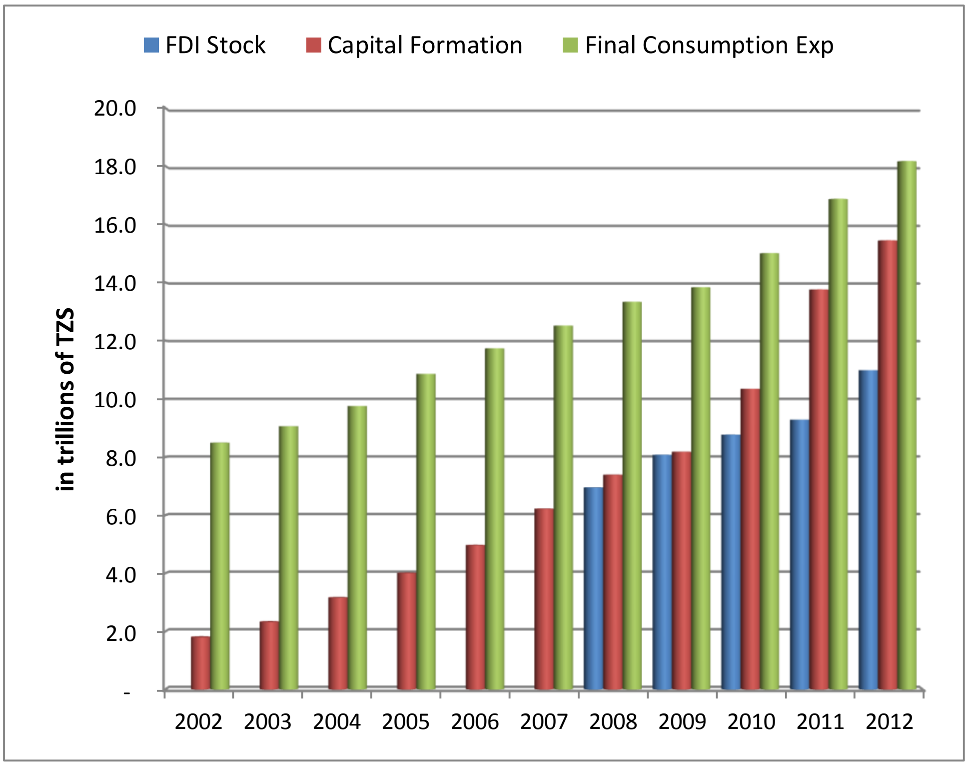


Source: Bank of Tanzania

The robust aggregate domestic demand contributed to the increase in demand for credit in the economy. The sectors which absorbed significant amounts of credit were also the sectors which had strong demand for investment. The real gross domestic fixed capital formation increased by 11.7 percent in 2012 compared to 10.1 percent recorded in 2011. Furthermore contribution of private investment to total investment (which is above 70.0 percent), maintained an upward trend for four years consecutively.

Increased domestic demand together with Government efforts to stabilize power supply, prudent monetary policy and implementation of other economic policies fostered increase in investment in the country. In addition increase in foreign direct investment (FDI) in oil, gas and mineral exploration as well as the growing interest in investing in agriculture and manufacturing, are expected to boost the overall performance of the economy. **Box 2** shows the Government initiative directed at fostering growth in agriculture through Southern Agricultural Growth Corridor of Tanzania (SAGCOT). As depicted in **Chart 1.2**, capital formation has been increasing in line with FDI inflows, which is good news for future economic growth.

Chart 1.2: Trends in Capital Formation and Foreign Investments



Source: Bank of Tanzania and National Bureau of Statistics

Box 2: Southern Agricultural Growth Corridor of Tanzania

The Southern Agricultural Growth Corridor of Tanzania (SAGCOT) was launched in 2011 at the World Economic Forum with the explicit goal of improving agricultural productivity, food security and livelihoods in Tanzania through agricultural partnerships. The initiative was in response to government's effort to speed up agricultural development as outlined in **Kilimo Kwanza --** a blue print launched in 2010. The blue print envisages to transform subsistence farming into a more commercially based agriculture by raising productivity. It emphasizes modern farming methods that use mechanized implements, quality seeds and fertilizers to increase yields and insecticides to minimize losses from pests.

SAGCOT is an inclusive, multi-stakeholder partnership arrangement that employs the risk sharing model of a public-private partnership approach. In the way of implementation, a USD 100 million (about TZS 160 billion) catalyst fund was launched in 2012 to help attract the private sector to participate in the SAGCOT initiative. The fund is expected to:

- Prepare investment opportunities for local and international investors;
- Complement existing government and donor backed financing initiative in the agricultural sector.
- Complement other funding models whose commitment at the time of launching amounted to USD 55 million.

The catalyst fund provides early "social venture capital" to cover the start –up costs of commercially viable agri-business and other key investments. After the catalyst fund is set up, regulations will be made to outline modality of access and criteria for qualification. It is anticipated that successful implementation of SAGCOT will unlock investment inflow amounting to USD 2.1 billion from the private sector and USD 1.3 billion from the public sector by 2030. This would result into tripling agricultural production on 350,000 hectares of land in Rukwa, Mbeya, Iringa, Ruvuma, Morogoro and Coast Region, creating about 420,000 new employment opportunities in the agricultural value chain. Other outcomes include:

- lifting more than 2.3 million people out of poverty;
- ensuring regional food security; and
- increasing in export revenue from farming to about USD 1.2 billion annually.

Sources of Funding

Under a new alliance to bolster agriculture and food security in Africa, eight countries at the recent G20 meeting held in the USA in 2011 affirmed to grant Tanzania USD 897 million. The funds were earmarked for improving infrastructure, electricity supply and supporting agricultural development in the designated region.

Source: Compiled from various sources

1.3.2 Domestic Inflation Developments

Inflation in the country continued to exhibit a downward trend. By March 2013, annual inflation rate had dropped to 9.8 percent from a peak of 19.8 percent recorded in December 2011. A combination of factors explains this development, including improved food supply in the East African region, prudent monetary policy stance, fiscal consolidation, and stability in the nominal exchange rate. The rate is expected to decline further to 7.0 percent by the end of June 2013, on account of anticipated further stabilization of power supply, easing of world market oil prices and continued stability of the Tanzanian shilling. Also, expected favorable weather conditions in the East African region will support production of enough food hence ameliorating food prices driven inflationary pressures.

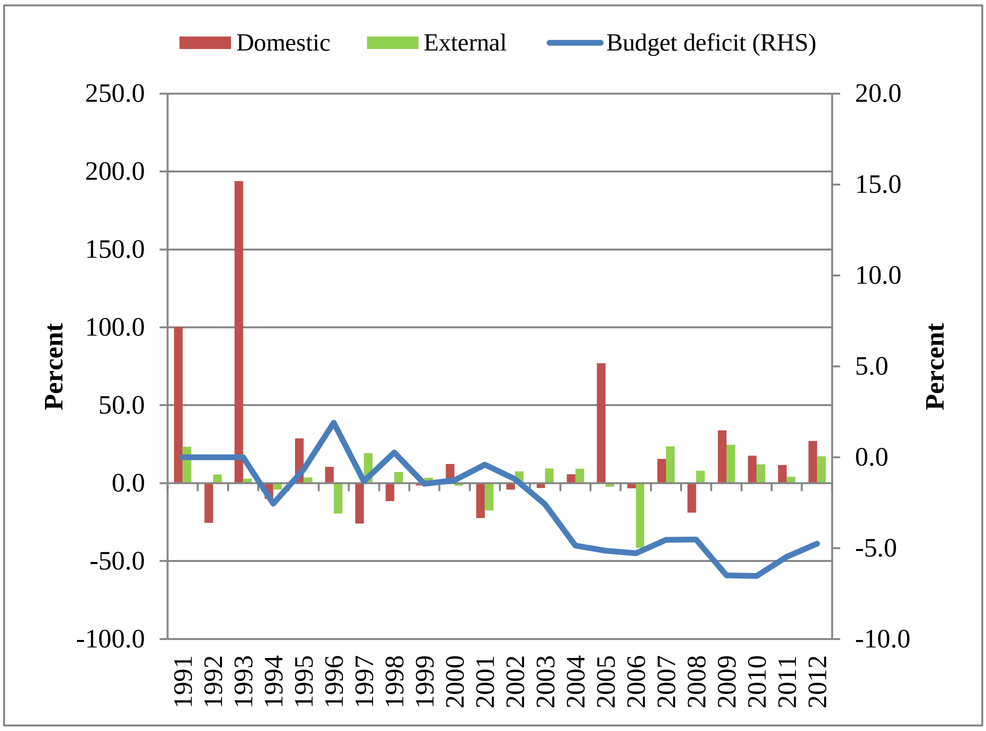
The expected low and stable inflation will contribute to enhancement of competitiveness of Tanzania's exports, reduce production distortions resulting from wedge between returns to real and financial capital, and strengthen savings and investment. These are important not only for promoting a sustainable economic growth, but also enhancing the stability of the financial system.

1.3.3 Public Sector Finances

Fiscal developments

Tanzania's fiscal performance has been relatively on track. The country has experienced good revenue performance in recent years. However, during the period, Government expenditure has been rising, thus leading to rising budget deficits. The deficits have been financed through borrowing from both domestic and foreign sources, which have important macroeconomic implications. Excessive reliance on domestic sources may stifle economic activity through the "crowding out" channel and exert upward pressure on interest rates. On the other hand, excessive foreign borrowing may put the government under pressure in the event of exchange rate volatility, hence exposing government budgetary operations to exchange rate risk which will be manifested through wider deficits. So far Government borrowing from both foreign and domestic sources has had limited impact on the interest rates and exchange rates. **Chart 1.3** shows developments in government budget deficits. Between 1990/91 and 2002/03, budget deficits were on average less than 1.0 percent of GDP. However, beginning 2003/04 it widened consistently reaching above 5.0 percent of GDP by 2006 before easing to 4.5 percent in 2008. It widened again to above 6.0 percent of GDP in 2010 on account of the global financial crisis which necessitated the use of fiscal resources to stimulate the economy. However, in the two years to December 2012, the deficit declined to 4.8 percent of GDP.

