MOFP_URT MOFP RGoZ

TANZANIA FINANCIAL STABILITY FORUM

TANZANIA FINANCIAL STABILITY REPORT

March 2018

ISSN 1821-7761

For enquiries and comments contact
Directorate of Financial Stability
Bank of Tanzania
2 Mirambo Street
P.O. Box 2939
11884, Dar es Salaam
Tel: +255 22 223 3471/2
Fax: +255 223 4076
http://www.bot.go.tz

TABLE OF CONTENTS

LIST OF CHARTS, TABLES AND BOXES

CHARTS

TABLES

BOXES

APPENDICES

LIST OF ACRONYMS

ACA	-	Acacia mining Plc
ATMs	-	Automated Teller Machines
CMSA	-	Capital Markets and Securities Authority
CRDB	-	CRDB Bank Plc
DCB	-	DCB Commercial Bank Plc
DFI	-	Development Finance Institutions
DIB	-	Deposit Insurance Board
DSE	-	Dar es salaam Stock Exchange
EABL	-	East African Breweries Limited
EMEs	-	Emerging Market Economies
GDP	-	Gross Domestic Product
GPW	-	Gross Premium Written
HHI	-	Herfindahl Hirschman Index
IFRS	-	International Financial Reporting Standard
IMF	-	International Monetary Fund
IPO	-	Initial Public Offer
JHL	-	Jubilee Holdings Limited
KA	-	Kenya Airways Limited
KCB	-	KCB Group
MBL	-	Maendeleo Bank Plc
MCB	-	Mwalimu Commercial Bank
MFB	-	Microfinance Bank
MKCB	-	Mkombozi Commercial Bank Plc
MuCoBa	-	MUCOBA Bank Plc
NAV	-	Net Asset Value
NFCs	-	Non-Financial Corporates
NMG	-	Nation Media Group
NPLs	-	Non- Performing Loans
PAL	-	Precision Air Services Plc
PLC	-	Public Limited Company
POS	-	Point of Sale
RoI	-	Return on Investment
SMEs	-	Small and Medium Enterprises
SSA	-	Sub-Saharan Africa
SWALA	-	Swala Oil and Gas (Tanzania) Plc
SWISS	-	Swissport Tanzania Plc
USL	-	Uchumi Supermarkets Ltd
TACH	-	Tanzania Automated Clearing House
TBL	-	Tanzania Breweries Limited
TCC	-	Tanzania Cigarette Company Limited
TCCL	-	Tanga Cement Company Plc
TICL	-	TCCIA Investment Plc
TIRA	-	Tanzania Insurance Regulatory Authority
TISS	-	Tanzania Interbank Settlement System

TMRC	-	Tanzania Mortgage Refinancing Company
TOL	-	TOL Gases Limited
TPCC	-	Tanzania Portland Cement Company Ltd
TRWA	-	Total Risk Weighted Assets
TTP	-	Tatepa Limited
TZS	-	Tanzania Shilling
USD	-	United States Dollar
VODA	-	Vodacom Tanzania Limited
YETU	-	Yetu Microfinance Bank

FOREWORD

The March 2018 Report is released at the time when the global economy is strengthening but new risks are emerging. Trade tensions among major economies are threatening gains from globalisation, while ongoing monetary policy tightening could squeeze global financial markets, both of which could potentially weaken Tanzanian shilling and negatively affect banking sector balance sheet.

The country's financial system vulnerability has eased relative to September 2017, with quality of asset in the banking sector improving and credit growth showing some recovery. We expect the momentum to continue, supported by regulatory measures reflected in the Bank's February 2018 circular, which required banks to enhance credit risk management and clean up their balance sheets. We have also put in place a mechanism to ensure smooth transition to International Financial Reporting Standard 9, which has the potential to increase levels of impairment in the banking sector.

Equity market is showing better performance, with rising share prices and growth in trading activity, boosting market capitalisation of the Dar es Salaam bourse. Measures taken by Tanzania Insurance Regulatory Authority on premium payment are improving liquidity position of insurance companies, while conclusion of legislative process to merge pension funds in January 2018, will pave way for operational efficiency, coverage and sustainability.

Government initiative to consolidate financial sector reforms through a National Financial Sector Development Master Plan will create financial sub-sector efforts synergy and foster financial inclusion, consumer protection and long-term development finance. The Financial Sector Assessment Programme concluded in May 2018, will also contribute to that end, with members of Tanzania Financial Stability Forum playing a central role in its implementation.

Prof. Florens D.A.M. Luoga

Governor and Chairman of Tanzania Financial Stability Forum
March 2018

EXECUTIVE SUMMARY

Global economy continued to record strong growth, but trade tensions are threatening its momentum. Global economy grew by 3.8 percent in 2017, the highest in the past six years. The momentum is expected to remain on course in 2018, anchored by higher consumption and buoyant manufacturing activities in advanced economies except for the UK economy, which continued to be affected by Brexit uncertainties. Furthermore, firm commodity prices and favourable financial conditions are boosting emerging markets and developing economies output, thereby contributing positively to the global economy. Accordingly, the IMF projects the global economy to grow by 3.9 percent in 2018. Nevertheless, ongoing normalization of monetary policy in the United States and the United Kingdom, and anticipation of other central banks policy actions may intensify uncertainty in the global financial markets and trigger currency volatility. Protectionism sentiments are mounting, threatening to slow global trade, while geopolitical risks and oil production cap by major producers may further increase oil prices and exert inflationary pressure across economic blocks.

Higher commodity prices and favourable weather conditions boost growth prospects in Sub-Saharan Africa, but new risks are emerging. Regional growth is projected to gain momentum in 2018, reaching 3.4 percent from 2.8 percent in 2017. This is largely driven by strong external demand and higher commodity prices that will support economic activity including those of the region’s major players; Nigeria, Angola and South Africa. Moody’s decision to maintain credit rating for South Africa in March 2018, paves the way for a sustained recovery in business and consumer confidence eroded in September 2017; nevertheless, credible economic reforms remain necessary to foster economic growth. On the other hand, exchange rate distortions and slow pace in fiscal reforms could dampen ongoing recovery and business confidence in Nigeria and Angola, respectively. Economic activity in other countries in the region including Ghana, Ethiopia, Tanzania and Cote d’Ivoire are expected to pick up, supported by a combination of improved agricultural harvest and commodity prices that are bolstering the external sector, and large-scale infrastructure projects. Despite the positive outlook, risks remain; trade tensions could negatively affect the region’s exports; combined with potential squeeze in the global financial markets may lead to foreign exchange and debt servicing pressures.

Domestic macroeconomic environment is expected to remain strong, but vulnerable to external shocks. The economy maintained its strong growth path, growing at 7.1 percent in 2017, close to 7.0 percent recorded in 2016. The favourable economic performance emanated from the impact of good weather, which boosted agricultural activity, higher commodity prices and ongoing infrastructure projects. The growth trajectory is expected to continue with large-scale infrastructure investment and improved power generation adding to the momentum. In addition, healthy external sector is expected to support exchange rate stability. Headline inflation continued to ease in the six months to end of March 2018, in line with developments in food prices, recording 3.9 percent in the year ending March 2018, the lowest rate attained in more than a decade. However, potential oil price increase, together with tightening of the global financial conditions may trigger foreign exchange volatility, which in turn may exert inflationary pressure, and make repayments of US dollar denominated debt expensive.

Interest rate in the interbank cash markets (IBCM) continued to soften, lowering banks' cost of funds, while overall Treasury bill rate almost halved in March 2018, when compared with September 2017, signaling relatively high liquidity in the banking system. The decline in cost of funds, combined with decisions by some banks to reduce their lending rates and introduction of new loan products, may enhance credit growth to the private sector going forward.

Risk emanating from Non-Financial Corporates (NFC) moderated due to increased use of internal source of financing. Overall, NFC survey conducted in January 2018 revealed that corporates experienced tighter terms and conditions in accessing credit as well as unfavourable business conditions in 2017, which is consistent with their previous perception reported in 2016 survey. Firms expect improvement in general performance in 2018; citing continued recovery of global demand and commodity prices, and business environment as the main reasons for their expectations. This is consistent with their perceived funding structure where retained earnings will remain the main source of financing followed by subsidies from parent companies, a development that may reduce firms' debt burden and potential credit risk.

Banking sector remained stable, despite assets quality concerns. In aggregate terms, capital and liquidity ratios were at 18.7 percent and 39.6 percent in March 2018, above regulatory requirements of 10.0 percent and 20.0 percent, respectively. Asset quality recorded some improvement, but NPLs ratio remained high at 11.5 percent compared with the desired level of 5.0 percent. The sector remained profitable although there was a declining trend partly reflecting shift in banks' lending towards low risk assets, which earned low returns and rising operational costs. Profitability is expected to improve in the medium term as banks increase credit offered to the private sector, and implement the Bank's directives, which among others required banks to enhance credit risk management. However, implementation of IFRS 9, which took effect in January 2018, may increase the level of impairment and limit the expectation. Cognizant of this development, the Bank allowed banks and financial institutions to spread the excess impairment equally over a period of three years.

The sector exhibited low foreign exchange risk, reflected by matching of foreign currency denominated assets and liabilities, translated to a net open position of 0.8 percent as at end of March 2018, which was within the regulatory limit of +/- 7.5 percent. On the other hand, concentration of loans and deposits for the top 10 largest banks continue to subsist, reflecting dominance of corporate clients and ability of large banks to meet the capital requirement commensurate with risk levels.

Capital and securities markets recorded strong performance, reflected by share price indices and turnover, albeit with rising concentration risk. During the six months to end of March 2018, the Tanzania Share Index recorded growth, largely driven by share appreciation of industrial companies (TBL and TCC) and one bank (NMB). The share appreciation together with the listing of TCCIA Investment Company Limited contributed to growth of the total market capitalization by 10.1 percent to TZS 10,728.5 billion. TBL and CRDB shares continued to be the most actively traded stock, accounting for 94.2 percent of the total market turnover, mainly reflecting good performance and dividend payout. In addition, foreign investors have been active in the DSE, averaging 97.5 percent of equity market turnover with more participation leaning on the buying side, adding liquidity to the market. Nevertheless, dominance of few companies in the DSE daily trading and growing shares holding by non-residents exposes the bourse to liquidity risk in case of shocks to these companies or non-resident exit. A risk management system is in place to monitor daily trading activities to mitigate the potential risks.

Insurance sector remained profitable and adequately capitalized, with improved liquidity. The solvency ratios for both life and general insurance were 52.7 percent and 26.6 percent, being above the minimum prudential requirement of 25.0 percent and 8.0 percent, respectively. The level of liquidity for general insurance recorded some improvement but was below the minimum prudential limit. The noted improvement in liquidity was partly due to implementation of directive that require policyholders to make direct payment of premiums to insurers effective July 2017.

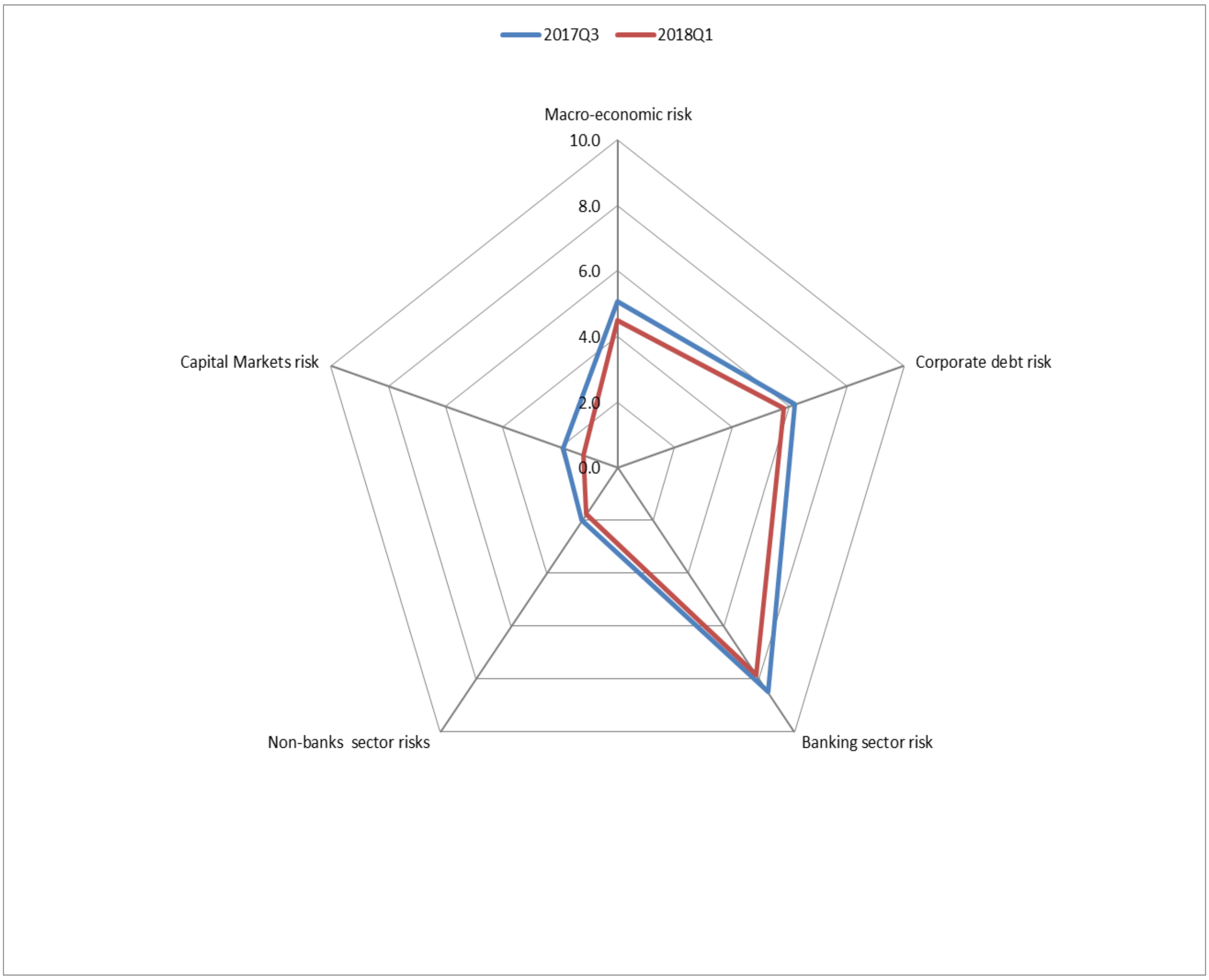
In addition, a regulatory change that require Tanzania residents to engage locally registered companies as primary insurers for all policies is expected to partially offset premiums loss resulting from the shift of health insurance arrangements for parastatals from insurance companies to the National Health Insurance Fund, which falls under social security sector.

Social security sector in Tanzania Mainland continued to grow in terms of assets. Total assets of the sector grew by 9.2 percent to TZS 12,367.8 billion in the year ending March 2018, compared to corresponding period of 2017, mainly attributed to members' contributions and earnings from government securities, which accounted for the lion's share of the sector investment at 30.0 percent; and appreciation of share prices. The investment portfolio remained broadly unchanged, with a notable decline in loans to government. As at end of March 2018, dependency ratio remained relatively stable, at around 11 times, indicating sustained ability of the sector to finance members' benefits, while administration expenses was within the regulatory limit of 10.0 percent.

Zanzibar Social Security Fund recorded growth in the ratio of contribution income to benefit payments from 1.8 times to 2.3 times during nine months to end of March 2018, following amendment of the ZSSF Act, 2016, which raised the contribution rates for both employers and employees and revised the computation formula for gratuity and pension benefits. The amendments raised the contribution rate for employer from 10.0 percent to 13.0 percent and that of employees from 5.0 percent to 7.0 percent.

In conclusion, risk emanating from global environment declined during the six month to end of March 2018, thus posing low risk to the domestic financial system. The banking sector exposure to credit risk remained moderate as depicted by decline in NPLs as well as non-financial corporate indebtedness. In the same vein, performance in the capital and equity markets improved, reducing non-bank financial institutions exposure to market risk. The outlined assessment is depicted in the Financial Stability Risk Map, with five risk assigned scores range from a minimum of one, a maximum of 10 based on their significance to the financial system, and probability of occurring based on historical trends and professional judgement.

Financial stability risk map



Box 1: Financial system stability index

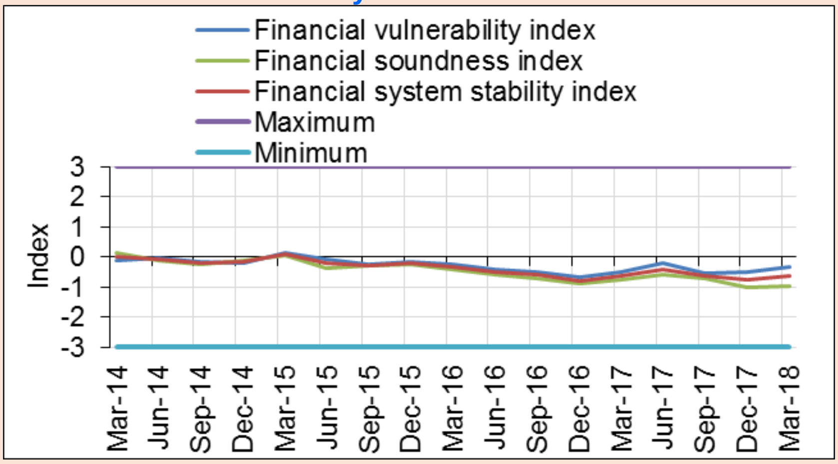
Introduction

The Financial System Stability Index (FSSI) is a macro-prudential and early warning indicator that measures stability of the financial system. The Index uses financial market data and banking sector prudential indicators measuring capital, assets quality, earnings indicators and liquidity. The indicators are transformed into a composite index using standardised common scale on the assumption that the data are normally distributed. For a stable financial system, the index should evolve within three standard deviations (+3 and -3).

Developments in financial system stability index.

During September 2017 to March 2018, the Index hovered around historical mean as depicted in **chart 1**, indicating that overall, the financial system remained resilient to short term vulnerabilities, although declined to -0.6 percent as at the end of March 2018 from -0.3 percent as at end of September 2017. The development was attributed to a decline in profitability as well as temporary volatility of the Tanzanian Shilling against the US dollar experienced in the quarter ending March 2018.

Chart 1: Financial stability index



***Source**: Bank of Tanzania*

Financial stability outlook

Global economy is expected to maintain its momentum in 2018, underpinned by improvement in domestic demand and strong manufacturing activity across major economies, which together with higher commodity prices and relatively favourable financial conditions, will boost emerging markets and developing economies output. Nevertheless, geopolitical risks and protectionism sentiments are clouding the outlook. In the domestic economy, concerns on banks' asset quality and the impact of the adoption of IFRS 9 remain, but favourable macroeconomic developments and measures taken by the Bank are expected to lower credit risk and mitigate the effects of IFRS 9 during the transition.

The sustained good performance in the equity market and new IPOs are likely to increase market capitalisation, but the concentration of few companies in the DSE daily trading and dominance of foreign investors expose the bourse to liquidity risk in the event of shocks to these companies or non-resident exit, thus warranting close monitoring to mitigate the risk.

The insurance sector is poised to gain from direct payment of premiums to insurers by policyholders, and regulatory changes that require Tanzania residents to engage locally registered companies as primary insurers for all policies. This will partly offset cash flow shortfalls resulting from the shift of health insurance arrangements for parastatals from insurance companies to the National Health Insurance Fund. Reforms in the social security sector are expected to enhance actuarial sustainability, streamline administrative costs and expand outreach by taking advantage of technological innovations.

1.0 MACROECONOMIC AND FINANCIAL ENVIRONMENT

1.1 Global economic developments

Global economy remained resilient, albeit with risks arising from trade protectionism. Global economy posted strong growth in 2017 at 3.8 percent, the highest in the past six years. The momentum remained strong at the beginning of 2018, and is expected to continue for the rest of the year, benefiting from robust global trade flows, resilient domestic spending and relatively supportive financial conditions in most of large economies including US, Japan, Euro area and China. Accordingly, the IMF[1] estimate the global economy to grow by 3.9 percent in 2018 (**Table 1.1**). Nevertheless, a further escalation in trade conflicts between major economies, rising geopolitical tension and unanticipated tightening of monetary policy may intensify uncertainty in the global financial markets and investment plans, and reverse the ongoing growth momentum.

Table 1.1: Global real GDP growth and projections

Percent

	2011	2012	2013	2014	2015	2016	2017	Projections 2018	Projections 2019
World	**4.2**	**3.4**	**3.3**	**3.4**	**3.4**	**3.2**	**3.8**	**3.9**	**3.9**
Advanced Economies	**1.7**	**1.2**	**1.1**	**1.8**	**2.1**	**1.7**	2.3	**2.5**	**2.2**
United States	1.6	2.2	1.7	2.4	2.6	1.5	2.3	2.9	2.7
Euro Area	1.6	-0.8	0.3	0.9	2.0	1.8	2.3	2.4	2.0
Japan	-0.1	1.5	2.0	0.3	1.2	1.0	1.7	1.2	0.9
United Kingdom	1.5	1.3	1.9	3.1	2.2	1.5	1.8	1.6	1.5
Emerging Market & Developing Economies	**6.3**	**5.2**	**5.0**	**4.6**	**4.2**	**4.3**	**4.8**	**4.9**	**5.1**
China	9.5	7.9	7.8	7.3	6.9	6.7	6.9	6.6	6.4
Sub-Saharan Africa	**5.0**	**4.3**	**5.2**	**5.1**	**3.4**	**1.4**	**2.8**	**3.4**	**3.7**
South Africa	3.3	2.2	2.5	1.7	1.3	0.6	1.3	1.5	1.7

***Source**: IMF, World Economic Outlook, April 2018*

In advanced economies, growth is firming up, supported by accommodative macro-economic environment. Output growth is projected at 2.5 percent in 2018 from 2.3 percent in 2017; with the US economy showing strength supported by a rise in employment and corporate tax cut, which are accelerating household consumption and private investment, respectively (**Table 1.2**). Growth in the Euro area and Japan is expected to remain resilient, benefitting from favourable external and domestic demand, accommodative monetary policy and firm investment. In the UK, growth trajectory is expected to remain on the recovery path as ease monetary policy and strong export

[1] World Economic Outlook, April 2018

growth partially cushion Brexit adverse effect on economic activity. Deflationary pressures are easing, opening the possibility for the central banks to accelerate tightening of monetary policy, which could affect cost of borrowing in the global markets, thus reducing corporates profit margins. Growing US protectionism policies are prompting other countries to retaliate, a move that could limit trade flows.

