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TANZANIA FINANCIAL STABILITY REPORT

December 2022

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LIST OF ACRONYMS

ATS	-	Automated Trading System
DIB	-	Deposit Insurance Board
DSE	-	Dar es Salaam Stock Exchange
EAC	-	East African Community
EFT	-	Electronic Fund Transfer
FSSI	-	Financial System Stability Index
HHI	-	Herfindahl Hirschman Index
IFRS	-	International Financial Reporting Standard
IMF	-	International Monetary Fund
JHL	-	Jubilee Holdings Limited
KA	-	Kenya Airways
NAV	-	Net Asset Value
NHIF	-	National Health Insurance Fund
NPLs	-	Non- Performing Loans
NSSF	-	National Social Security Fund
PLC	-	Public Limited Company
PSSSF	-	Public Service Social Security Fund
ROI	-	Return on Investment
TACH	-	Tanzania Automated Clearing House
TBL	-	Tanzania Breweries Limited
TCC	-	Tanzania Cigarette Company
TCCL	-	Tanga Cement Company Limited
TIPS	-	Tanzania Instant Payments System
TISS	-	Tanzania Interbank Settlement System
TPCC	-	Tanzania Portland Cement Company
TRWA	-	Total Risk-Weighted Assets
TSA	-	Treasury Single Account
TTP	-	TATEPA Limited
TZS	-	Tanzania Shilling
USD	-	United States Dollar
UTT	-	Unit Trust of Tanzania
UTT–AMIS	-	UTT Asset Management and Investment Services
WCF	-	Workers' Compensation Fund
ZSSF	-	Zanzibar Social Security Fund

FOREWORD

Tanzania Financial Stability Report aims at informing key stakeholders and the public about the assessment of the condition of the financial system and potential risks to financial stability. The Bank of Tanzania, in collaboration with other financial sector regulatory agencies, protect financial stability and prepares this report annually.

The assessment indicates that the Tanzanian financial system remained strong, well placed to support the economy, and the outlook remains positive. It is worth noting that Tanzania is not immune from the deteriorating global and regional economic and financial stability following the war in Ukraine, tight global financial conditions, climate-related constraints, and resurgence of COVID-19. The resilience of the domestic financial system was supported by strong capital and liquidity positions of banks and non-banks financial institutions, recovery of economic activities from the pandemic, improvement in business conditions following policy, supervisory and regulatory measures taken by Governments and financial regulators.

Recognizing global economic and financial developments, the Bank of Tanzania intensified its oversight of domestic financial institutions. Also, implemented an accommodative monetary policy during the first half of 2022 to facilitate recovery of economic activities from adverse effects of COVID-19 pandemic before shifting to a less accommodative monetary policy during the second half of 2022, in response to the spillover effects of the global economic shocks caused by the war in Ukraine, the residual effects of COVID-19 pandemic. Together with other Tanzania Financial Stability Forum members, the Bank is closely monitoring any adverse effects on the broader financial system. Financial institutions must continue to invest in their capacity to absorb shocks by maintaining strong capital and liquidity buffers and increasing their operational resilience, including external threats like cyber-attacks.

Emmanuel M. Tutuba
Governor
BANK OF TANZANIA
5th August 2023

EXECUTIVE SUMMARY

In 2022, the domestic financial system remained resilient, sound, and stable amid challenges posed by the effects of the War in Ukraine, tight financial conditions, and the COVID-19 pandemic.

The global financial system was vulnerable to risks arising from the War in Ukraine, climate change and tighter financial conditions. During 2022, global growth slowed to 4.4 percent from 5.9 percent recorded in the preceding period, owing to supply-chain disruptions caused by the War in Ukraine, frequent resurgence of COVID-19 pandemic, particularly in China and its cumulative effects, tightening financial conditions and climate-related constraints leading to high food and energy prices. The global economy is projected to grow by 3.8 percent in 2023 owing to continued tight financial conditions, the War in Ukraine, and the cumulative effects of COVID-19 pandemic.

The performance of domestic economy remained stable amid external shocks. The domestic economy grew 4.7 percent and 6.8 percent in 2022 for Tanzania Mainland and Zanzibar, respectively. The growth was partly contributed by the recovery of economic activities coupled with sustained public and private sector investments. The economy was projected to grow at 5.2 percent and 7.1 percent in 2023 for Tanzania Mainland and Zanzibar, respectively, supported by improved business conditions, banking sector profitability, liquidity availability to fund business and public investment in infrastructure. Despite the positive outlook, growth of domestic economy remains exposed to tightening financial conditions, spill overs from the ongoing War in Ukraine and climate-related risks.

Risks emanating from households decreased on account of increased disposable income. The Household Financial Condition Survey, 2022 revealed an increase in salary earners' income, reflecting increase in the ability to borrow and service debts. The rise in income was due to increased employee salaries, payment of arrears and new employment following the recovery of economic activities from the pandemic**.** During the period under review, it was also noted that there was an increase in loan disbursements, repayments and outstanding loans. Risks to household financial conditions remain susceptible to rising food and energy prices, mainly attributable to supply chain disruptions caused by the War in Ukraine and unfavourable weather conditions. The increase in lending to households in the financial sector warrants close monitoring to limit the build-up of potential risks.

The sources of financing for non-financial corporates improved, reflecting a rebound in business activities. The Non-Financial Corporate Survey revealed an increase in retained earnings in 2022 compared to 2021, supported by a recovery in business activities and an increase in domestic and foreign demand. The performance of the non-financial corporate sector is attributed to the implementation of monetary policy, prudential measures, and improved business conditions from adverse impact of the pandemic. The increase in fuel and raw material prices and exchange rate pressure emanating from tight global financial conditions pose risks to firms' financial conditions.

The banking sub-sector remained resilient with adequate capital, liquidity, and subdued credit risks. The regulatory capital and liquidity ratios remained above the minimum requirements, despite a slight decline following the disbursement of new loans. This is reflected by increased lending to the private sector, which grew by 22.5 percent due to a pick-up in business activities and policy and regulatory measures taken by the Bank and Government. Further, credit risk declined, with NPL ratios dropping to 5.7 percent, mainly due to intensified credit recovery efforts, enhanced credit underwriting standards, and improved borrowers' debt servicing capacity resulting to increase in profitability. The increase in profitability in the sub-sector will further improve the resilience of the banking subsector to withstand potential shocks.

Financial and capital markets remained sound, stable and resilient with increased domestic investors' participation. During the period under review, the primary market remained dominated by issuance of Government instruments. The participation of the market was dominated by banks and social security schemes accounting for 74.0 percent of total subscriptions. However, the market experienced a slowdown in demand attributed to the revision of coupon rates. The total value of investment in the capital markets increased by 8.2 percent. The increase reflects growth in bond market, equity market and net assets value of collective investment schemes in 2022. This improvement was attributed to good performance of listed companies, investors' confidence towards the bond market and the listing of new capital markets frontiers. Market capitalization concentration risk was low with domestic listed companies' dominance in total market capitalization. The growth in capital markets coupled with growth in domestic investors' participation will cushion against foreign exposure risks, contributing to the economy's growth. However, the sector remains vulnerable to effects of the war in Ukraine, tight financial conditions as well as resurgent of COVID-19 pandemic, which can hamper its positive performance.

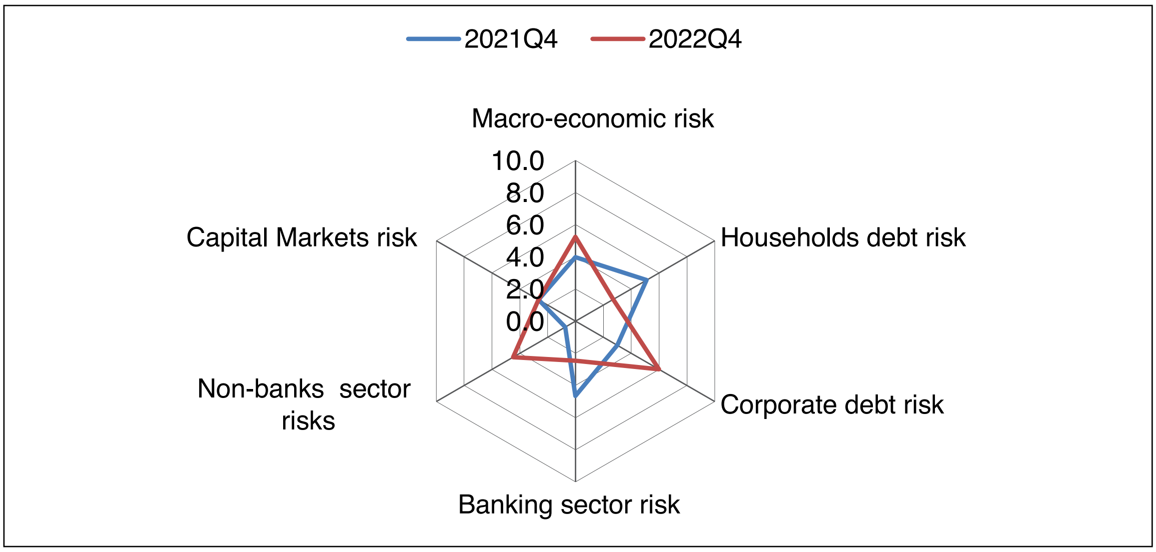
The insurance sub-sector remained sound, as depicted by the gross premium and profitability increase, coupled with adequate capital and liquidity. The growth was further supported by post-pandemic business rebound related to transport, tourism, accommodation, and increased marketing. Additionally, policy interventions by the Government to improve insurance outreach, such as improvement of regulatory frameworks, development of automated systems for tracking premiums, and public awareness, contributed to the growth. The expected major projects in mining, oil and gas, transportation, and energy call for increased investment in the insurance industry to enhance risk mitigation.

Social security sub-sector was resilient in both Tanzania Mainland and Zanzibar, with improved assets and the ability to meet maturing obligations. Total assets grew on account of increased income from investments and members' contributions. Return on investment increased, where major contribution was from Government securities. The sector's ability to cover obligations increased, attributed to the adoption of parametric reforms on the sector's benefits formula. The dependency ratio, as depicted by active contributing members to pensioners improved, coupled with heightened operational efficiency. The sector investment in real estate to non-income earning properties and cash and demand deposits in banks and financial institutions exceeded the prudential limit attributed to finalization of construction projects and higher payments of contributions in arrears. The continued review of policy and regulatory framework will further enhance sustainability of the sector.

Payment and settlement systems continued to operate smoothly without disruptions. The reliability of payment systems remained stable, evidenced by a high rate of completed transactions and low downtime, encouraging public usage of digital channels in financial services delivery. The Bank will continue to undertake appropriate measures to strengthen the safety of the usage of digital channels and smooth running of payments system in the country. The development activities of the Tanzania Instant Payment System (TIPS) core platform continued, with a notable increase in the number of financial service providers (FSPs) on-boarded into the system.

In conclusion, risks to domestic economy remained moderate on account of sound macroeconomic environment, recovery of business activities and policy measures by the Government. Risks to domestic economy remained moderate on account of sound macroeconomic environment, recovery of business activities and policy measures by the Government. In addition, risk to households and non-financial corporates were subdued mainly due to rebound in business activities, increased households' income, and eased credit conditions by banks. Further, risks to banking and non-banking sectors were moderate on account of adequate capital and liquidity to withstand potential shocks. However, the domestic economy is exposed to tightened financial conditions, climate-related risks, ongoing war in Ukraine and cumulative effects of COVID-19 pandemic. The identified potential risks to macro-financial environment are summarized and presented by the financial stability risk map and financial system stability index (**Figure 1.1**, **Box 1**).

Figure 1.1 Financial stability risk map[1]



Source: Bank of Tanzania

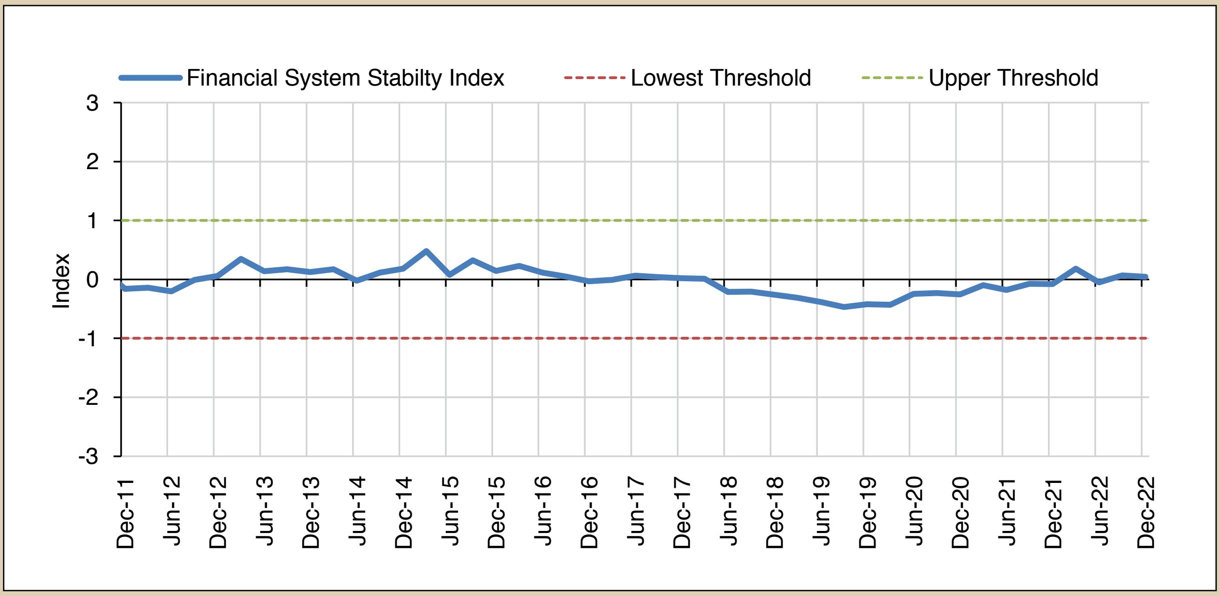
1 Financial risk map (cobweb) is a graphical representation of magnitude and direction of financial stability risks. The furthest point from 0 indicates high risk and vice versa. It shows the direction of risks from one period to another.

Box 1: Financial System Stability Index

The Financial System Stability Index (FSSI) is an early warning indicator that measures financial system stability. The FSSI uses financial market data and banking sector prudential indicators measuring capital, assets quality, earnings, and liquidity. The indicators are transformed into a composite index using standardized common scale, assuming the data are normally distributed. The index evolves within three standard deviations (+3 and -3) from the mean.

Following the assessment of vulnerability and financial soundness that was done for the period ending December 2022, the financial system was found to be resilient to short-term shocks. The index slightly improved to 0.0 at the end of December 2022 compared to -0.1 in December 2021. Generally, the index lies between the desired thresholds of one standard deviation (+1 and -1) from the mean, indicating sustained stability of the financial system.