Chart 1.3: Budget Deficit and Government Debt as Shares of GDP



Source: Bank of Tanzania

Going forward, the overall budget deficit after grants is projected to reach 1.8 percent in the medium term, mainly on account of the projected improvement in domestic revenue collections matched with expenditure. Revenue is projected to edge upward in the medium term in line with projected growth in domestic economic activities and efforts to improve tax laws and administration. The projected deficit is in line with government's objective of maintaining macroeconomic stability, which in turn is expected to contribute to promotion of financial stability in the country.

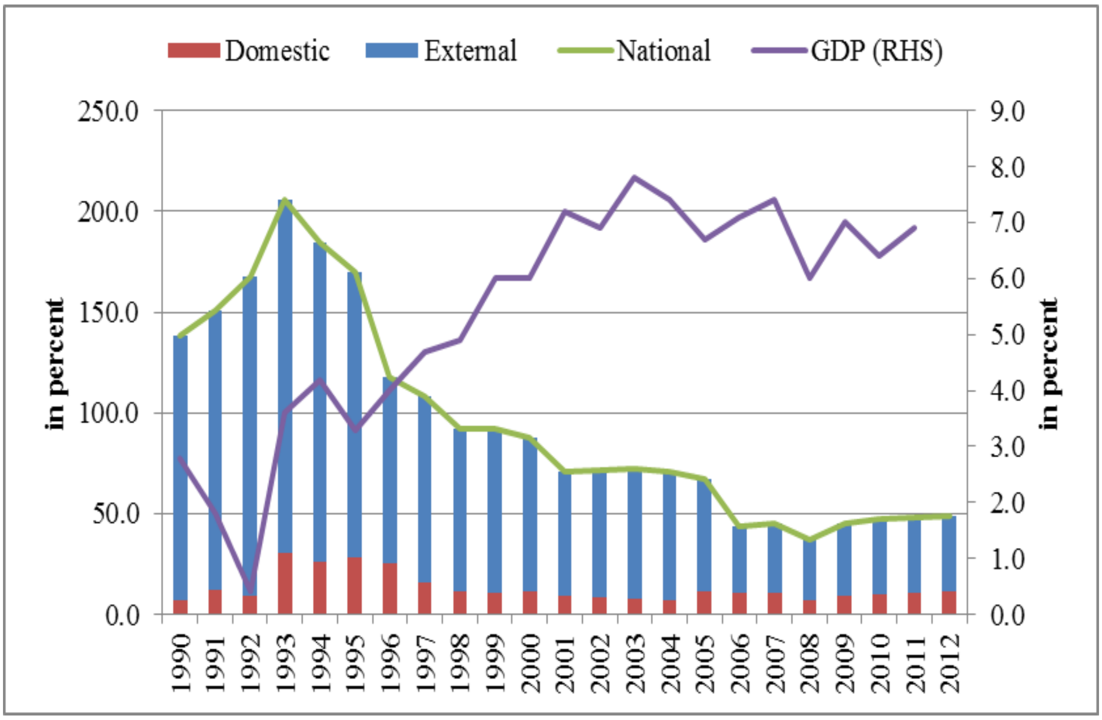
Evolution of National Debt

The national debt (both external and domestic) has been increasing in recent years on account of government borrowing to finance infrastructure development to drive economic growth. During the year to December 2012, the national debt increased by 19.5 percent to TZS 21.9 trillion. External debt amounted to TZS 16.76 trillion, accounting for 37.5 percent of GDP, while domestic debt was TZS 5.15 trillion or 11.5 percent of GDP.

The growth rate of external debt accelerated to 17.3 percent in the year to December 2012, up from 4.1 percent in the previous year. During the same period, domestic debt increased by 27.2 percent compared to 11.6 percent in the previous year. Acceleration in the growth of debt is in line with the growing demand for financing infrastructure development. It is worth noting that in addition to rising domestic debt, it is held by banks and pension funds, which together account for 70.0 percent of all outstanding government securities as at end March 2013.

Concerns about sustainability of the national debt and the threat it posed to macroeconomic and financial stability was allayed by the March 2012 Debt Sustainability Analysis. The growth of national debt notwithstanding, the analysis revealed that the present value of debt to GDP was 18.9 percent compared to the sustainability threshold of 50.0 percent suggesting that much of the borrowing was long term and at concessional rates. **Chart 1.4** shows that debt to GDP ratio has been declining consistently from a peak of more than 200.0 percent two decades ago on account of strong growth in GDP. In the past ten years economic growth rate averaged 7.0 percent annually. **Box 3** discusses sovereign debt crisis and experience of the Euro Zone.

Chart 1.4: Real GDP Growth and Ratio of National Debt to GDP



Source: Bank of Tanzania

Box 3: Sovereign Debt Crisis in the Euro Zone

Sovereign debt has captured the attention of the world since 2010. While sovereign debt is a feature of public finance governments have used for long time, the Euro zone crisis has underlined the destabilizing effects of excessive debt build-ups. Weaknesses of the Greece economy surfaced under the pressure of the economic and financial crisis characterized by large fiscal deficit, enormous public debt and consistently eroding competitive position manifested in a gradually deteriorating current account balance is largely a sovereign debt concern. Similar concerns in other European Union economies namely Portugal, Ireland, Italy and Spain added to these concerns.

High sovereign debt of European Union peripheral economies took a toll on their banking system by weakening their balance sheets. This caused not only a significant depreciation of the Euro and a broader decline in stock prices in the Euro zone, but also transmitted volatility to other financial markets across the world. Risk premiums on corporate bonds widened and corporate bond issuances slowed. Issuance in emerging markets also dropped sharply. The situation shows an intertwined relationship between sovereign debt and financial system as well as adverse feedback to the real economy.

In an effort to restore soundness and stability of the financial system, the Euro Zone took several initiatives including establishment of a single framework for crisis management and resolution, deposit insurance, single supervisory mechanism, establishment of a banking union, and a common fiscal backstop for the banking system.

Source: Compiled from various sources

1.3.4 External Sector Performance

The current account deficit narrowed to USD 3,438.0 million in 2012 from USD 3,977.1 million in 2011, mainly on account of improved export performance. During the period, exports of goods and services increased by 17.3 percent to USD 8,683.8 million in 2012, whereas import of goods and services rose by 5.1 percent to US 12,675.7 million. Both traditional and non-traditional exports were resilient to external shocks, on account of diversification of both export products and markets notably in Asia and SADC **(Table 1.5 and Chart 1.5)**. Traditional exports went up by 39.2 percent in 2012, driven by higher receipts from tobacco, cotton and coffee. Likewise, non-traditional exports recorded an increase of 13.2 percent on account of good performance in services receipts, gold and manufactured exports.

Table 1.5: Tanzania's Sources of Export Earnings

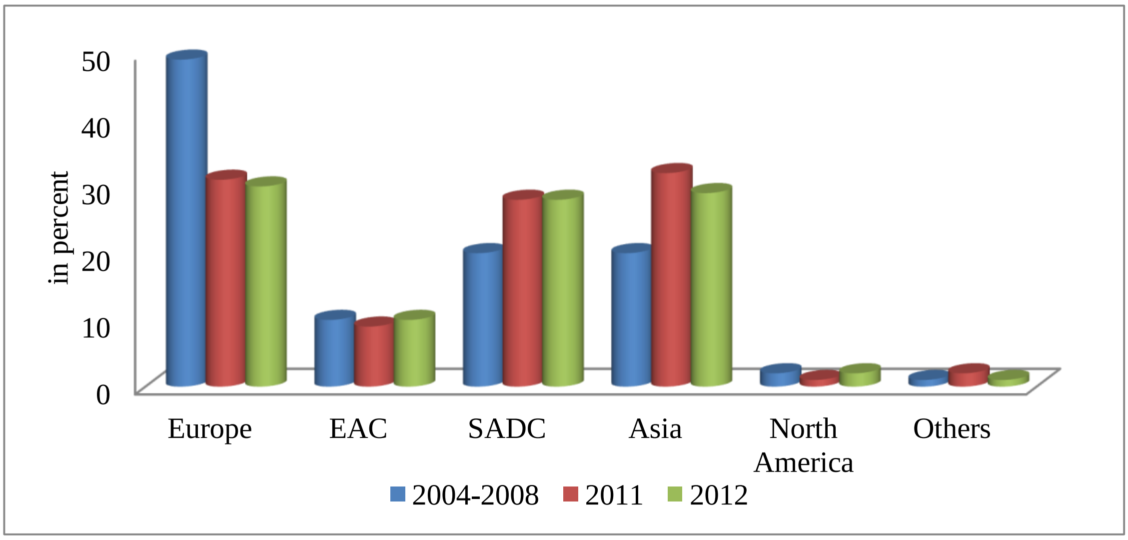
(In percent)

	2000	2005	2010	2012
Traditional export	21.5	12	10	12.3
Non-traditional export	78.5	88	91	87.7
Manufactured	3.2	5.3	16.6	13.5
Gold	8.3	22.2	26.1	27.1
Travel	27.7	27.9	21.6	21.1
Other goods	20.9	17.4	12	13.2
Other services	18.4	15.1	13.6	13.7

Source: Tanzania Revenue Authority and Bank of Tanzania

Despite the diversification efforts, risks still remain. The European market absorbs nearly one-third of Tanzania's total exports. The Euro Area is one of the major tourist source markets to Tanzania, contributing 16.3 percent of the total tourist arrivals in 2012. Italy which is one of the countries highly affected by the sovereign debt crisis accounted for about 28.6 percent of the tourist arrivals from the Euro Area.