Table 1.2: GDP growth for selected countries

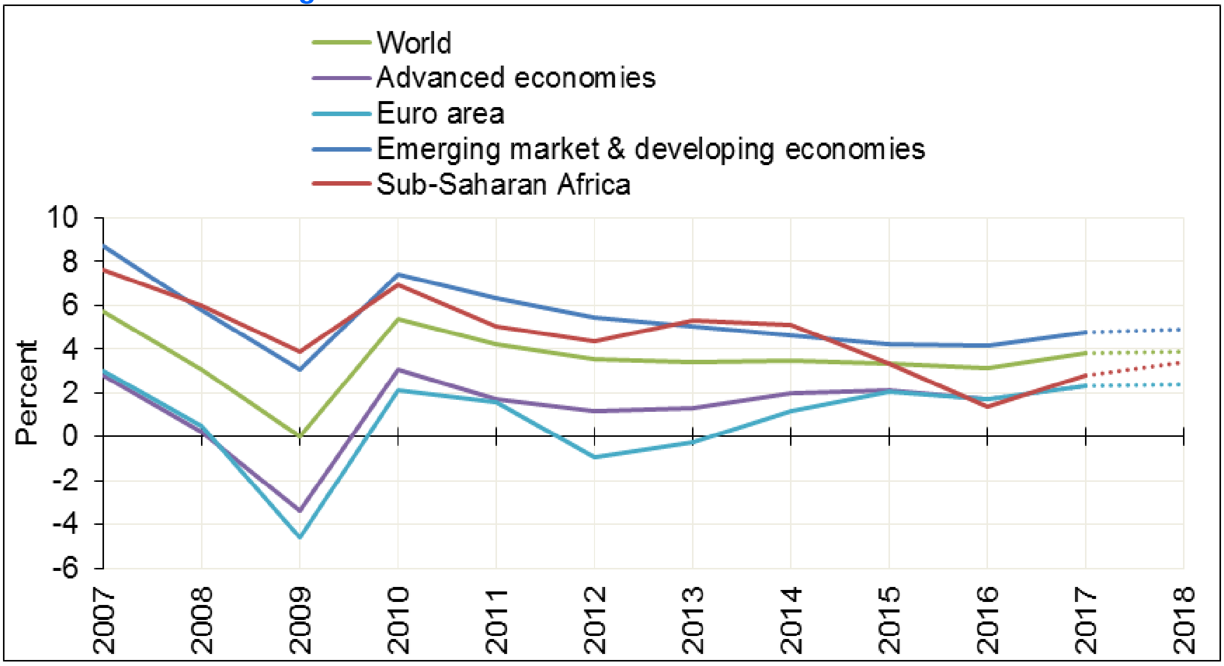
Percent

	2016				2017				2018
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Germany	1.8	1.9	1.9	1.9	2.1	2.3	2.7	2.9	2.3
Japan	0.6	0.8	0.9	1.5	1.3	1.6	2.0	2.0	1.1
United Kin	1.9	1.8	2.0	2.0	2.1	1.9	1.8	1.4	1.2
United Sta	1.4	1.2	1.5	1.8	2.0	2.2	2.3	2.6	2.8
Brazil	-5.0	-3.8	-2.7	-2.4	-0.5	0.8	1.5	2.2	1.6
China	6.7	6.7	6.7	6.8	6.9	6.9	6.8	6.8	6.8
India	8.9	8.1	7.5	7.0	6.0	6.0	6.4	6.9	7.4
Indonesia	5.0	5.1	5.1	5.0	5.0	5.1	5.1	5.1	5.1
Russia	-1.3	-0.5	-0.6	0.3	1.2	2.5	2.7	1.5	..
South Afric	-0.6	0.8	1.0	1.0	1.1	0.9	1.3	1.9	1.5
Euro Area	1.7	1.7	1.7	2.0	2.1	2.5	2.8	2.8	2.5

Source: *OECD*

Growth in emerging markets and developing economies continued to improve but remain vulnerable to changes in global financial conditions and trade disputes. Growth is expected to pick up to 4.9 percent in 2018 from 4.8 percent in 2017, supported by robust global growth, which is boosting demand for goods and buoyant domestic consumption (**Chart 1.1**). Eased financial conditions, resilient economic growth in China and India together with ongoing recovery in Russia and Brazil are all pointing to a better prospect for developing countries. Low funding cost and eased global financial conditions may increase short-term risks due to rapid credit expansion, thus raise household and non-financial corporate debt level and escalation of property prices. This may eventually affect banking and corporate sector balance sheets. Trade tensions are threatening trade flows while winding up of accommodative monetary policy in some of the advanced countries may trigger net capital outflows, thus putting pressure on regional currencies.

Chart 1.1: World GDP growth rates



Source: *IMF, World Economic Outlook Database, April 2018*
Note: *Dotted lines denotes projections*

Firm commodity prices and improved weather conditions are boosting growth prospects in Sub-Saharan Africa, but new risks are emerging. Regional growth is projected to accelerate in 2018, reaching 3.4 percent from 2.8 percent in 2017. The outlook is supported by strong global growth, good agricultural harvest and higher commodity prices that are boosting income and stimulate economic activities including those of the region's major players, Nigeria, Angola and South Africa. Moody's decision to maintain credit rating for South Africa in March 2018 paves the way for a sustained recovery in business and consumer confidence eroded in September 2017; nevertheless, credible economic reforms remain necessary to foster economic growth. Meanwhile, exchange rate distortion and slow pace in fiscal reforms could dampen the ongoing recovery and confidence in Nigeria and Angola, respectively. Economic activity in other small countries including Ghana, Ethiopia, Tanzania and Cote d'Ivoire are expected to pick up, supported by a combination of better agricultural output, firmer commodity prices that are bolstering the external sector, and strong public spending in infrastructure. However, the current global trade tensions and tighter global financial markets are likely to exert pressure in the foreign exchange markets and increase debt-servicing costs across countries.

Tighter global financial conditions and trade tensions pose potential risks to growth in the EAC region. Overall, the region experienced a slowdown in economic growth in 2017, although Tanzania and Rwanda recorded strong growth (**Table 1.3**).

Table 1.3: EAC GDP growth rates

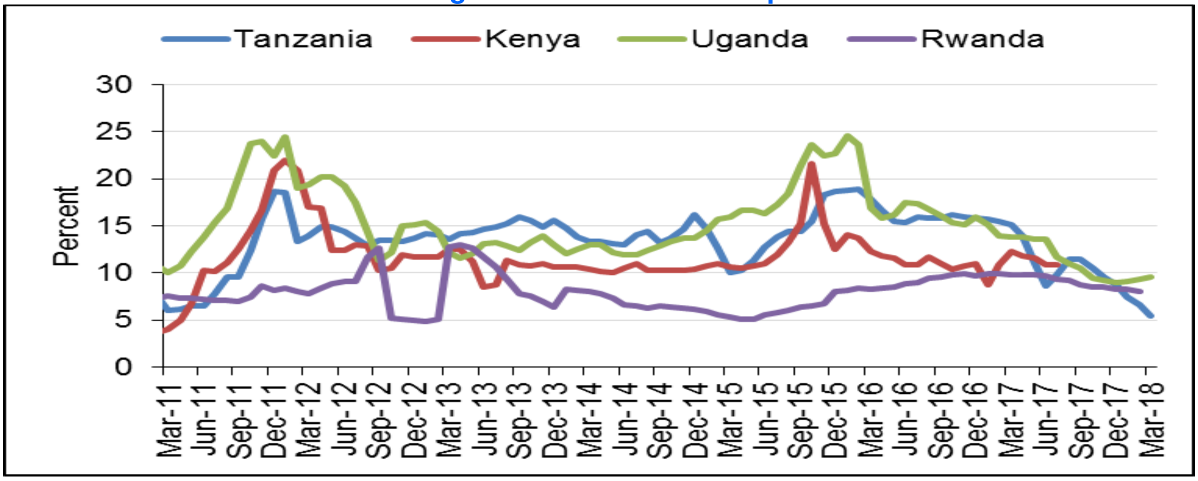
Percent

	2011	2012	2013	2014	2015	2016	2017	2018*
Kenya	6.1	4.6	5.9	5.4	5.7	5.8	4.8	5.5
Rwanda	7.8	8.8	4.7	7.6	8.9	6.0	6.1	7.2
Tanzania	7.9	5.1	7.3	7.0	7.0	7.0	7.1	7.2
Uganda	6.4	6.5	6.1	5.9	5.7	5.1	4.4	4.9
Burundi	4.0	4.4	5.9	4.5	-4.0	-1.0	0.0	0.1
South Sudan	-	-52.4	29.3	2.9	-0.2	-3.1	-16.6	-6.7

Source: *Regional Economic Outlook, April 2018 and Bank of Tanzania*
*Note: * means projection*

The region experienced severe drought, which affected agricultural output, a drop in credit growth and slowdown in the execution of externally financed public investments (**Chart 1.2)**.

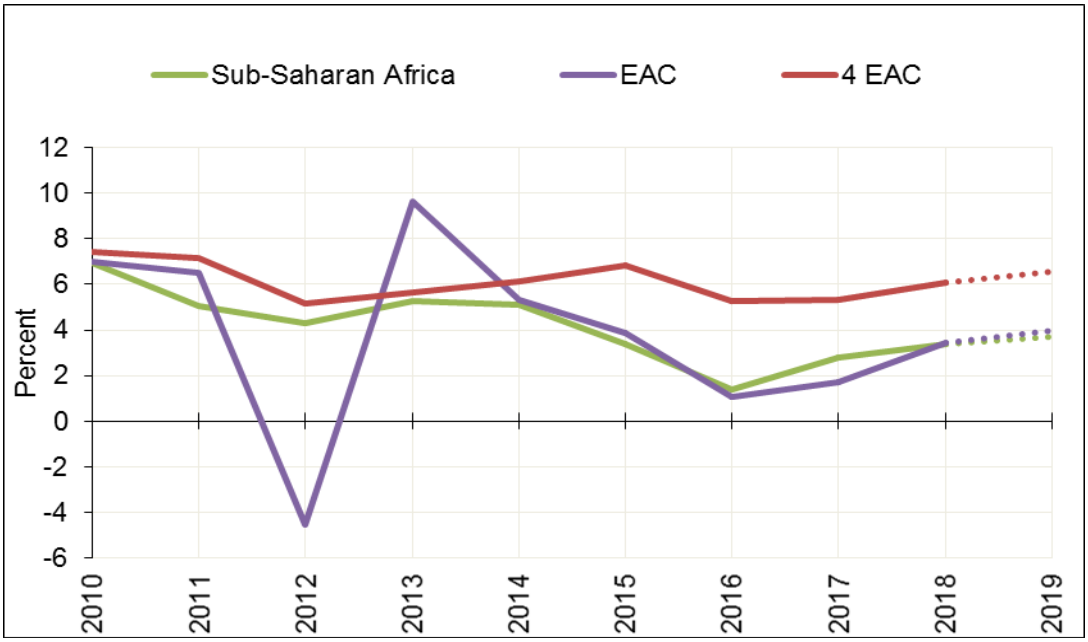
Chart 1.2: Selected EAC annual growth of credit to the private sector



Source*: Bank of Tanzania*

Growth is expected to increase in 2018, aided by the scaling up of governments' infrastructure spending, higher commodity prices and improved weather conditions, which will help to boost agricultural output. In addition, resolution of post-election tensions and expected removal of the interest rate cap on lending rates charged by commercial banks' in Kenya will reinforce the overall positive regional outlook (**Chart 1.3**).

Chart 1.3: Economic growth in Sub-Saharan Africa and EAC

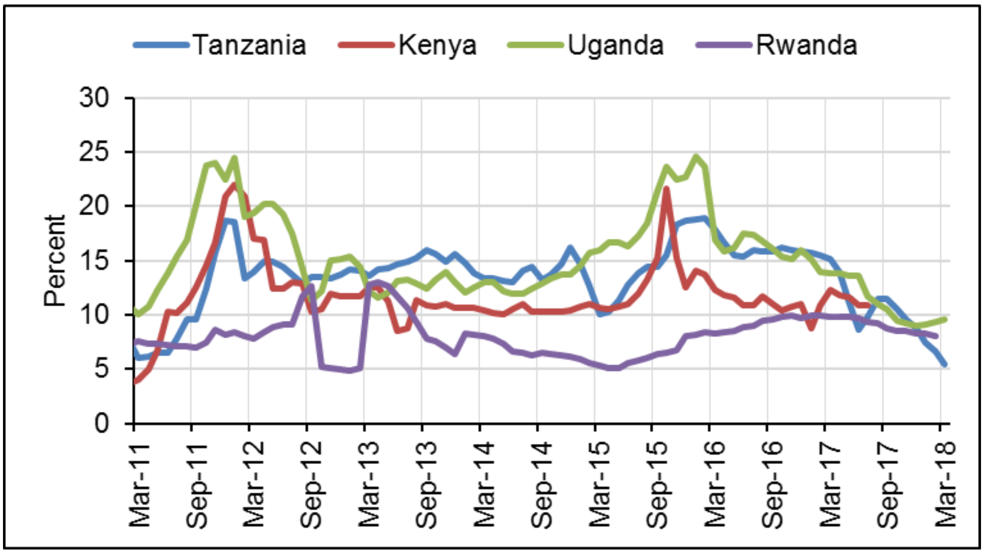


Source: *Bank of Tanzania*

Note: 4-EAC refers to Kenya, Rwanda, Tanzania and Uganda.

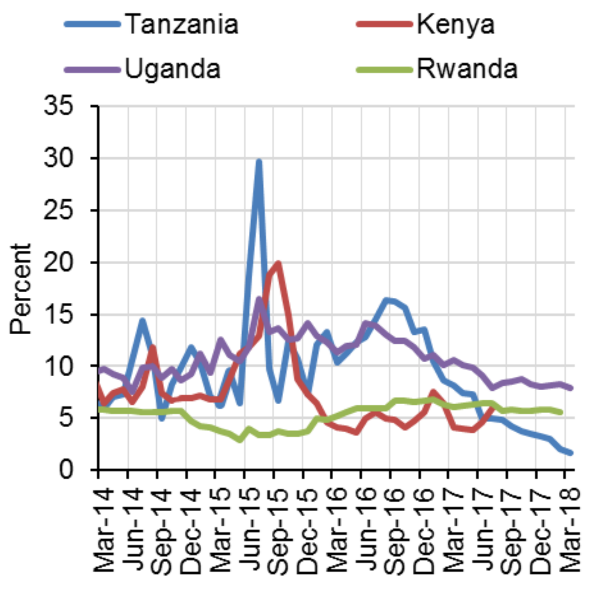
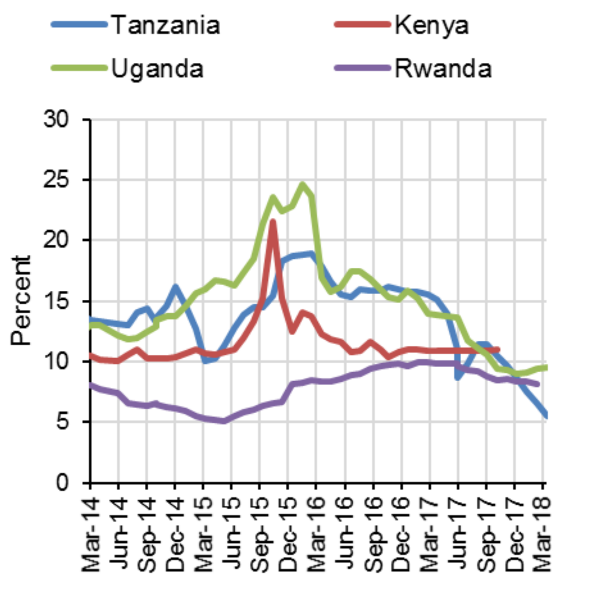
Inflation remained low at single digit in six months to end of March 2018, except for Burundi. The benign inflationary environment reflects falling food prices due to good harvest and the fading impact of the past drought especially in Kenya and Rwanda (**Chart 1.4**). As inflationary pressure eased, central banks pursued accommodative monetary policy, in part to stimulate credit to the private sector.

Chart 1.4: 5 EAC countries inflation



Source*: Bank of Tanzania*

Cost of funding in the wholesale cash market for the six months to March 2018 remained moderate and yields on government securities declined consistent with the monetary policy stance across countries (**Chart 1.5 & Chart 1.6**). Exchange rates remained broadly stable owing to favourable global financial conditions and higher export earnings.

Chart 1.5: 4 EAC overall interbank rate	**Chart 1.6: 4 EAC weighted average yield for T-bills**
	

Source: *Bank of Tanzania.*

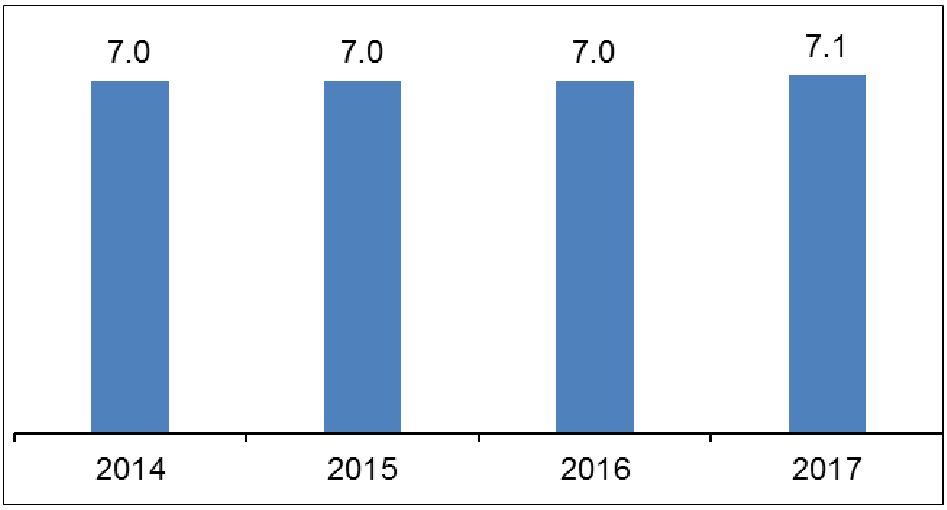
Despite the positive outlook, tightening of global financial conditions may increase the cost of external debt servicing and of new lending facilities, which in turn may adversely affect viability of infrastructure projects and growth prospects. Trade disputes among major economies may affect regional exports, while geopolitical tensions could further reduce global oil production and trigger inflationary pressure.

1.2 Domestic macroeconomic and financial environment

Domestic macroeconomic environment is expected to remain strong, but vulnerable to external shocks. The economy grew by 7.1 percent in 2017, compared with 7.0 percent in 2016, underpinned by rising commodity prices, ongoing infrastructure projects and improved weather condition (**Chart 1.7**).

Chart 1.7: Annual GDP growth rates

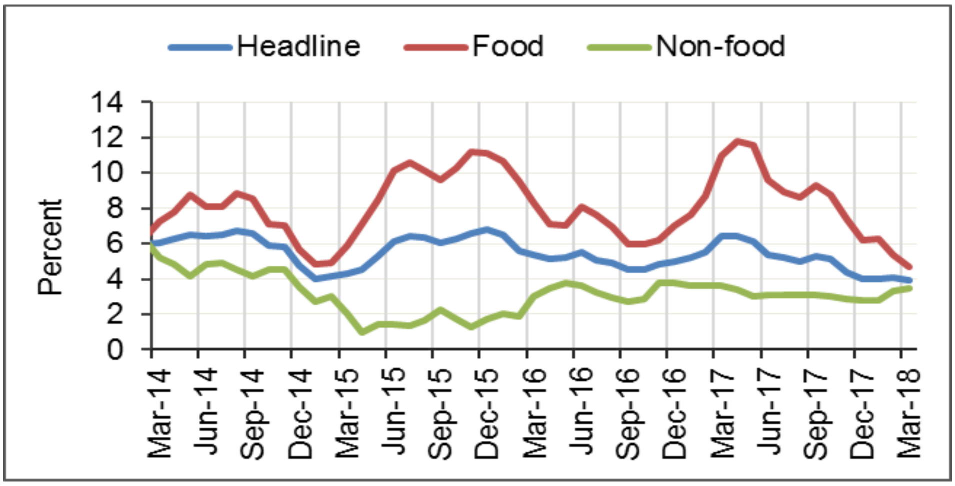
Percent



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

Growth is projected to remain strong at 7.2 percent, driven by higher public spending in infrastructure projects including construction of phase one of standard gauge railway from Dar es Salaam to Morogoro, improved power generation and increased export earnings, which will support exchange rate. Inflation reached 3.9 percent in March 2018, the lowest rate attained in more than a decade, in line with slower rate of increase in food prices, and prudent fiscal and monetary policies (**Chart 1.8**).