Financial System Stability Index

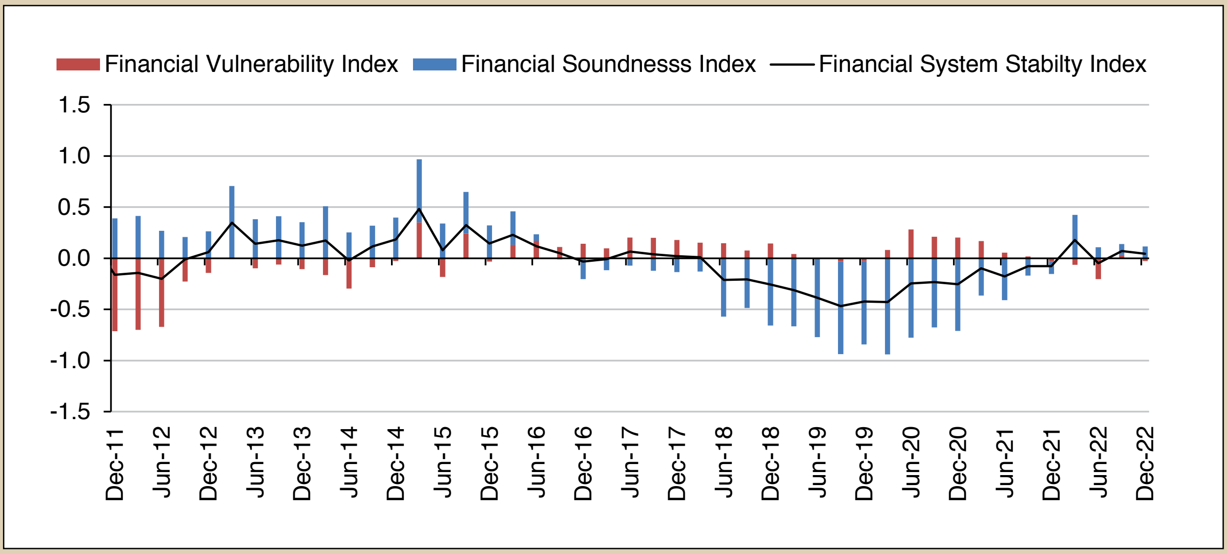


Source: Bank of Tanzania

The reason for improvement includes decrease in the level of NPLs to 5.8 percent at the end of December 2022 from 8.5 percent in December 2021. Further, Core Capital Adequacy Ratio for the banking sector declined to 18.1 percent in December 2022 from 20.0 percent observed in the preceding period owing to increased lending translating to more risk assets. However, the capital buffer remains adequate above regulatory threshold of 10 percent, providing a cushion against potential credit risks.

Specific Observations: Since December 2018, the index has remained below zero, with a slight improvement in 2022. The rebound of the index was partly due to continued efforts by the Bank in implementing accommodative monetary policy measures as well as supervisory and prudential measures to cushion against the impact of the pandemic, thus reducing the level of NPLs in the banking sector. In addition, the index improved attributed to increase in return on assets, decrease in liquidity due to increase in investment in more profitable avenues as well as growth in credit to private sector supported by the decrease in lending rates.

Decomposition of Financial System Stability Index



Source: Bank of Tanzania

Developments in the financial stability index call for measures to increase efficiency in sector, by reducing operational costs and the ratio of non-performing loans, which has been above the acceptable level of 5.0 percent.

1. MACROECONOMIC AND FINANCIAL ENVIRONMENT

1.1. Global macro-economic and financial developments

Global financial system remained vulnerable to war in Ukraine, climate-related risks and tighter financial conditions. During 2022, the global economy growth slowed to 3.4 percent from 5.9 percent recorded in the preceding year (**Chart 1.1**). This was undermined by supply-chain disruptions caused by the War in Ukraine, frequent resurgence of COVID-19 pandemic, particularly in China, tightening financial conditions and climate-related constrains leading to high food and energy prices. High inflation eroded real income, triggering higher production and living costs to firms and households. Despite deteriorated growth, the global economy remained resilient, supported by liquidity and capital buffers built by financial institutions since the onset of the global financial crisis. This improved financial institutions' ability to withstand shocks and provide credit to the economy, complemented by the rebound of international tourism from the pandemic.

The resilience notwithstanding, the outlook of the global economy remains uncertain. The IMF projects global economy to grow at 2.9[2] percent in 2023, a marginal improvement from 2.7 percent forecasted in the October 2022 World Economic Outlook (WEO). The upward revision is partly attributable to China's decision to ease a zero-COVID-19 policy as well as resilience of the global economy and financial system to high inflation, elevated interest rates and ongoing War in Ukraine. Risks to growth include escalation of the War in Ukraine, cumulative effects of COVID-19 pandemic and continued tightening financial conditions amid rising public and private debts, pushing up debt servicing costs and imposing pressure on sovereign debts. Rising interest rates and diminishing purchasing power are expected to weaken consumer confidence and investor sentiment affecting growth prospects. Meanwhile, supply chain disruptions and increases in interest rates are likely to exert pressure on exchange rates and costs of living, affecting corporates and household financial conditions.

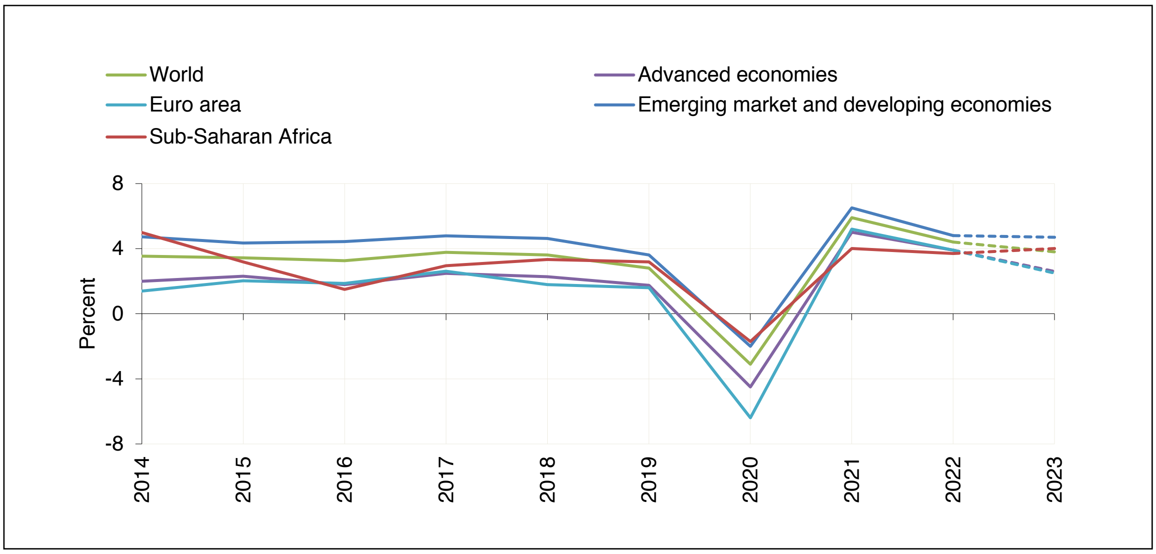
Growth momentum in advanced economies was weakened by high inflation and monetary tightening. Growth in advanced economies is projected at 1.2 percent in 2023 compared to 2.7 percent in 2022, partly attributed to high inflation, which eroded household purchasing power and dented confidence, while rapid monetary policy tightening weighed on demand.

The growth in US is projected at 1.4 percent in 2023 from 2.0 percent contributed by a decline in consumer spending, given higher interest rates, lower real income, and a significant decrease in household net worth. The ongoing increase in real estate prices will likely continue to weigh on the housing market, with residential fixed investment projected to decline. The growth in the EU is projected to decelerate to 0.7 from 3.5 percent in 2022 due to elevated energy costs, high inflation and tighter financial conditions depressing household consumption and investment. As the Euro Area continues to reduce energy dependence from Russia, the region remains vulnerable

2 International Monetary Fund, World Economic Outlook, January 2023.

to disruptions in the energy supply, including gas shortages. In Japan, the economy is projected to perform better at 1.8 percent from 1.4 percent in 2022, partly contributed by continued supportive fiscal and monetary conditions, unlike other developed countries. Meanwhile, the rising import costs, depreciation of the Japanese Yen, and slowing external demand will weigh on industrial output (**Table 1.1**).

Chart 1.1 World GDP growth rates



Source: IMF, World Economic Outlook, January 2023
Note: Dotted lines denote projections.

Growth in Emerging Markets and Developing Economies is projected to pick up but remains fragile against an uncertain global environment. The region's growth is projected to improve slightly to 4.0 percent in 2023 from 3.9 percent in 2022, attributable to the lifting of cross-border restrictions, the rebound of international tourism from the pandemic, rising commodity prices, and economic resilience to global tensions.

The recovery continues to be negatively affected by tightening global financial conditions, which have exacerbated balance of payments and debt vulnerabilities in many developing countries. The repercussion of the war in Ukraine, rising food and energy prices, and tightening financial conditions are expected to weigh on the region's growth prospects. The stronger dollar has led to currency depreciation, resulting in higher commodity prices in local currency terms, increasing gross external financing and raising private and public borrowing costs.

The increase in foreign debt-servicing burdens is imposing pressure on fiscal position to contain rising living costs. Further, the rising economic uncertainty, following weaker demands in advanced countries, shifted investors' sentiments to safer markets due to increased risk premiums in developing economies. This development may weaken firms' and banking sector balance sheets, disrupting credit growth and driving up debt servicing costs for foreign currency-denominated debt. The growth outlook in emerging markets and developing economies remains positive as global demand is likely to moderate, attributable to China's decision to ease zero COVID-19 policy, easing energy prices and supply chain disruptions. The enhancement of global financial sector regulations in strengthening its resilience to shocks continues to support economic growth amid emerging risks.

Table 1.1: GDP growth for selected countries

									Projections	
	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
United States	2.7	3.6	1.9	2.6	3.1	2.6	-3.4	5.9	2.0	2.6
Euro Area	1.7	1.8	2.5	2.7	1.8	1.3	-6.4	5.3	3.5	0.7
Germany	2.2	1.7	2.2	2.5	1.5	0.5	-4.6	2.6	1.9	0.1
Japan	4.0	0.8	0.0	1.4	0.5	1.2	-4.5	2.1	1.4	1.8
United Kingdom	2.9	2.3	1.8	1.8	1.4	1.2	-9.4	7.2	4.7	2.3
China	7.2	7.3	6.7	6.8	6.6	6.1	2.3	8.4	3.0	5.2
India	7.4	8.0	8.2	7.2	6.8	6.1	-7.3	8.7	6.8	6.1
Brazil	0.5	-3.6	-3.3	1.1	1.1	0.9	-3.9	5.0	3.1	1.2
South Africa	1.7	1.3	0.3	0.7	0.8	0.4	-6.4	4.9	2.6	1.2

Source: World Economic Outlook, January 2023

The growth in Sub-Saharan Africa (SSA) is projected to remain moderate amid uncertainty in global environment. The economy grew at 3.8 percent in 2022 and is estimated to remain at the same level in 2023 amid volatile and uncertain global environment that is compounding domestic challenges (**Chart 1.1**). Favourable export prices is expected to benefit commodity exporters, but a slowdown in global demand could pose challenges. The ongoing recovery in tourism and efforts to promote free trade area in the continent is likely to support growth prospects for non-oil exporting countries.

The main downside risks to SSA's growth are resurgence of COVID-19 pandemic, rising food and energy prices, and tightening financial conditions. The economies could be affected by exchange rate volatility, rising inflation, and a decline in foreign exchange reserves and government revenues, which the war in Ukraine may exacerbate. The depressed global demand, coupled with the rise costs of borrowing, resulted in a decline in Official Development Assistance (ODA) that may consequently hamper debt sustainability in the region.

Box 2: Implication of war in Ukraine on domestic macroeconomic and financial stability

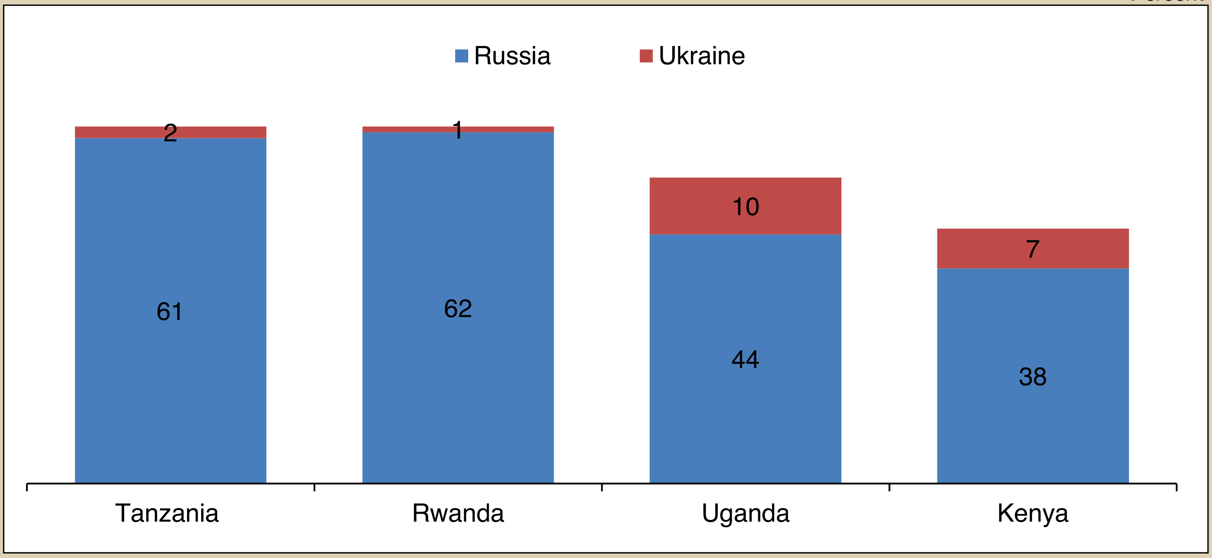
Russia and Ukraine account for about 30.0 percent of global exports of wheat, 47.0 percent of sunflower seeds, 10.0 percent of crude oil, and Russia is the third largest producer of oil as well as the top exporter of fertilizer, disruptions have caused global prices to soar, especially for wheat, oil and natural gas. Further, the War may continue to increase financial market volatility, trade costs and global supply chain reconfiguration. The impact of this crisis on East Africa and Tanzania's economy, mainly, is on trade costs owing to the surge in energy and commodity prices, primarily wheat, fertilizer and other grains.

Impact on Food Prices

The crisis is expected to affect several countries dependent on agri-food commodities from Russia and Ukraine. The two countries command a large share of wheat, corn, barley, sunflower oil and seeds. According to UNCTAD, during 2018-2020, Africa imported 44.0 percent of its wheat grain from Russia and Ukraine. Over 50.0 percent of East African wheat imports come from Russia and Ukraine. Tanzania imports her wheat grain from Russia and Ukraine, accounting for over 60.0 percent of the total wheat imports. The World Bank data indicated that wheat grain prices increased by 57.0 percent from January 2020 to December 2022.

Share of Wheat Imports from Russia and Ukraine in selected East African countries

Percent



Source: UNCTAD March 2022.