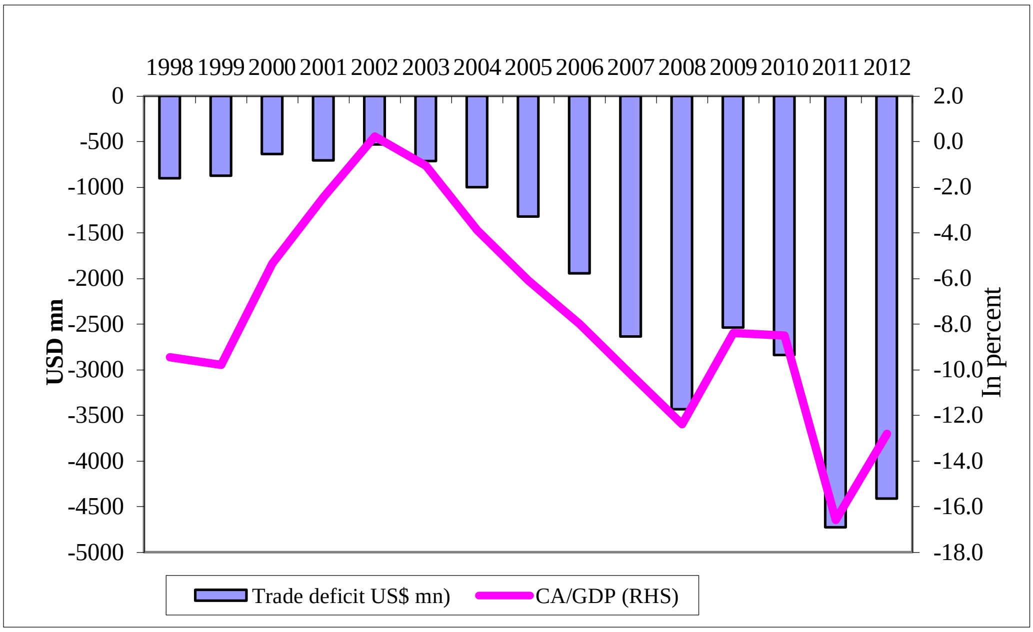
Chart 1.5: Tanzania's Exports Destinations (Percent)



Source: Tanzania Revenue Authority and Bank of Tanzania

Following the austerity measures taken in the Euro Zone to put economies on track, it is projected that the flow of tourists from the Euro Zone economies to Tanzania is likely to slow-down going forward. Already in 2011, the number of visitors from Italy had declined to 45,590 from 59,603 recorded in the preceding year. This is a direct impact of demand slow-down in advanced economies on Tanzania's exports. Coupled with increasing import demand for investment, the current account is likely to widen further. **Chart 1.6** shows the influence of trade on current account.

Chart 1.6: The Influence of Trade on Current Account



Source: Bank of Tanzania

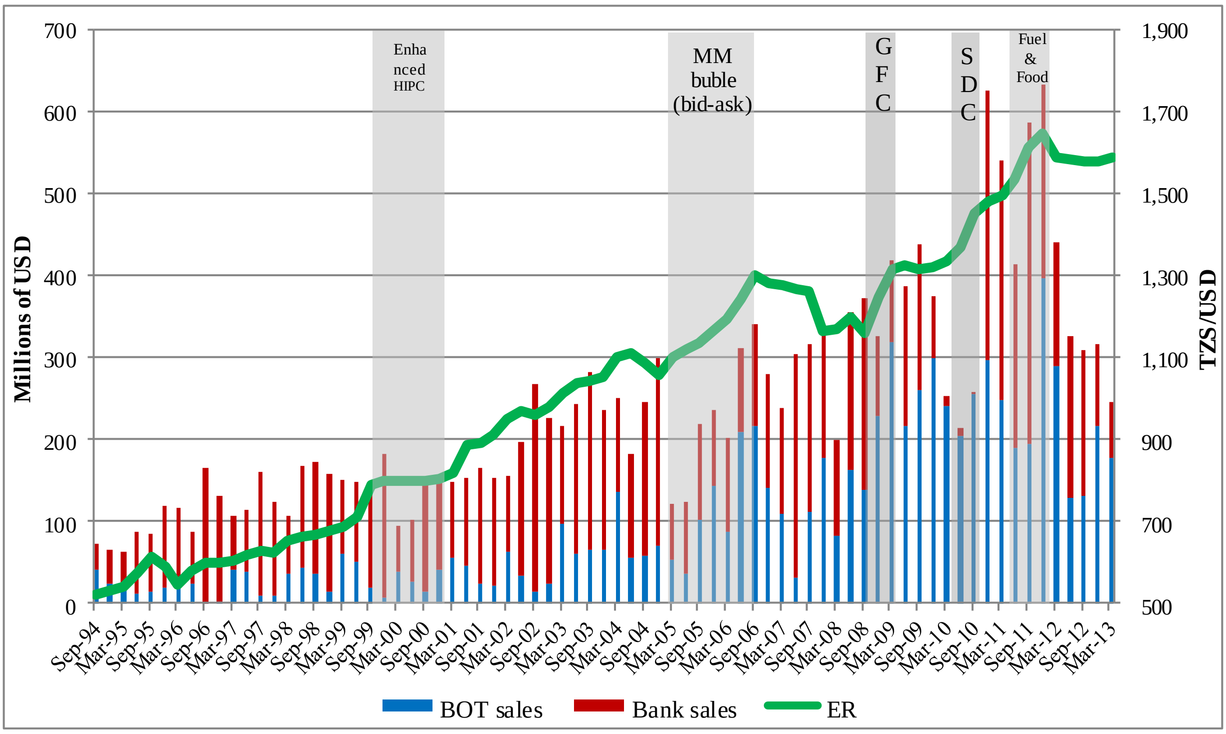
1.3.5 Foreign Exchange Markets Developments

In the year to March 2013, the exchange rate of the shilling against the US dollar remained stable. During December 2011 to March 2013, the shilling exchanged at an average rate of TZS 1,585.96 per dollar **(Chart 1.7).** The stability of the shilling during the period was mainly on account of the Bank's efforts to foster an orderly foreign exchange market. A similar period of relative stability of the exchange rate was recorded in 2000 when demand for foreign exchange was subdued as the country reached decision point under enhanced HIPC on April 2000. Under the arrangement, Paris Club creditors approved immediate cancellation of 90 percent of debt service due to them. Cases of appreciation of exchange rate can be traced in 2004 and 2007/08 on account of HIPC completion point and Multilateral Debt Relief Initiative (MDRI).

Introduction of two-way quoting system in January 2005, caused volatility in the Interbank Foreign Exchange Market, leading to depreciation of the shilling, from TZS 1,100 per USD to TZS 1,300 per USD in September 2006. The onset of MDRI in 2007 arrested the depreciation until 2008 when global financial crisis set in. Thereafter, the exchange rate clearly traces out the pressure created by the sovereign debt crisis in the Euro Zone in 2010 and the world fuel and food prices surge in 2011.

Going forward, it is likely that the stability of the shilling will be maintained in the next six months owing to prudent monetary and fiscal policy implementation and envisaged improvement in the export sector.

Chart 1.7: IFEM Monthly Average Exchange Rates



Source: Bank of Tanzania
Note: MM bubble means Market Markers bubble, GFC means Global Financial Crisis and SDC means Sovereign Debt Crisis.

1.3.6 Domestic Macroeconomic Development Outlook

The domestic economy is poised to sustain the growth momentum going forward. In 2013 output is projected to grow by 7.0 percent due to increased investment in infrastructure, manufacturing, agriculture and the extractive sectors. Agricultural production is expected to perform favorably on account of good weather conditions throughout the country and government's efforts to encourage investment in the sector. However, the economy is vulnerable to both internal and external shocks including:

- Deterioration in international trade due to weak demand in advanced economies;

- Loss of export competitiveness owing to possible appreciation of exchange rate resulting from large capital inflows;
- Unexpected increase in world fuel and food prices leading to increase in import bill thus widening the current account deficit; and
- Power supply problems which might emerge if enough funds are not allocated to the power sector going forward.

2.0 FINANCIAL SECTOR DEVELOPMENTS

2.1 Overview

The banking sector continued to dominate Tanzania's financial landscape, accounting for about 74.0 percent of the total financial assets, while pension and insurance sectors accounted for 24.0 percent and 2.0 percent, respectively. During the period ending March 2013, the volume of bank deposits and credit to the private sector continued to grow in line with the expanding economic activities. The level of banking sector outreach continued to expand, evidenced by the increase in bank branches and ATMs. These were complemented by growing bank linkages with SACCOs, which operate at a closer geographical proximity to local communities. The use of mobile phones (electronic wallets) to transact through bank accounts has also created opportunities for banking institutions to extend financial services outreach. Furthermore, the recent introduction of agent banking services is expected to further enhance access to financial services.

2.2 Banking Sector

The banking sector continues to expand and remain profitable, highly liquid and adequately capitalized. The volume of deposits increased by 17.9 percent to TZS 14,175.57 billion during the year ending March 2013 from the level recorded in the corresponding period in 2012. The number of banking institutions increased from 49 in March 2012 to 51 in March 2013, while that of branches rose from 521 to 559 during the same period. **Table 2.1** summarizes development in selected financial soundness indicators.

Capital Adequacy

The banking sector was adequately capitalized in aggregate terms during the year to March 2013. The industry's ratio of core capital to total risk-weighted assets increased from 17.9 percent in March 2012 to 18.9 percent in the year to March 2013, well above the minimum regulatory ratio of 10.0 percent. The minimum capital requirements for community banks were raised from TZS 250 Million to TZS 2.0 billion with effect from June 2012 and the existing banks were given a transition period of five years to comply. The Bank is also in the process of instituting capital buffers by raising minimum core capital by 2.5 percentage points to 12.5 percent.

Asset Quality and Credit Concentration

The quality of assets as measured by the ratio of Gross Non-performing Loans (NPLs) to Gross Loans was 7.9 percent in March 2013 against the acceptable ratio of 5.0 percent. Since poor performance of credit portfolio erodes the capital position of the banking institutions, the Bank closely monitors developments in the industry with a view to ensure banks are taking necessary measures to address the anomaly.