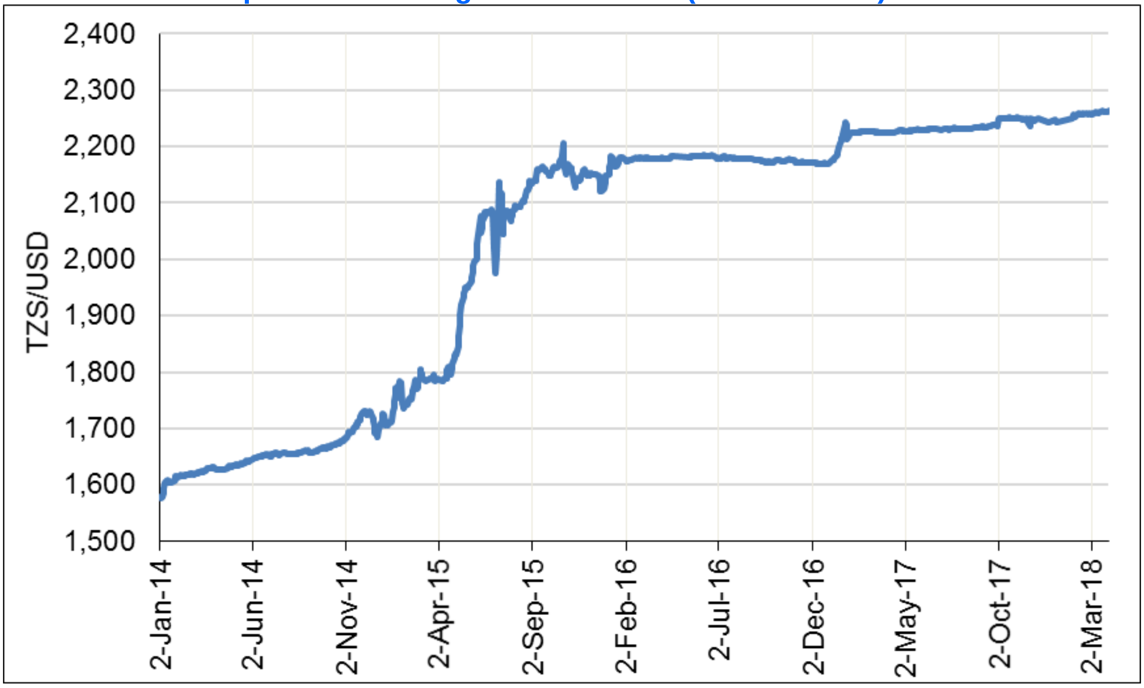
Chart 1.8: Domestic inflation developments



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

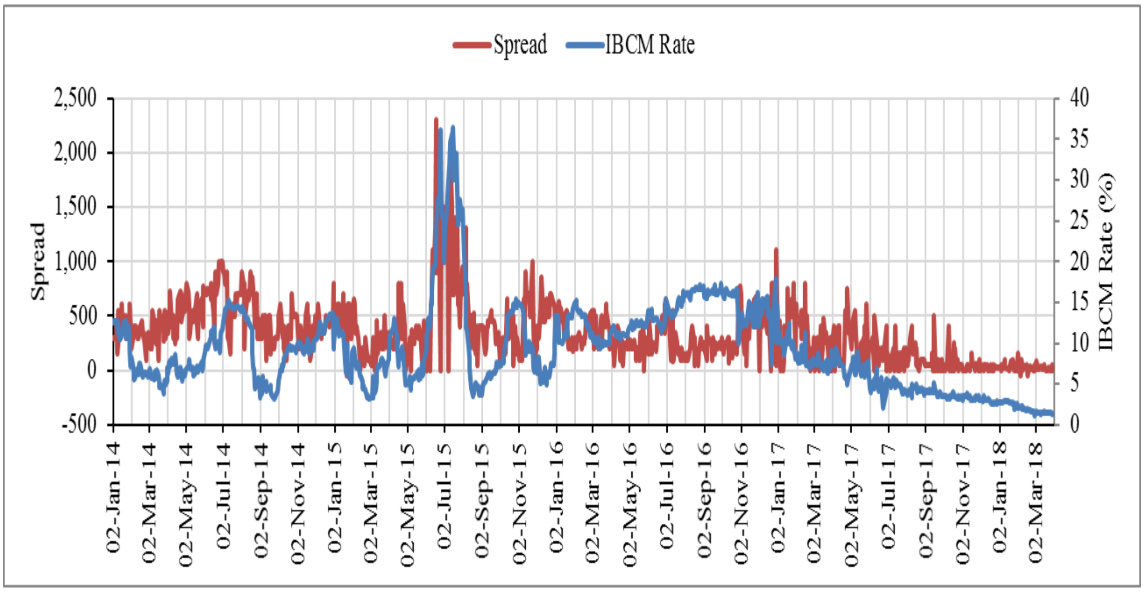
Prudent policies helped to stabilize the exchange rate (**Chart 1.9**) and narrowed the interest rate spread in the interbank cash market (IBCM) to 21.4 basis points in March 2018 from 65.0 basis points in September 2017, reducing banks' exposure to market risks (**Chart 1.10**).

Chart 1.9: Development of TZS against US dollar (Jan2010=100)



Source: *Bank of Tanzania.*

Chart 1.10: Interbank Cash Market rate

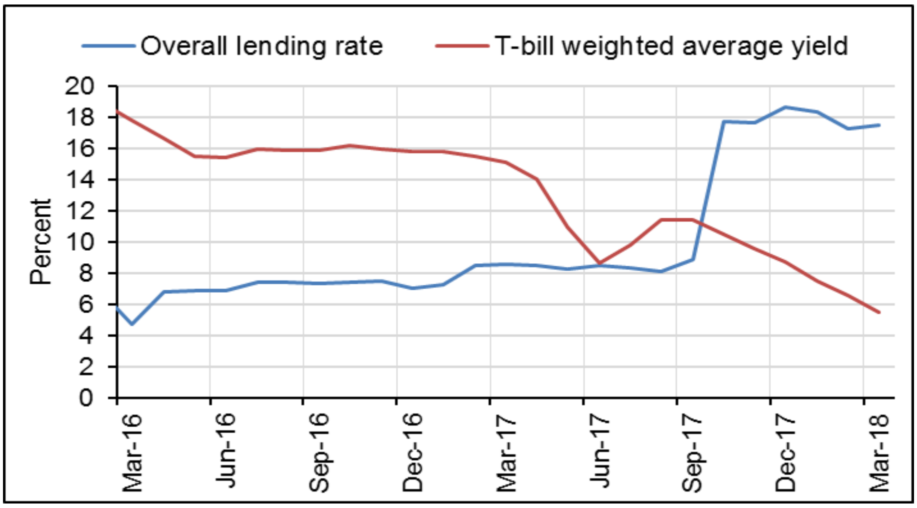


Source: *Bank of Tanzania.*

In addition, weighted average yields in the Treasury bill market declined throughout the period, while lending rates have started to decline, partly reflecting eased monetary conditions and declining risk premium (**Chart 1.11**).

However upside risks remain, rising geopolitical tensions in the Middle East may further limit oil supply and push up oil prices, which together with tighter global financial conditions may amplify currency volatility, causing inflationary pressure to build, and increasing public and private sector cost of foreign currency denominated loans.

Chart 1.11: One-year lending rate and WAY for T-bills



Source: *Bank of Tanzania.*

External debt remained sustainable, but rising level of non-concessional borrowing exposes the country to interest rate risk. Debt Sustainability Analysis, conducted in November 2017, using data of end June 2017, showed that the present value of external debt to GDP ratio was 19.7 percent, below the international sustainability threshold of 40.0 percent (**Table 1.4**).

Table 1.4: Tanzania's External and Public DSA Indicators

External DSA	Threshold	2017/18	2018/19	2019/20
PV of debt-to GDP ratio	40	19.7	19.8	19.0
PV of debt-to-exports ratio	150	81.8	83.2	80.7
PV of debt-to-revenue ratio	250	117.1	117.3	110.1
Debt service-to-exports ratio	20	9.3	8.2	10.1
Debt service-to-revenue ratio	20	13.3	11.6	13.8
Fiscal DSA				
PV of Debt-to-GDP Ratio	56	34.4	33.0	31.2
PV of Debt-to-Revenue Ratio	N/A	194.5	183.9	170.7
Debt Service-to-Revenue Ratio	N/A	26.3	23.0	25.2

Source: *Bank of Tanzania.*

However, increased share of non-concessional external debt over the past few years exposes the country to global interest rate movements and foreign exchange risks (**Table 1.5**).

Table 1.5: Concessional and non-concessional public debt

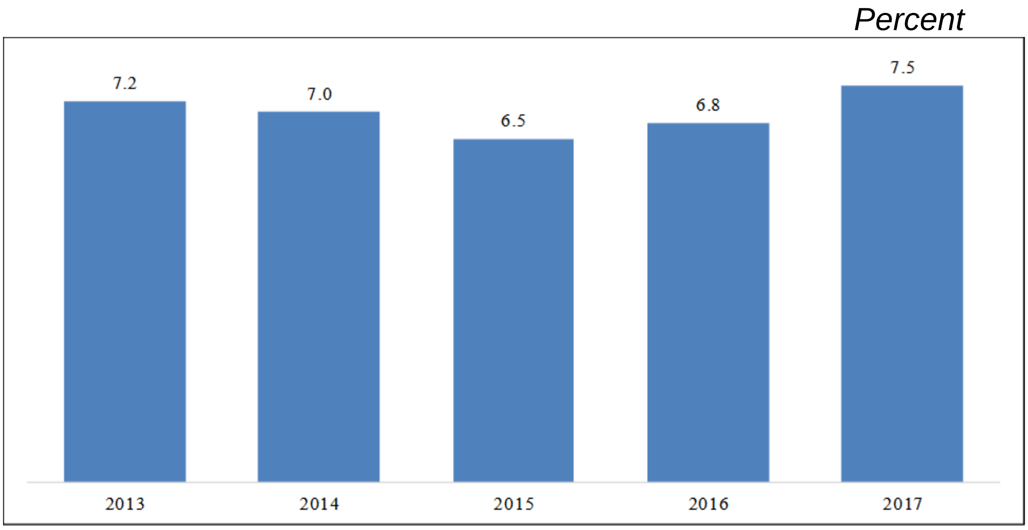
USD Million

	March, 2015		March, 2016		March, 2017		March, 2018	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Concessional	7,464.6	68.8	8,164.3	67.5	8,860.9	67.1	9,436.0	64.1
Non-Concessional	3,378.3	31.2	3,937.0	32.5	4,337.5	32.9	5,289.8	35.9
Total	10,842.9	100.0	12,101.3	100.0	13,198.4	100.0	14,725.8	100.0

Source: *Bank of Tanzania.*

Zanzibar's economy remained robust supported by stable macroeconomic environment. The economy grew by 7.5 percent in 2017 compared to 6.8 percent in 2016, driven by construction activity, tourism and increased crops exports **(Chart 1.12)**. Major contributors to the growth included accommodation and food services, which contributed 36.0 percent, followed by agriculture, forestry and fishing (22.7 percent), and manufacturing (13.3 percent).

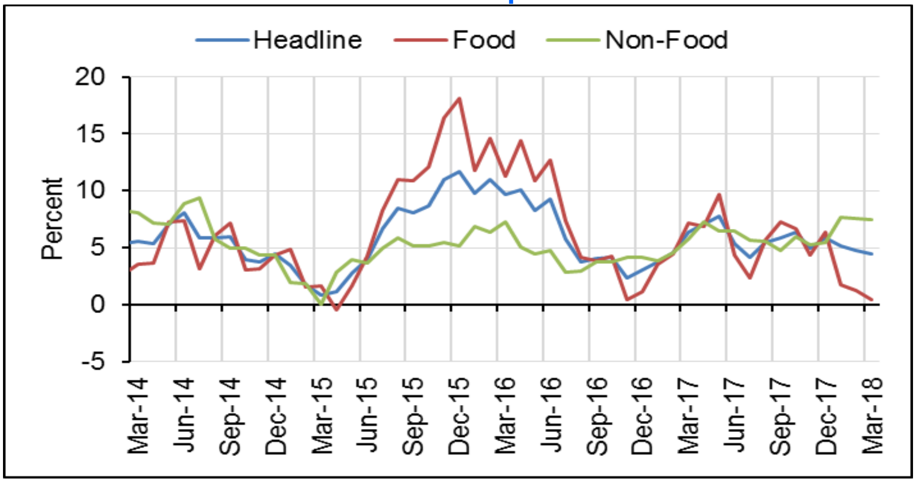
Chart 1.12: GDP growth rates



Source: *Office of Chief Government Statistician (OCGS).*

Headline inflation remained at single digit in the six months to end of March 2018, while current account registered a surplus of USD 26.9 million compared with a surplus of USD 59.2 million recorded in the previous six months to end of September 2017, largely due to increase in oil import bill (**Chart 1.13**). Growth is projected at 7.2 percent in 2018 underpinned by expected increase in tourists' arrival, while inflation is projected to remain in single digit for the rest of 2018, supported by moderation of food prices in the world market.

Chart 1.13: Zanzibar inflation developments



Source: *Office of Chief Government Statistician (OCGS).*

2.0 NON- FINANCIAL CORPORATE SECTOR

Non-financial corporate sector is linked to the banking sector through credit, payments and deposits. In this regard, the Bank monitors the sector through annual surveys, in order to identify potential risks that can be transmitted to the banking sector.

Box 2: Non-financial corporate survey

Background information

The Non-Financial Corporate (NFC) Sector Survey is one of macro-prudential tools used by the Bank of Tanzania to monitor and identify potential risks emanating from the sector that might have a direct or indirect impact on the banking sector.

Rationale of the survey

Most NFCs finance their activities through borrowing from the banking sector. This interconnectedness provides a rationale to monitor the sector.

Survey objectives

The objective of the survey is to collect information on company characteristics, sources of financing, business performance, prospects and constraints for the next 12 months.

Scope of the survey

The survey covered 423 NFCs, randomly selected from a list of corporates operating in the following zones: Dar es Salaam, Northern, Lake, Central, Southern Highlands, Southern, and Zanzibar. In addition to the geographical criteria, sampling was based on size and activity.

Methodology

The survey deployed structured questionnaire as a tool for collecting both qualitative and quantitative data. Interview of the senior management was also conducted.

Response rate

423 sampled NFC were surveyed, of which 403 responded, representing a response rate of 95.3 percent (**Table 2.1**). Response rates indicated that about 60 percent of the NFC had investment capital of more than TZS 1.0 billion, out of which about 44 percent are engaging in manufacturing activity (**Chart 2.1 and Table 2.2**).

Chart 2.1: Response rate by corporate size

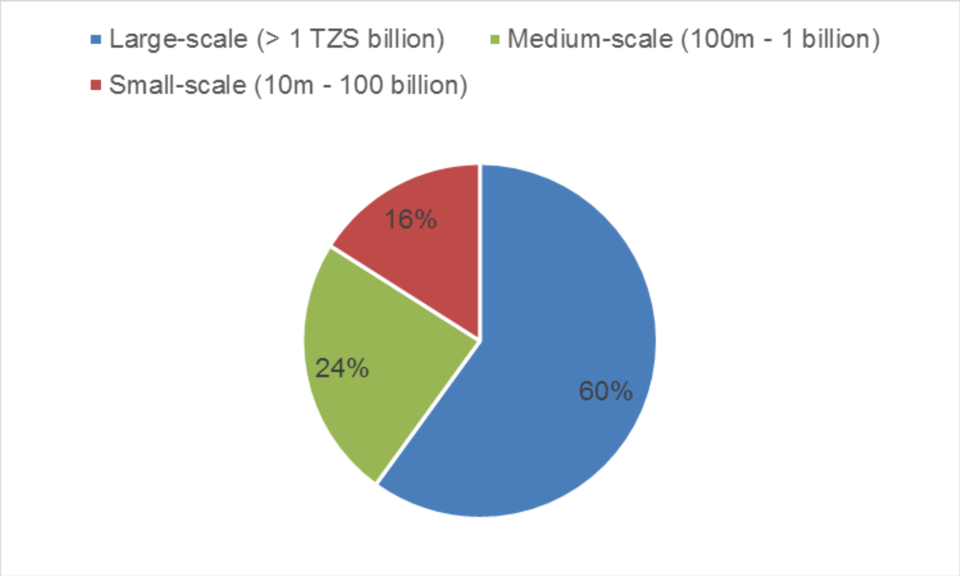


Table 2.1: Survey response rate

Zone name	Sampled corporates	Distributed questionnaires	Collected questionnaires	Response rate
Dar es salaam	70	70	57	81.4
Central (Dodoma and Morogoro)	30	30	30	100
Lake (Kagera, Mwanza and Shinyanga)	105	105	105	100
Northern (Arusha, Kilimanjaro and Tanga)	102	102	102	100
Southern highlands (Iringa, Mbeya, Njombe and Ruvuma()	60	60	57	95
Southern (Lindi and Mtwara)	25	25	21	84
Zanzibar	31	31	31	100
Total	421	423	403	95.3

Table 2.2: Number of surveyed corporates and annual turnover

Activities	TZS (10-100) million	TZS (100mil.-1bn)	More than TZS 1 bn
Agriculture	7	15	31
Building and construction	2	4	13
Hotels and tourism	18	34	31
Manufacturing	26	28	106
Mining (Minerals)	0	3	17
Oil and gas	0	0	9
Wholesale and retail trade	7	4	20
Transport and communication	1	5	9
Other	3	5	5
Total	64	98	241

Data processing and reporting

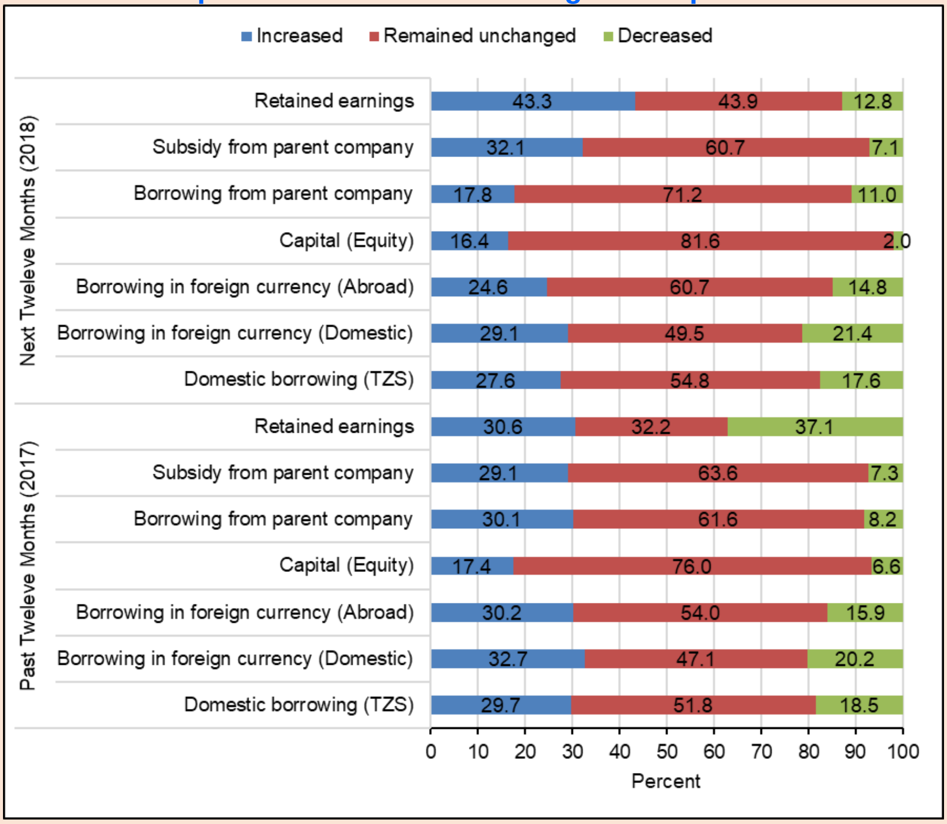
Information from the survey was captured, processed and analysed using Statistical Package for Social Sciences (SPSS) software.

Survey findings

Sources of financing

Respondents were requested to give information regarding sources of financing for the past 12 months of 2017 and their expectations for the next 12 months. The results revealed that corporates experienced tighter terms and conditions in accessing credit as well as unfavourable business conditions in 2017, which is consistent with their previous perception reported in 2016 survey (Chart 2.2).

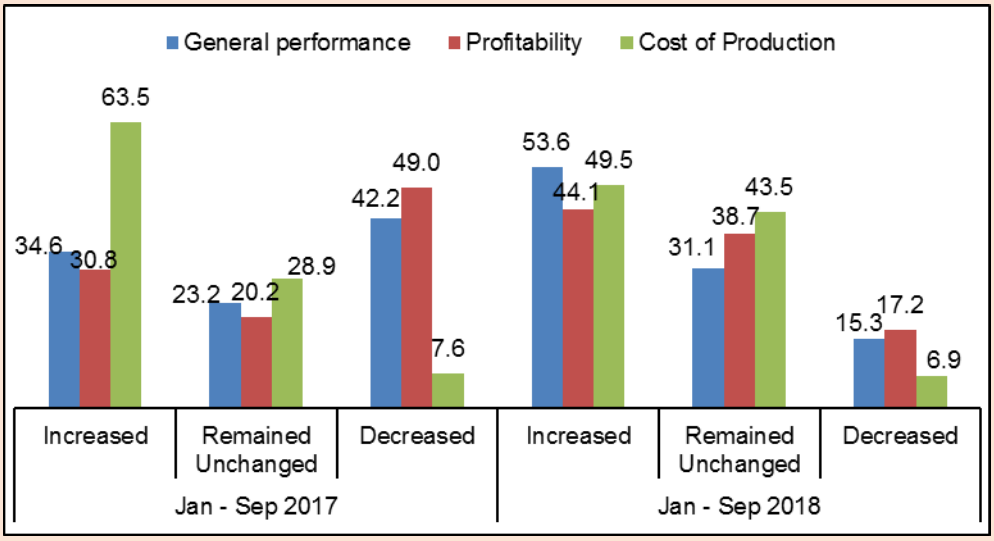
Chart 2.2: Corporates source of financing for the past twelve months



Corporates expect improvement in general performance in 2018; they cited continued recovery of global demand and commodity prices, and business environment as the main reasons for their expectations. This is consistent with their perceived funding structure where retained earnings will be the main source of financing followed by subsidies from parent companies. Other sources of financing are expected to decline, a development that may reduce corporates' debt burden (Chart 2.3).