Further, major wheat importers in the country raised concerns that the available stock will not sustain the domestic demand in the medium to longer term, thus imposing additional pressure on wheat prices. The increase in wheat prices is expected to increase production costs for food and beverage manufacturers. The rise will affect bread prices and other food items, pushing the cost of living to households and affecting corporates' financial conditions.

Impact on oil prices

Since the onset of the war, average oil prices have been increasing. The oil price surged from USD 97.2 per barrel, reaching the highest peak of USD 129.0 per barrel on 8th March 2022. The elevated oil prices, which came at a time when the market was already characterized by tight supply, adversely effect on import bills, thus, putting pressure on the exchange rate and cost of production. The effect of the war was felt by a rise in pump prices in the local market, whereby the retail prices of petrol and diesel increased by about 12.0 percent in April compared to 2.4 percent in March 2022 (EWURA, 2022). Higher fuel prices increased the cost of production, transportation and other items, with the burden expected to impact household consumption. Notwithstanding, the impact of the war in Ukraine on the domestic pump prices was reduced through the Government's introduction of fuel subsidies as an effort to curb further increases in domestic prices amid easing in global fuel prices.

Impact on Tourism

The uncertainties associated with the ongoing conflict between Russia and Ukraine raised major concerns in tourism industry in Tanzania. The war in Ukraine marred the recovery of the country's tourism sector from the effects of COVID-19 pandemic. In 2021, more than 150,000 tourists from Russia visited Tanzania. Russia and Ukraine markets accounted for 17.6 percent of the total tourist arrivals in 2021. The number was expected to double in 2022 as the two countries dominated the tourism sector in Tanzania. Therefore, the tension affected tourism earnings due to decline in number of tourists, thus affecting tourism-dependent firms and households. However, the impact of the War in Ukraine on tourism was reduced through ongoing Government initiatives to boost the sector, including the recently launched Royal Tour Programme.

Impact on transport cost and trade

Restrictions on airspace and security concerns complicate trade routes through Russia and Ukraine. The tension has led to supply chain reconfiguration through the lengthening of transportation routes, causing a surge in transport costs initially higher due to COVID-19 pandemic effects. The logistic costs are expected to hamper global trade supply by adding up costs of raw materials,' imports and exports.

Impact on foreign exchange

The tension may pressure the level of foreign exchange reserves due to an increased import bill. Further, the anticipated decline in the number of tourists from Eastern Europe might lead to a decrease in foreign earnings from tourism. This could increase the foreign currency-denominated debts burden for both public and private institutions. However, the pressure on foreign exchange rates may be cushioned by the current efforts of promoting tourism through the Royal Tour Programme, blue economy initiatives, and the introduction of gold refineries.

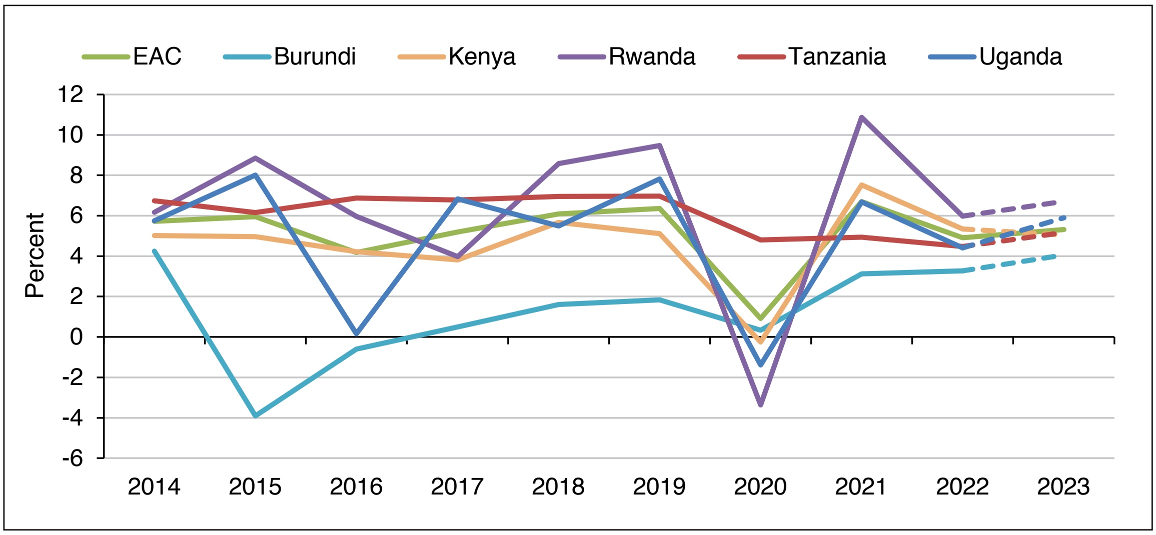
Implication to financial stability

The combination of higher food and fuel prices and tightened financial conditions may place severe pressure on household consumption. At the same time, fuel import-dependent countries like Tanzania expect to experience balance of payments and exchange rate pressure. The envisaged exchange rate pressure, higher cost of production, rising living expenses and decline in tourist inflows may increase the debt burden to households and corporates, weakening debt servicing capacity and financial institutions' balance sheets.

1.2. Regional macro-economic and financial developments

Economic growth in the East African region continues to recover amid resurgence of global uncertainties. Growth is estimated at 4.2 percent in 2022 and projected to reach 5.0 percent in 2023, mainly attributed to continued diversification of the economy, sustained public spending in infrastructure, and supportive prudential, fiscal and monetary policy (**Chart 1.2**). Furthermore, liquidity and capital buffers increased banks' lending ability to the private sector. However, as net importers, higher international prices, climate-related constraints such as droughts and floods, disruption of the global supply chain, and tight financial conditions have constrained household consumption, imposed pressure on the exchange rate, foreign denominated debt burden, thus affecting firms and banks' financial situation.

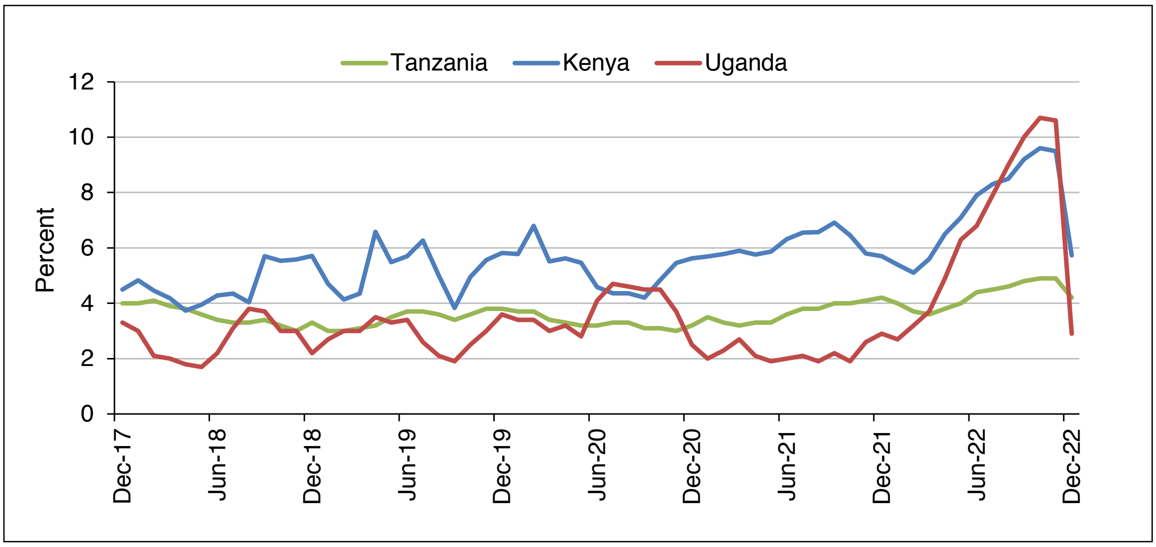
Chart 1.2 Economic growth in EAC



Source: World Economic Outlook, January 2023

The impact of supply chain disruptions increases in commodity prices, exchange rate pressure and tightening of financial conditions have started to filter in EAC member countries' inflation. The inflation rates in Kenya and Uganda surged above the EAC convergence criteria of 8.0 percent before easing towards the end of 2022 (**Chart 1.3**). Persistent increases in the world oil and food prices, drought and supply chain disruptions affected the region by raising production costs and reducing household purchasing power. Inflation is expected to normalize in 2023, supported by monetary, fiscal, and prudential measures implemented by the EAC Partner States.

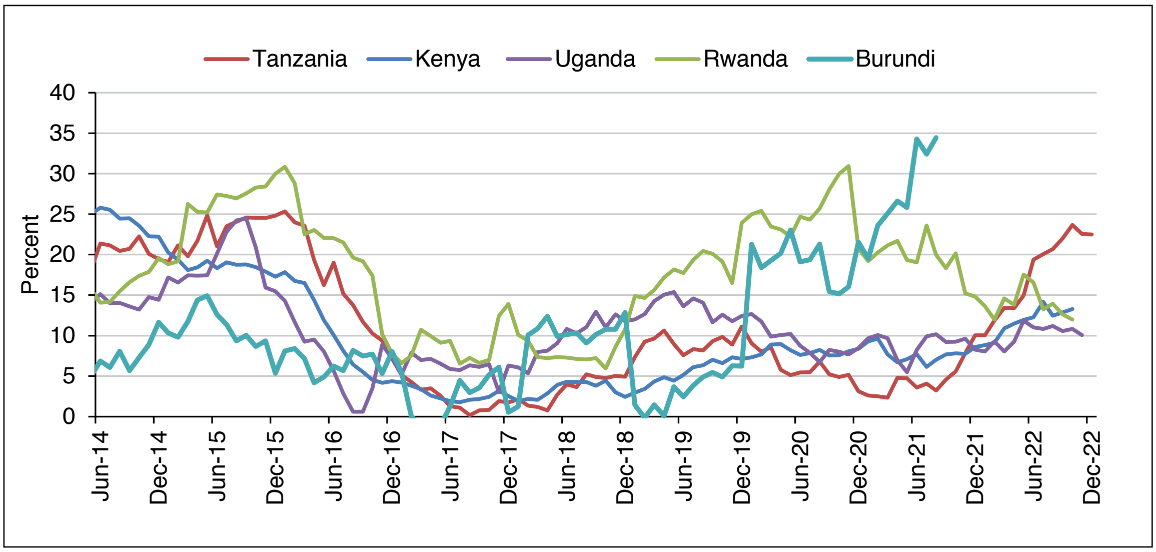
Chart 1.3 EAC selected countries inflation



Source: EAC Central Banks

During the year ending 2022, credit extended to the private sector for EAC Partner States improved in line with the economic recovery and resilience of the sector to shocks. Credit to private sector is projected to sustain strong growth owing to the ongoing recovery of domestic economies (**Chart 1.4**).

Chart 1.4 Selected EAC credit to private sector



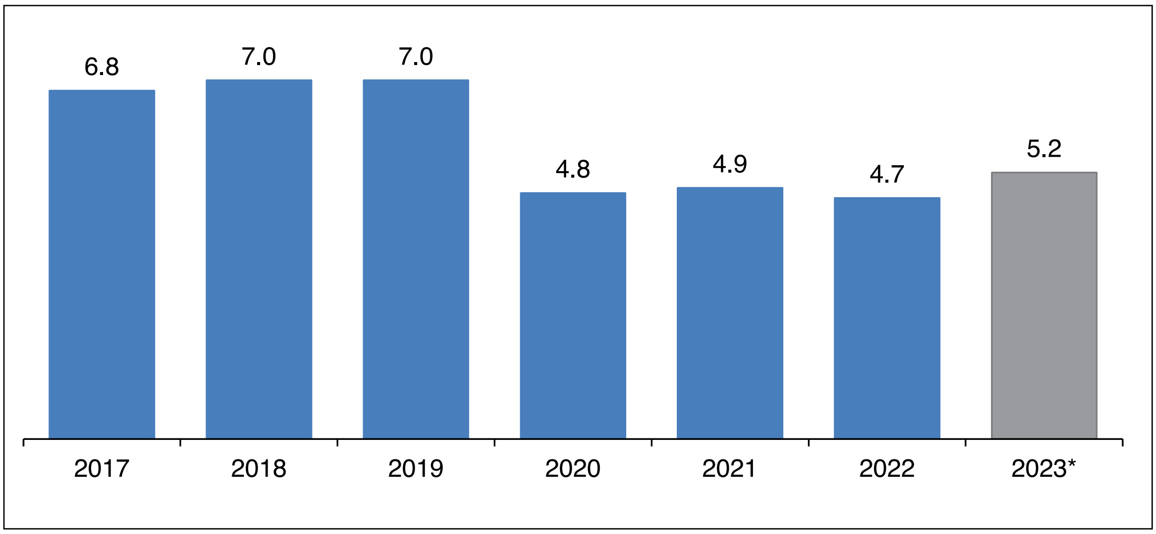
Source: EAC Central Banks

1.3. Domestic macroeconomic and financial environment

Domestic economy performance remained stable amidst external shocks. The economy is estimated to grow at 4.7 percent in 2022, partly contributed by the recovery of economic activities coupled with sustained public and private sector investments (**Chart 1.5**). The improvement in business conditions, profitability in the banking sector, availability of liquidity to fund business and public investment in infrastructure will add impetus to the growth trajectory. Nonetheless, the Bank continued implementing cautious accommodative monetary and prudential policy measures combined with prudent fiscal policy measures. These measures aimed at stimulating growth of the economy while cushioning against adverse impacts of the ongoing war in Ukraine and changes in global financial conditions provide a positive outlook on financial stability.

The domestic economy is exposed to the risks of tightening financial conditions, spill overs from the ongoing war in Ukraine and climate-related risks; continued supply chain disruptions are expected to increase the cost of imports and reduce export demand and foreign currency inflows.

Chart 1.5: Annual GDP growth rate



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

The demand for foreign exchange increased in 2022, creating a mismatch between volume sold and purchased in the retail market. The nominal exchange rate remained stable with slight depreciation of Tanzania Shillings against the US dollar, supported by low inflation relative to trading partners and a moderate current account deficit (**Chart 1.6**). However, the energy and imported commodity price increase may put an upward pressure on the exchange rate. Nonetheless, the strengthening of the US dollar due to tightening monetary policies to curb high inflation may affect the banking sector's financial position and corporates balance sheet through increased cost of importing raw materials and rising public and corporate foreign currency-denominated debt burden while reducing the debt servicing capacity (**Box 3**).