Table 2.1: Financial Soundness Indicators for the Banking System

Indicators (Percentage)	Jun-11	Dec-11	Mar-12	Jun-12	Dec-12	Mar-13
1. CAPITAL ADEQUACY						
Core Capital/TRWA+OBSE	17.7	17.0	17.9	17.5	17.4	18.9
Total capital/TRWA+OBSE	18.2	17.6	18.5	18.1	18.0	19.4
2. LIQUIDITY						
Liquid Assets/Demand Liabilities	43.2	40.1	38.4	39.3	38.1	40.0
Total Loans/Customer Deposits	62.2	64.3	65.9	67.5	67.6	68.8
3. ACCESS TO BANK LENDING						
Claims on non-government sector to GDP	20.4	23.1	21.5	24.5	27.2	20.4
Claims on the private sector to GDP	19.7	22.0	20.2	23.0	25.4	19.2
4. EARNINGS AND PROFITABILITY						
Net Interest Margin (NIM)	78.5	61.9	64.6	72.5	71.8	66.6
Non-Interest Expenses/Gross Income	53.7	66.6	64.9	54.2	54.6	63.0
Return on Assets (PBT/Average Total Assets)	3.0	2.5	3.0	2.5	2.5	2.9
5. ASSET COMPOSITION AND QUALITY						
Foreign Exchange Loans to Total Loans	34.6	33.5	33.4	34.2	34.0	34.0
Gross Non-Performing Loans to Gross Loans	9.1	6.8	6.5	8.1	7.4	7.9
Large Exposures to Total Capital	110.9	141.1	120.4	117.8	136.6	132.7
Net Loans and advances to Total assets	45.9	49.2	50.0	50.4	50.0	48.7
6. SENSITIVITY TO MARKET RISK						
FX Currency Denominated Assets/Total Assets	31.8	33.8	31.2	30.2	31.2	30.9
FX Currency Denominated Liabilities/Total Liabilities	33.9	37.0	33.9	33.6	34.5	35.1
Net Open Positions in FX/Total Capital	3.7	-0.3	0.6	-1.1	1.6	-0.2

Source: Bank of Tanzania

The ongoing developments in the banking sector including the introduction of the Credit Reference System, formalization of businesses and properties and enhancement of creditors and insolvency rights are expected to further improve the credit market conditions and subsequently lower the NPLs in the medium term. Meanwhile, the Bank encourages banks to diversity their investment portfolios to lower exposure to risks. Sectoral analysis shows that during the year ending March 2013 sectors that absorbed substantial amount of credit were also the sectors that recorded higher levels of NPLs (**Table 2.2**). Given that these are the same sectors driving economic growth, there is need for the Bank to closely monitor developments that may pose systemic risks to financial stability.

Table 2.2: Sectoral Distribution of Loans and NPLs, March 2013

Sector	Loans as a percent of Total Loans	NPLs as a percent of Total NPLs
Trade	21.4	20.6
Personal (Private)	19.3	21.8
Manufacturing	11.6	11.3
Agriculture	11	10.2
Transport and communication	7.3	7.2
Other Services	5.1	5.0
Building & construction	4.8	4.7
Real Estate	4.2	4.1
Hotels and Restaurants	4.0	3.8
Electricity	2.6	2.8
Financial Intermediaries	2.4	2.3
Education	2.1	2.1
Gas	1.4	1.5
Tourism	0.7	0.5
Mining and quarrying	0.7	0.6
Fishing	0.5	0.4
Health	0.5	0.5
Others	0.4	0.3

Source: Bank of Tanzania

Note: 'Others' include warehousing and storage, leasing, water, forest and hunting.

Earnings and Profitability

The banking sector recorded a return on assets of 2.9 percent at the end of March 2013, slightly below 3.0 percent recorded in March 2012 possibly on account of slightly higher provisioning for bad and doubtful debts. The increasing competition in the industry is expected to affect the sector profitability, but provides opportunity for potential increase in financial access by the unbanked segment of the population. The FinScope, 2009 survey showed that only 12.4 percent of the Tanzanian adult population had access to formal financial services. This implies the sector has the room for expansion.

Bank Liquidity

At the end of March 2013, the ratio of liquid assets to demand liabilities was 40.0 percent, twice the regulatory minimum limit of 20.0 percent. The lending ratio (total loans to total customer deposits) was 68.8 percent, below the regulatory limit of 80.0 percent. The high liquidity in the industry is attributed to the structure of the asset portfolios, consisting of a substantial volume of government securities and placements abroad. At the end of March 2013, the total volume of investment in government securities was TZS 2,180.3 million, representing 17.6 percent of the total bank assets. At the end December 2012, the total volume of placements abroad amounted to TZS 1,270.9 million which was 7.2 percent of the total assets. However, this investment structure is expected to change given the introduction of credit reference system, availability of National IDs and legal reforms in the credit market, which are expected to create incentives for increased lending in the economy.

2.3 Insurance Sector

Tanzania's insurance market performed satisfactorily in various aspects including market growth, assets portfolio, and investment. Specifically, the gross premium written grew by 17.5 to TZS 362 billion percent during the period ending December 2012 from TZS 308 billion recorded in December 2011. Also, the life assurance business recorded a gross premium growth rate of 42.6 percent to TZS 45 billion from TZS 31 billion during the same period. During the year ending December 2012, net income after tax in General Insurance declined by 66.8 percent from TZS 14 billion to TZS 5 billion, while income after tax from Life Assurance doubled to TZS 13.2 billion from TZS 6.4 billion.

Meanwhile, total assets increased by 8.3 percent to TZS 451 billion, while net worth of the industry increased by 5.4 percent to 134 billion down from 17.8 percent recorded in the year ending September 2012. The observed increase in industry net worth was buoyed by profitability from Life Assurance and other investments. Nevertheless the increase in industry's total investment moderated to 2.6 percent compared to 10 percent in the year ending September 2012 **(Table 2.3)**.

Table 2.3: Insurance Performance

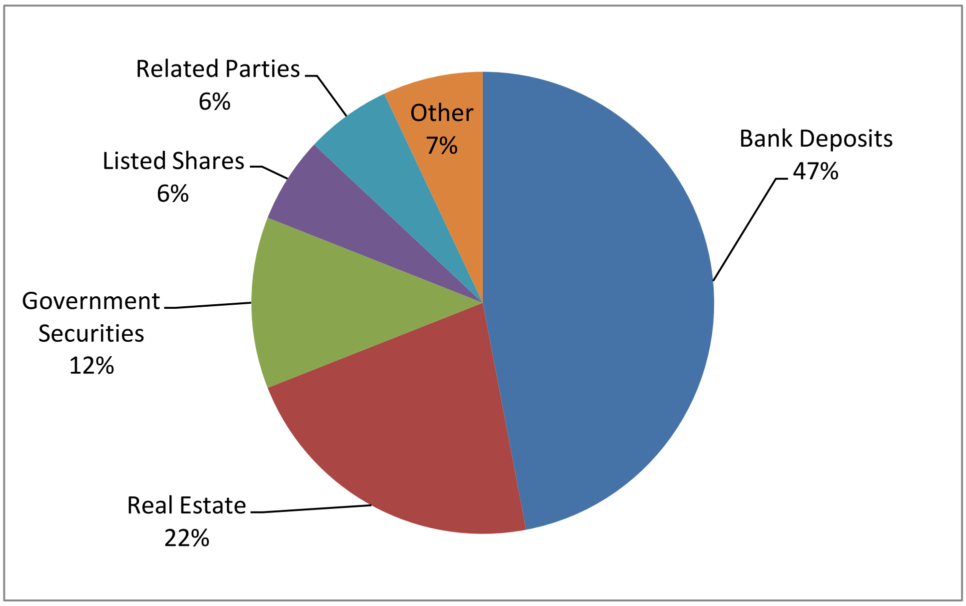
(In TZS Billion)

Item	Sep-11	Dec-11	Sep-12	Dec-12	% Change Sept-Sept	% Change Dec-Dec
Total Assets	402.0	416.1	443.0	450.5	10.2	8.3
Total Liabilities	284.0	289.1	304.0	317.0	7.0	9.7
Total Net Worth	118.0	126.9	139.0	133.7	17.8	5.4
Total Investments	280.0	291.9	308.0	299.5	10.0	2.6
Gross Premium- written						
General Insurance	223.3	308.0	268.8	362.0	20.4	17.5
Life Assurance	28.0	31.2	33.9	44.5	21.1	42.6

Source: Tanzania Insurance Regulatory Authority

Regarding investment diversification, the largest share of insurers' investment assets comprised bank deposits (47.0 percent), followed by Real Estate investments (22.0 percent) and Government Securities (12.0 percent) (**Chart 2.1**).

Chart 2.1: Insurance Industry Investment Portfolios as at end December 2012

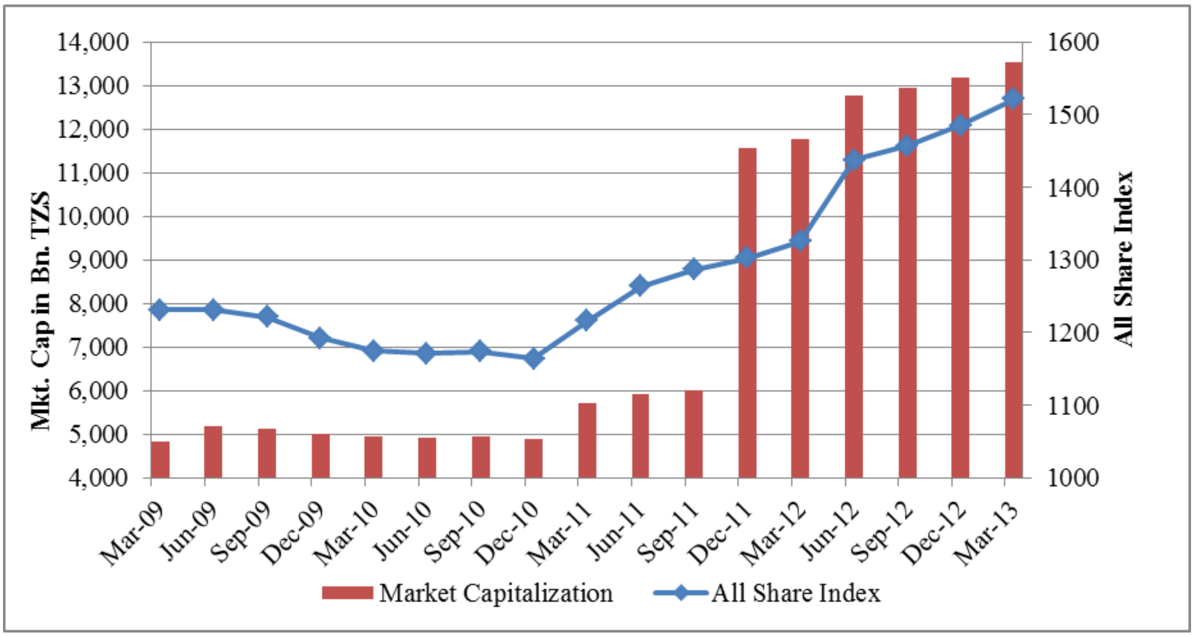


Source: Tanzania Insurance Regulatory Authority and BOT Computation

2.4 Capital Markets

In 2012, market capitalization of the DSE increased by 14.0 percent to TZS 13,197.34 billion on account of share price appreciation and rights issues **(Chart 2.2)**. Prior to 2012, Market capitalization recorded a 90.0 percent increase to TZS 11,577 billion during the quarter to December 2011, following the listing of African Barrick Gold (ABG) and Precision Air.