Chart 2.3: Corporates business performance and expectation

Percent

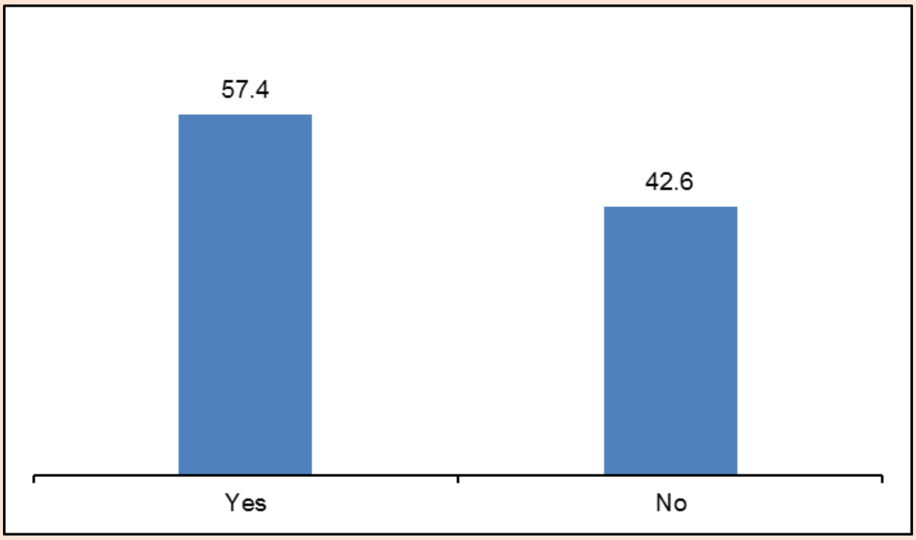


Corporates borrowing in foreign currency and exports

The result shows that 57.4 percent of the respondents who borrowed in foreign currency earned their revenue in foreign currency, while 42.6 percent did not earn revenues in foreign currency, exposing them to exchange rate risk (**Chart 2.4**).

Chart 2.4: Corporates foreign currency borrowing and exports

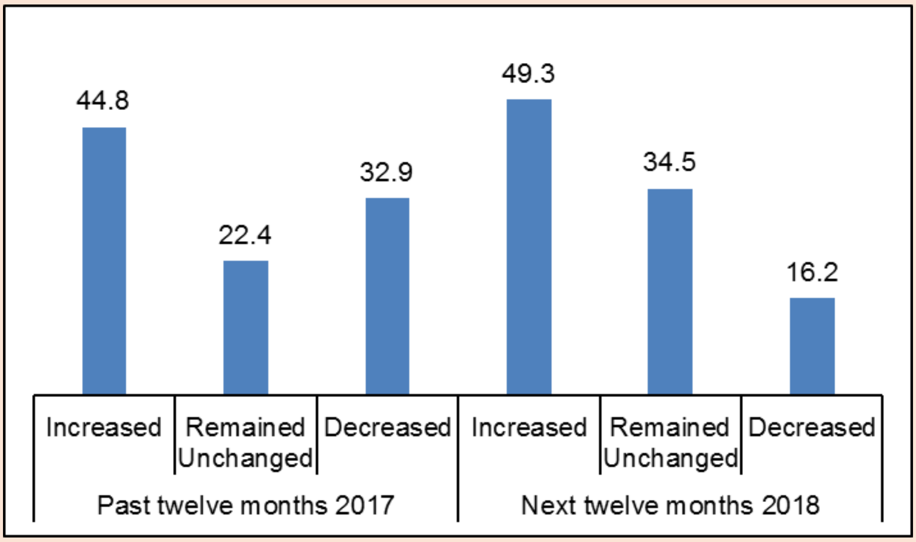
Percent



33.0 percent of the respondents reported decline in exports in 2017, citing low production, particularly in the mining, oil and gas sectors as the main reason for the decline a development that has also affected corporates, providing supporting services in the mining sector. Approximately 50.0 percent of the respondents expect exports to increase in 2018 (**Chart 2.5**).

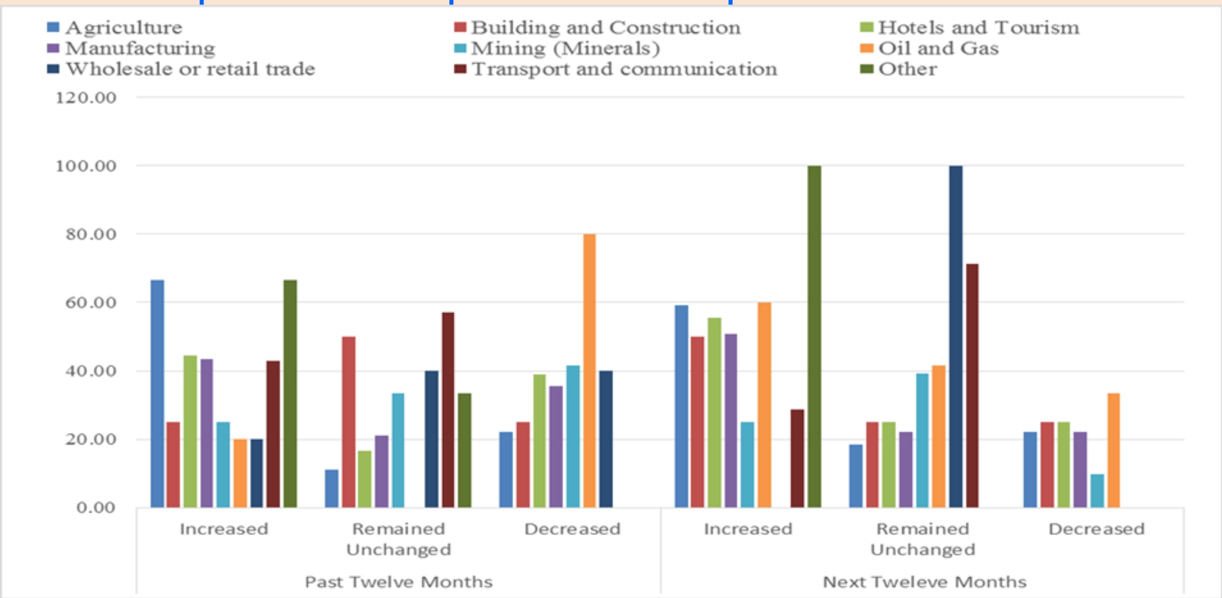
Chart 2.5:Corporates export performance and expectations

Percent



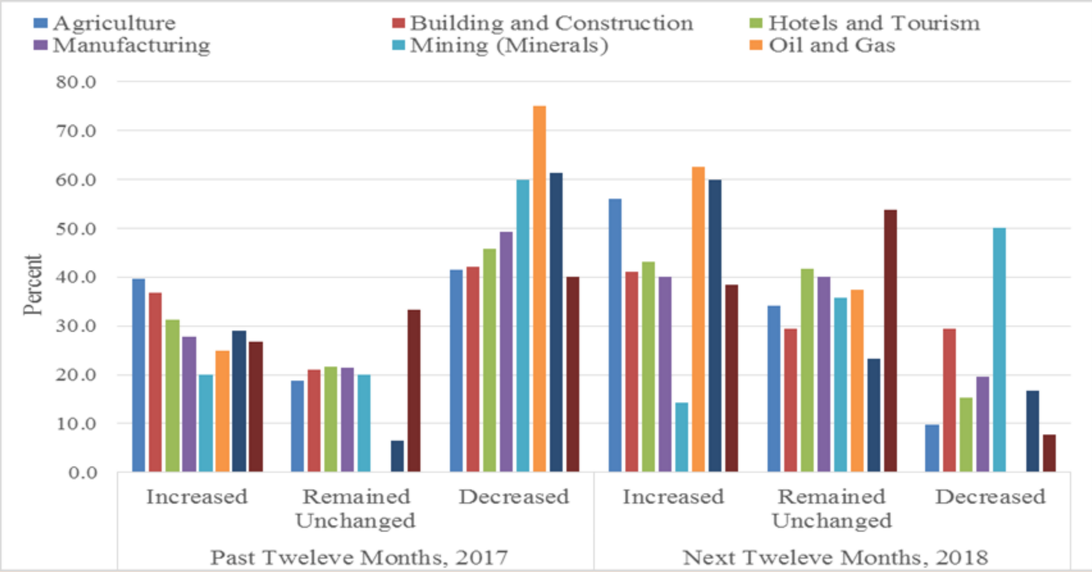
Corporates involved in mining, oil and gas, and wholesale and trade indicated that profitability declined for about 60 percent during 2017, respondents cited decrease in demand, tax enforcement and changes in legal and regulatory framework in the mining sector as the main factors contributing to the decline (**Chart 2.6)**.

Chart 2.6: Corporates business performance and expectation



Respondents were optimistic that improved business environment would increase their profitability going forward. Sectors, which indicated positive expectation on profitability include oil and gas, agriculture, wholesale and trade, manufacturing, building and construction, a positive development that will increase corporates ability to service their debt obligation, which in turn may reduce level of NPLs in the banking sector (**Chart 2.7**).

Chart 2.7: Corporates profitability by sector

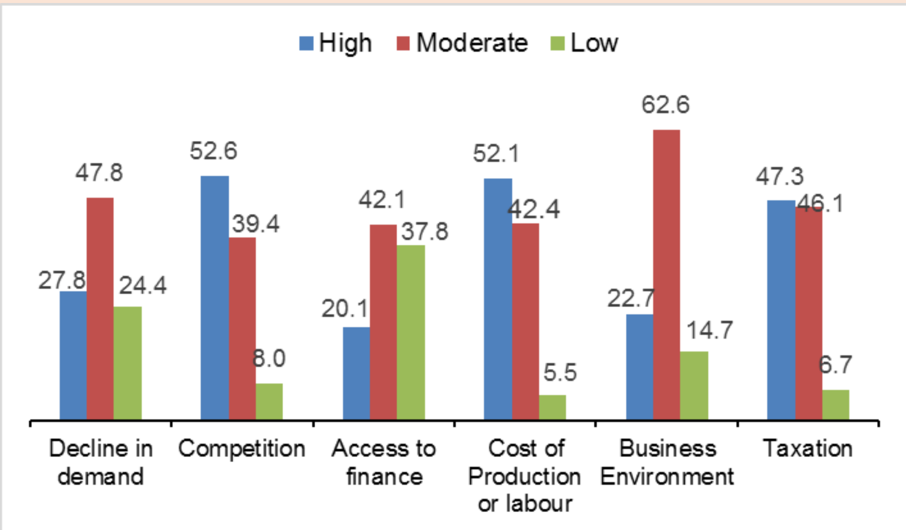


Corporates business constraints

More than 50.0 percent of the respondents indicated that taxation, cost of production and competition are major business constraints, while business environment and access to finance have improved (**Chart 2.8**). Competition and decline in demand were the main constraints in hotels and tourism, transport and communication, and wholesale and trade.

Chart 2.8: Corporates business constraints

Percent



3.0 PERFORMANCE OF THE FINANCIAL SECTOR

3.1 Banking sector

Banking sector[2] assets increased marginally at the end of March 2018, supported by increase in deposits and borrowing, offsetting the impact of the five banks, closed and excluded in computation of banking assets from January 2018.

Table 3.1: Core deposits and total funding

TZS billion

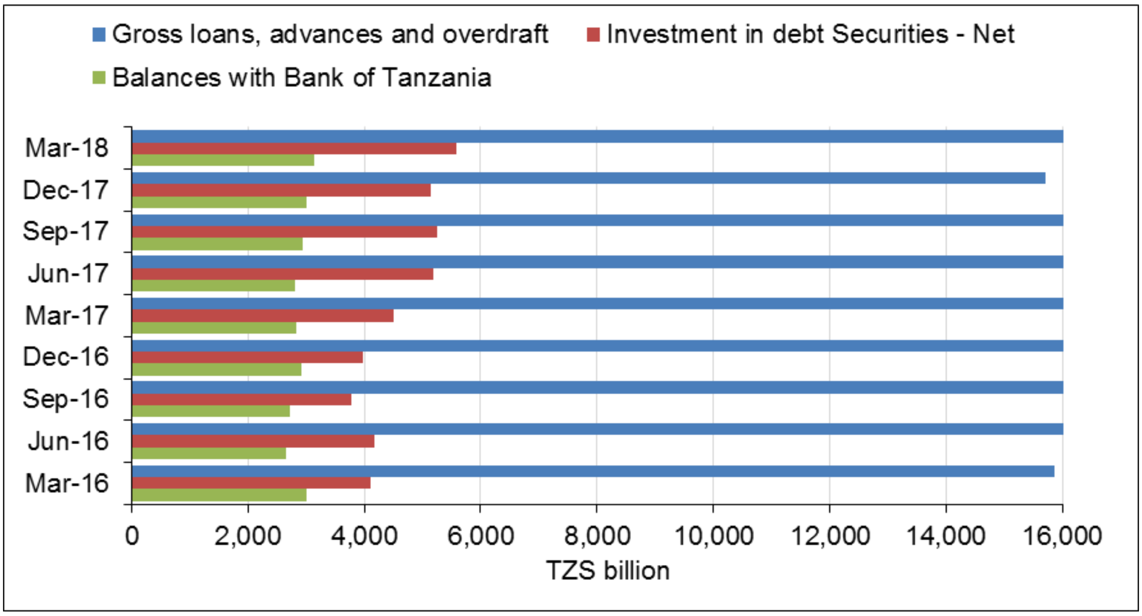
Particulars	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Total core deposits	20,217.6	20,796.6	20,230.3	20,357.0	21,271.5
Total funding	28,322.3	28,995.5	28,920.3	28,605.3	29,894.7
Core deposits to total funding (Percent)	71.4	71.7	70.0	71.2	71.2
Core deposits to gross loans (Percent)	124.1	127.5	125.0	129.6	130.8

Source: *Bank of Tanzania*

Loans, advances and overdraft continue to constitute a significant share of banks assets financed mainly by customers' deposits (**Table 3.1**) and (**Chart 3.1**)**.** Returns on government securities have declined and loan growth decelerated, pulling down banks' interest income. Asset quality recorded some improvement and the level of watch loans are declining, reducing future credit risk These may increase banks' profitability going forward coupled with banks efforts to increase credit intermediation. However, implementation of IFRS 9, which became effective January 2018 and clean-up of banks' balance sheet may limit this expectation in the short run.

[2] Banking sector is comprised of commercial banks, community banks, development financial institutions and microfinance institutions.

Chart 3.1: Selected bank assets composition



Source: *Bank of Tanzania*

Table 3.2 shows that commercial banks continued to dominate the banking sector, holding more than 90 percent of the total assets.

Table 3.2: Composition of banking sector assets

Percent

Types of banking institutions	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Commercial banks	94.1	94.2	94.0	93.7	94.3
Community banks	0.3	0.3	0.3	0.4	0.3
Microfinance institutions	0.6	0.6	0.6	0.6	0.6
Development financial institutions	3.1	2.9	3.0	3.3	3.0
Financial institutions	1.9	1.9	2.0	2.0	1.9
Total assets (TZS billion)	28,314.3	28,995.5	28,920.3	28,605.3	29,894.7

Source: *Bank of Tanzania*

Table 3.3 shows that at the end of March 2018, the ratio of interest bearing liabilities to interest bearing assets decreased to 70.1 percent from 75.8 percent recorded in September 2017, implying increase in interest rate risk.

Table 3.3: Interest bearing liabilities and assets

TZS billion

Particulars	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Demand deposits	4,445.3	5,075.1	4,470.0	4,693.3	3,636.0
Saving deposits	2,989.8	2,996.7	3,008.3	3,154.8	1,818.4
Time deposits	3,273.8	3,410.4	3,536.3	3,587.2	2,694.3
Borrowings	767.9	669.4	932.5	841.6	813.6
Other interest bearing liabities	124.7	114.7	102.0	115.7	99.7
Total interest bearing liabilities	11,601.5	12,266.4	12,049.1	12,392.6	9,062.0
Loans and advances	8,061.0	8,528.7	8,326.8	8,722.6	6,406.4
Overdraft	2,224.5	2,106.8	1,924.3	1,827.8	1,556.7
Treasury bills	2,593.3	2,862.7	2,910.0	2,929.8	2,367.6
Government bonds	1,798.9	2,129.0	2,100.3	2,304.3	1,935.7
Interbank loans receivable	182.5	250.4	240.3	243.4	257.0
Other interest bearing assets	307.3	258.3	401.2	355.1	406.1
Total interest bearing assets	15,167.5	16,135.8	15,902.9	16,383.0	12,929.6
Ratio of interst bearing liabilities to interst bearing assets	76.5	76.0	75.8	75.6	70.1

Source: *Bank of Tanzania*

Overall, vulnerability in the banking sector moderated as depicted by key financial soundness indicators (**Table 3.4**). The sector remained adequately capitalized, despite high level of NPLs relative to the desirable level of 5.0 percent, declining interest income and rising administrative expenses especially for small banks, which have reduced banks profitability. Liquidity ratio was above the minimum regulatory requirement and foreign exchange exposure and concentration risks were minimal.

Table 3.4: Selected financial soundness indicators for the banking system

Percent

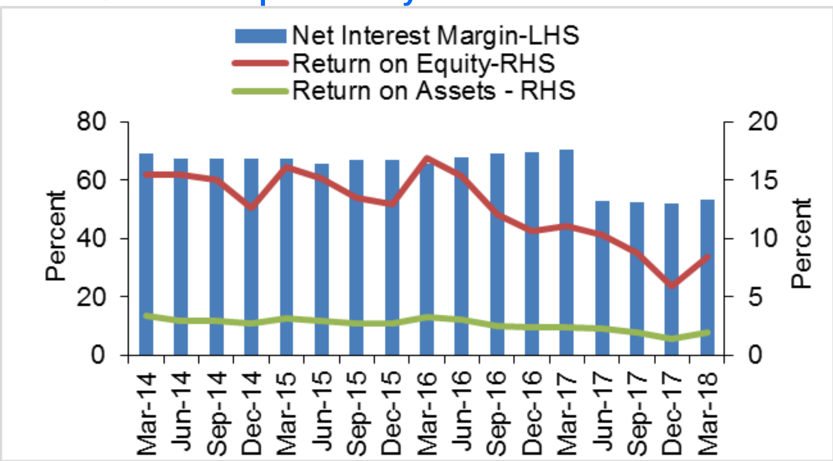
Indicators	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Capital adequacy					
Core capital/TRWA	19.0	18.3	18.9	18.4	18.7
Total capital/TRWA	21.0	20.3	20.9	20.4	20.7
Liquidity					
Liquid assets/demand liabilities	36.0	38.1	37.9	40.2	39.5
Total loans/customer deposits	86.0	83.1	84.9	81.1	80.9
Earnings and profitability					
Net interest margin	70.4	52.8	52.3	52.0	53.3
Non-interest expenses to gross income	67.6	51.5	51.9	52.4	53.8
Personnel expenses to non-interest expenses	45.5	45.5	45.2	44.6	46.1
Return on Assets	2.4	2.3	2.0	1.6	1.7
Return on Equity	11.1	10.4	8.7	4.6	7.1
Asset composition and quality					
Foreign exchange loans to total loans	36.5	36.7	35.1	35.8	35.8
Gross non-performing loans to gross loans	10.9	10.6	12.5	11.9	11.5
NPLs net of provisions to total capital	23.8	22.1	28.5	23.3	25.2

Indicators	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Large exposures to total capital	123.5	117.4	125.3	118.6	123.1
Net loans and advances to total assets	54.4	53.4	52.7	50.9	50.4
Sensitivity to market risk					
FX currency denominated assets to total assets	30.8	29.5	29.2	29.9	29.1
FX currency denominated liabilities to total liabilities	37.8	36.0	36.4	35.4	34.3
Net open positions in FX to total capital	2.2	1.5	2.1	2.1	0.8

Source: *Bank of Tanzania*

The banking sector remained well capitalized, albeit with declining profitability. Core capital to risk weighted assets remained strong at 18.7 percent as at end of March 2018, above regulatory requirement of 10.0 percent. The strong capital position in aggregate terms continued to provide buffer for banks' loss absorption capacity and their resilience to financial stress. Nevertheless, profitability dropped mainly due to decline in interest income from lending and government securities (**Chart 3.2**).

Chart 3.2: Banks' profitability



Source: *Bank of Tanzania*

At individual level, six banks were undercapitalized; the Bank directed the banks to come up with strategies to address capital inadequacy by end August 2018 (**Table 3.5**).