Box 3: Exchange rate pressure implication to the domestic financial condition

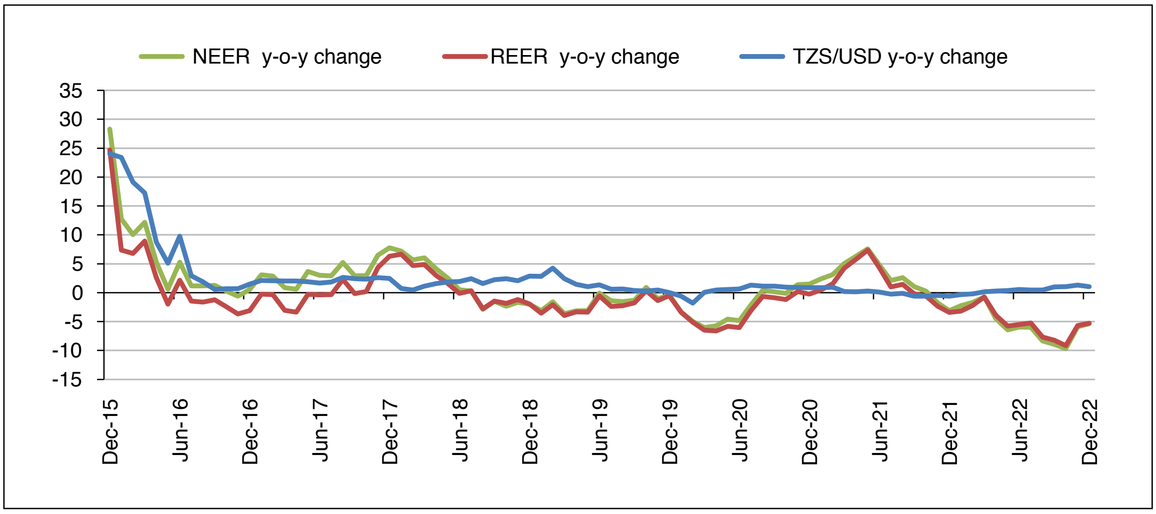
The ongoing tightening of the global financial condition due to rapid interest rates hike by advanced countries to tame inflationary pressure has propelled the strengthening of the US dollar against other currencies. Currencies in most developing countries have depreciated against the dollar, raising the prices of imported goods and thereby imposing pressure on firms' demand for the dollar. Among others, the strengthening of the dollar increases the cost of servicing dollar-denominated debts, thus affecting firms' financial position.

The Non-Financial Corporates survey conducted in 2022 indicated that the major traded currency was the US dollar, mainly used in international businesses, including settling foreign maturing obligations such as import bills. Further, firms indicated that they were facing significant challenges in obtaining US dollars in the market, affecting their foreign business operations.

Statistics revealed that the local currency remained stable; however, it slightly depreciated against US Dollar by 1.9 percent to TZS. 2,351.96 in December 2022 from TZS 2,307.36 recorded in December 2021. The stability of the Tanzanian shilling was due to the relatively low inflation coupled with moral suasion to market players to observe prudence in foreign exchange dealing. However, the ongoing changes in global financial conditions coupled with slow economic growth and a decline in global demand may further affect the stability of the shilling.

Firms with foreign currency income streams had positive feedback following foreign currency revaluation gains. Responding entities appreciated the efforts made by the authorities in ensuring the local currency remained stable against major traded currencies such as USD, GBP, EUR, and ZAR. The Royal Tour campaign also resulted in gains for entities within the tourism sector due to an increase in foreign tourists as well as investors, which triggered the inflow of foreign currency. Foreign exchange liquidity pressure in the market triggered local investors to explore other avenues, including borrowing outside the country to support business operations.

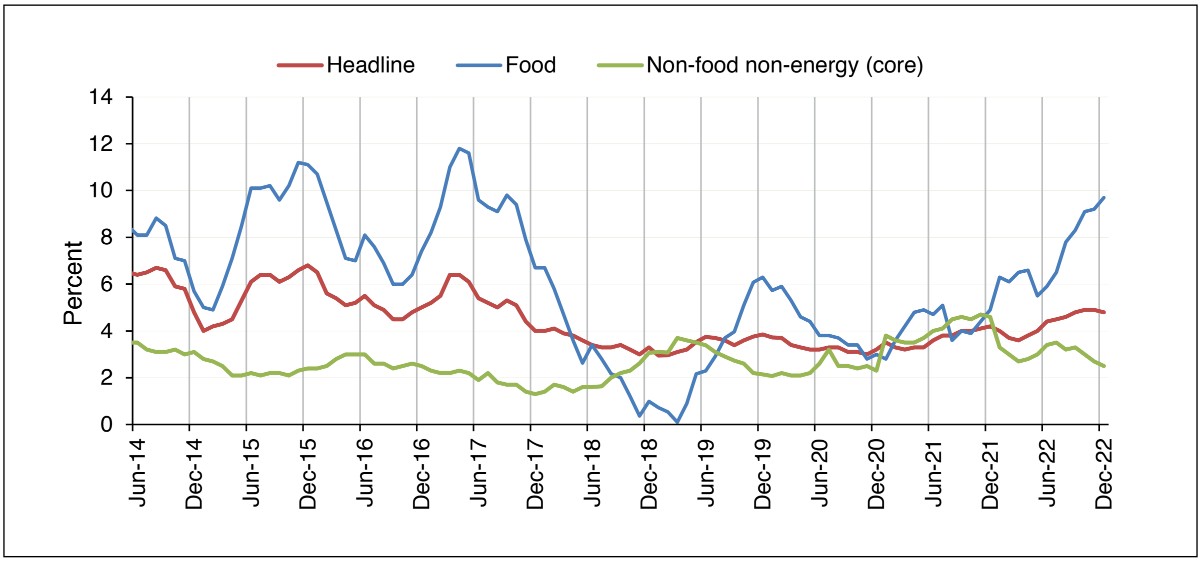
Chart 1.6: Real effective exchange rate



Source: Bank of Tanzania

Inflation rate sustained an upward trend reaching 4.8 percent in December 2022, mainly associated with increased food and energy prices as well as supply-side constraints (**Chart 1.7**). The surging food and fuel prices continue to impose pressure on household purchasing power and disposable income, which eventually reduce their credit worthiness and debt servicing capacity.

Chart 1.7: Inflation developments



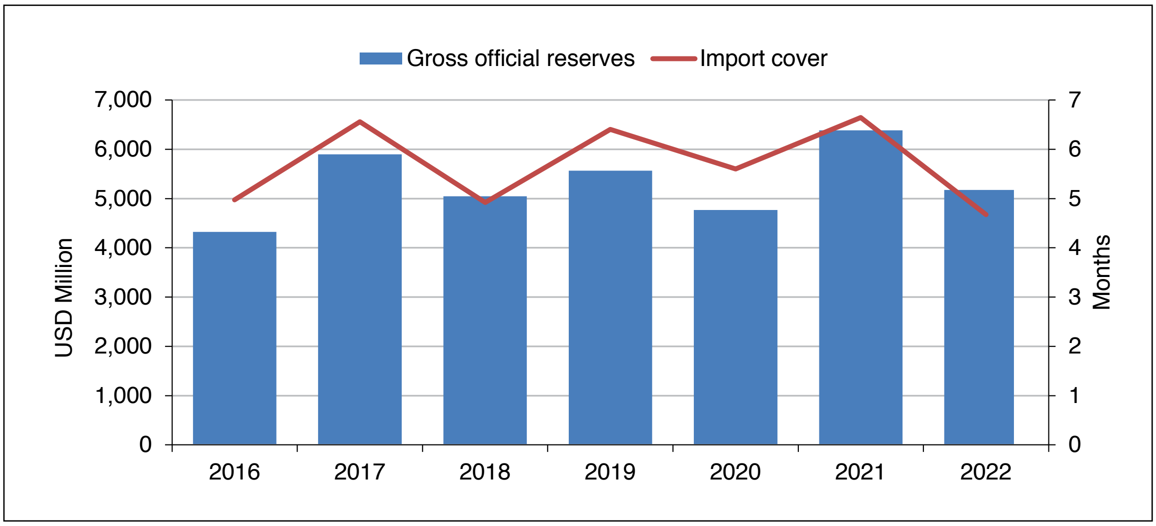
Source: Bank of Tanzania

1.4. Foreign exchange reserves

The gross foreign exchange reserves amounted to USD 5,177.2 million at the end of December 2022 compared with USD 6,386.0 million in 2021, mainly due to higher import bills as the world commodity prices increased. The reserve position was adequate to cover about 4.7 months of projected imports of goods and services, above the country and EAC benchmarks of 4.0 months and

4.5 months, respectively (**Chart 1.8**). However, the country's foreign reserves remained vulnerable to a widening current account deficit coupled with tightening global financial conditions.

Chart 1.8: Foreign reserves

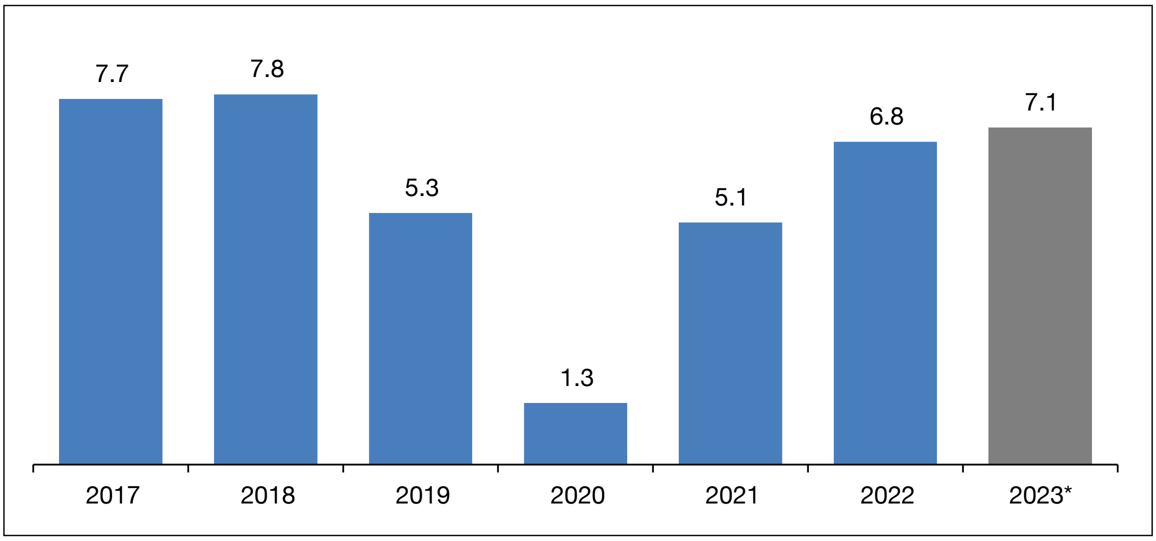


Source: Bank of Tanzania

1.5. Economic development in Zanzibar

Zanzibar economy remained strong following the ongoing recovery of economic activities from the effects of COVID-19 pandemic. The growth in 2022 is estimated at 6.8 percent supported by increased flows of tourists in the Island and strong public and private sectors investments (**Chart 1.9**). In addition, the growth is supported by the Government's efforts to intensify the tax administration system, taxpayers' compliance with existing legal and regulatory frameworks, and digitalization of investment services. Government efforts to exploit blue economy potentials in the sustainable use of marine resources have attracted private sector investment supporting the Island economy. The economy is projected to grow by 7.1 percent in 2023 to be contributed by strong Government commitment to creating conducive business environment, political stability, the ongoing and completion of construction of various infrastructures includes water, roads, hospitals, schools, and muted effects of COVID-19 pandemic.

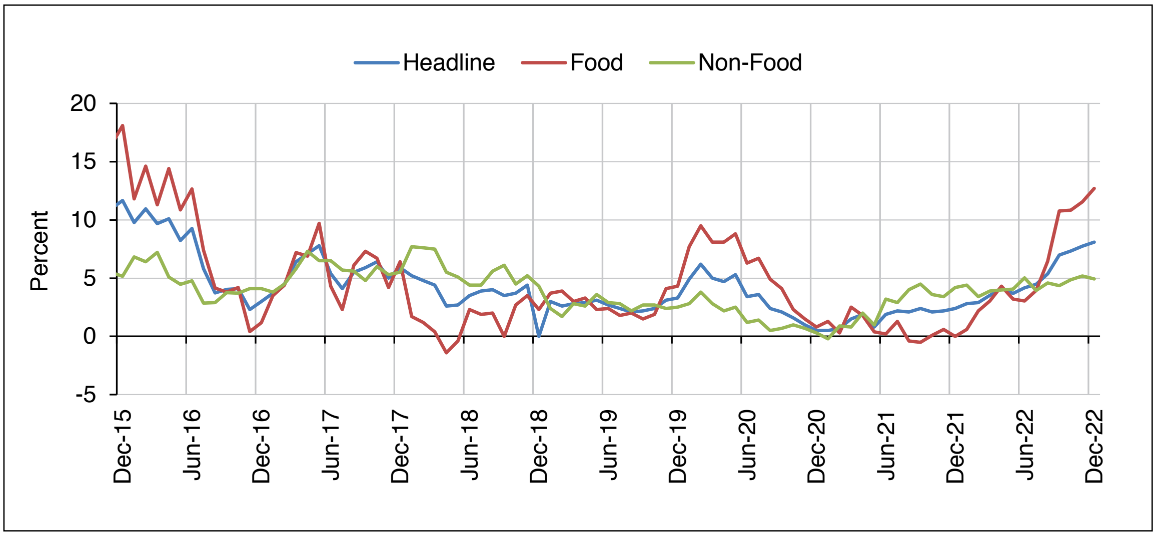
Chart 1.9: Zanzibar growth rates



Source: Office of Chief Government Statistician (OCGS)

Inflation remained high due to increased food and energy prices, despite the exchange rate stability and prudent monetary and fiscal policies. In December 2022, headline inflation rose to 8.0 percent from 2.4 percent recorded in the preceding year, slightly above the EAC convergence benchmarks of not more than 8 percent (**Chart 1.10**). The increase was largely due to higher food prices, mainly maize flour, rice and wheat flour, and fuel prices, coupled with the disruption of supply chains in the global market. The sustained prudence in monetary and fiscal policy conduct is expected to maintain inflation within a single limit.

Chart 1.10: Zanzibar inflation developments



Source: Office of Chief Government Statistician (OCGS)

2. FINANCIAL SYSTEM DEVELOPMENTS

2.1. Credit and interest rates developments

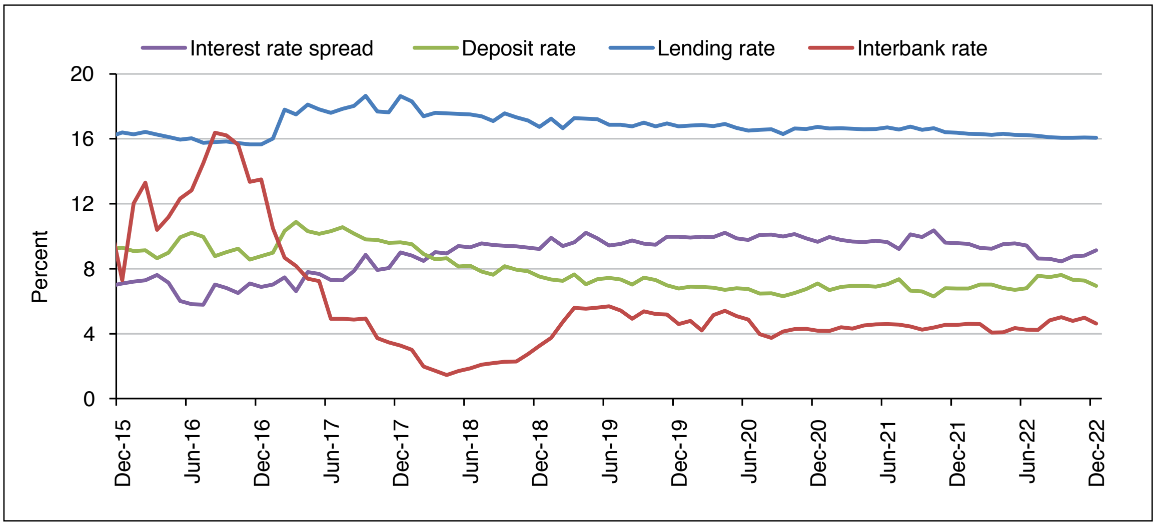
Credit to private sector improved in 2022, reinforced by supportive monetary and fiscal policies, as well as improving business environment. Growth of credit to private sector was 22.5 percent in December 2022, compared with 4.5 percent recorded in December 2021. The improvement in credit provision to private reflects the recovery of economic activities and the pick-up in business. Both household and non-financial firms' income grew, contributing to their creditworthiness and ability to service their debts. As a result, the financial condition of the banking sector improved as profitability significantly increased and capable to provide credit going forward.