Chart 2.2: All Share Index and Market Capitalization of the DSE

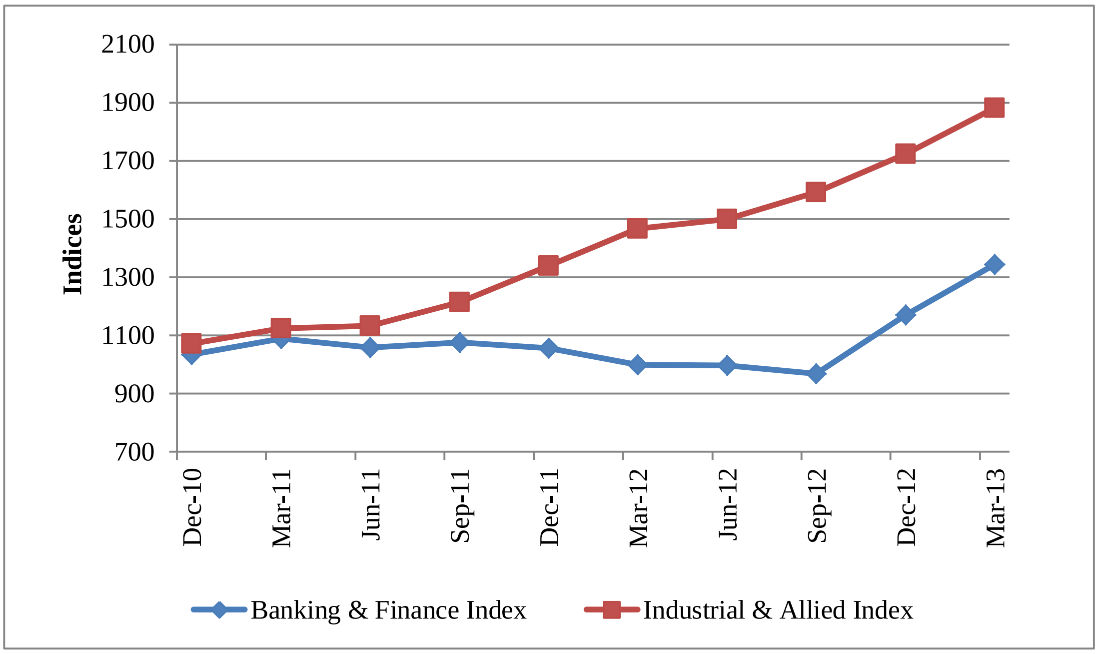


Source: Dar es Salaam Stock Exchange

The DSE has four major indices, namely, All Share Index (DSEI), reflecting overall performance of the bourse; Tanzania Share Index (TSI), reflecting the performance of local companies listed at the bourse; Banking and Financial Share Index (BI), reflecting the performance of listed financial institutions; and Industrial and Allied Share Index (AI), reflecting the performance of listed non-financial institutions.

Chart 2.2 shows that the DSEI increased by 2.8 percent during the quarter to March 2013 and 14.7 percent during the previous four quarters on account of increased trading at the bourse in line with increased investor confidence and hence participation of both residents and non-residents. **Chart 2.3** shows that the BI recorded a decrease of 8.0 percent from December 2011 to end September 2012 mainly on account of depreciation of CRDB and DCB's share prices but regained lost ground by posting a 21.0 percent increase in the quarter to December 2012 and further by 13.4 percent in the quarter to March 2013. Meanwhile, the IA increased by 29.0 percent during the year ending December 2012 on account of participation of foreign investors attracted by high returns and stable macroeconomic environment in the country. Companies whose performance was impressive include TBL, TCC, and TPCC. These are also the companies whose share prices appreciated the most. But during the quarter to March 2013, the growth rate of the index decelerated to 9.2 percent indicating decline in demand for all other shares except BI shares.

Chart 2.3: Banking & Finance and Industrial & Allied Indices Movement



Source: Dar es Salaam Stock Exchange

DSE is undertaking various initiatives including creation of public awareness to encourage companies to list at the bourse as an alternative way of mobilizing capital resources through broad participation. In another dimension, with a view to modernize and develop capital markets in Tanzania, the CMSA has pioneered the establishment of the Enterprise Growth Market (EGM), a market segment aimed at serving start-up companies which do not have track record, and existing Small and Medium Enterprises (SMEs). The initiative aims at promoting access to capital markets by easing the issuing and listing conditions.

2.5 Pension Sector

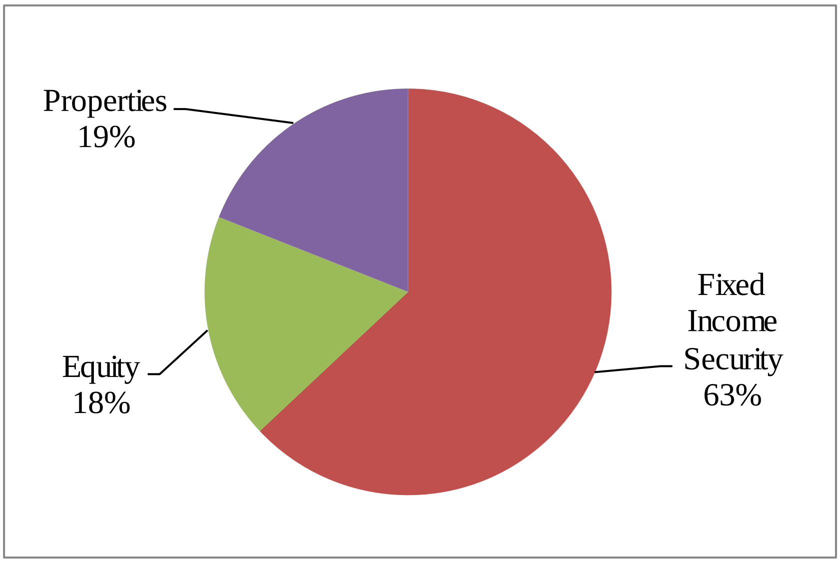
The Pension Sector continued to increase its coverage. Membership increased from 1.3 million as at end June 2010 to 1.7 million by June 2012. The growth in net assets picked up in 2010/11 to 23.4 per cent rising to 27.2 percent in 2011/12. Total income grew by 7.6 percent in 2011/12 down from 43.6 percent recorded in 2010/11 (**Table 2.4**). Investment portfolio grew by 24.5 percent in the year to June 2012 attributed to good performance in Fixed Income Assets which contributed 63 percent of the portfolio followed by Properties at 19 percent and Equities 18 percent (**Chart 2.4**). Fixed Income Assets were made up of government securities, promissory notes, loans, corporate bonds and special lines of credit to SACCOS. Actuarial valuation of pension schemes in the country was undertaken in 2011 and SSRA plans to implement the necessary reforms as recommended by the valuation reports.

Table 2.4: Pension Funds' Performance

	Jun-10	Jun-11	Jun-12	% change 2010-11	% change 2011-12
Total Membership (No.)	1,310,540	1,599,208	1,676,715	22.0	4.9
Net Assets (TZS Bn)	3,356	4,140	5,266	23.4	27.2
Investment Portfolio (TZS Bn)		3,539	4,407		24.5
Total Income (TZS Bn)	1,100	1,580	1,700	43.6	7.6

Source: Social Security Regulatory Authority and Bank of Tanzania

Chart 2.4: Pension Funds' Investment Portfolios as at end-June 2012



Source: Social Security Regulatory Authority

2.6 Microfinance Sector

Microfinance institutions (MFIs) in Tanzania operate under three categories. First, formal MFIs which are deposit taking and are subjected to prudential regulatory oversight by the Bank. Second, semi-formal MFIs which are formally licensed but are subjected to limited regulatory oversight. These include Savings and Credit Cooperative Societies (SACCOS), Credit Only Companies and Financial NGOs. Third is informal MFIs, which are community based organizations and are not subjected to any regulatory oversight. These self-regulated institutions include Village Community Banks (VICOBAs), Rotating Credit and Savings Associations (ROSCAs) and Village Savings and Lending Associations (VSLAs).

The semi-formal MFIs serve the largest number of clients through SACCOS. As at end March 2013, there were 5,559 SACCOS operating in the country of which 3,043 were in rural areas. Membership stood at 1,153,248 of which 1,128,617 were individuals and 24,631 were community based organizations including VICOBAs, ROSCAs and VSLAs indicating outreach to unbanked population.

The aggregate volume of savings amounted to TZS 356.0 billion in March 2013 up from TZS 311.0 billion recorded in June 2012 while deposits were TZS 47.9 billion compared to TZS 44 billion recorded in the same period. Total loan outstanding amounted to TZS 244 billion down from TZS 263 billion recorded in June 2012 (**Table 2.5**).

Table 2.5: SACCOS Operations

(**Billions of TZS**)

	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Mar-13
Members Funds	108.0	148.0	178.0	447.0	355.0	403.8
o/w Savings	91.0	133.0	161.0	387.0	311.0	356.0
Deposits	17.0	15.0	17.0	60.0	44.0	47.9
Loans Outstanding	139.0	173.0	188.0	427.0	263.0	243.6
Loan/deposit (%)	**128.7**	**116.9**	**105.6**	**95.5**	**74.1**	**60.3**

Source: Registrar of Cooperatives Tanzania.

The loan to deposit ratio which measures the extent of leveraging, fell to 60.3 percent in March 2013 down from 128.7 percent in June 2008. The decline was on account of increase in savings and deposits partly explained by the presence of microfinance institutions operating in the rural areas.

Banking institutions also cater for microloans in several sectors including manufacturing, services, small scale agriculture and trade. The total outstanding loans increased by eight fold to TZS 1,978,313 million in March 2013 from TZS 248,147 million in March 2012 (**Table 2.6**).

Table 2.6: Micro-lending in the Banking System

	Mar-12	Jun-12	Dec-12	Mar-13
Borrowers				
Number		531,942	535,137	616,167
Outstanding Microloans by Sector				
Industry	**Amount in Millions of TZS**			
Manufacturing	6,257	16,178	35,825	36,405
Services	105,264	1,305,480	1,402,605	1,457,149
Small Scale Agriculture	46,192	70,241	95,316	123,986
Trade	90,434	283,248	309,223	360,772
Total Loans	248,147	1,675,148	1,842,969	1,978,313

Source: Bank of Tanzania

NB: This table does not include lending to large MFIs.