Table 3.5: Capital adequacy analysis

	Mar-17		Jun-17		Sep-17		Dec-17		Mar-18	
	Core Capital	Total Capital	Core Capital	Total Capital	Core Capital	Total Capital	Core Capital	Total Capital	Core Capital	Total Capital
All Banks										
<8	11	11	11	10	10	10	6	6	6	6
8-10	1	0	0	1	2	0	0	0	0	1
10-12	4	3	3	1	1	3	3	0	2	1
12-14	2	2	3	4	1	0	3	3	2	1
>14	43	45	42	43	45	46	42	45	45	46
TOTAL	61	61	59	59	59	59	54	54	55	55
Commercial Banks										
<8	1	1	5	0	1	1	1	1	1	2
8-10	0	0	0	0	2	0	0	0	0	0
10-12	3	1	1	3	1	3	1	0	2	1
12-14	2	2	1	3	0	0	3	1	1	1
>14	34	36	32	33	35	35	32	35	35	35
TOTAL	40	40	39	39	39	39	37	37	39	39
Development Financial Institutions										
<8	0	0	1	1	1	1	0	0	0	0
8-10	0	0	0	0	0	0	0	0	0	0
10-12	1	1	0	0	0	0	0	0	0	0
12-14	0	0	0	0	0	0	0	0	0	0
>14	1	1	1	1	1	1	2	2	2	2
TOTAL	2	2	2	2	2	2	2	2	2	2
Financial Institutions										
<8	2	2	2	2	1	1	1	1	1	1
8-10	0	0	0	0	0	0	0	0	0	0
10-12	0	0	0	0	0	0	1	0	0	0
12-14	0	0	0	0	1	0	0	1	1	0
>14	1	1	1	1	1	2	1	1	1	2
TOTAL	3	3	3	3	3	3	3	3	3	3
Microfinance Institutions										
<8	0	0	0	0	0	0	0	0	1	0
8-10	0	0	0	0	0	0	0	0	0	1
10-12	0	0	0	0	0	0	1	0	0	0
12-14	0	0	0	0	0	0	0	1	0	0
>14	5	5	5	5	5	5	4	4	4	4
TOTAL	5	5	5	5	5	5	5	5	5	5
Community Banks										
<8	8	8	8	7	7	7	4	4	3	3
8-10	1	0	0	1	0	0	0	0	0	0
10-12	0	1	0	0	0	0	0	0	0	0
12-14	0	0	0	0	0	0	0	0	0	0
>14	1	1	1	1	2	2	1	1	2	2
TOTAL	10	10	9	9	9	9	5	5	5	5
Other Financial Institutions										
<8	0	0	0	0	0	0	0	0	0	0
8-10	0	0	0	0	0	0	0	0	0	0
10-12	0	0	0	0	0	0	0	0	0	0
12-14	0	0	0	0	0	0	0	0	0	0
>14	1	1	1	1	1	1	1	1	1	1
TOTAL	1	1	1	1	1	1	1	1	1	1

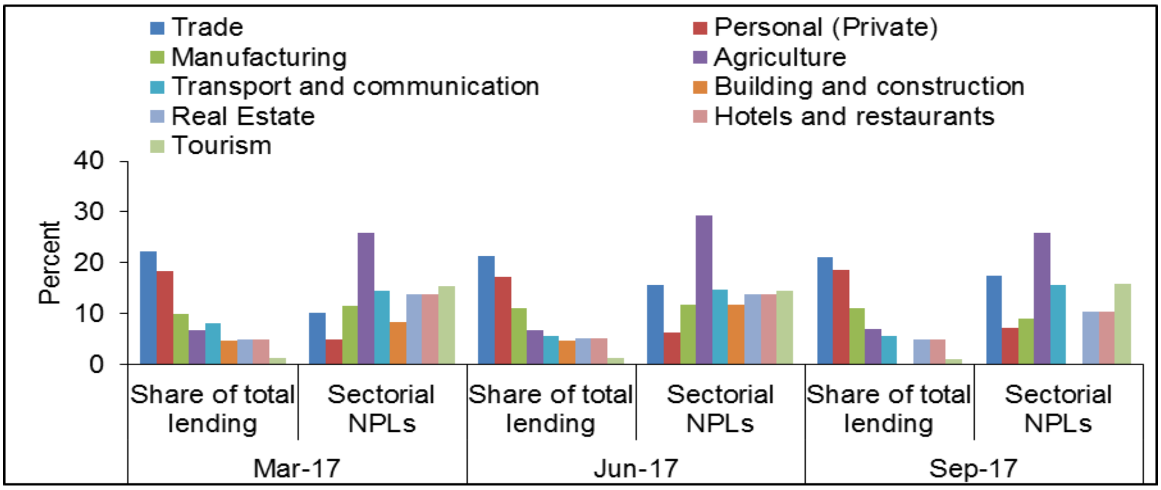
Source: *Bank of Tanzania*

The sector exposure to liquidity risk remained low. The ratio of liquid assets to demand liabilities hovered around 40 percent, compared with the regulatory requirement of 20.0 percent, consistent with increased holding of government securities, cash, and balances with the Bank of Tanzania, which also provided a buffer for banks in the event of liquidity shock.

Loan-to-deposit-ratio declined to 81.3 percent from 84.3 percent recorded in September 2017, partly explained by slowdown in lending. In the same period, the ratio of core deposits to total funding increased to 71.2 percent from 70.0 percent, indicating that banks continued to rely on low cost and stable source of funding. However, few banks relied on short-term and volatile deposits as source of funding, increasing their vulnerability to liquidity shock.

Credit risk declined as economic activity picked up. Credit to the private sector recovered, growing at 1.2 percent from a contraction of 1.6 percent recorded in September 2017, while provisioning for non-performing loans decreased. The NPL ratio declined to 11.5 percent in March 2018 from 12.5 percent in September 2017, with declining exposure to building and construction, hotel and restaurants, transport and communication activities as well as personal loans (**Chart 3.3**).

Chart 3.3: Credit and non-performing loans for selected economic activities



Source: *Bank of Tanzania*

On the other hand, banks' credit risk in other activities increased, partly reflecting fiscal reforms, which included increasing tax enforcement and tightening public sector payroll. Furthermore, reduction in real estate occupancy rates affected residential and commercial property owners' ability to service their credit obligations (**Table 3.6**). Going forward, NPLs levels are expected to decline as banks step up efforts to mobilize deposits and expand credit to potential borrowers as well as clean-up their loan portfolios.

Table 3.6: Banking exposure to individual sector lending

Percent

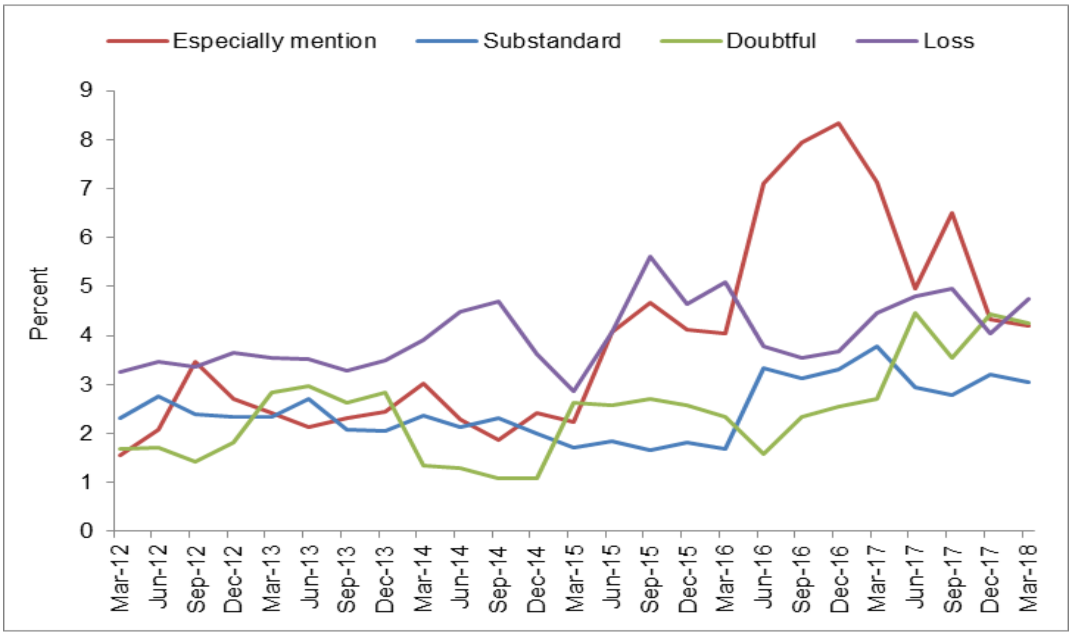
Sector	Mar-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Agriculture	18.0	17.6	25.9	29.2	25.9	19.2	20.1	21.5
Trade	15.8	19.9	9.7	10.3	15.6	17.4	18.4	17.5
Tourism	8.7	26.3	15.3	14.5	15.8	16.5	16.7	17.3
Building and construction	5.7	4.9	8.4	11.8	14.3	18.5	14.7	15.3
Real estate	1.4	5.6	13.9	13.9	10.3	11.9	13.3	14.9
Transport and communication	9.9	7.0	14.6	14.7	15.6	14.9	14.9	13.7
Hotels and restaurants	6.2	4.8	13.3	14.6	14.9	14.8	11.4	12.7
Manufacturing	6.8	10.9	11.6	11.8	9.0	9.0	11.9	9.4

Personal (Private)	22.4	9.8	4.9	6.3	7.3	7.1	6.6	5.3

***Source**: Bank of Tanzania*

With the exception of loss category, all other loan classifications declined during the six months to end of March 2018 (**Chart 3.4**). The loss category is expected to decline as banks and financial institutions implement the Bank's directive to write-off loans and advances that have remained in loss category for four consecutive quarters.

Chart 3.4: Development of different categories of non-performing loans



***Source:** Bank of Tanzania*

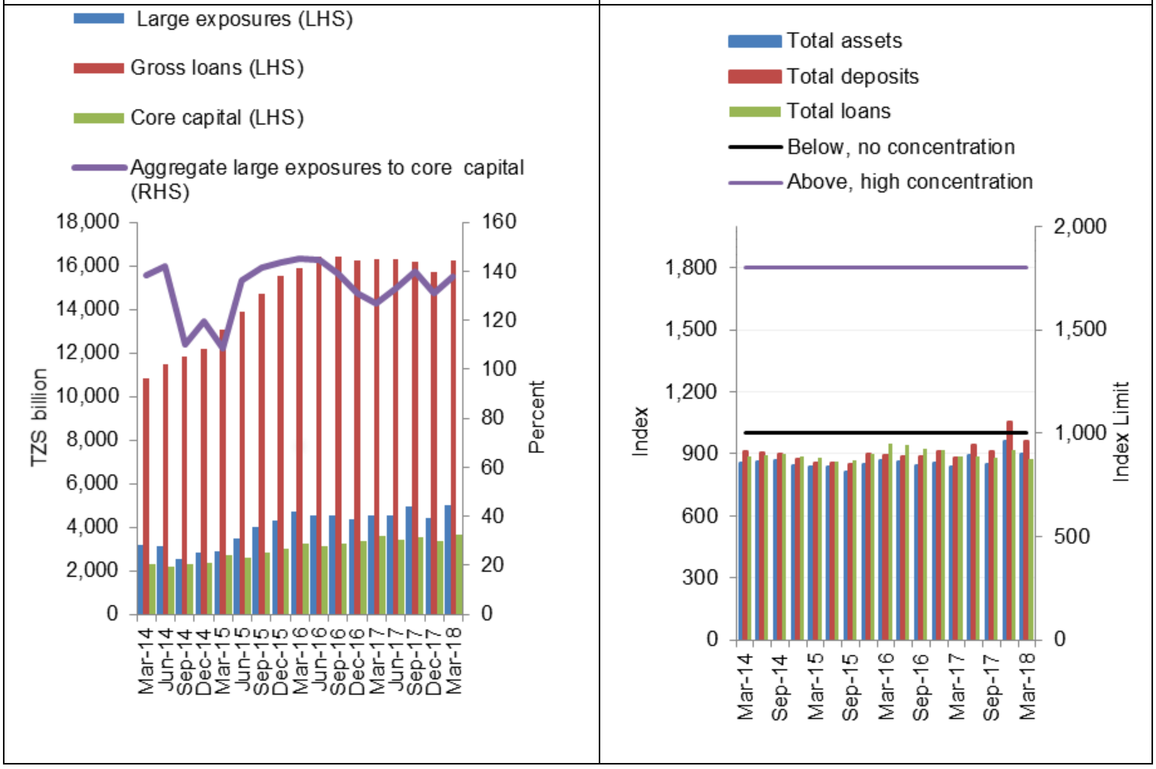
Credit concentration

The aggregate large exposures to core capital was 137.9 percent as at end March 2018, which is within regulatory limit of 800.0 percent. However, at individual level, two banks were above the limit (**Chart 3.5a**).

The diversification in terms of deposits, loans and assets for the banking sector as measured by the Herfindahl Hirschman Index (HHI), was 962, 872 and 898 respectively, which were within the limit of 1,000 (**Chart 3.5b**).

Chart 3.5: Measures of risk diversification

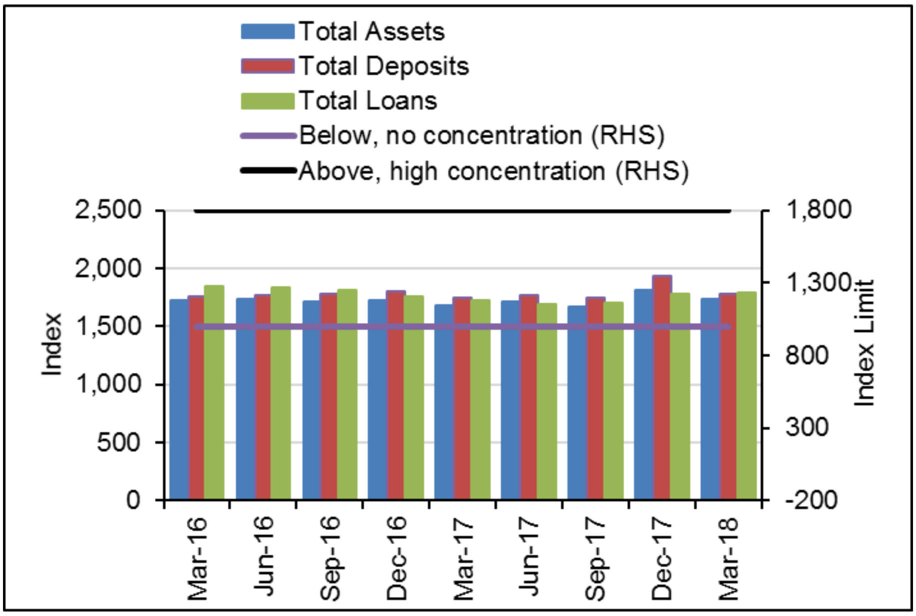
(a): Credit concentration risk | **(b): HHI for all banks**



Source: *Bank of Tanzania*

The Index continue to be above the limit for the top 10 largest banks, signifying concentration of large corporate in few banks (**Chart 3.6**).

Chart 3.6: HHI for top ten banks



Source: *Bank of Tanzania*

The share of foreign currency denominated loans to total loans, averaged 35.1 percent, while that of foreign currency denominated deposits to total deposits averaged 32.4 percent (**Table 3.7**).

Table 3.7 : Foreign currency denominated loans and deposits

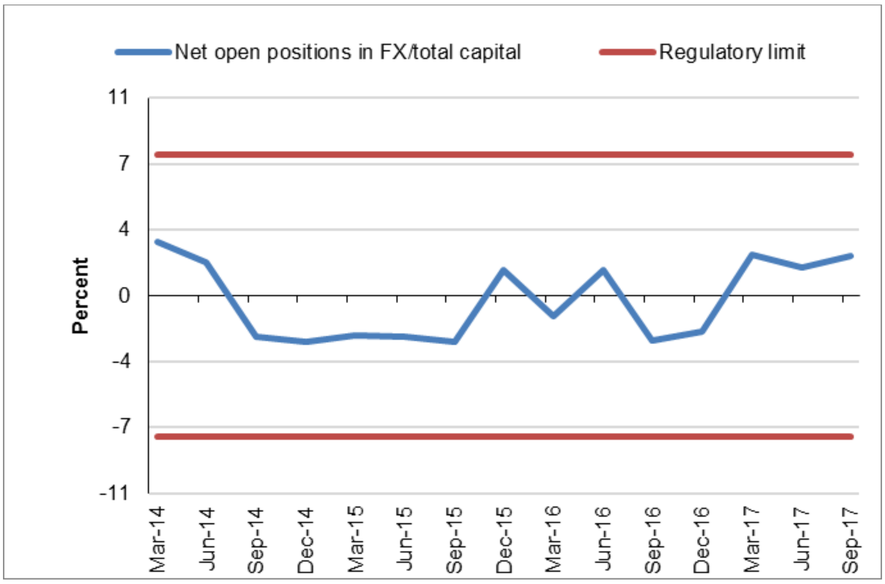
TZS billion

Particulars	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Foreign currency denominated loans	5,542.5	5,983.9	5,674.4	5,816.7	5,794.3
Foreign currency denominated deposits	6,963.2	6,666.9	6,455.7	6,192.5	6,625.6
Total loans	16,288.6	16,314.9	16,190.6	16,336.7	16,252.8
Total deposits	20,217.6	20,796.6	20,230.3	20,357.0	21,271.5
Foreign currency denominated deposits/total deposits (Percent)	34.4	32.1	31.9	30.4	31.1
Foreign currency denominated loans/total loans (Percent)	34.0	36.7	35.0	35.6	35.7
Foreign loans/foreign deposits (Percent)	79.6	89.8	87.9	93.9	87.5

***Source**: Bank of Tanzania*

On the other hand, foreign exchange Net Open Position was 0.77 percent, well below the regulatory limit of +/-7.5 percent. The indicators exhibited low currency mismatch, which moderated banks' potential losses in the event of exchange rate volatility (**Chart 3.7**).

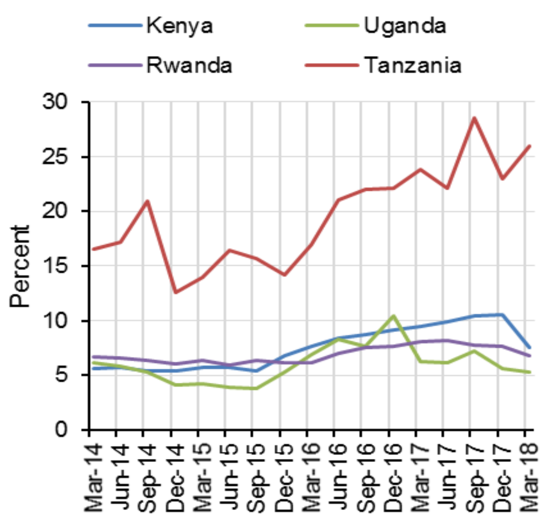
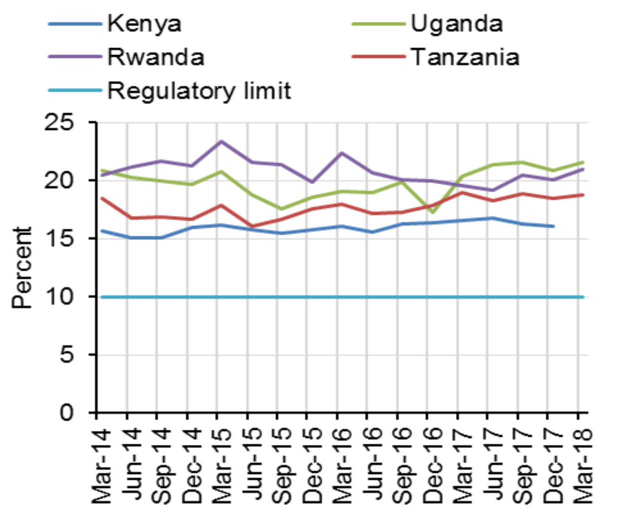
Chart 3.7: Net open position to total capital



***Source:** Bank of Tanzania*

EAC banking sector continued to experience elevated credit risk and sectoral loans concentration. A regional assessment done by EAC Monetary Affairs Committee technical working group on Macro-Prudential Analysis, Stress Testing and Statistics (MASS) in May 2018 observed that overall credit risk in the regional banking sector remained elevated in 2017 (**Chart 3.8)**.

Chart 3.8: Selected EAC-4 financial soundness indicators

(a) NPLs to Gross Loans	(b) Core Capital/TRWA+OBSE
	

***Source**: EAC Partner States Central Banks.*

Credit has slowed across the region, partly reflecting banks' aversion to risk amidst a decline in asset quality and shifted their portfolio preference in favour of government securities, a move that raise concerns for sovereign debt risks in some countries. Lending continued to concentrate in few sectors namely trade, building and construction, and the household /personal loans. Exposure to trade sector increased, partly due to closure of some Kenyan wholesale and retail businesses, which had spill over effects across the EAC countries. Real estate sector across the region also experienced pressure, partly due to reduction in occupancy rates.

Despite elevated credit risk, the banking sector remained well capitalized and had strong liquidity. Capital and liquidity ratios averaged 18.9 percent and 40.0 percent, above the minimum regulatory requirements of 10.0 percent and 20.0 percent, respectively. The sector remained profitable in 2017 although there was a declining trend, save for Uganda, reflecting increasing provision for NPLs and slowdown in credit to the private sector (**Table 3.8**).