Interest rates continued to exhibit mixed trends, with a decline in lending interest rates. The average lending rate declined but in a subdued trend, responding slowly to supportive policies, favourable macroeconomic conditions, and supervisory and regulatory framework. The lending rates declined to an average of 16.1 percent, compared to 16.4 percent in the preceding year. The downward trend of lending rates results from prudential policies undertaken by the Bank. The decline in lending rate relieves borrowers by enhancing their creditworthiness and debt servicing capacity. Prudential and monetary policy measures undertaken by the Government and the Bank are expected to reduce lending rates further and stimulate credit growth, which is expected to reduce credit risk and improve banks' balance sheets.

Generally, the deposit rates remained broadly unchanged, implying a reduced cost of funds (**Chart 2.1**). This development was partly contributed by measures taken by the Bank, including relaxation of agency banking licencing requirements, reduction of interest on trust account deposits and reduction in statutory minimum reserve.

The Bank has started undertaking and engaging stakeholders to reform further the financial sector, including licensing and supervision of microfinance service providers, which will enhance the movement in interest rates in line with the monetary policy stance. Consequently, the spread between lending and deposits rate remained broadly unchanged.

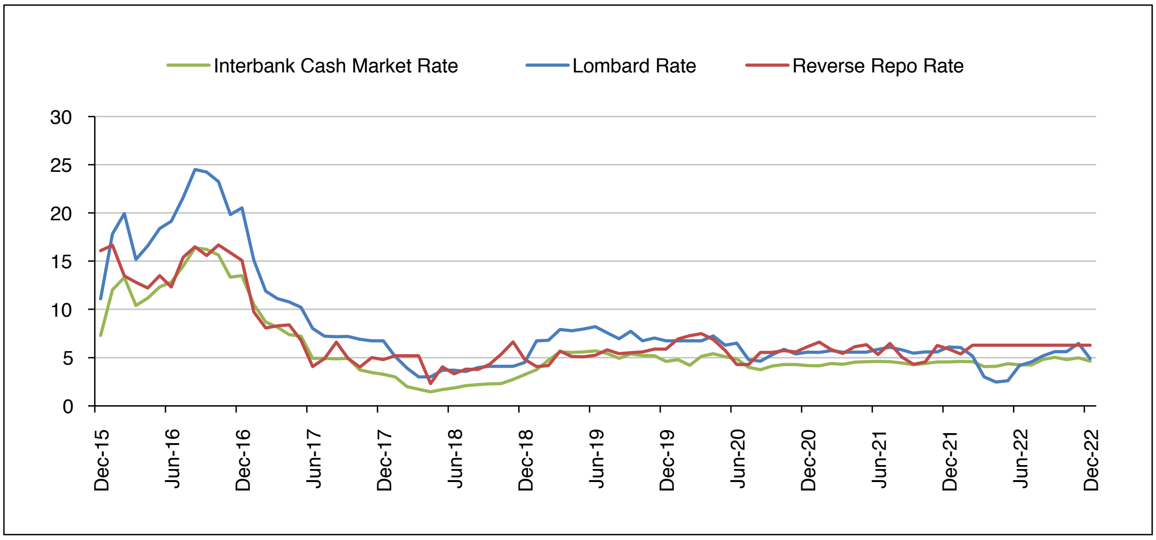
Chart 2.1 Interest rates developments



Source: Bank of Tanzania

The average interest rates in the wholesale funding market slightly increased to 5.0 percent in December 2022 from 4.2 percent in December 2021 (**Chart 2.2**). While some of the big banks indicated to have sufficient liquidity, some medium and small banks continued to face liquidity challenges reflecting liquidity segmentation in the market.

Chart 2.2 Developments of Interest Rates in the Wholesale market

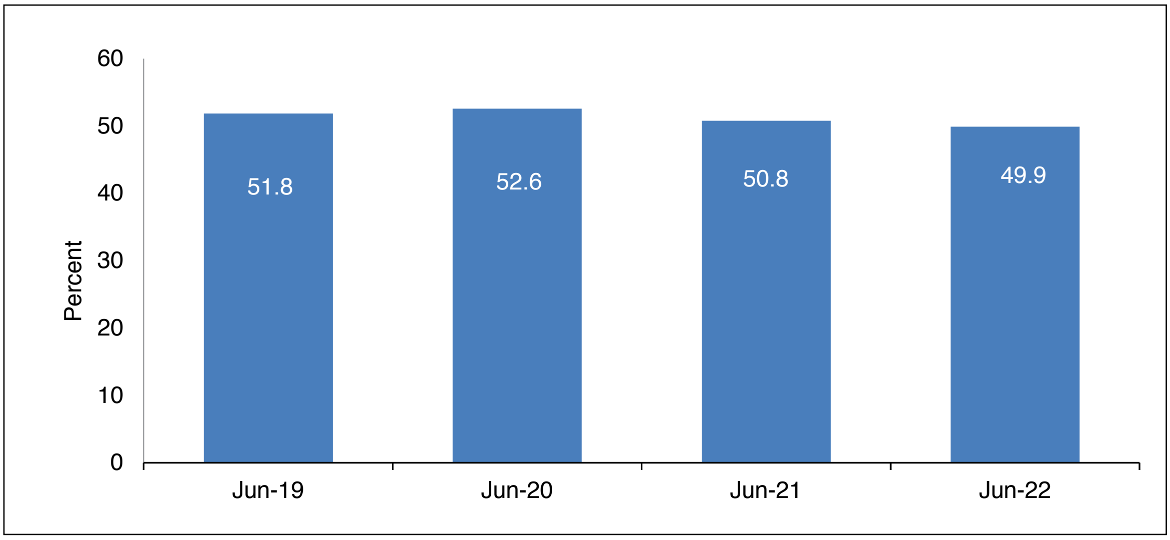


Source: Bank of Tanzania.

2.2. Household financial condition

Risks arising from households decreased, as a result of increased disposable income. The rise in household income was mainly attributed to the increase in Government employees' salaries, payment of arrears, and new employment opportunities following the recovery of the economic activities from the pandemic, as revealed in the Household Financial Condition Survey, 2022. The increase contributed to a slowdown in household debt to income, increasing creditworthiness and debt servicing capacity (**Chart 2.3**).

Chart 2.3 Household debt to income

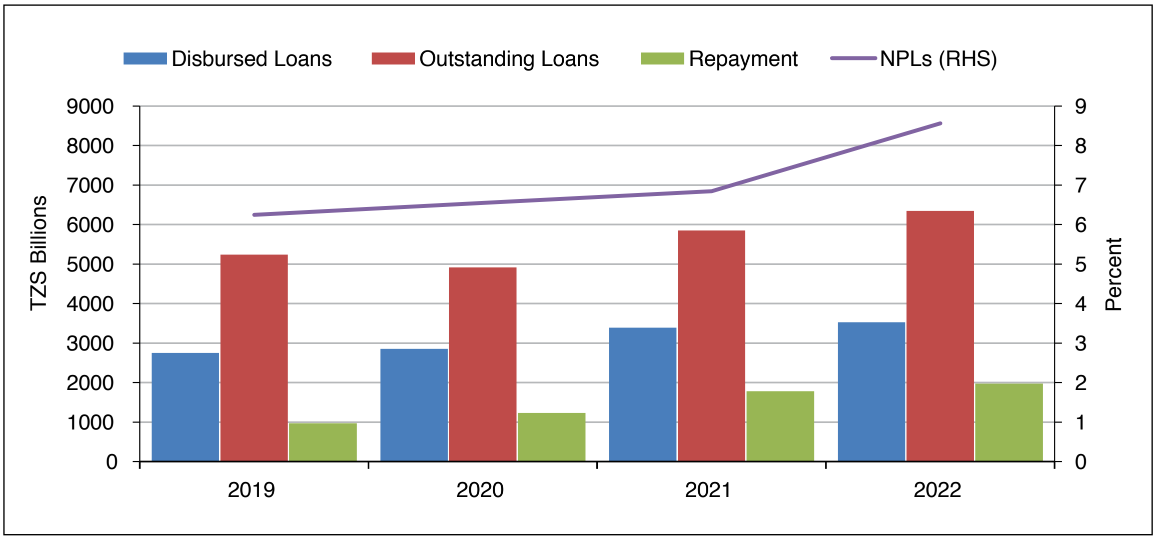


Source: Bank of Tanzania salary earners financial condition survey, 2022

However, household income remains vulnerable to high prices of food and energy items. The price increase is mainly attributable to supply chain disruptions caused by the war in Ukraine and below-average food harvest due to unfavourable weather conditions in domestic and neighbouring countries. Also, the strengthening of US dollar due to the tightening of monetary policies to curb high inflation in the U.S. may further deteriorate households' disposable income and purchasing power through exchange effects, thus reducing debt servicing capacity.

Household borrowing and repayment improved on account of increase in income. Survey revealed that disbursed and outstanding personal loans increased in 2022 following the increase in appetite for banks' lending to households. Likewise, loan repayments increased as borrowers' ability to repay debts improved due to a rise in household income and cash flows (**Chart 2.4**). The respondents' reasons for increased loan disbursement are the recovery of the economic activities from the pandemic, the increase in salary earner's income, and eased loan terms.

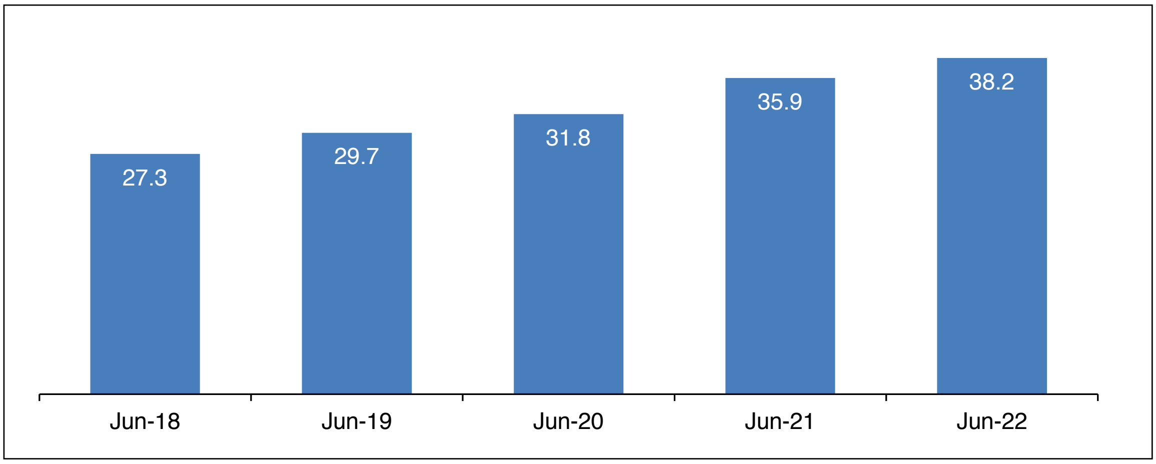
Chart 2.4: Outstanding, disbursed loan, repayments and NPLs



Source: Bank of Tanzania salary earners financial condition survey, 2022

The share of outstanding personal loans to total loans remained dominant as the growth of credit to private sector increased (**Chart 2.5**). The increase in share is on account of a decrease in risk weight, an increase in income and banks' preference for lending to the household sector.

Chart 2.5: Share of Personal to Total Loans



Source: Bank of Tanzania

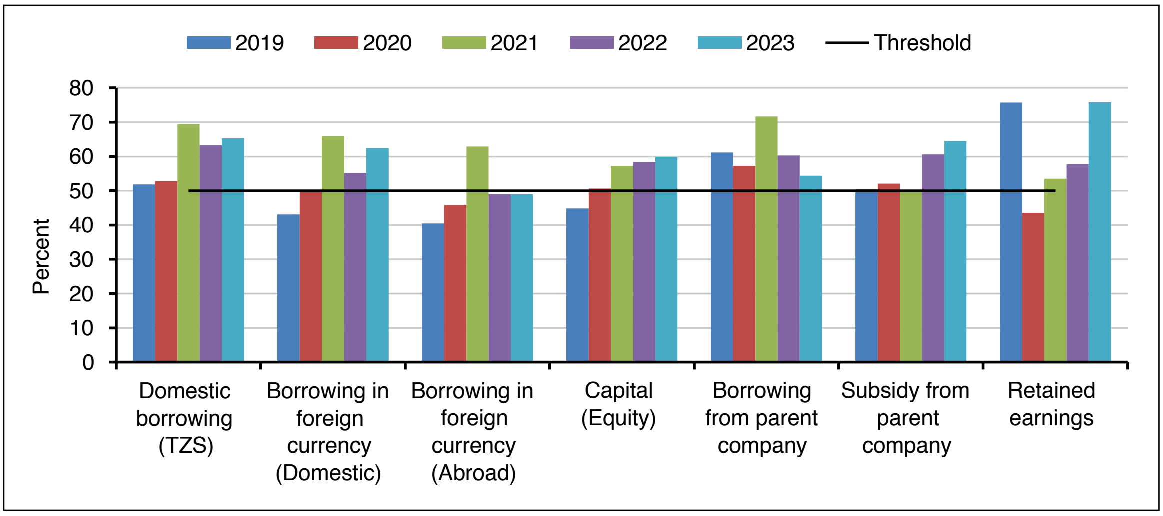
The increased credit issuance to households may escalate credit risk in the sector as households become indebted, which may affect banks and financial institutions' balance sheets in the event of default. The current high cost of living due to increased food and fuel prices may further affect household income and debt servicing capacity. However, the credit risk may be muted by improved borrowers' creditworthiness through increase in income and stock of financial assets.

2.3. Non-financial corporate sector financial condition

Non-financial corporates' sources of financing improved, reflecting a rebound in business activities. The Non-Financial Corporate Survey 2022 findings showed an increase in retained earnings in 2022 compared to 2021, supported by a recovery in business activities as well as an increase in domestic and foreign demand. As a result, 93.0 percent of the firms indicated using retained profit as a funding source. Firms also pointed to benefits from domestic and foreign borrowings reflecting improved creditworthiness and debt servicing capacity (**Chart 2.6**). The increase reflects recovery of private sector credit attributed mainly to implementation of monetary policy, prudential measures and improved business conditions from the adverse impact of the pandemic and the war in Ukraine.