The microfinance sector has some comparative advantage in providing financial services to low income households and small enterprise operators given their closer proximity which mitigates information asymmetry in the credit market. Also, the usage of alternative collateral such as group guarantees addresses the business informality.

2.7 Cross-sector Linkages in the Financial System

The growing convergence of technologies and integration of financial systems at national, regional and global levels make financial inter-connectedness monitoring an essential component of financial stability oversight. The growing inter-linkage among the financial system sub-sectors increases the risks of transmitting shocks across all sub-sectors. **Table 2.7** depicts the extent of connectedness of the top ten banks to foreign banks, pension funds, insurance and Mobile Network Operators.

Table 2.7: Financial System Interconnectedness (Top Ten Banks)

Amounts in TZS Billions	Jun-10	Jun-11	Jun-12	Dec-12	Mar-13
Placements with Banks Abroad	732.2	891.1	1,159.9	1,270.9	1,096.8
Placements with Domestic Banks	115.0	219.4	394.0	408.5	457.5
Deposits from Pension Funds	526.0	367.6	316.5	502.2	453.1
Deposits from Insurance Companies	111.3	131.7	151.2	138.0	181.9
Borrowings from Domestic Banks	158.7	201.9	179.9	272.9	343.3
Deposits from Foreign Banks	17.1	85.4	69.2	114.3	103.2
Inter-bank Contingent Claims to Foreign Banks	259.6	295.8	129.1	614.5	565.1
Deposits from Mobile Network Operators	14.9	48.5	161.3	192.4	208.3

Source: Bank of Tanzania

2.7.1 Linkages among Banks

Operations of the banking institutions are closely interlinked through payments and settlement systems and interbank placements and borrowings. The placements with other banks abroad depicted a declining trend during the three months period, decreasing from TZS 1,270.9 billion as of 31st December 2012 to TZS 1,096.8 billion as at 31st March 2013. Banks make placements offshore mainly for meeting international obligations such as trade financing. In addition, offshore placements are used as investment tools to take advantage of interest and foreign exchange differentials. The main risks arising from offshore placements are associated with occurrence of banking crisis in the foreign banks and foreign exchange fluctuations. To mitigate the potential risks, the Bank of Tanzania prudential banking regulations require banks to diversify their placements abroad and comply with foreign exposure limits which are monitored on a daily basis.

2.7.2 Banking, Insurance and Pension Sectors

The pension and insurance sectors are significantly exposed to bank deposits. The deposits of pension funds in the top ten banks increased from TZS 316.5 billion in June 2012 to TZS 453.1 billion in March 2013 and account for a large share of their investment portfolio. Likewise, Insurance companies' deposits increased from TZS 151.2 billion to TZS 181.9 billion during the same period. While pension funds and insurance companies are exposed to interest rate risk, banks could also experience liquidity pressure in the event of sudden withdrawals.

2.7.3 Banking and Telecommunication Sectors

There has been a rapid increase in the usage of mobile phones to deliver financial services in Tanzania. The number of active users increased by 6.3 percent to 8.4 million during the first three months of 2013 with total value of transactions amounting to TZS 2.01 trillion in March 2013. Mobile Network Operators (MNOs) are required to deposit in trust account with banking institutions the equivalent of electronic money (e-money) issued. The trust account balances increased from TZS 192.4 billion in December 2012 to TZS 208.3 billion in March 2013. Increased use of e-money poses a number of challenges including creation of unfunded e-money. In order to enhance oversight of e-money transactions, the Bank has entered into a Memorandum of Understanding with the Tanzania Communications Regulatory Authority (TCRA).

2.7.4 Banking and Microfinance Institutions

Institutional and technological innovations are fostering the inter-linkages between banking and microfinance institutions, particularly SACCOS. In addition, banking institutions provide services to financial NGOs and credit only companies. The banking sector outreach is further expanded by backward inter-linkage between SACCOs and informal community-based financial institutions such as VICOBAs, ROSCAs. The linkage assists banking institutions to extend outreach to local communities at lower cost. However, this may also lead to excessive lending by banks without due consideration to market risk.

3.0 FINANCIAL SYSTEM INFRASTRUCTURE AND REGULATORY DEVELOPMENTS

3.1 Payment Infrastructure

The National Payments and Settlement System (NPS) play an essential role in the functioning and stability of the financial system. It provides platforms for inter-linkages between financial sub-sectors through transferring monetary claims and settling payment obligations. A poorly designed payments and settlement system can lead to financial instability by transmitting financial risks of a systemic nature to the broader financial sector. Conversely, a sound system can contribute to reduction of settlement risks (credit, liquidity and operational).

The NPS comprises of Tanzania Inter-bank Settlement System (TISS), Electronic Clearing House (ECH) and Retail Payment Systems. In March 2013, the value of transactions through the NPS increased by 4.2 percent to TZS 16,482.6 billion from TZS 15,818.7 billion recorded in March 2012 (**Table 3.1**). The increase was mainly due to high usage of TISS which recorded a growth rate of 15.3 percent during the review period. In line with this development, the share of payments through TISS increased from 36.6 percent in March 2012 to 58.6 percent in March 2013 largely attributed to the Bank's efforts to encourage the use of the system.

Table 3.1: Payments through National Payment Systems

Billions of TZS

Item	Mar-11	Mar-12	Mar-13	% change 2012-13	% share 2011	% share 2013
TISS	5,839.9	8,374.2	9,653.4	15.3	36.6	58.6
ECH	1,049.0	1,085.0	729.6	(32.8)	6.6	4.4
Retail Payments	9,081.0	6,359.5	6,099.6	(4.1)	56.9	37.0
Total	**15,969.9**	**15,818.7**	**16,482.6**	**4.2**	**100.0**	**100.0**

Source: Bank of Tanzania

Although the system operated without major disruptions, it faces a number of challenges including vulnerability to cybercrime, lack of an explicit law on payment systems and regulations on mobile financial services. The Bank of Tanzania regulates and supervises the national payments and settlements system deriving its mandate from section 6 of the Bank of Tanzania Act, 2006. In view of the rapidly growing technological advancements the Bank has initiated the drafting of a National Payments System Act with the objective of improving the legal framework to strengthen oversight. The Act is expected to be in place in 2014.

3.2 Financial Regulatory Developments

Appropriate legal and regulatory environment is essential for a sound and efficient financial system. During the period under review, a number of measures were taken by the regulatory authorities to review existing regulations and introduce new ones to accommodate innovations and developments in the financial sector.

3.2.1 Banking Sector Regulations

The Bank issued the Bank of Tanzania (Credit Reference Databank) Regulations, 2012 and the Bank of Tanzania (Credit Reference Bureau) Regulations, 2012. The objective is to facilitate information sharing among lenders, thereby minimizing credit risks and foster credit access in the economy. The Bank is also in the process of reviewing the prudential banking regulations which govern the supervision of the banking sector. The review is aimed at incorporating developments in the Tanzanian banking industry, evolving banking supervision and international good practices.

Furthermore Agent Banking Guidelines were issued in 2013 with the objective of providing regulatory framework for introduction of agent banking in Tanzania. The Guidelines outline the requirements to be observed by banks in the areas of governance and oversight, management of agents, customer protection, awareness and education. Services which can be delivered through agents include cash deposits and withdrawals, facilitation of cash disbursements and loan repayments, payment of utility bills, payment of retirement and social benefits, transfer of funds, balance inquiry, generation and issuance of mini bank statements. Other services comprise of facilitation of account opening, loan application and credit and debit card application.

3.2.2 Pension Sector Regulations

The Bank issued Social Security Schemes Investment Guidelines in 2012 which require pension schemes to put in place investment policy as mandated under Section 48 of the Social Security (Regulatory Authority) Act 2008. To enforce compliance, the Bank will commence oversight of the social security schemes investment portfolio in 2013/14.

3.2.3 Microfinance Regulations

Deposit taking microfinance institutions are regulated by the Bank under the Banking and Financial Institutions Act, 2006 combined with the Banking and Financial Institutions (Microfinance Companies and Micro credit Activities) Regulations, 2005 and the Banking and Financial Institutions (Financial Cooperatives Societies) Regulations, 2005. Non-deposit taking Micro Finance Institutions (MFIs) including financial NGOs are registered under different statutes and subjected to limited regulatory oversight. The Ministry of Finance is reviewing the National Microfinance Policy, 2002 to provide a basis for instituting proper regulatory oversight.

3.2.4 Mobile Financial Services Regulations

Although mobile financial services are growing rapidly, the Tanzania legal system does not have specific laws for regulating mobile financial services (MFS). In the meantime, the Bank, using the powers conferred upon it by the Bank of Tanzania Act, 2006 and the Banking and Financial Institutions Act, 2006, as well as cooperation with Tanzania Communications Regulatory Authority, regulates mobile telephone operators offering mobile financial services. Draft Mobile Financial Services (MFS) regulations have been completed and discussed with the industry stakeholders. Likewise the Draft National Payments Systems Act is in the enactment process.

3.3 Financial Stability Function

The Bank has taken a number of initiatives to enhance its financial stability function. To that effect Financial Stability Department was elevated to a Directorate effective January 2013. The main objective of this transformation was to broaden the scope of macro-prudential analysis and policy, and to align financial stability with other functions of the Bank. In this regard, the Bank has enhanced surveillance instruments to facilitate identification of potential systemic risks, risk mitigation and crisis management and resolution. **Appendix 6** provides the organization structure of the Directorate.

Efforts to achieve oversight of the entire financial system were spearheaded by the Bank, resulting into establishment of the Tanzania Financial Stability Forum (TFSF) in March 2013. The Forum will provide a platform for consultation, exchange of information and policy-making on financial stability. It will broaden the scope of oversight from purely micro-prudential focusing on individual institutions in respective sectors to macro prudential oversight geared towards identification and mitigation of systemic risks. It is guided by a Memorandum of Understanding that sets out the objectives, principles and processes for dealing with stability of the financial system in Tanzania.

The Forum is constituted by the Ministry of Finance of the United Republic of Tanzania; President's Office, Finance Economy and Development Planning of Zanzibar; Tanzania Insurance Regulatory Authority; Social Security Regulatory Authority; Capital Markets and Securities Authority; Deposit Insurance Board and the Bank of Tanzania.