Table 3.8: Indicators of bank profitability in the EAC

Percent

	2014	2015	2016	2017
Return on assets				
Kenya	3.4	3.1	3.1	2.7
Uganda	2.6	2.6	2.4	3.8
Tanzania	3.0	2.9	2.4	2.0
Rwanda	2.8	2.8	1.7	1.1
Burundi	1.2	1.9	1.8	4.6
Return on equity				
Kenya	26.6	25.2	24.8	20.8
Uganda	16.1	16.0	8.3	16.4
Tanzania	22.8	22.4	11.2	8.5
Rwanda	15.4	15.7	8.8	6.2
Burundi	7.8	11.6	11.2	4.6

Source: *EAC Partner States Central Banks*

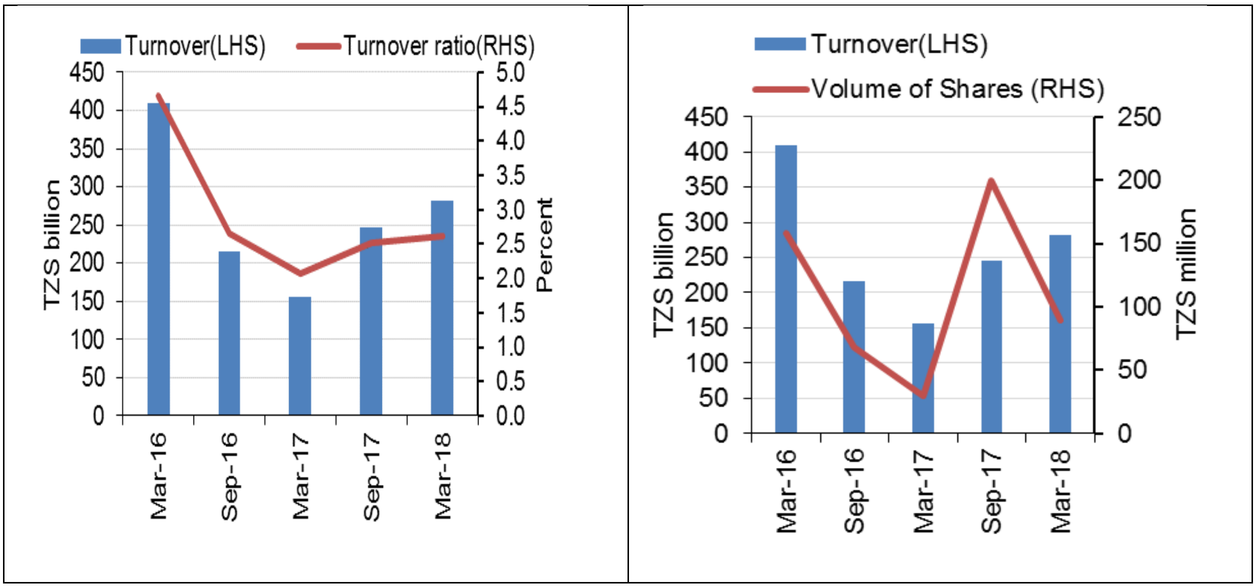
3.2 Non-banking financial sector

3.2.1 Capital markets

Equity market

Dar es Salaam Stock Exchange remained liquid, driven by two major players. During the six months to end of March 2018, turnover increased by 14.3 percent to TZS 281.1 billion (**Chart 3.9**).

Chart 3.9: Dar es Salaam stock exchange trading



Source: *Dar es Salaam Stock Exchange.*

This was driven by TBL, which accounted for 85.3 percent of the total trading, followed by CRDB (**Table 3.9**) despite a decline in the number of shares that exchanged hands from 199.9 million to 89.5 million shares. The decline in the number of shares with increased turnover reflects participation of high priced shares in comparison with small priced shares exchanged in the previous six months.

CRDB continued to be the most active counter, accounting for 63.7 percent of total volume traded, followed by TBL (19.5 percent) and Voda (7.2 percent). High demand for CRDB shares was due to low price, making it affordable to small investors who mainly hold shares for precautionary purpose as well as dividend payouts. For TBL, trading was driven by improved performance, active participation of foreign investors coupled with dividend payouts. However, concentration of few active counters exposes the bourse to liquidity risk in the event of shocks to these companies.

Table 3.9: Companies turnover

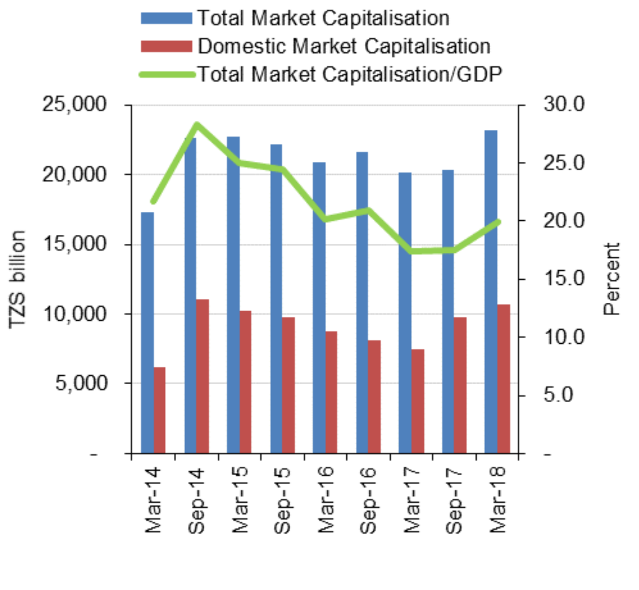
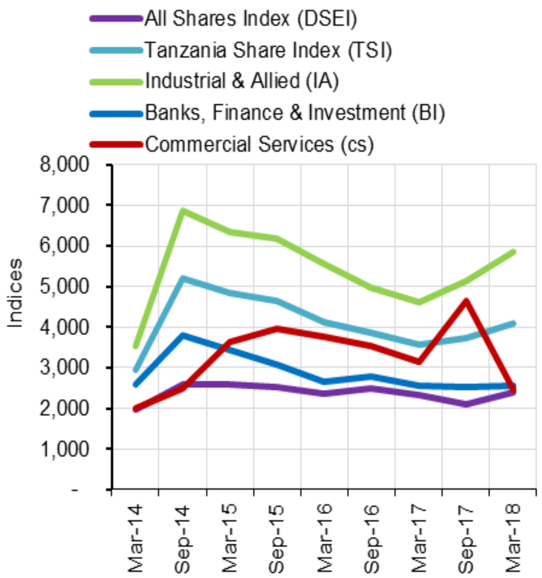
TZS billion

Companies	Oct-16 to Mar-16	Percent of total turnover	Apr-17 to Sep-17	Percent of total turnover	Oct-17 to Mar-18	Percent of total turnover
TBL	105,458.3	66.8	195,145.8	79.4	316,738.6	83.5
CRDB	7,920.9	5.0	36,394.7	14.8	25,892.5	6.8
TCC	28,296.6	17.9	8,938.6	3.6	12,437.7	3.3
SWISS	7,079.9	4.5	751.2	0.3	9,429.9	2.5
TPCC	4,525.6	2.9	1,025.3	0.4	6,087.0	1.6
VODA			969.0	0.4	5,934.7	1.6
DSE	2,439.5	1.5	1,452.7	0.6	1,849.9	0.5
TOL	15.0	0.0	507.6	0.2	501.3	0.1
NMB	1,406.3	0.9	478.9	0.2	95.7	0.0
TCCL	39.1	0.0	83.9	0.0	41.8	0.0
DCB	68.9	0.0	50.2	0.0	28.8	0.0
TTP		-	0.1	0.0	15.2	0.0
YETU		-	5.9	0.0	14.8	0.0
MKCB	427.4	0.3	66.2	0.0	14.6	0.0
TICL	-	-	-	-	12.8	0.0
SWALA	20.4	0.0	5.2	0.0	9.5	0.0
MUCOBA	8.0	0.0	12.1	0.0	8.9	0.0
MCB	86.7	0.1	34.3	0.0	1.5	0.0
MBP	6.2	0.0	1.1	0.0	0.2	0.0
PAL		-	4.7	0.0	-	-
Total	157,798.9	100.0	245,927.4	100.0	379,115.5	100.0

Source: *Dar es Salaam Stock Exchange.*

Domestic market capitalization increased by 10.1 percent to TZS 10,728.5 billion, largely driven by share appreciation of Industrial & Allied (IA) Index and Banks, Finance & Investment (BI) Index (**Chart 3.10**). At individual company level, the IA index was led by increase in TBL and TCC share prices; whilst NMB shares led the BI index.

Chart 3.10: Performance of the Dar es Salaam Stock Exchange

Market Capitalization	Share Indices
	

Source: *Dar es Salaam Stock Exchange (DSE)*

Market concentration risk

Cross-listed companies' market share[3] increased to 53.8 percent from 52.1 percent, recorded in September 2017. This was due to increase in share prices of KA and other cross-listed companies except for ACA. KA share price increased by 130.0 percent to TZS 230 per share, following capital and debt restructuring, which boosted investors' confidence. Overall, market concentration risk eased with slight balance in holding among cross-listed and domestic listed companies, attributed to entry of Voda IPO and ACA share price depreciation particularly in 2017 (**Table 3.10**).

[3] Market concentration risk is measured by total market capitalization distribution among all listed companies

Table 3.10: Total market capitalization of individual companies

Percent

Companies	Sep-18	Dec-18	Mar-18	Jun-18	Sep-18	Dec-18	Mar-18
Cross listed companies							
EABL	21.5	21.6	18.7	21.4	21.1	18.2	19.9
KCB	8.0	10.4	11.1	13.2	14.3	12.0	14.6
ACA	26.8	21.0	26.2	18.3	10.0	10.2	7.9
JHL	3.1	3.5	3.7	3.3	3.7	3.2	3.7
NMG	2.3	1.8	2.0	2.2	2.2	2.1	2.0
KA	0.6	1.0	1.0	1.2	0.7	9.6	5.6
USL	0.1	0.2	0.1	0.1	0.1	0.1	0.1
Market share as percent of Total Market Capitalization	62.5	59.6	62.8	59.8	52.1	55.5	53.8
Domestic listed companies(Top ten movers)							
TBL	17.8	18.5	17.6	20.5	19.3	17.9	19.7
VODA	-	-	-	-	8.5	8.3	8.2
TCC	5.4	6.0	5.7	5.7	7.2	7.3	7.0
NMB	6.4	7.2	6.8	7.1	6.8	6.0	5.9
CRDB	3.1	3.4	2.4	2.4	2.2	1.8	1.9
TPCC	1.9	2.2	1.8	1.7	1.3	1.1	1.2
SWIS	1.1	1.0	1.0	0.7	0.7	0.6	0.6
PAL	0.3	0.4	0.4	0.4	0.4	0.3	0.3
TCCL	0.5	0.5	0.5	0.5	0.4	0.3	0.3
SWALA	0.2	0.3	0.2	0.3	0.2	0.2	0.2
Market share as percent of Total Market Capitalization	37.6	40.4	37.3	40.2	47.9	43.8	45.4

Source: *Dar es Salaam Stock Exchange*

Participation of foreign investors continue to dominate on the buying side. Foreign investors' participation in stock trading accounted for 97.5 percent and 57.1 percent of the total turnover on the buying and selling side, respectively. This is partly contributed by investors' positive perception on the performance of listed companies and country macroeconomic environment (**Table 3.11**).

Table 3.11: Equity holdings at DSE by investor categories

Percent

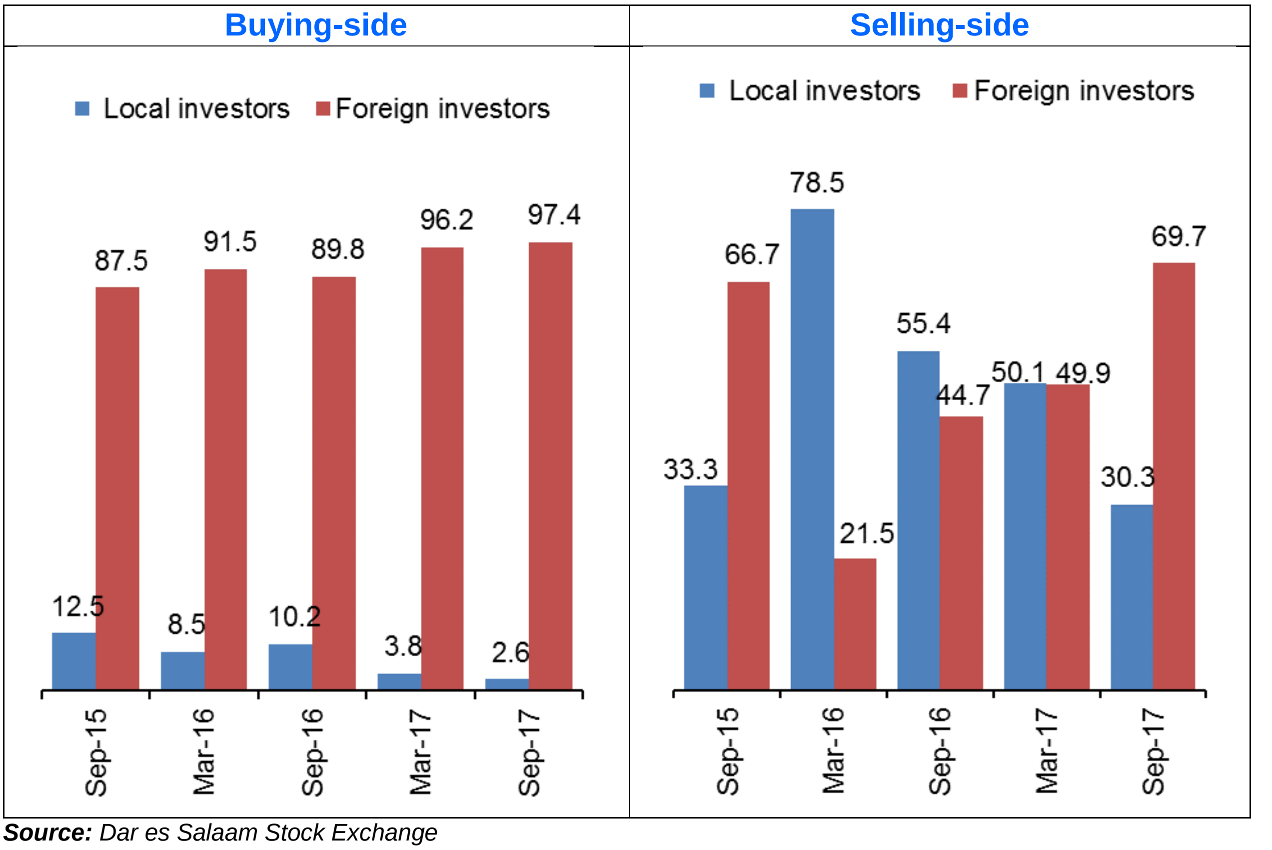
				Change	
Investor category	Mar-17	Sep-17	Mar-18	Mar-17 to Mar-18	Sep-17 to Mar-18
Individual	13.2	11.2	9.4	-28.8	-15.5
Corporation	18.0	21.1	15.3	-15.1	-27.8
Foreign	60.3	60.9	70.2	16.4	15.2
Pension funds	6.7	5.2	4.0	-40.6	-24.2
Insurance	1.8	1.6	1.2	-35.6	-26.3
Banks	0.0	0.0	0.0	-41.5	-24.2
Total	100.0	100.0	100.0	0.0	0.0

Source*: Dar es Salaam Stock Exchange*

Non-resident investors also dominated in the equity holdings, constituting 60.9 percent of the total. Other categories of investors were on the selling side to address liquidity demand and meeting other obligations (**Chart 3.11 and Table 3.12**).

Chart 3.11: Investors' participation in the DSE

Percent



Source: *Dar es Salaam Stock Exchange*

Table 3.12: Trading participation on the Dar es Salaam Stock Exchange by investor category

TZS million

Category	Oct-16 to Mar-17			Apr-17 to Sep-17			Oct-17 to Mar-18		
	Purchase	Sale	Net flows	Purchase	Sale	Net flows	Purchase	Sale	Net flows
Individuals	5,123.7	40,609.5	(35,485.7)	4,155.4	13,636.2	(9,480.8)	4,118.3	16,106.2	(11,987.9)
Corporation	960.3	32,914.8	(31,954.5)	2,216.8	13,351.5	(11,134.8)	2,828.6	87,784.5	(84,955.9)
Pension funds	0.0	4,716.4	(4,716.4)	0.0	40,777.8	(40,777.8)	0.0	14,605.8	(14,605.8)
Insurance	0.0	663.0	(663.0)	0.0	4,502.2	(4,502.2)	5.7	2,159.1	(2,153.4)
Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreigners	151,720.9	78,901.3	72,819.6	239,555.2	173,659.6	65,895.6	274,199.1	160,496.1	113,703.0
Total	157,804.9	157,804.9	0.0	245,927.4	245,927.4	0.0	281,151.7	281,151.7	0.0

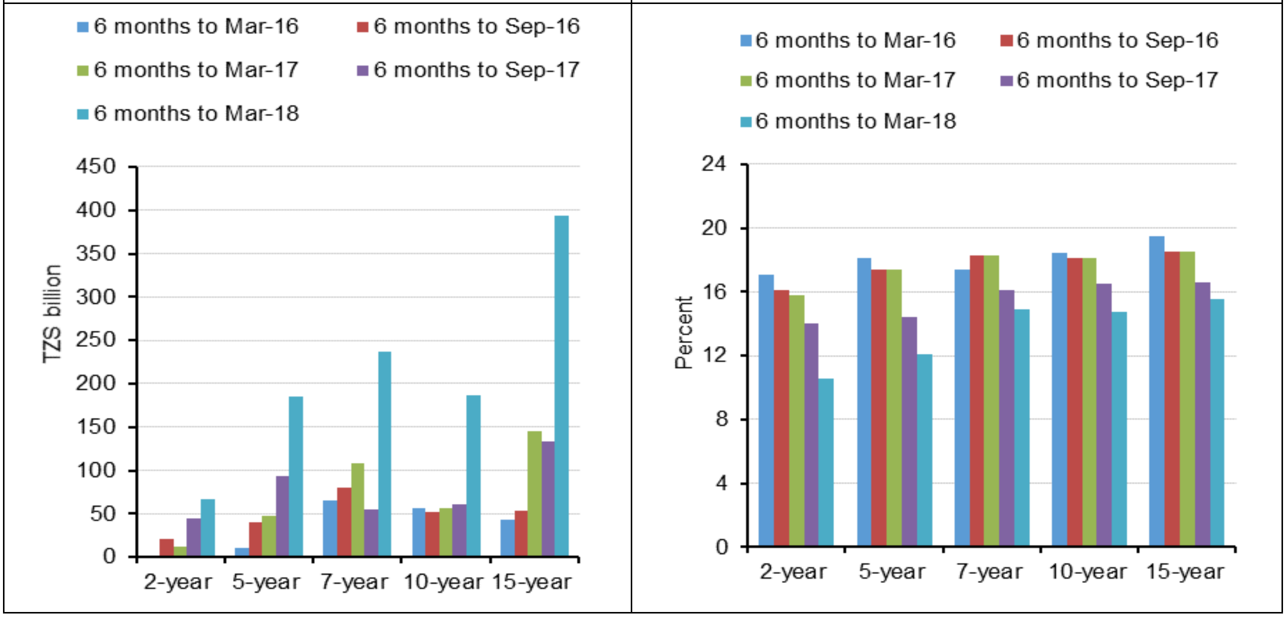
Source*: Dar es Salaam Stock Exchange*

Bond Market

Trading of government bonds increased by 3.1 percent to TZS 1,926.3 billion, with the 15-year and 7-year bonds being the most traded in the market due to favourable yields to maturity of 15.6 percent and 14.9 percent, respectively. (**Chart 3.12a** & **b**).

Chart 3.12: Market performance for government bonds

(a): Turnover for government bonds | **(b):Weighted average yields**



Source: *Bank of Tanzania*

Banks were the main participants, partly taking advantage of price discovery to maximize their profits. It is worth noting that from March 2018, all government securities constitute eligible collateral when accessing the Bank's standby facilities, a move that may increase trading activity (**Table 3.13**).

Table 3.13: Government bonds secondary market trading participation by Investor categories

TZS billion

Particulars	Oct-16 to Mar-17			Apr-17 to Sep-17			Oct-17 to Mar-18		
	Buy	Sell	Net flow	Buy	Sell	Net flow	Buy	Sell	Net flow
Banks	63.3	312.0	(248.7)	228.3	414.4	(186.1)	237.8	368.1	(130.3)
Corporation	113.2	50.8	62.4	81.8	54.6	27.2	159.6	127.8	31.8
Individual	3.0	1.3	1.7	5.3	3.2	2.1	8.1	6.6	1.6
Pension Funds	37.9	0.0	37.9	46.2	0.0	46.2	69.4	52.7	16.8
Insurance	2.5	0.0	2.5	18.7	0.0	18.7	21.4	0.0	21.4
Foreigners	144.2	0.0	144.2	91.9	0.0	91.9	59.5	0.6	58.9
Total	364.1	364.1	0.0	472.2	472.2	0.0	555.8	555.8	0.0

Source: *Dar es Salaam Stock Exchange*

Collective Investment Schemes

Collective investment schemes posted an increase in Net Asset Value (NAV) by 10.6 percent to TZS 275,065.3 million at the end of March 2018, contributed by the Liquid Fund unit price appreciation and interest earnings from government securities (**Table 3.14**).

Table 3.14: Open ended collective investment schemes

	Outstanding units (Millions)				Net asset value (NAV-TZS million)				NAV Growth (Percent)	
Scheme	Sep-16	Mar-17	Sep-17	Mar-18	Sep-16	Mar-17	Sep-17	Mar-18	Mar 17-Mar 18	Sept 17-Mar 18
Umoja Fund	452.1	409.8	399.0	392.7	218,867.9	217,838.4	207,175.2	223,101.5	2.4	7.7
Liquid Fund	33.6	75.7	83.1	138.8	2,658.5	5,064.7	14,373.1	25,634.9	406.2	78.4
Jikimu Fund	216.9	188.4	173.4	168.3	27,625.6	27,323.4	21,910.6	21,764.9	-20.3	-0.7
Watoto Fund	10.6	11.7	11.7	9.8	2,924.9	2,986.5	3,484.4	3,164.0	5.9	-9.2
WekezaMaisha	11.6	11.6	5.3	4.0	3,526.2	3,668.4	1,745.6	1,400.0	-61.8	-19.8
Total	724.8	697.2	672.4	713.7	255,603.2	256,881.4	248,688.8	275,065.3	332.3	56.4

***Source**: Capital Markets and Securities Authority*

3.2.2 Insurance sector

Insurance sector recorded a slight growth in assets. As at end of March 2018, total assets increased by 2.0 percent to TZS 891.6 billion compared to the corresponding period in 2017. The insurers' total net worth and total investments increased by 0.7 percent and 19.3 percent, respectively, reflecting continued strength of the sector to meet potential obligations (**Table 3.15**).