The increase in retained earnings as sources of finance is consistent with trend in the domestic economy, which performed satisfactorily despite challenges caused by the war in Ukraine as well as the resurgence of COVID-19, particularly in China. The rebound in credit reflects the predicted recovery of domestic growth, averaging 5.2 percent for the first three quarters of 2022 against the annual projection of 4.7 percent. The availability of adequate capital and liquidity may further strengthen the ability of the banks to provide credit to the private sector.

Chart 2.6: Trends on NFC source of financing



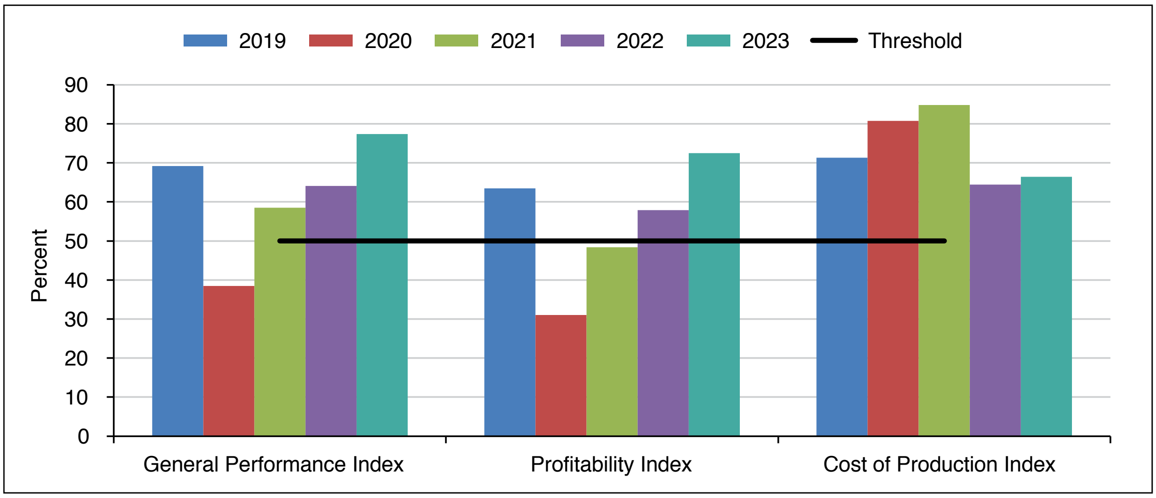
Source: Bank of Tanzania Non-Financial Corporate Sector Survey, 2022

Furthermore, corporates anticipate an improvement across all financing sources owing to continued positive expectations in business growth and economic stability over the years. The improvement in business conditions, profitability in the banking sector, availability of liquidity to fund business and rebound in domestic economy due to investment in infrastructure may increase firms retained profit and creditworthiness. The World Bank and Africa Development Bank reports projected Tanzania to grow at 5.3 percent and 5.6 percent in 2023, respectively. The continued implementation of the prudential monetary and fiscal policy measures to stimulate the growth of the economy while cushioning against adverse impacts of the ongoing war in Ukraine and changes in global financial condition provides a positive outlook on financial stability.

Firms indicated improved performance and profitability in 2022 following recovery in business conditions. The improvement was mainly attributed to the recovery of economic activities in 2022. The sectors that recorded an increase in activities resulting in good performance and profitability include mining and quarrying; oil and gas; transport and communication; and the tourism sector, as reflected by a continued increase in tourist arrivals amid the relaxation of global pandemic restrictions. The improvement in different sectors of the economy is also associated with the impact of monetary and fiscal policies executed to limit adverse spillover effects of global supply shocks. These policy measures reduced the cost of doing business, while prudential and monetary policy actions to support credit growth helped credit extension, which propelled business expansion, performance, and profitability. This development was reflected in the banking sector balance sheets following the improvement in profitability during the period and reduced credit risk, with non-performing loans declining to about 5.7 percent in 2022 compared to about 8.1 percent in the preceding year.

Going forward, firms expected improvement in general performance and profitability in 2023. Reasons for the positive outlook include increase in demand, economic activities, Government investment in infrastructure and improvement in business environment. However, the increase in cost of production amid rising oil prices and supply chain disruptions due to the war in Ukraine could mire the positive outlook (**Chart 2.7**).

Chart 2.7: Firms business performance and expectations

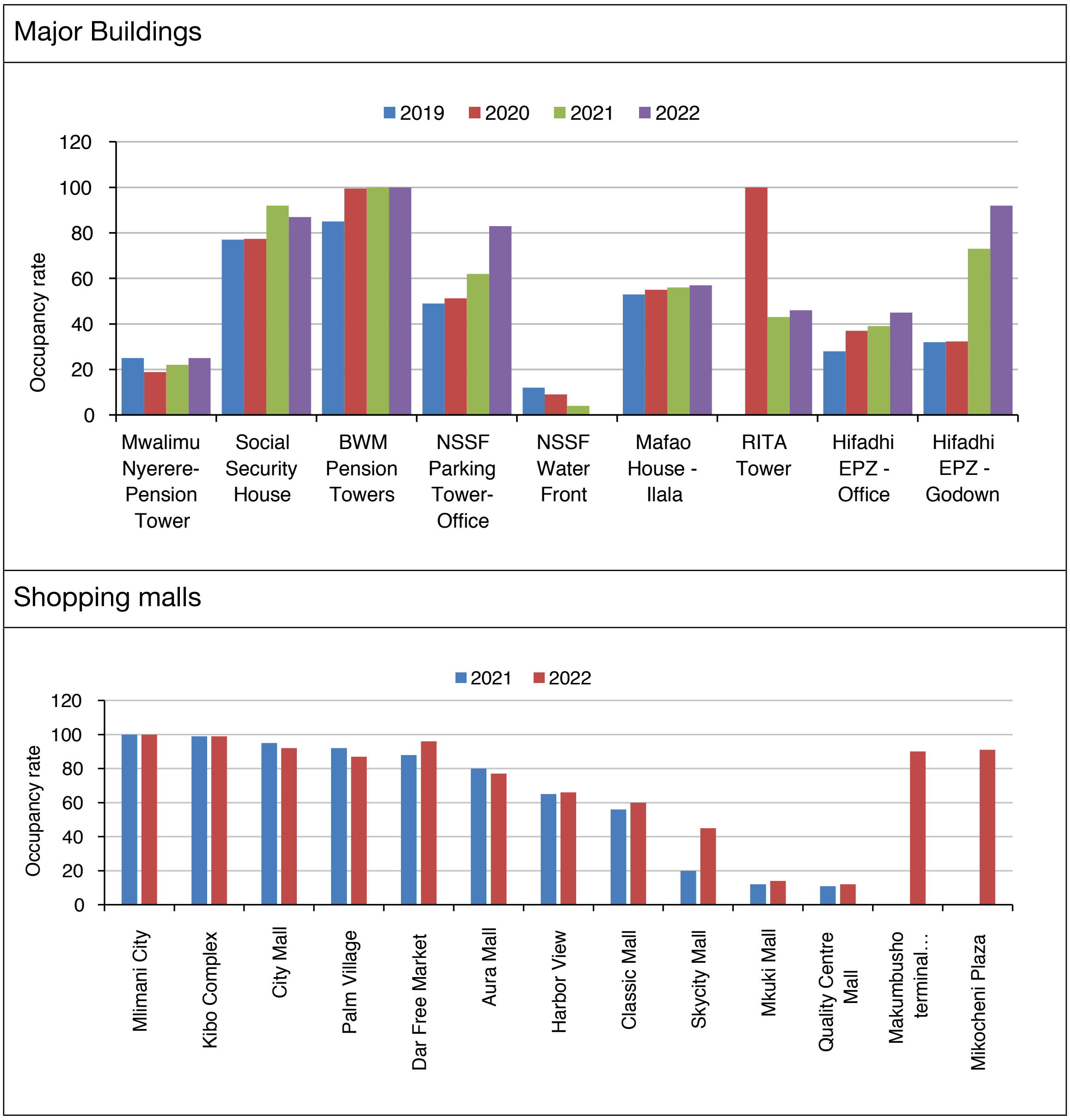


Source: Bank of Tanzania Non-Financial Corporate Sector Survey, 2022

2.4. Real estate sector

In 2022, the real estate sector continued to recover from the pandemic-induced challenges. Commercial property occupancy rate increased, reflecting the recovery of businesses from the pandemic. Most of the selected commercial properties had an occupancy rate of more than 50 percent, indicating stability in the real estate market. Some commercial property occupancy remained below 50 percent as the sector is yet to recover fully from the pandemic, but also due to relocation of Government offices to Dodoma (**Chart 2.8**).

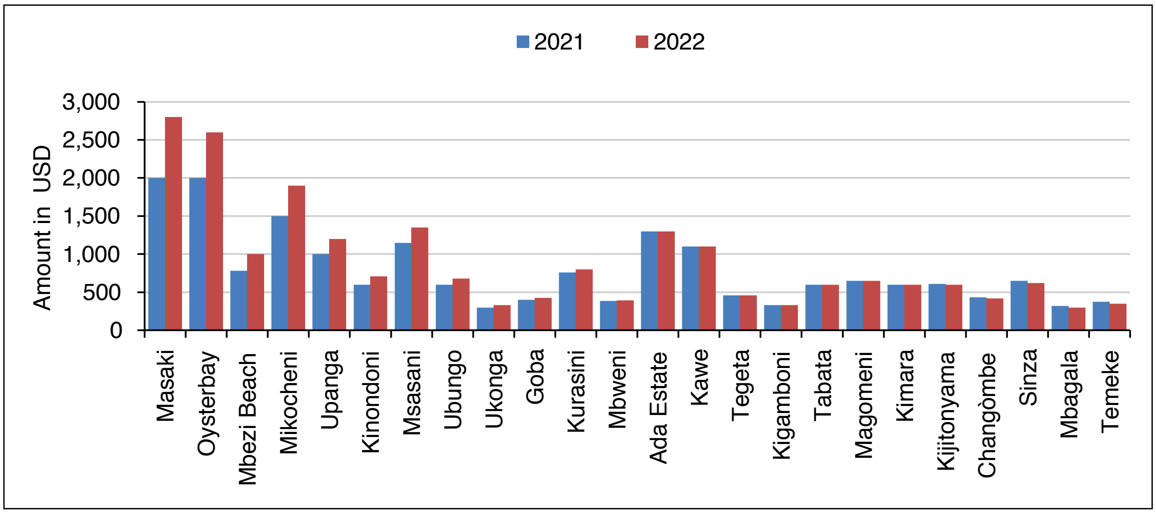
Chart 2.8: Average occupancy rate of selected major buildings and malls in Dar es Salaam



Source: Bank of Tanzania

The residential rental and sale prices picked up in prime and subprime locations. The annual rental prices for prime and sub-prime locations in Dar es Salaam continued to recover, reflecting the recovery of businesses, a pick-up in investment, as well as an increase in tenants' incomes (**Chart 2.9**).

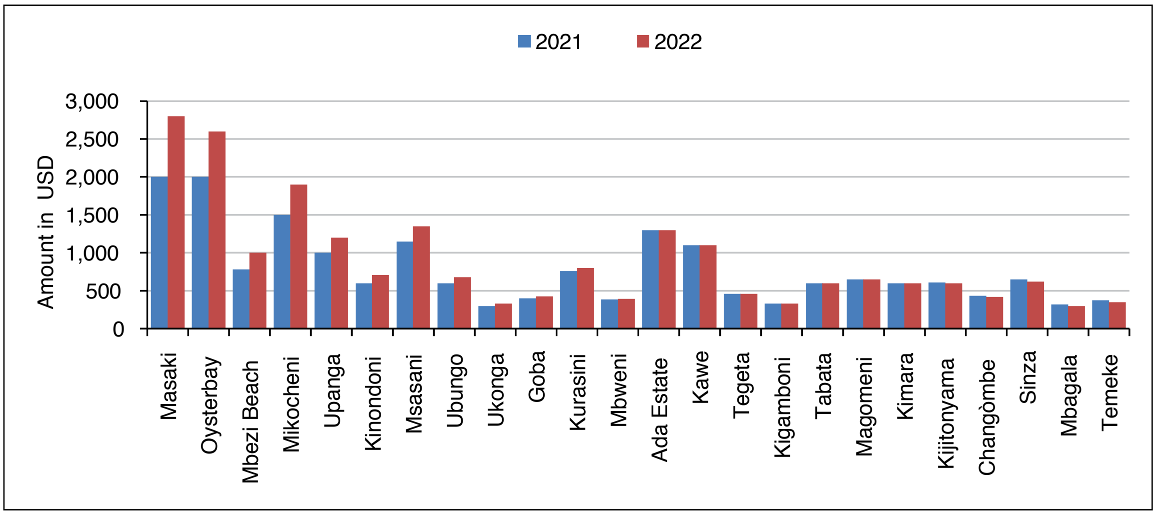
Chart 2.9: Average rental prices of selected four-bedroom properties in Dar es Salaam



Source: Bank of Tanzania

Similarly, the sale prices of residential properties slightly increased in 2022, following the improvement in business conditions, investment, employment and household income (**Chart 2.10**). The projected rebound in economic activities is expected to continue to boost the recovery of the property market. The stability in the real estate market is likely to minimize risks to financial stability given the significant links between property and credit markets.

Chart 2.10: Average sale price for selected properties in Dar es Salaam



Source: Bank of Tanzania

2.5. Financial sector

The financial sector performance remained robust, as attested by the growth of assets. The financial sector assets grew by 17.2 percent in 2022 compared to 13.7 percent in 2021, dominated by banks with 70.4 percent and pension funds with 25.6 percent. The financial sector's total assets as a percentage of GDP increased to 40.7 percent in 2022 from 34.7 percent in 2021. The growth was partly attributed to increased lending to private sector, improvement in business conditions, and pick up of domestic growth trajectory (**Table 2.1**).

Table 2.1: Structure of the Financial System

	Millions TZS					As percent of	
Descriptions	2018	2019	2020	2021	2022	Total Assets	GDP
Banks	28,046,191.4	33,067,267.5	34,850,915.9	39,544,979.4	46,228,590.0	70.4	28.6
Insurance	908,900.0	1,045,900.0	1,009,922.0	1,270,000.0	1,420,600.0	2.2	0.9
Social Security	12,796,400.0	12,776,100.0	12,931,937.4	14,449,779.0	16,789,420.0	25.6	10.4
Open-ended Collective Investment Schemes	281,668.4	329,635.8	476,987.2	744,925.9	1,231,264.5	1.9	0.8
Total Financial System Assets	42,033,159.8	47,218,903.3	49,269,762.5	56,009,684.3	65,669,874.5	100.0	40.7

Source: Bank of Tanzania

The financial sector remained resilient to shocks amid challenges experienced from the war in Ukraine and global inflationary pressures. In 2022, the resilience of the sector was reinforced by measures undertaken by the Government and the Bank to limit the effects of the war in Ukraine and global inflationary pressures, such as accommodative monetary policy, fiscal measures as well as supervisory and regulatory interventions to ensure sustainability and the stability of the sector. The resilience was also observed in non-bank financial institutions, which comprises social security, insurance and capital market, while financial system infrastructure continued to maintain efficiency through smooth operations for ensuring safety and reliability in payments hence enhancing financial stability and growth in the country.