Following the development of a financial crisis management framework for the banking sector, the Bank established a Financial Crisis Management Committee (FCMC). The committee is responsible for advising the Governor on financial crisis management plans and the actions to be taken in the event of a financial crisis. The Committee is made up of the Deputy Governors; the Secretary to the Bank; and Directors of Economic Research and Policy, Banking Supervision, Financial Markets, National Payments Systems, Deposit Insurance Board and Financial Stability.

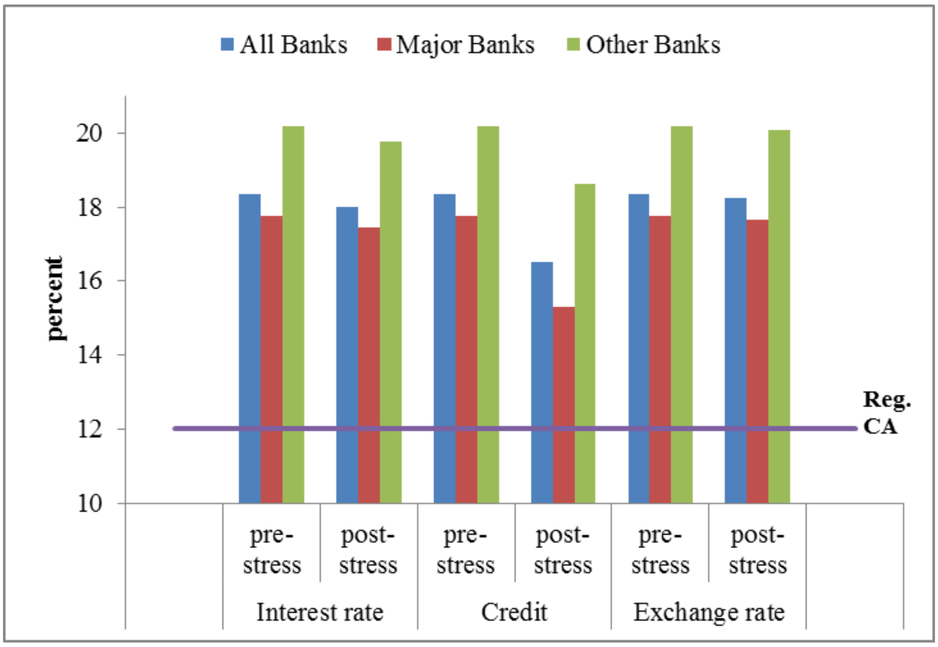
4.0 FINANCIAL SYSTEM RESILIENCE AND STABILITY OUTLOOK

4.1 Financial System Resilience

During the period under review, the financial sector remained stable and sound despite the challenging global macro-economic and financial environment. The payments and settlement systems operated smoothly and efficiently without disruptions.

In monitoring resilience, the Bank of Tanzania conducts stress tests on the banking system balance sheet against extreme shocks on a quarterly basis. Stress tests conducted for the quarter ending March 2013 indicate that the major banks, which account for 73.2 percent of bank loans, were generally resilient to adverse shocks from interest rate, exchange rate and credit risks. The capital adequacy ratio of the banks remained above the regulatory requirements (**Chart 4.1**)

Chart 4.1: Stress Test Results of the Banking System



Source: Bank of Tanzania.
Note: Reg. CA means statutory capital requirement ratio

4.2 Financial Stability Outlook

Considering the global and domestic macro-financial environment and the stress testing results, the banking sector is expected to remain sound and resilient over the next six months. This is subject to sustained growth momentum in the domestic economy as well as recovery in advanced economies. Close monitoring of developments in the Euro Zone will continue.

The Bank will continue to implement supervisory actions directed at addressing capital deficiencies in the banking system. Going forward the Bank will ensure banks meet regulatory requirements with a strong capital base that enhances banks' ability to absorb unforeseen shocks.

Owing to availability of information from the credit reference bureau it is expected that credit risks will be minimized and reduce building up of non-performing loans. The ongoing amendments to prudential banking regulations combined with introduction of new regulations are expected to mitigate potential risks arising from financial innovations. Specifically, the introduction of agent banking and mobile banking regulations will create a conducive environment for accelerating financial service outreach.

Meanwhile, inter-agency coordination among regulatory agencies through the Tanzania Financial Stability Forum is expected to provide a platform for consultation, exchange of information to facilitate oversight of the financial system.

APPENDICES

Appendix 1: GDP Growth Rates and Sectoral Contributions

Share in GDP

	2001-03*	2004-06	2007-09	2010-12	2010	2011	2012
Agriculture and Fishing	**29.9**	**27.7**	**25.5**	**23.5**	**24.1**	**23.4**	**22.8**
Crops	20.9	19.6	18.2	16.9	17.3	16.8	16.5
Livestock	4.8	4.3	3.8	3.5	3.6	3.5	3.3
Industry and construction	**18.5**	**20.1**	**21.2**	**21.7**	**21.6**	**21.7**	**21.8**
Mining and quarrying	1.9	2.5	2.6	2.3	2.4	2.3	2.3
Manufacturing	8.4	8.9	9.4	9.7	9.6	9.7	9.9
Electricity Gas &Water	2.6	2.6	2.6	2.5	2.6	2.5	2.4
Construction	5.5	6.2	6.7	7.2	7.0	7.2	7.3
Services	**45.8**	**46.4**	**47.8**	**49.4**	**48.8**	**49.5**	**49.9**
Trade and repairs	13.2	13.3	14.1	14.7	14.5	14.7	14.8
Transport & Communications	6.6	6.9	7.5	8.5	7.8	8.1	8.5
Real estate and business services	10.3	10.2	10.2	10.2	10.2	10.2	10.2
Public administration	7.2	7.9	7.9	7.8	7.8	7.8	7.7

GDP Growth rate in Percent

	2001-03	2004-06	2007-09	2010-12	2010	2011	2012
GDP at market prices (2001-100)	**7.0**	**7.3**	**6.9**	**6.8**	**7.0**	**6.4**	**6.9**
Agriculture and Fishing	**4.1**	**4.7**	**3.9**	**3.9**	**4.1**	**3.4**	**4.2**
Crops	4.4	5.0	4.3	4.2	4.4	3.5	4.7
Livestock	2.5	3.6	2.4	3.5	3.4	3.9	3.1
Industry and construction	10.2	9.9	8.4	7.6	8.2	6.9	7.8
Mining and quarrying	17.0	15.9	4.8	4.2	2.7	2.2	7.8
Manufacturing	8.2	9.2	8.9	8.0	7.9	7.8	8.2
Electricity Gas &Water	6.1	5.0	7.9	5.8	9.5	1.9	5.9
Construction	12.8	10.8	9.2	9.0	10.2	9.0	7.8
Services	**7.8**	**7.9**	**8.0**	**8.0**	**8.2**	**7.9**	**8.0**
Trade and repairs	9.0	7.3	9.1	8.0	8.2	8.1	7.7
Transport & Communications	6.9	9.5	10.7	12.0	12.2	11.3	12.5
Real estate and business services	6.8	7.2	6.9	6.8	7.1	6.5	6.7
Financial intermediation	10.4	9.7	9.9	10.1	10.1	10.7	13.2
Public administration	9.4	10.5	6.0	6.4	6.5	6.8	5.8

Contribution to GDP Growth rate in percent

	2001-03	2004-06	2007-09	2010-12	2010	2011	2012
Agriculture and Fishing	**17.8**	**18.3**	**15.0**	**13.7**	**14.3**	**12.8**	**14.1**
Crops	13.4	13.6	11.7	10.6	11.1	9.4	11.4
Livestock	1.8	2.2	1.4	1.8	1.8	2.1	1.5
Industry and construction	**26.4**	**26.5**	**25.3**	**24.1**	**24.9**	**23.0**	**24.3**
Mining and quarrying	4.5	5.0	1.8	1.5	1.0	0.8	2.6
Manufacturing	9.9	10.9	11.9	11.3	10.7	11.6	11.5
Electricity Gas &Water	2.3	1.7	2.9	2.1	3.4	0.8	2.1
Construction	9.8	8.9	8.8	9.3	9.9	9.8	8.1
Services	**50.4**	**50.0**	**54.9**	**57.5**	**56.0**	**59.6**	**56.9**
Trade and repairs	16.8	13.5	18.2	17.1	16.7	18.2	16.4
Transport & Communications	6.5	8.7	11.3	14.4	13.5	14.3	15.4
Real estate and business services	10.0	10.1	10.4	10.2	10.3	10.3	9.9
Financial intermediation	2.3	2.1	2.2	2.3	2.8	3.3	4.0
Public administration	9.5	10.8	7.0	7.3	7.2	8.2	6.5

Source: National Bureau of Statistics and Bank of Tanzania's computations
Note: * Three year average

Appendix 2: IFEM Operations and Exchange Rate

Date	Total traded Million	BOT sales Million	Bank sales Million	TZS/USD
Mar-01	148.3	57.2	91.1	820.8
Jun-01	153.6	46.6	107.0	888.1
Sep-01	165.0	23.4	141.6	889.9
Dec-01	153.3	22.5	130.8	909.7
Mar-02	154.7	62.3	92.5	952.1
Jun-02	196.8	35.2	161.6	970.2
Sep-02	269.0	15.4	253.6	962.7
Dec-02	225.4	25.1	200.3	979.9
Mar-03	217.7	97.2	120.5	1,016.1
Jun-03	243.3	61.2	182.2	1,040.5
Sep-03	283.5	65.8	217.7	1,043.6
Dec-03	236.9	65.4	171.5	1,052.9
Mar-04	251.6	136.4	115.2	1,100.4
Jun-04	182.1	55.2	126.9	1,113.5
Sep-04	245.4	58.1	187.3	1,085.1
Dec-04	300.4	70.1	230.3	1,056.5
Mar-05	122.8	52.7	70.1	1,100.3
Jun-05	123.6	37.6	86.0	1,120.6
Sep-05	219.0	102.8	116.2	1,134.3
Dec-05	236.6	142.7	93.9	1,163.1
Mar-06	202.2	87.3	114.9	1,195.3
Jun-06	311.8	210.6	101.2	1,243.7
Sep-06	341.5	216.7	124.8	1,303.7
Dec-06	279.3	141.3	138.1	1,280.0
Mar-07	238.9	108.5	130.4	1,277.5
Jun-07	303.8	31.0	272.9	1,266.0
Sep-07	315.6	112.1	203.5	1,264.6
Dec-07	332.3	177.2	155.1	1,163.3
Mar-08	199.3	83.7	115.6	1,171.1
Jun-08	355.8	162.2	193.6	1,200.2
Sep-08	373.4	140.0	233.4	1,162.6
Dec-08	326.1	228.5	97.6	1,247.8
Mar-09	419.8	320.1	99.7	1,315.6
Jun-09	388.4	217.8	170.6	1,325.6
Sep-09	439.4	260.0	179.4	1,316.9
Dec-09	376.0	300.0	76.0	1,322.1
Mar-10	253.3	241.0	12.3	1,337.0
Jun-10	213.8	204.0	9.8	1,371.2
Sep-10	255.4	255.0	0.4	1,452.8
Dec-10	626.2	296.1	330.1	1,483.2
Mar-11	540.6	249.1	291.5	1,498.6
Jun-11	415.1	190.7	224.4	1,535.4
Sep-11	586.6	194.1	392.5	1,613.4
Dec-11	632.4	397.9	234.5	1,646.5
Mar-12	441.1	289.8	151.3	1,589.0
Jun-12	327.2	128.6	198.7	1,584.7
Sep-12	309.8	130.7	179.2	1,579.9
Dec-12	316.9	216.9	100.0	1,579.1
Mar-13	389.8	253.1	136.7	1,592.2