Table 3.15 : Insurance performance

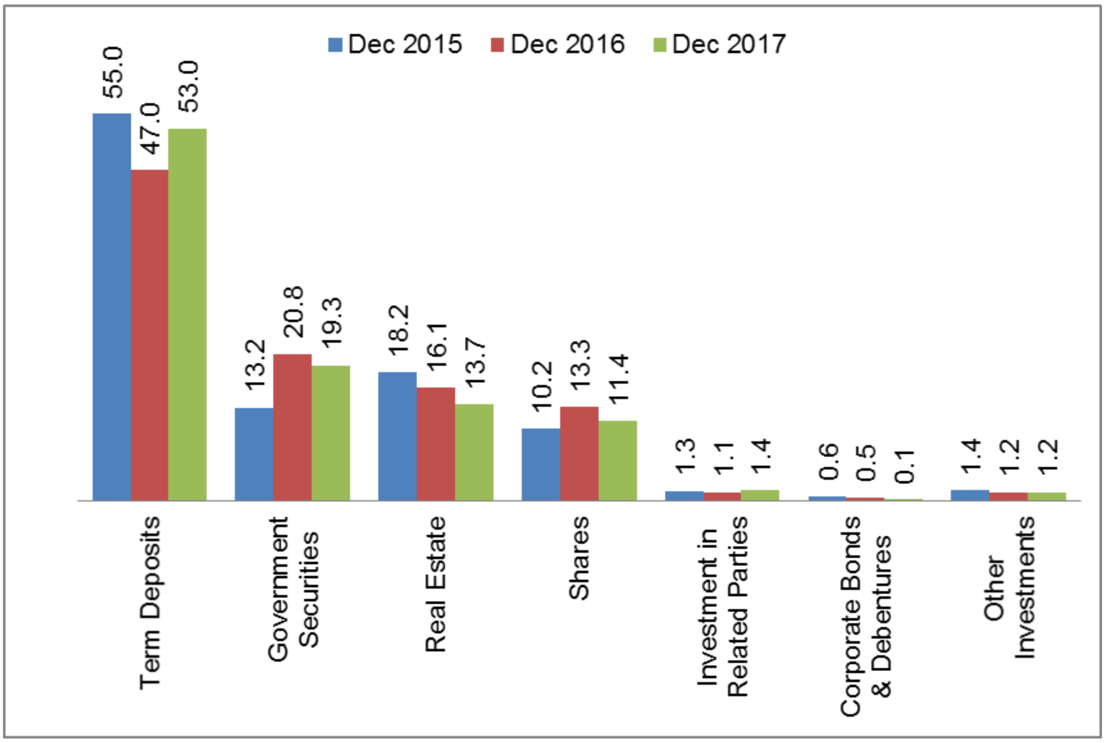
				TZS billion		*Percentage change*
Particulars	Dec 16	Mar 17	Dec 17	Mar 18	Dec 16 -Dec 17	Mar 17 -Mar 18
Total assets	835.3	874.1	864.0	891.6	3.4	2.0
Total liabilities	567.2	597.4	585.7	612.9	3.3	2.6
Total net worth	268.1	276.7	278.3	278.7	3.8	0.7
Total investments	518.6	526.4	580.6	628.2	12.0	19.3
Gross premiums written						
General insurance	585.8	571.4	556.3	565.5	-5.0	-1.0
Life assurance	74.2	71.5	82.4	85.0	11.1	18.8
Total	660.0	642.9	638.7	650.5	-3.2	1.2

***Source:** Tanzania Insurance Regulatory Authority*

Overall, investment portfolio of the sector remained broadly unchanged as depicted in **Chart 3.13**.

Chart 3.13: Insurance sector investment

Percent



Source: *Tanzania Insurance Regulatory Authority*

The sector remained adequately capitalized to absorb adverse deviations in actuarial liabilities. General insurance and life assurance solvency ratios were 52.7 percent and 26.6 percent, being above the minimum prudential requirement of 25.0 percent and 8.0 percent, respectively. Meanwhile, general insurers' ratio of actuarial provisions to capital was 112.5 percent in March 2018 compared with 109.2 percent in December 2017. The level was within the prudential maximum limit of 250.0 percent, implying adequate capital to withstand potential risks. However, seven insurance companies have been required to submit recapitalization plans to ensure attainment of the required capital levels by December 2018.

General insurance business invested 83.1 percent in Category I Investment Assets, complying with regulatory requirement of at least 40.0 percent. In addition, the quality of assets for the segment, which constituted over 80.0 percent of total insurers' assets, improved as reflected by Return on Investment (ROI). However, placement in Category I exposes insurer's portfolio to market risks in case of adverse interest rate movements. Life assurance business held 48.5 percent of Category I, which was above the regulatory threshold. Financial soundness indicators of insurance sector are summarized in **Table 3.16**.

Table 3.16: Financial soundness indicators of the insurance sector

Percent

Indicator	Requirement (Acceptable Range)	Mar-17 General	Mar-17 Life	Mar-18 General	Mar-18 Life
1. Capital ratios					
Solvency ratio	General ≥ 25; Life ≥	70.9	28.1	52.7	26.6
Change in capital and reserves		29.7	21.8	2.9	0.1
2. Asset quality ratios					
Rate of return on investment		1.7	1.1	8.3	5.8
Category I investment assets (see note 1 below)	Min 40	80.4	54.4	83.1	48.5
3. Reinsurance ratios					
Retention ratio	General 30<RR<70; Life 50<RR<90	54.0	82.6	54.9	93.6
4. Actuarial liabilities (general)					
Actuarial provisions to capital ratio	Max 250	44.7	-	112.5	92.2
5. Earnings ratios (general)					
Return on equity		3.1	-	1.7	33.5
6. Liquidity ratios					
Liquidity ratio	General ≥ 95; Life ≥ 50	103.2	60.9	80.1	52.3
Total receivables as % of capital and reserves	Max 100	73.5	41.0	63.8	53.6
7. Loss ratio		53.7	37.5	56.5	

Source: *Tanzania Insurance Regulatory Authority.*
Note 1: *Category I Investment Assets includes deposits in financial institutions and government securities.*

Liquidity ratio for general insurance stood at 80.1 percent in March 2018, which was below the minimum prudential limit of 95.0 percent, but had slightly improved compared to a ratio of 78.2 percent recorded in December 2017. In the same period, liquidity ratio for life assurance business was 52.3 percent above the minimum prudential threshold of 50.0 percent, and had improved compared to 48.5 percent. The observed improvements in the insurers' liquidity position is attributed to enhanced mechanisms for collection of insurance premium by insurers following July 2017 amendments of the Insurance Act 2009 to require policyholders to make direct payment of premiums to insurers. The Insurance Act also prohibit use of foreign insurance services on imports.

Return on Equity for general insurers declined to 1.7 percent in March 2018 from 2.1 percent in December 2017, due to high level of claims as reflected by an increase in loss ratio from 56.2 percent to 56.5 percent.

3.2.3 Social security sector

Tanzania Mainland

Total assets of the sector grew by 9.2 percent to TZS 12,367.8 billion as at end of March 2018 when compared to corresponding period of 2017, mainly attributed to increase in income from investments and members' contributions. The Annualized Return on Investment (RoI) was 8.8 percent compared to 5.3 percent in March 2017, with major contributors being interest from government securities, loans and deposits.

As at the end of March 2018, dependency ratio[4] remained relatively stable, at around 11 times, indicating sustained ability of the sector to finance promised benefits (**Table 3.17**). The sector continued to maintain administration expenses within the regulatory limit of 10.0 percent as provided by the Social Security Schemes (Administrative Expenses) Guidelines, 2016.

Table 3.17: Tanzania mainland: social security selected financial indicators

Particular		Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Contribution income/benefit payments	Times	1.6	1.5	1.8	1.8	1.1
Return on investment (invested return/invested assets)	Percent	5.3	5.4	6.7	6.9	7.0
Administrative cost/contributions	Percent	8.5	8.6	9.3	10.6	9.9
Coverage ratio (assets/liabilities)	Times	12.2	11.1	10.5	10.5	9.1
Dependency ratio (pension contributors/pensioners)	Times	11.4	10.6	12.4	9.8	10.0

Source: *Social Security Regulatory Authority.*

Overall, investment portfolio of the sector remained broadly unchanged. Government Securities and real estate investments accounted for the biggest share in the investment allocation at 30.0 percent and 20.0 percent of total assets, respectively. Loans to the Government decreased from 20.0 percent to 14.0 percent of total assets due to impairment, while investment in equities increased, attributed to appreciation of share prices (**Table 3.18**).

[4] the number contributing members of pension funds relative to the number pensioners and beneficiaries

Table 3.18: Tanzania Mainland: social security portfolio investment mix

Percent

Particular	Prudential Limit as Percentage of Total Assets	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank deposits	35	9.0	11.5	9.4	9.4	9.8
Government debt	20-70	25.6	26.0	28.2	28.6	29.6
Commercial paper, promissory notes and corporate bonds	20	0.2	0.2	0.2	0.3	0.3
Loans to government	10	20.0	19.1	18.3	17.5	14.1
Ordinary and preference share	20	5.9	6.8	6.7	7.0	7.2
Investments in licensed collective investment schemes	30	1.5	1.5	1.5	1.5	3.4
Real estate	30	20.7	19.8	18.6	18.9	19.3
Loans to corporates and cooperative societies	10	3.9	4.0	3.9	3.6	
Infrastructure investment	25	2.9	2.9	2.7	2.9	2.9
Other assets		8.8	8.3	10.5	10.3	11.0
Total assets (TZS billion)		11,323.7	11,960.0	12,187.8	12,232.1	12,367.8

Source: *Social Security Regulatory Authority*

Zanzibar Social Security Fund

During the nine months to end of March 2018, the Zanzibar Social Security Fund (ZSSF) recorded growth in the ratio of contribution income to benefit payments following the amendment of the Zanzibar Social Security Fund Act, 2005. The contribution rate for both employer and employees increased from 10.0 percent to 13.0 percent and from 5.0 percent to 7.0 percent, respectively. The changes led to a rise in the ratio of contribution income to benefit payments from 1.8 times to 2.3 times thus improving the Fund's ability to meet current obligations, Additional, new entry of compulsory members contributed to the growth. On the hand, benefit formula was reviewed, increasing benefit payments by 25.4 percent to TZS 20.2 billion (**Table 3.19**).

Table 3.19: ZSSF selected indicators

Particulars	Jul 15 to Mar 16	Jul16 to Mar 17	Jul17 to Mar 18
Membership (compulsory)	72,779	76,647	83,855
Membership (voluntary)	7,948	8,453	8,710
Total membership	80,727	85,100	92,565
Pensioners	6,192	6,748	7,458
Contributions (compulsory)	24.4	26.2	46.1
Contributions (voluntary)	0.1	0.1	0.1
Total contribution (TZS billion)	24.6	26.4	46.3
Benefit payments (TZS billion)	12.8	15.0	20.2
Contribution income/benefit payments (times)	1.9	1.8	2.3
Dependency ratio (times)	11.8	11.4	11.2

***Source:** Zanzibar Social Security Fund*

Investment portfolio grew by 11.6 percent, with fixed deposits, properties and treasury bonds taking the largest proportion, mainly due to higher returns provided by these avenues. Investment in equity declined as the Fund disposed its holdings in some companies during the period (**Table 3.20)**.

Table 3.20: ZSSF investment portfolio

Percent

Particular	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18 (end March 18)
Treasury bills	4.0	0.0	0.0	0.0	0.0	0.0
Government stock	7.6	12.1	10.8	9.3	8.7	7.0
Treasury bonds	26.3	19.7	31.8	27.8	24.2	22.3
Bank fixed deposits	38.2	38.9	24.1	28.8	33.9	32.9
Equity investments	5.2	6.8	4.0	3.0	3.2	2.9
Call account	0.0	0.0	0.0	0.0	0.0	0.0
Loans	9.0	5.6	5.3	3.1	1.5	7.2
Investment property	3.8	2.8	2.3	20.4	26.7	25.8
Investment in land	3.4	2.7	2.2	1.8	0.0	0.0
Hifadhi hotel	0.0	0.2	0.1	0.1	0.0	0.0
PBZ Bond	0.0	0.0	2.6	2.1	1.8	1.8
WIP	2.5	11.2	16.9	3.5	0.0	0.0
Total investment assets (TZS billion)	134.2	169.6	206.8	246.3	290.6	324.2

***Source:** Zanzibar Social Security Fund*

3.3 Cross-sector linkages in the financial system

Pension funds deposits to the banking sector increased by 23.2 percent to TZS 526.0 billion as at end of March 2018, compared with corresponding period of 2017. This is partly associated with government directive to withhold investment in new projects pending completion of merging process. This may expose some banks to liquidity risk in case of sudden withdrawal of funds after merging. On the other hand, insurance companies' deposits with banks declined by 6.1 percent to TZS 158.3 billion. This corresponds to the decline in insurance premium, partly reflecting public institutions shift from private health insurance companies to the National Health Insurance Fund, which falls under social security sector (**Table 3.21**).

Table 3.21: Financial interconnectedness (top ten banks)

TZS billion

Items	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Percentage change (Mar 17-Mar 18)
Placements with banks abroad	964.0	640.7	562.4	351.7	400.5	739.9	683.7	21.6
Placements with domestic banks	481.4	419.5	467.3	342.1	309.6	201.2	730.1	56.2
Deposits from pension funds	268.4	329.0	426.8	456.7	402.9	334.8	526.0	23.2
Deposits from insurance companies	216.6	194.6	168.6	376.6	274.2	222.4	158.3	-6.1
Borrowings from domestic banks	207.4	604.0	755.3	542.3	629.4	382.3	449.5	-40.5
Deposits from foreign banks	861.4	659.4	672.2	723.5	831.0	877.9	668.1	-0.6
Inter-bank contingent claims to foreign banks	369.4	346.0	260.6	34.9	25.2	81.6	128.1	-50.8
Deposits from mobile network operators	624.4	665.7	649.7	655.5	686.4	720.0	701.1	7.9

***Source**: Bank of Tanzania*

Box 3: Deposit insurance system

The Banking and Financial Institution Act, 2006 requires Deposit Insurance Board to make compensation of insured deposits to depositors of a bank whose license has been revoked by the Bank. As at end March 2018, DIB had reimbursed 8,238 out of 62,633 protected depositors of seven closed banks.

Reimbursement of insured deposits to depositors of FBME Bank Limited, closed on 8th May 2017, commenced in November 2017 and by end of March 2018, 3,054 depositors, representing 54.8 percent of 5,575 eligible depositors in Tanzania were paid. The total amount paid was TZS 2.3 billion, representing 78.0 percent of the total deposit insurance payable.

Payment of insured deposits to depositors of Mbinga Community Bank Plc, closed on 12th May 2017, commenced on 24th July 2017 and by end of March 2018, 3,509 depositors out of 9,333 eligible depositors (37.6 percent) were paid. The total amount paid was TZS 0.7 billion, representing 82.0 percent of the total deposit insurance payable.

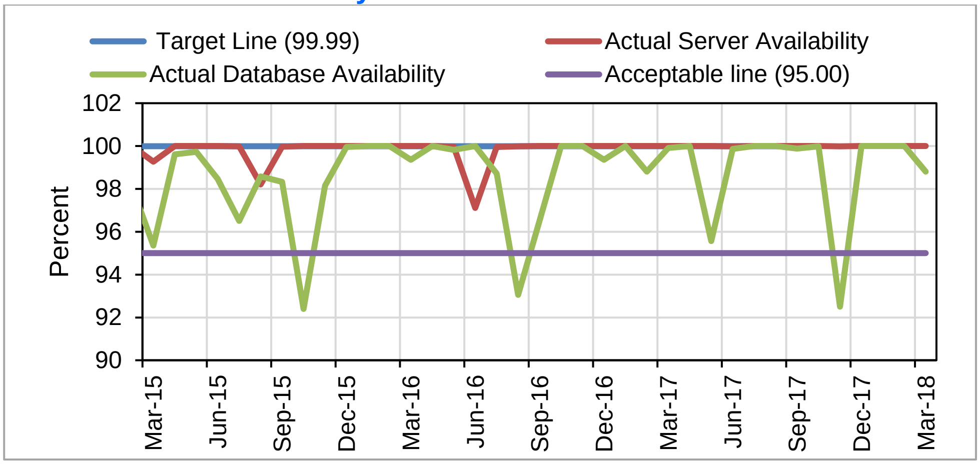
On 4th January 2018, the Bank revoked banking license of five community banks with Deposit Insurance Board appointed as a liquidator. Payout of insured deposits to 47,725 eligible depositors commenced on 28th March 2018. As at end March 2018, 1,675 depositors representing 3.5 percent of eligible depositors were paid. The total amount paid was TZS 1.2 billion, representing 21.4 percent of the total deposit insurance payable. DIB continued to reimburse remaining eligible depositors and liquidation process of all closed banks.

4.0 FINANCIAL SYSTEM INFRASTRUCTURE AND REGULATORY DEVELOPMENTS

4.1 Payment system infrastructure

During six months to end of March 2018, large value and retail payment systems functioned smoothly and safely without major disruptions. The large value system, Tanzania Interbank Settlement System (TISS), on average, recorded 100.0 percent and 98.5 percent efficiency in terms of server and database uptime availability. However, the system experienced database availability of 92.5 percent in November 2017, below the acceptable level of 95.0 percent due to technical error experienced in TISS database on 3rd November 2017. The error was timely resolved without causing major disruption. Values and volumes of TISS transactions continued to grow in terms of usage, supporting economic activities (**Chart 4.1)**.

Chart 4.1: TISS availability



Source*: Bank of Tanzania*

Retail payment systems, including Tanzania Automated Clearing House (TACH), card switches and mobile payment systems operated efficiently with increased values and volumes of transaction. There were some delays in TACH settlement, due to temporary liquidity squeeze by few participants, however this did not cause systemic disruptions (**Table 4.1**).

Table 4.1: Payment systems' values and volume of transactions processed

Payment systems	Values transacted (TZS billion)			Percentage change	Percentage change
	S1 2017	S2 2017	S1 2018	S2 2017-S1 2018	S1 2017-S1 2018
TISS	112,320.2	102,924.4	109,973.1	6.8	-2.1
ECH	4,933.1	4,964.3	5,630.6	13.4	14.1
ATM and POS	5,912.9	5,795.9	5,421.0	-6.5	-8.3
Mobile banking	1,169.6	1,413.0	1,417.7	0.3	21.2
Internet banking	22,907.5	26,040.5	26,782.2	2.8	16.9
M-Payments	30,299.5	33,822.4	37,727.9	11.5	24.5
	Volumes transacted (Thousands)			Percentage change	Percentage change
Payment Systems	S1 2017	S2 2017	S1 2018	S2 2017-S1 2018	S1 2017-S1 2018
TISS	891.2	936.6	1,075.6	14.8	20.7
ECH	3,786.0	4,839.2	6,492.1	34.2	71.5
ATM and POS	38,064.4	35,793.0	37,681.9	5.3	-1.0
Mobile banking	27,601.1	25,292.4	24,710.2	-2.3	-10.5
Internet banking	1,472.7	1,959.4	1,475.6	-24.7	0.2
M-Payments	898,016.2	984,492.4	1,249,118.4	26.9	39.1

***Source**: Bank of Tanzania.*

***Note**: SI 2017 denote six months to March 2017*
S2 2017 denotes six months to September 2017
S1 2018 denote six months to March 2018

4.2 Financial system regulatory developments

Banking sector

Bank of Tanzania issued a regulatory guidance to all banks and financial institutions in December 2017 to facilitate effective implementation of International Financial Reporting Standard 9 (Financial Instruments) which replaced the International Accounting Standard 39. The Standard became mandatory effective from 1st January 2018. The new standard brings significant change in financial reporting of banks and financial institutions, as impairment model for loans and advances changed from Incurred Credit Loss to Expected Credit Loss.

The shift is likely to result in increased levels of impairment, which may in turn reduce profitability and capital. To manage the transition, the Bank has allowed banks and financial institutions to spread the excess impairment equally over three years.

Payment systems

The Bank, in collaboration with other stakeholders, is implementing the National Switch, which will act as central payment system infrastructure connecting all payment channels. The Switch will enhance efficiency in the payment system and reduce cost of payments, thus increasing financial inclusion.

The Bank is developing regulatory framework for remittances in order to bring standards and prevent money laundering or terrorist financing. Appropriate laws and regulations are essential for efficient remittance services.

Social security sector

The Public Service Social Security Fund (PSSSF) Act, 2018 was assented by the President on 8th February 2018. The law establishes a new Social Security Scheme for Public Sector by merging four existing Schemes i.e. PPF Pensions Fund, LAPF Pensions Fund, GEPF Retirement Benefits Fund and the Public Service Pension Fund. The law also amended the NSSF Act to cater for the Private Sector. Consequently, SSRA Act was also amended.

Capital market and securities

The Tanzania Commodity Exchange (TMX) is planning to commence trading cotton, coffee and sesame through an open-outcry to be followed by Automated Trading System (ATS). In addition, TMX shareholders nominated Board members in March 2018 to replace the interim Board, which existed since the incorporation of the company in 2014.

Pursuant to section 32 of the Capital Markets and Securities Act (CMS Act), (as amended by Act No. 10 of 2010), which requires certification of persons intending to engage in provision of securities services in the market. CMSA entered into collaborative arrangements with the Chartered Institute for Securities and Investment, London, United Kingdom to conduct Securities Industry Certification Course in March 2017.

5.0 FINANCIAL SECTOR RESILIENCE

Banking sector resilience

The Bank conducts stress test on quarterly basis to assess resilience of the banking sector against the impact of key risks, namely credit, interest and exchange rates on capital. The size of applied shocks is determined based on historical volatility and expert judgment (**Table 5.1**).