2.5.1. Banking Sub-sector

The banking sub-sector remained sound and stable with adequate capital, liquidity and subdued credit risks. Total assets increased by 16.8 percent to TZS 46,228.6 billion in 2022, mainly driven by increase in deposits (**Table 2.2**). The increase in deposits was attributed to the public confidence in the banking sector following the recovery of economic activities coupled with increased outreach through digital and agent banking. Commercial banks continued to dominate the market in total assets, accounting for 97.1 percent. The banking sector deposits continued to be dominated by the top six banks that form part of systemically important banks, partly attributed to their wider branch networks and the use of agent banking and digital financial services. These banks accounted for more than 65.4 percent of total deposits, which calls for close monitoring to identify and mitigate any possible systemic risks.

Table 2.2: Composition of banking sector assets

Percent

Type of Banking Institutions	Dec-19	Jun-20	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22
Commercial banks	94.3	95.1	95.1	96.1	96.4	96.5	97.1
Community banks	0.5	0.5	0.6	0.6	0.7	0.7	0.4
Microfinance banks	0.5	0.4	0.3	0.5	0.4	0.4	0.4
Development Financial Institutions	4.8	4.0	3.9	2.8	2.5	2.4	2.0
Total Assets (TZS Billion)	33,067.3	34,425.6	34,888.4	36,473.4	39,590.1	42,340.2	46,228.6

Source: Bank of Tanzania

Total funding improved by 18.5 percent to TZS 39,270.5 billion in 2022 compared to the corresponding period (**Table 2.3**). The ratio of core deposits to total funding decreased to 58.8 from 62.2 percent in the previous period but was above the required 50 percent, implying strong ability of banks to withstand internal and external shocks.

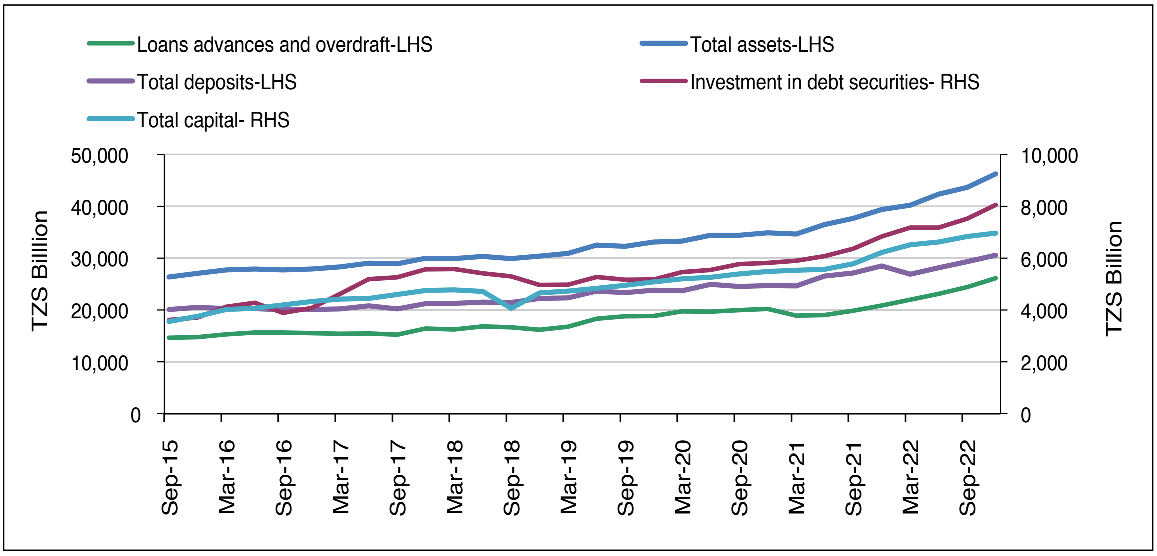
Table 2.3: Core deposits and total funding

Particulars	Dec-19	Jun-20	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22
Total core deposits (TZS billion)	15,920.2	17,709.6	17,531.3	19,029.1	20,593.2	20,957.9	23,105.0
Total funding (TZS billion)	27,989.0	29,166.5	29,409.2	30,903.7	33,128.3	35,726.9	39,270.5
Gross loans (TZS billion)	18,847.2	19,694.6	20,179.7	20,345.4	22,112.2	24,401.7	27,310.3
Core deposits to total funding (%)	56.9	60.7	59.6	61.6	62.2	58.7	58.8
Core deposits to gross loans (%)	84.5	89.9	86.9	93.5	93.1	85.9	84.6

Source: Bank of Tanzania

The banking sector assets continued to be dominated by loans, advances, and overdrafts, accounting for 60 percent of the total assets (**Chart 2.11** and **Chart 2.12**).

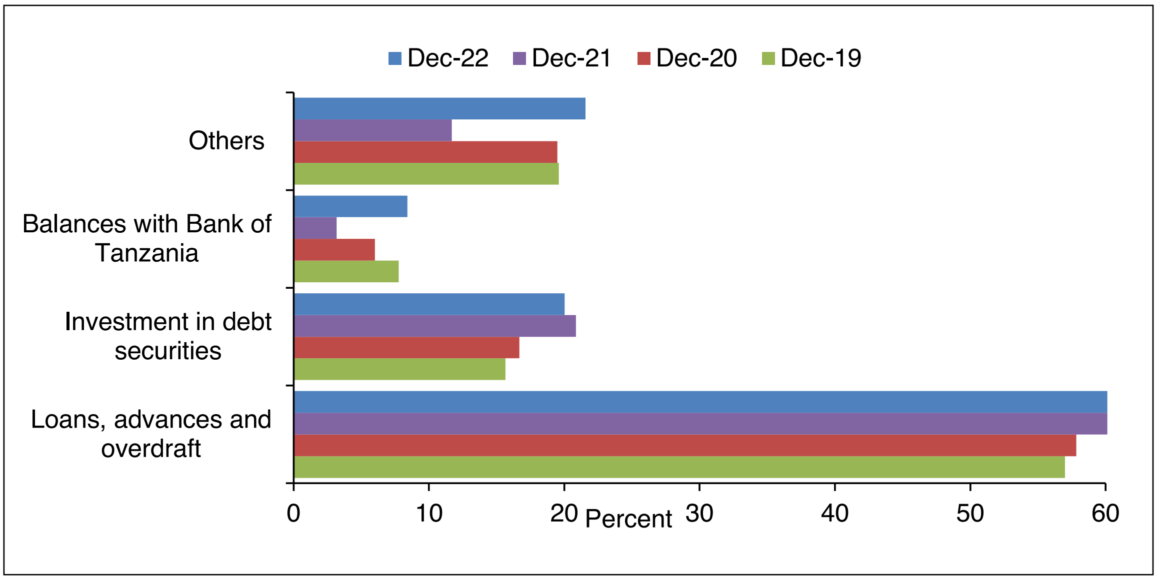
Chart 2.11: Composition of banks' selected assets and liabilities



Source: Bank of Tanzania

Banks' lending to private sector recorded a growth of 22.6 percent in 2022 compared to 10.0 percent in the previous year. The growth was supported by policy and regulatory measures taken by the Bank and Government to stimulate growth of credit to the private sector to support economic growth, including the reduction of coupon rates on government securities. The improvement in business environment coupled with the recovery of economic activities from the impact of COVID-19 pandemic added impetus to the credit growth. These enhanced firms' performance thereby contributing to improving their creditworthiness and debt service capacity. The growth of credit to private sector is also reflected in the increase of loans to deposits ratio to 84.6 percent at the end of 2022 from 83.9 percent in 2021.

Chart 2.12: Banking sector assets composition

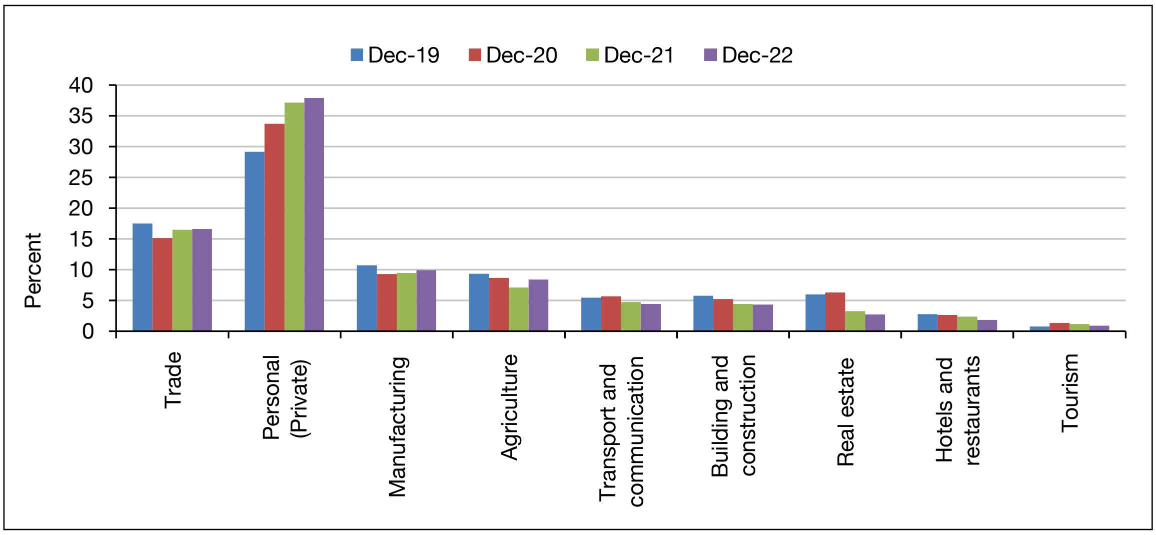


Source: Bank of Tanzania

NB: Others includes placements with banks in Tanzania and abroad, equity investments, cash, bank premises furniture and equipment and inter-bank loan receivables.

Loan portfolio continued to be dominated by personal loans (38.7 percent), followed by trade (19.6 percent) and manufacturing activities (10.0 percent) (**Chart 2.13**). The dominance of personal loans is partly attributed to measures by financial institutions to ease credit conditions, including reduced interest rates and lengthening maturity, as evidenced by the Lending officers' opinion survey conducted in 2022.

Chart 2.13: Share of lending for selected sectors



Source: Bank of Tanzania

The funding gap (the usage of customers' deposits and retained earnings in funding-earning assets) decreased in 2022. The decrease was partly contributed by the increase in customer deposits and retained earnings compared to the preceding year. However, the growth of lending and other assets imposed some pressure for banks to fund growth of earning assets through wholesale funding (**Table 2.4**).

Table 2.4: Funding gap (TZS Billion)

Particulars	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Customer deposits (retail funding):	20,487.3	21,732.8	23,078.6	24,345.8	30,567.8
LESS: Eaning assets					
Loans, overdrafts and advances	17,428.6	18,847.2	20,179.7	19,490.6	26,137.9
Government and private securities	5,225.4	5,149.6	5,814.6	6,802.2	8,047.9
Due from domestic banks	570.1	1,197.3	370.0	482.9	359.7
Due from foreign banks	1,902.3	1,938.4	1,426.8	1,880.5	1,350.5
Commercial and other bills purchased and discounted	26.8	66.2	30.6	35.3	61.6
Equity Investment	163.8	187.4	201.7	164.2	174.5
	(4,829.6)	(5,653.3)	(4,944.7)	(4,509.9)	(5,564.2)
ADD: (wholesale funding):					
Due to domestic banks deposits	529.3	617.9	572.5	564.9	777.5
Due to foreign banks deposits	377.4	343.3	277.5	315.9	254.4
Due to domestic banks borrowing	931.7	946.3	642.3	705.0	1,288.7
Due to foreign banks borrowing	1,893.7	1,500.2	1,369.1	1,358.4	2,840.5
Special deposit account	635.9	1,113.0	790.3	675.4	926.8
	(461.6)	(1,132.6)	(1,293.1)	(890.2)	523.7
ADD: (equity component):					
Retained earnings	1,430.6	1,570.2	1,819.8	2,061.0	2,817.7
Funding gap	969.1	437.6	526.7	1,170.8	3,341.3

Source: Bank of Tanzania

The situation is expected to improve as business and economic situations rebound, further enhancing deposits, profitability and retained earnings. However, the further increase in wholesale funding may impose pressure on the cost of funding to the sector.

The banking sector was adequately capitalized to support lending to the economy. Core and total capital adequacy ratios were 18.1 percent and 18.9 percent in 2022, compared with 19.5 percent and 20.2 percent in 2021, respectively (Table 2.5). These were above minimum regulatory threshold of 10.0 percent and 12.0 percent, respectively. The capital position supported the growth of credit to private sector as reflected by increased loans and advances. As of the end of 2022, only three out of 45 banks were undercapitalized, and the Bank continued to engage them to comply with regulatory capital requirements. Nevertheless, the undercapitalized banks were small and medium, indicating minimal impact on the stability of the financial system.