Source: Bank of Tanzania

Appendix 3: East Africa's Banking Sector Financial Soundness Indicators - FSIs

	December 2010					December 2011					December 2012				
	Tanzania	Kenya	Uganda	Rwanda	Burundi	Tanzania	Kenya	Uganda	Rwanda	Burundi	Tanzania	Kenya	Uganda	Rwanda	Burundi
CAPITAL ADEQUACY															
Core Capital/TRWA+OBSE	18.4	18.7	17.5	19.4	19.7	17.0	17.3	17.9	22.9	17.3	17.4	18.9	18.8	21.4	18.0
Total capital/TRWA+OBSE	18.9	20.8	20.2	21.6	16.0	17.6	19.4	20.3	25.0	19.8	18.0	21.9	21.9	23.9	20.2
LIQUIDITY															
Liquid Assets/Demand Liabilities	46.1	44.5	44.9	766.2	83.6	40.1	37.0	73.2	214.4	60.8	38.1	41.9	77.0	41.2	59.7
Total Loans/Customer Deposits	58.9	72.5	64.4	67.0	69.2	64.3	77.4	74.9	88.1	80.6	67.6	76.9	74.5	91.9	89.1
EARNINGS AND PROFITABILITY															
Net Interest Margin (NIM)	59.6	34.7	10.3	8.7	121.3	61.9	38.6	11.7	9.7	101.9	71.8	32.7	12.8	47.0	47.3
Non-Interest Expenses/Gross Income	65.1	48.2	52.6	55.2	106.2	66.6	44.6	42.8	67.4	114.0	69.0	37.8	58.1	65.1	89.2
Return on Assets-ROA (PBT/Average Total Assets)	2.3	3.7	3.0	1.9	2.5	2.5	3.3	5.3	2.2	3.2	2.5	3.7	5.3	2.2	2.4
ASSET QUALITY															
Gross non-performing Loans/gross Loans	9.3	6.3	2.1	11.3	9.9	6.8	4.4	2.2	8.0	7.7	7.4	4.5	4.2	6.0	8.7
NPLs net of provisions/Total Capital	24.3	6.4	3.2	25.3	4.3	17.5	3.5	3.8	11.4	5.8	19.0	3.5	6.9	5.4	7.1
Earning Assets/Total Assets	53.1	88.8	77.1	78.1	64.9	78.0	87.8	74.0	77.2	75.1	79.3	87.4	71.3	79.9	79.1
SENSITIVITY TO MARKET RISK															
FX Currency Denominated Assets/Total Assets	30.0	10.6	24.7	21.1	19.9	33.8	11.8	27.9	16.5	13.0	31.2	13.2	31.7	13.3	19.1
FX Currency Denominated Liabilities/Total Liabilities	31.8	17.1	29.3	23.2	17.5	37.0	21.5	32.9	18.7	16.1	34.5	20.9	36.2	21.4	18.8
Net Open Positions in FX/Total Capital	-4.4	4.3	-1.6	6.8	-0.2	-0.3	3.3	-3.2	4.9	3.2	1.6	2.6	-0.5	-0.2	-10.8

Source: Bank of Tanzania

Appendix 4: National Debt Developments

		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Debt Stock (millions of USD)														
External		7,758.1	6,393.2	6,872.8	7,520.0	8,209.3	8,022.9	4,685.9	5,793.2	6,256.4	7,802.0	8,736.9	9,093.9	10,665.1
Domestic		1,201.5	931.1	891.6	864.3	913.3	1,616.4	1,562.3	1,807.2	1,466.5	1,962.7	2,309.9	2,577.7	3,277.8
National Debt		8,959.6	7,324.3	7,764.4	8,384.3	9,122.6	9,639.3	6,248.2	7,600.4	7,722.9	9,764.7	11,046.8	11,671.6	13,942.9
Public Debt (excl. Private)		8,125.8	6,252.8	6,714.2	7,458.2	8,215.8	8,716.9	5,175.2	6,318.1	6,525.5	8,243.1	9,204.1	9,861.6	12,063.6
Public External Debt		6,924.3	5,321.7	5,822.5	6,593.9	7,302.6	7,100.5	3,613.1	4,510.9	5,059.0	6,280.5	6,894.2	7,283.9	8,785.8
External Debt service (EDS)		230.8	248.8	167.5	247.2	245.7	196.3	127.0	102.0	152.6	97.8	89.7	102.7	102.7
As percent of GDP														
National		88.0	70.6	71.9	71.9	71.1	67.3	43.7	45.1	37.4	45.2	47.7	48.4	49.0
External		76.2	61.6	63.6	64.5	64.0	56.0	32.7	34.4	30.3	36.1	37.7	37.7	37.5
Domestic		**11.8**	9.0	8.3	7.4	7.1	11.3	10.9	10.7	7.1	9.1	10.0	10.7	11.5
Public Debt		79.8	60.3	62.2	64.0	64.0	60.9	36.2	37.5	31.6	38.2	39.7	40.9	42.4
Public External Debt		68.0	51.3	53.9	56.6	56.9	49.6	25.3	26.8	24.5	29.1	29.7	30.2	30.9
Budget deficit		-1.3	-0.4	-1.2	-2.6	-4.9	-5.2	-5.3	-4.5	-4.5	-6.5	-6.5	-5.5	-4.8
Growth rates														
GDP (RHS)		6.0	6.0	7.2	6.9	7.8	7.4	6.7	7.1	7.4	6.0	7.0	6.4	6.9
External		-1.8	-17.6	7.5	9.4	9.2	-2.3	-41.6	23.6	8.0	24.7	12.0	4.1	17.3
Domestic		12.4	-22.5	-4.2	-3.1	5.7	77.0	-3.3	15.7	-18.9	33.8	17.7	11.6	27.2
National Debt		-0.1	-18.3	6.0	8.0	8.8	5.7	-35.2	21.6	1.6	26.4	13.1	5.7	19.5
Public Debt		-2.2	-23.1	7.4	11.1	10.2	6.1	-40.6	22.1	3.3	26.3	11.7	7.1	22.3
Public External Debt		-4.4	-23.1	9.4	13.2	10.7	-2.8	-49.1	24.8	12.2	24.1	9.8	5.7	20.6
Memorandum Items														
GDP (USD)		10,186.1	10,373.6	10,799.9	11,653.4	12,828.0	14,319.2	14,308.4	16,838.6	20,660.1	21,602.4	23,181.6	24,099.2	28,451.6
Budget deficit (TZS)		-129.0	-42.4	-129.4	-302.6	-623.8	-737.7	-755.6	-764.5	-935.1	-1,406.1	-1,515.0	-1,319.5	-1,352.3
EDS/Revenue		19.9	20.9	13.3	17.2	15.6	10.7	5.8	3.6	4.3	2.7	2.0	2.5	2.0
Exchange rate TZS/USD	EOP	803.3	916.3	976.3	1,063.6	1,043.0	1,165.0	1,261.6	1,132.1	1,280.3	1,313.3	1,453.5	1,566.7	1,571.6
	PA	800.4	877.3	967.1	1,028.9	1,089.3	1,129.2	1,253.9	1,244.1	1,196.9	1,306.0	1,365.7	1,557.4	1,571.7

Source: Bank of Tanzania
Note: EOP= End of Period
PA= Period Average

Appendix 5: Micro-lending in the Banking System

		Mar-12	Jun-12	Dec-12	Mar-13
Borrowers					
Number			531,942	535,137	616,167
Outstanding Microloans by Sector					
Industry	**Items**	**Amount in Millions of TZS**			
Manufacturing	Food Processing	1,609	3,660	13,499	14,275
	Animal Feed		472	701	711
	Carpentry		751	1,000	856
	Textile		935	7,428	9,056
	Others	4,648	10,360	13,197	11,507
	Sub Total	**6,257**	**16,178**	**35,825**	**36,405**
Services	Public Service	673	89,233	170,910	217,186
	Financial Services	3,989	22,266	38,313	33,739
	Transport	2,855	10,833	11,624	11,373
	Others	97,746	1,183,144	1,181,759	1,194,852
	Sub Total		**1,305,480**	**1,402,605**	**1,457,149**
Small Scale Agriculture	Crop	45,536	60,723	87,054	116,039
	Horticulture		200	379	380
	Animal husbandry	198	1,084	1,922	1,959
	Fishery		184	267	174
	Forestry		187	168	158
	Others	458	7,862	5,526	5,276
	Sub Total	**46,192**	**70,241**	**95,316**	**123,986**
Trade	Shops	2,308	202,569	217,738	228,407
	Medical Store	71	2,445	2,519	2,487
	Restaurant/Hotel	2,441	15,685	16,173	15,141
	Others (Specify)	85,609	62,593	72,793	114,737
	Sub Total	**90,434**	**283,248**	**309,223**	**360,772**
	Total Loans	**248,147**	**1,675,148**	**1,842,969**	**1,978,313**

Source: Bank of Tanzania

Appendix 6: Organogram of the Directorate of Financial Stability