Table 5.1: Shock calibration

Risk-type	Type of Shock	Shock Size	Description
Credit	Sectoral shocks to NPLs:		Applies a different shock to the existing level of performing loans of the selected sectors, so that a proportion of them became NPLs
	Agriculture	3.9	
	Trade	11.8	
	Manufacturing	7.5	
	Personal	5.5	
	Proportional increase in NPLs	8.2	Applies a uniform shock to the existing level of performing outstanding loans so that a proportion of them became NPLs
Interest Rate	Nominal deposits rate		Assess the effect of interest rate change on banks' interest sensitive assets and liabilities.
	< 3 months	3.3	
	3-6 months	3.0	
	6-12 months	2.9	
	1-2yrs	2.8	
	2-3yrs	2.7	
	>3 yrs	3.6	
Exchange Rate	Assumed depreciation of selected currencies		Assess the effect of depreciation on banks' existing foreign currency denominated assets and liabilities
	USD	9.9	
	EUR	3.0	
	GBP	5.8	

Source: *Bank of Tanzania*

The resilience of the banking system was assessed against 10 percent capital adequacy ratio. The assessment covered top 10 banks, other banks and all banks (**Table 5.2**). The top 10 banks accounted for 69.0 percent of total assets of the banking sector.

Table 5.2: Summary of stress testing results

Classification	Baseline Capital Adequacy Ratio (Pre-test)	Post – Stress Capital Adequacy Ratio			
		Credit risks			
		Sectorial	Proportional increase in NPLs	Interest rate	Exchange rate
All Banks	17.4	16.3	15.1	15.8	16.3
Top Ten Banks	22.2	21.0	20.0	20.8	20.9
Other Banks	11.2	10.0	8.7	9.7	9.8
Regulatory CAR (Core Capital)	10.0	10.0	10.0	10.0	10.0
No. of undercapitalized Major banks	2.0	2.0	2.0	2.0	2.0
No. of undercapitalized Other banks	7.0	8.0	9.0	8.0	8.0

Source*: Bank of Tanzania*

The results of the stress testing indicated that the sector was generally resilient in terms of the credit, interest rate and foreign exchange shocks. However, two out of the top ten banks had capital inadequacy prior to the shocks. The two banks are under MOU with BOT, allowing for a close supervisory oversight as the shareholders and management address the problems before end August 2018.

6.0 FINANCIAL STABILITY OUTLOOK

Global economy is expected to maintain its momentum in 2018, underpinned by improvement in domestic demand and strong manufacturing activity across major economies, which together with higher commodity prices and relatively favourable financial conditions, will boost emerging markets and developing economies output. Nevertheless, geopolitical risks and protectionism sentiments are clouding the outlook. In the domestic economy, concerns on banks' asset quality and the impact of the adoption of IFRS 9 remain, but favourable macroeconomic developments and measures taken by the Bank are expected to lower credit risk and mitigate the effects of IFRS 9 during the transition.

The sustained good performance in the equity market and new IPOs are likely to increase market capitalisation, but the concentration of few companies in the DSE daily trading and dominance of foreign investors expose the bourse to liquidity risk in the event of shocks to these companies or non-resident exit, thus warranting close monitoring to mitigate the risk.

The insurance sector is poised to gain from direct payment of premiums to insurers by policyholders, and regulatory changes that require Tanzania residents to engage locally registered companies as primary insurers for all policies. This will partly offset cash flow shortfalls resulting from the shift of health insurance arrangements for parastatals from insurance companies to the National Health Insurance Fund. Reforms in the social security sector are expected to enhance actuarial sustainability, streamline administrative costs and expand outreach by taking advantage of technological innovations.

7.0 APPENDICES

Appendix 1: Annual GDP performance by economic activity – Zanzibar

(Percent)

ECONOMIC ACTIVITY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sector Share in GDP										
GDP at market prices	100	100	100	100	100	100	100	100	100	100
Agriculture, forestry and fishing	24.7	26.0	28.5	29.2	34.7	29.3	30.8	27.8	25.8	25.7
Crops	13.5	15.2	16.7	16.4	22.0	15.5	18.5	15.9	14.2	15.1
Livestock	3.2	3.2	3.4	3.5	3.2	3.4	3.1	2.8	2.5	2.3
Forestry	2.9	2.8	2.9	2.9	2.8	3.0	2.8	2.8	2.8	2.6
Fishing	5.1	4.7	5.4	6.4	6.7	7.2	6.5	6.4	6.3	5.7
Industry and Construction	16.8	18.7	18.4	17.3	16.6	18.6	17.9	16.8	18.1	18.6
Mining and quarrying	1.1	1.4	1.6	1.6	1.5	1.7	1.5	1.6	1.7	1.9
Manufacturing	8.5	8.8	8.3	7.3	6.2	7.1	6.9	6.3	6.7	6.9
Electricity supply	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4
Water supply; sewerage, waste management	0.4	0.5	0.4	0.4	0.4	0.4	0.6	0.8	0.7	0.7
Construction	6.4	7.7	7.8	7.7	8.2	9.0	8.5	7.9	8.5	8.7
Services	48.5	45.0	42.0	42.8	38.9	41.5	41.1	44.7	46.1	45.0
Wholesale and retail trade; repairs	11.6	10.1	9.7	9.4	8.6	8.0	7.3	7.3	7.3	7.2
Transport and storage	3.9	4.4	4.6	4.6	4.1	4.4	4.7	3.9	5.0	4.3
Accommodation and Food Services	8.8	8.5	8.5	8.3	8.4	8.6	8.5	8.4	9.1	9.7
Accommodation	7.2	6.8	6.6	6.7	6.3	6.0	5.6	5.8	6.5	7.0
Food and beverage services	1.6	1.7	1.9	1.6	2.1	2.6	2.8	2.5	2.6	2.7
Information and communication	2.4	1.2	-1.3	0.7	0.4	0.8	1.3	5.4	5.3	5.0
Financial and insurance activities	3.5	3.0	3.4	3.4	2.5	2.8	3.3	4.0	3.6	3.8
Real estate activities	5.6	6.1	6.1	5.8	5.0	5.5	6.1	6.9	7.1	7.2
Professional, scientific and technical	0.1	0.2	0.2	0.2	0.1	0.2	0.3	0.4	0.4	0.4
Administrative and support services	0.7	0.8	0.8	0.8	0.8	0.8	0.7	0.6	0.6	0.7
Public administration	7.7	6.7	6.3	6.1	5.5	7.0	6.4	5.1	4.8	4.2
Education	2.7	2.6	2.5	2.2	2.1	2.1	2.0	2.1	2.1	2.0
Human health and social work	1.2	1.2	1.1	1.0	1.0	1.2	1.0	1.0	1.0	0.9
Arts, entertainment and recreation	0.4	0.3	0.3	0.3	0.4	0.5	0.4	0.4	0.4	0.4
Other service activities	0.7	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.4	0.4
Activities of households as employers;	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
FISIM	-0.9	-0.7	-0.8	-0.7	-0.7	-0.7	-1.1	-1.2	-1.2	-1.2

ECONOMIC ACTIVITY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Taxes on products	10.0	10.3	11.1	10.7	9.8	10.7	10.1	10.6	10.0	10.7
GDP Growth Rate										
GDP at constant prices (2007=100)	6.5	4.3	6.1	4.3	9.3	4.8	7.2	7.0	6.5	6.7
Agriculture, forestry and fishing	0.2	6.0	3.2	3.3	4.7	-8.3	13.2	-0.4	2.5	5.7
Crops	-2.1	6.6	5.1	4.3	1.7	-18.4	22.9	-7.2	-2.5	7.3
Livestock	3.5	2.7	1.3	1.8	4.0	6.7	5.1	7.5	7.7	7.1
Forestry	3.7	3.5	3.3	3.5	3.8	3.9	3.5	3.9	4.0	4.2
Fishing	2.4	8.0	-0.5	1.5	13.9	2.5	3.6	8.9	9.1	2.8
Industry and Construction	3.5	11.6	5.4	4.6	18.4	7.5	3.5	6.4	10.6	9.7
Mining and quarrying	9.1	19.8	12.6	6.6	18.4	12.7	-3.6	8.4	10.9	18.8
Manufacturing	0.5	-0.4	4.7	3.5	7.0	3.6	6.9	9.9	8.8	6.3
Electricity supply	7.5	-0.7	0.9	-4.7	35.5	9.5	3.1	4.7	6.7	8.2
Water supply; sewerage, waste management	7.5	0.4	3.0	2.8	8.2	3.4	6.0	4.8	5.6	5.3
Construction	6.3	27.6	5.2	5.7	29.8	9.9	1.9	3.3	12.5	11.3
Services	9.4	3.3	7.1	4.8	8.3	4.7	4.6	10.1	7.9	7.8
Wholesale and retail trade; repairs	9.9	-8.9	-3.1	-1.1	7.7	-10.4	2.9	13.0	0.9	5.1
Transport and storage	37.4	-1.0	13.8	16.4	14.9	14.9	9.4	7.0	5.2	6.8
Accommodation and Food Services	4.5	-6.5	1.1	1.8	18.1	1.5	9.5	6.9	10.3	9.5
Accommodation	4.5	-7.2	-1.3	5.2	12.6	-3.4	2.6	8.7	14.5	12.9
Food and beverage services	4.5	-3.3	11.0	10.5	41.9	18.5	29.1	2.9	0.3	0.1
Information and communication	37.4	40.3	-9.2	23.3	13.3	11.9	-13.4	24.7	7.6	9.1
Financial and insurance activities	21.0	1.0	25.0	14.5	5.9	7.6	5.1	10.6	11.2	9.0
Real estate activities	4.8	6.2	6.3	6.4	6.5	6.6	6.7	6.8	6.8	6.9
Professional, scientific and technical	4.8	30.3	-4.1	9.3	-3.5	21.4	47.9	43.4	9.2	9.6
Administrative and support services	4.8	7.2	5.0	-0.5	9.7	5.0	6.2	2.0	12.9	6.7
Public administration	1.3	22.3	25.7	-0.1	1.7	12.0	5.2	10.8	13.3	9.0
Education	1.3	4.2	2.1	2.5	5.5	2.8	2.5	7.9	2.9	7.4
Human health and social work	6.6	1.0	2.4	2.4	1.3	2.4	3.0	7.4	0.2	3.8
Arts, entertainment and recreation	4.3	-0.2	4.9	3.4	9.3	-0.7	7.5	5.9	17.2	9.8
Other service activities	4.3	0.3	4.5	3.3	8.1	-0.1	6.6	5.3	14.7	8.7
Activities of households as employers;	4.3	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.1
FISIM	21.0	5.2	28.1	8.6	15.7	4.8	10.8	11.4	13.7	11.3
Taxes on products	6.5	-7.3	10.2	3.4	9.6	33.4	14.1	8.6	0.8	-1.4
Contribution to GDP growth rate										

ECONOMIC ACTIVITY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
GDP at market prices	100	100	100	100	100	100	100	100	100	100
Agriculture, forestry and fishing	34.4	51.9	35.5	52.0	16.5	38.6	8.3	1.3	24.5	25.7
Crops	25.8	30.8	13.4	39.7	38.4	33.5	-1.2	-6.0	21.6	15.1
Livestock	3.5	5.5	4.4	2.2	5.3	1.1	1.1	-1.1	0.4	2.3
Forestry	2.6	3.6	3.1	2.4	5.0	1.5	2.6	2.8	1.3	2.6
Fishing	2.5	12.1	14.6	7.6	11.6	2.5	5.8	5.5	1.2	5.7
Industry and Construction	30.3	16.2	7.9	14.3	35.1	14.6	9.7	33.0	22.8	18.6
Mining and quarrying	2.8	3.3	1.5	1.3	3.5	0.6	1.7	3.4	3.2	1.9
Manufacturing	10.8	3.0	-1.2	2.7	15.2	6.0	2.0	12.0	8.4	6.9
Electricity supply	0.3	1.2	0.0	0.3	0.5	0.3	0.1	1.0	0.8	0.4
Water supply; sewerage, waste management	0.5	0.2	0.0	0.2	0.7	1.6	2.0	0.5	0.2	0.7
Construction	15.9	8.5	7.5	9.7	15.3	6.2	3.8	16.0	10.3	8.7
Services	22.8	13.8	49.2	26.6	63.2	39.4	68.4	63.2	36.9	45.0
Wholesale and retail trade; repairs	0.7	6.4	6.5	6.3	2.3	3.6	7.9	7.3	5.9	7.2
Transport and storage	7.0	6.6	5.0	2.5	6.3	6.2	-0.8	17.8	-0.5	4.3
Accommodation and Food Services	6.6	8.9	6.8	8.7	9.9	7.9	7.7	18.3	13.5	9.7
Accommodation	4.6	5.0	7.4	5.2	3.6	3.5	7.1	14.9	10.2	7.0
Food and beverage services	2.0	4.0	-0.6	3.5	6.3	4.4	0.5	3.4	3.4	2.7
Information and communication	-6.3	25.1	18.0	-0.9	4.2	4.1	32.3	4.7	2.4	5.0
Financial and insurance activities	0.0	6.8	3.1	-0.2	5.2	5.7	9.3	-2.1	5.6	3.8
Real estate activities	9.2	6.5	3.0	2.7	9.4	9.0	12.0	10.2	7.6	7.2
Professional, scientific and technical	0.4	0.0	0.3	0.0	0.5	0.7	1.1	0.7	0.6	0.4
Administrative and support services	1.6	0.8	0.6	0.8	0.8	0.3	0.1	0.1	1.7	0.7
Public administration	0.3	2.6	4.4	3.8	19.6	3.0	-3.3	1.6	-0.5	4.2
Education	1.8	1.5	0.2	1.6	2.2	1.4	3.1	1.4	1.3	2.0
Human health and social work	1.1	0.9	0.1	0.8	2.6	0.4	0.4	1.6	0.4	0.9
Arts, entertainment and recreation	0.0	0.1	0.7	0.7	1.2	0.1	0.1	0.7	0.2	0.4
Other service activities	-0.2	0.0	0.2	0.3	0.0	0.2	0.3	0.8	0.4	0.4
Activities of households as employers;	0.0	0.0	0.0	0.0	0.2	0.0	0.2	0.3	0.0	0.1
FISIM	0.5	-2.4	0.3	-0.5	-1.3	-3.2	-1.9	-0.1	-1.6	-1.2
Taxes on products	12.5	18.1	7.3	7.1	18.2	7.3	13.6	2.6	15.8	10.7

Source: *Office of the Chief Government Statistician and BOT Calculations*

Appendix 2: Quarterly performance of Dar es Salaam Stock Exchange

Particulars	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Total market capitalization (TZS billion)	20,835.3	24,003.4	21,579.6	19,124.3	20,138.8	19,286.5	20,354.9	23,076.0	23,199.3
Domestic market capitalization (TZS billion)	8,788.1	8,327.5	8,103.1	7,728.9	7,507.9	7,758.7	9,743.4	10,275.3	10,728.5
Cross listed market capitalization (TZS billion)	12,047.3	15,675.8	13,476.5	11,395.5	12,630.9	11,527.8	10,611.6	12,800.8	12,470.7
GDP (TZS billion)	103,168.6	103,168.6	103,168.6	103,168.6	116,101.9	116,101.9	116,101.9	116,101.9	116,101.9
Total market capitalization/GDP (Percent)	20.2	23.3	20.9	18.5	17.3	16.6	17.5	19.9	20.0
% of cross-listed companies.	57.8	65.3	62.5	59.6	62.7	59.8	52.1	55.5	53.8
% of domestic listed companies	42.2	34.7	37.5	40.4	37.3	40.2	47.9	44.5	46.2
Market turn-over (TZS million)	17,303.0	63,222.0	50,291.0	18,489.0	43,287.0	71,160.0	70,850.0	25,440.0	
Share Indices									
All Shares Index (DSEI)	2,376.8	2,743.4	2,477.2	2,198.4	2,315.1	2,217.1	2,116.9	2,396.2	2,409.0
Tanzania Share Index (TSI)	4,126.6	3,905.3	3,855.9	3,677.8	3,572.7	3,692.0	3,742.5	3,919.3	4,092.1
Industrial & Allied (IA)	5,569.1	5,175.3	4,959.1	4,665.1	4,618.9	4,914.4	5,143.9	5,504.3	5,847.9
Banks, Finance & Investment (BI)	2,660.5	2,656.5	2,774.1	2,761.3	2,546.6	2,514.6	2,515.1	2,461.0	2,543.9
Commercial Services (cs)	3,764.9	3,555.6	3,538.8	3,158.0	3,137.0	2,467.3	4,633.1	2,462.2	2,463.9

***Source**: Capital Market and Securities Authority*

Appendix 3: DSE market capitalization of individual companies

Percent

No;	Cross listed companies	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
1	ACA	17.7	25.2	26.8	21.0	26.2	18.3	10.0	10.2	7.9
2	EABL	22.6	21.8	21.5	21.6	18.7	21.4	21.1	18.2	19.9
3	JHL	3.1	3.0	3.1	3.5	3.7	3.3	3.7	3.2	3.7
4	KA	0.7	0.6	0.6	1.0	1.0	1.2	0.7	9.6	5.6
5	KCB	12.5	10.0	8.0	10.4	11.1	13.2	14.3	12.0	14.6
6	NMG	3.3	2.9	2.3	1.8	2.0	2.2	2.2	2.1	2.0
7	USL	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1
	Cross listed companies market share as percent of total market capitalization	60.2	63.6	62.5	59.6	62.7	59.8	52.1	55.5	53.8
No;	**Domestic listed companies**									
8	CRDB	4.8	3.7	3.1	3.4	2.4	2.4	2.2	1.8	1.9
9	DCB	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
10	DSE	-	-	0.1	0.1	0.1	0.1	0.1	0.1	0.1
11	MBP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12	MCB	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
13	MKCB	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
14	MUCOBA	-	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15	NMB	4.7	3.7	6.4	7.2	6.8	7.1	6.8	6.0	5.9
16	PAL	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3
17	SWALA	0.2	0.2	0.2	0.3	0.2	0.3	0.2	0.2	0.2
18	SWIS	1.2	1.1	1.1	1.0	1.0	0.7	0.7	0.5	0.5
19	TBL	19.2	18.6	17.8	18.5	17.6	20.5	19.3	17.9	19.7
20	TCC	5.7	5.5	5.4	6.0	5.7	5.7	7.2	7.3	7.0
21	TCCL	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.3
22	TCIL								-	0.1

23	TOL	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
24	TPCC	2.2	2.0	1.9	2.2	1.8	1.7	1.3	1.1	1.1
25	TTP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
26	VODA		-	-	-	-	-	8.5	8.3	8.2
27	YETU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Domestic listed companies market share as percent of total market capitalization	39.8	36.4	37.6	40.4	37.3	40.2	47.9	44.5	46.2

Source: Dar es Salaam Stock Exchange

Appendix 4: Tanzania Mainland: Trend of Social Security Investment Portfolio

Particular	Prudential Limit as Percentage of Total Assets	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Bank deposits	35	8.4	8.8	7.7	8.7	9.0	11.5	9.4	9.4	9.8
Government debt	20-70	20.3	23.0	24.6	25.4	25.6	26.0	28.2	28.6	29.6
Commercial paper, promissory notes and corporate bonds	20	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Loans to government	10	21.0	20.6	19.7	19.1	20.0	19.1	18.3	17.5	14.1
Ordinary and preference share	20	8.8	7.6	6.9	6.4	5.9	6.8	6.7	7.0	7.2
Investments in licensed collective investment schemes	30	1.5	1.5	1.6	1.5	1.5	1.5	1.5	1.5	3.4
Real estate	30	19.8	19.5	19.6	21.2	20.7	19.8	18.6	18.9	19.3
Loans to corporates and cooperative societies	10	4.0	4.4	4.4	4.1	3.9	4.0	3.9	3.6	
Infrastructure investment	25	2.5	2.6	2.7	2.8	2.9	2.9	2.7	2.9	2.9
Other assets		13.9	11.9	12.9	10.8	8.8	8.3	10.5	10.3	11.0
Total assets (TZS billion)		10,058.8	10,284.5	10,635.4	11,020.8	11,323.7	11,960.0	12,187.8	12,232.1	12,367.8

Source: *Bank of Tanzania*

Appendix 5: Agent banking transactions

Date	Cumulative no. of agents	Cash deposit		Cash withdrawals		Collection of accounts opening forms	Net positions (deposit less withdrawals)
		No of transactions	Value (TZS million)	No of Transactions	Value (TZS million)	No of Transactions	Value in (TZS million)
Sep-13	304	10,035	6,260	3,069	880	3,822	5,380
Dec-13	591	38,024	22,112	17,545	3,258	5,848	18,854
Mar-14	840	59,929	38,430	19,203	5,188	3,503	33,241
Jun-14	1,012	83,901	56,846	33,869	9,400	6,062	47,446
Sep-14	1,317	136,286	83,101	41,718	12,663	6,729	70,438
Dec-14	1,652	167,617	99,443	54,244	14,831	6,948	84,613
Mar-15	1,857	281,898	140,217	70,283	19,887	6,802	120,330
Jun-15	2,333	353,352	193,650	126,400	34,928	7,834	158,722
Sep-15	2,936	533,243	264,066	202,665	57,500	9,305	206,566
Dec-15	3,298	589,605	276,315	276,303	72,919	28,070	203,396
Mar-16	3,485	876,518	329,550	307,400	80,530	23,348	249,021
Jun-16	4,573	1,055,454	377,065	384,350	100,235	32,209	276,830
Sep-16	4,798	1,321,734	520,549	402,625	108,809	48,338	411,740
Dec-16	5,676	1,616,136	656,125	562,717	137,560	61,900	518,565
Mar-17	6,865	1,927,509	862,131	719,893	171,259	53,076	690,872
Jun-17	8,008	2,110,176	961,958	869,651	216,498	69,598	745,460
Sep-17	9,266	2,913,513	1,311,157	1,053,338	277,968	11,814	1,033,189

Source: *Bank of Tanzania*