Table 2.5: Selected financial soundness indicators (Percent)

Indicators	Threshold	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Capital adequacy						
Core capital/TRWA	10.0	16.1	16.7	17.2	19.5	18.1
Total capital/TRWA	12.0	18.0	17.9	18.1	20.2	18.9
Liquidity						
Liquid assets/demand liabilities	20.0	35.2	32.4	30.7	29.4	26.5
Total loans/customer deposits		85.1	88.5	86.9	82.1	89.3
Earnings and profitability						
Net interest margin		55.2	55.5	55.2	56.9	53.8
Non-interest expenses to gross income	55.0	56.1	56.4	54.5	50.0	43.8
Personnel expenses to non-interest expenses		45.6	47.9	48.9	51.9	51.4
Return on Assets		1.1	1.9	2.0	2.8	3.1
Return on Equity		3.8	8.1	8.0	11.6	14.6
Asset composition and quality						
Foreign exchange loans to total loans		33.1	30.0	27.6	26.4	28.9
Gross non-performing loans to gross loans	5.0	10.4	9.8	9.4	8.2	5.8
NPLs net of provisions to total capital		40.1	39.4	35.8	29.8	23.5
Large exposures to total capital	800.0	199.5	251.8	124.9	153.3	206.6
Net loans and advances to total assets		53.5	54.2	54.2	53.0	56.5
Sensitivity to market risk						
FX currency denominated assets to total assets		29.8	28.0	35.7	35.4	34.3
FX currency denominated liabilities to total liabilities		33.7	30.2	30.3	29.4	29.3
Net open positions in FX to total capital	±7.5	6.2	8.9	9.0	7.8	2.5

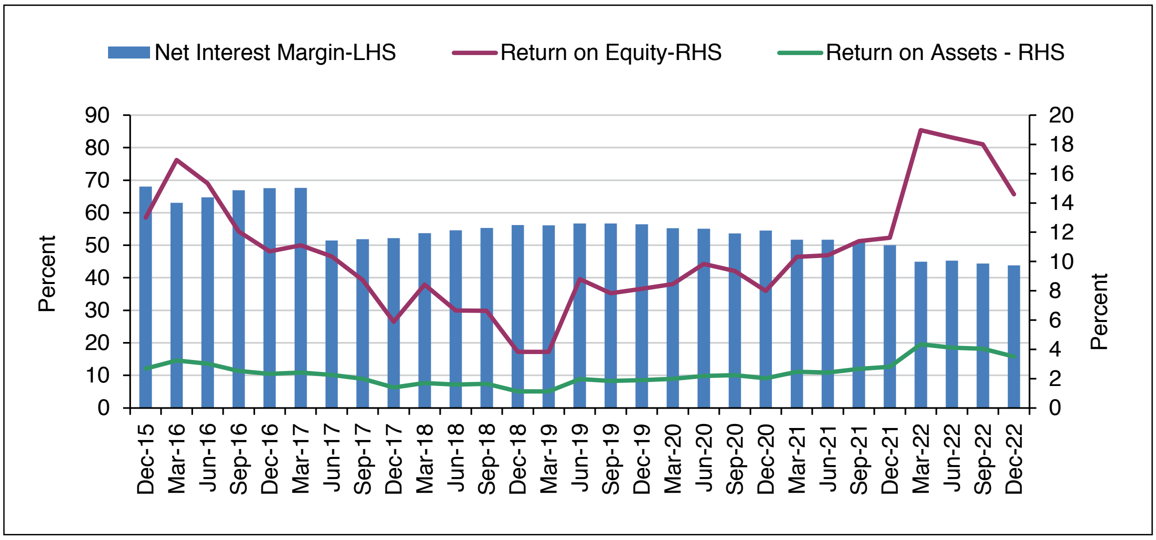
Source: Bank of Tanzania

Note: OBSE is off-balance sheet exposure TRWA is total risk-weighted assets

The banking sector had adequate liquidity buffer to fund growth of assets and meet maturing obligations. The liquidity ratio was 26.5 percent in 2022 compared with 29.4 percent in the preceding year, above the minimum regulatory requirement limit of 20.0 percent. The decline in the liquidity ratio was partly attributable to banks' disbursement of new loans following the pickup of economic and business activities, which stimulated demand for credit. The strong liquidity position is expected to cushion the sector against any vulnerability to shocks.

Profitability increased due to improved recoveries from NPLs and operational efficiency. Return on assets and equity were at 3.1 percent and 14.6 percent in 2022, compared to 2.8 percent and 11.6 percent recorded in 2021, respectively (**Chart 2.14**). Profitability was partly attributed to increased recoveries from NPLs, improved operational efficiency, and a favourable business environment, thereby enhancing the sector's resilience against potential risks.

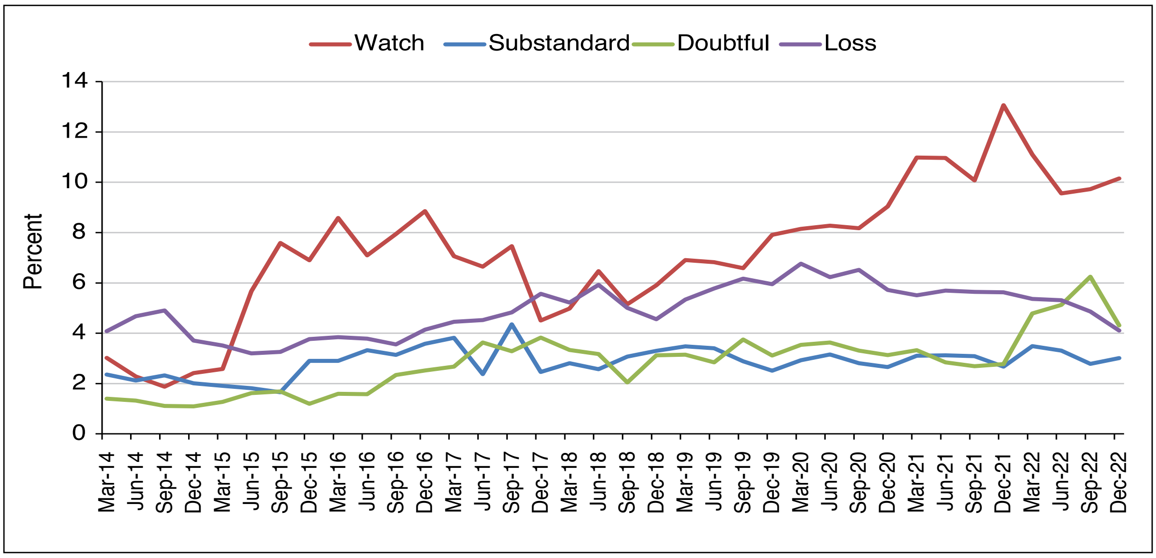
Chart 2.14: Banks' profitability



Source: Bank of Tanzania

The exposure to credit risk declined due to intensified credit recovery efforts, enhanced credit underwriting standards, and pick-up in business activities. The decrease in credit risk is reflected by a fall in the ratio of non-performing loans to 5.8 percent in 2022 from 8.2 percent in 2021, partly due to enhanced loan recovery efforts, improvement of credit underwriting standards, payment of arrears, business recovery, increased usage of credit reference systems and measures undertaken by the Bank to mitigate the effects of the global shocks as revealed in the Lending officers' opinion survey conducted in 2022. It is worth noting that, the watch loan category level showed an increasing trend, signalling a build-up of potential credit risk, thus calling for closer monitoring (**Chart 2.15**).

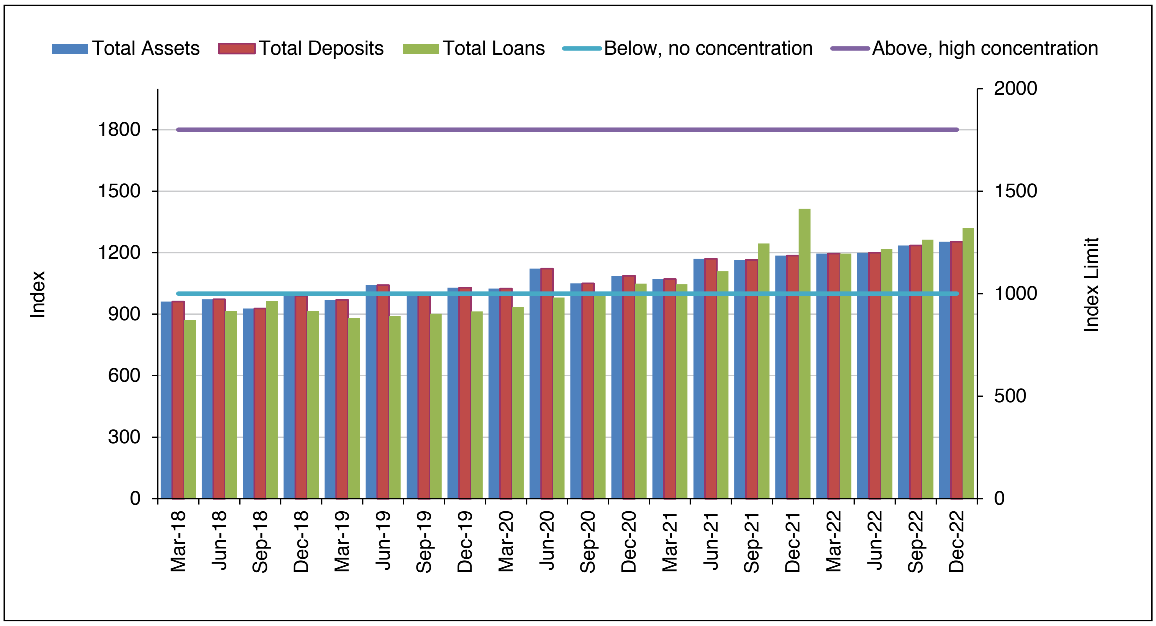
Chart 2.15: Development of different categories of non-performing loans



Source: Bank of Tanzania

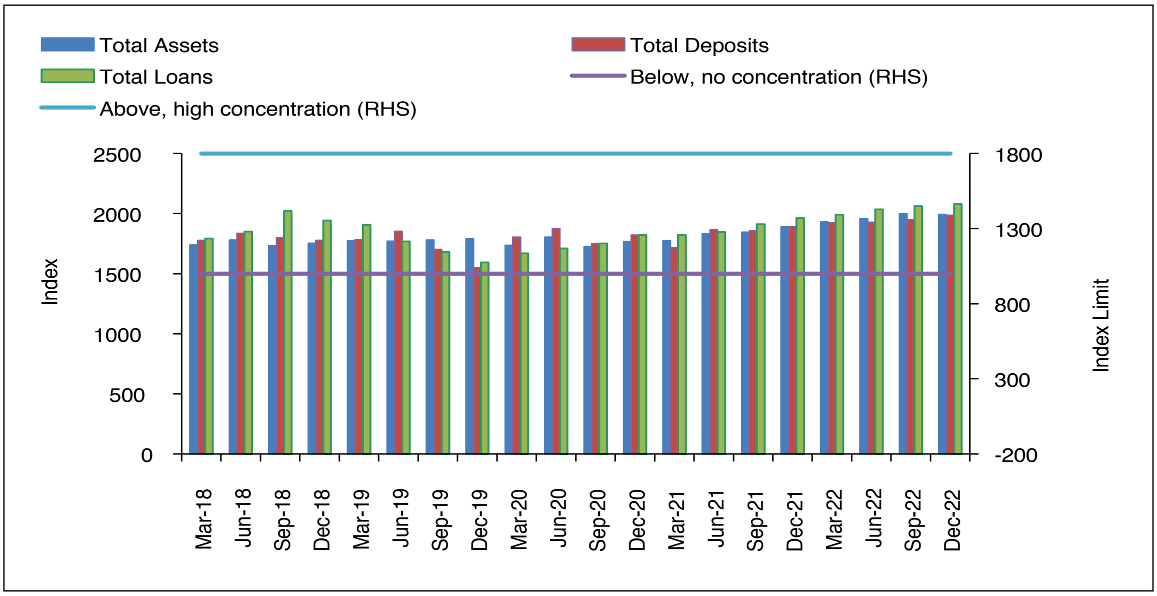
Concentration of large borrowers depicted by aggregate large exposures to core capital stood at 206.6 percent in 2022 compared with 176.7 percent recorded in 2021, within the regulatory limit of 800.0 percent (**Chart 2.16**). The Herfindahl Hirschman Index (HHI) shows that the banking sector market is concentrated among a few banks, reiterating the need for close monitoring to mitigate any possible systemic risks (**Chart 2.17**)[3].

Chart 2.16: Credit concentration risk



Source: Bank of Tanzania

Chart 2.17: HHI for all banks

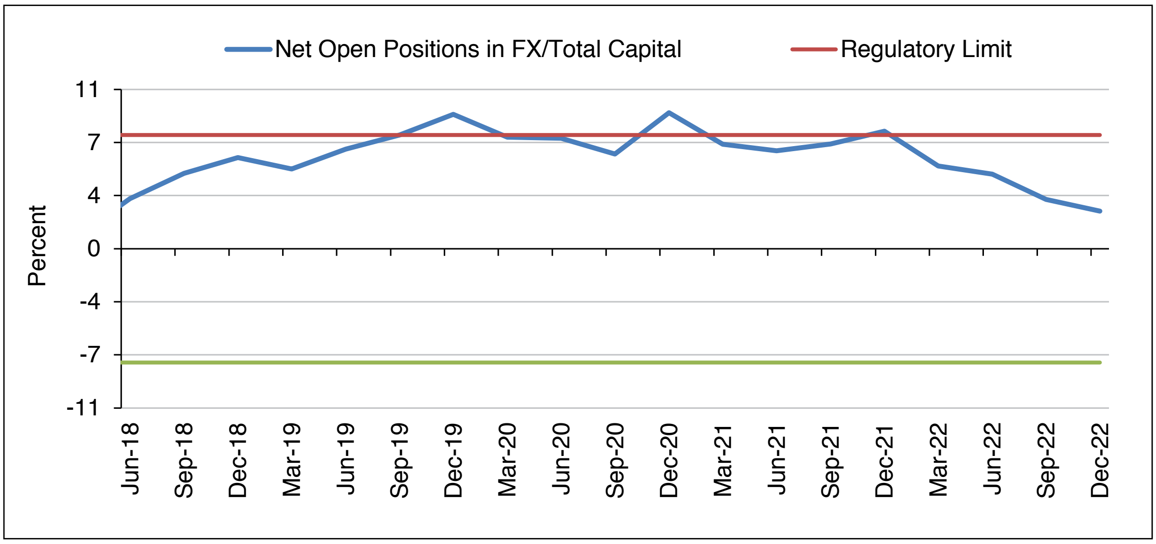


Source: Bank of Tanzania

3 The Herfindahl Hirschman Index (HHI) measure the level of concentration, whereby an index ranging from 100 to 1,000 is considered no concentration meaning high competition, while medium concentration ranges from 1,000 to 1,800 implying low competition.

The overall exposure to exchange rate risk remained minimal and within the regulatory limit. Foreign exchange exposure, measured by Net Open Position (NOP) for foreign currency, improved to 2.5 percent in 2022 from 7.8 percent in 2021, within the regulatory limit of +/-7.5 percent (**Chart 2.18**). This indicates a decrease in foreign currency assets relative to foreign currency liabilities. Furthermore, foreign currency deposits to total deposits decreased to 25.6 percent in 2022 compared to 28.4 percent in 2021, implying subdued foreign exchange risk.

Chart 2.18: Net open position to total capital



Source: Bank of Tanzania

Share of foreign-denominated loans to total loans was 29 percent in 2022 compared to 31.8 percent in 2021, partly explained by the increase of import demand following recovery of businesses from pandemic, differentials between the interest rates paid on domestic and foreign currency loans, and low exchange rate volatility as reported in the Non-financial Corporate Sector Survey, 2022 (**Table 2.6**). The Bank continues to monitor and enforce compliance with regulatory requirements by banks to minimize exposure to foreign exchange rate risks.

Table 2.6: Foreign currency-denominated loans and deposits (TZS Billion)

Particulars	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22
Foreign currency denominated loans	5,745.4	5,720.7	5,436.6	7,036.5	8,993.3
Foreign currency denominated deposits	6,863.1	6,640.8	6,916.9	8,107.0	8,343.7
Total loans	16,177.5	18,847.2	19,770.7	22,112.2	28,377.7
Total deposits	22,126.2	23,807.0	24,518.0	28,502.1	32,583.2
Foreign currency denominated deposits/total deposits (Percent)	31.0	27.9	28.2	28.4	25.6
Foreign currency denominated loans/total loans (Percent)	35.5	30.4	27.5	31.8	31.7
Foreign loans/foreign deposits (Percent)	73.1	79.2	80.6	77.6	87.1

Source: Bank of Tanzania

Lending practices and credit conditions

The Bank assessed lending practices and credit market conditions of banks, microfinance service providers, and SACCOs in a survey conducted in 2022. Generally, mixed improvements were reported on lending practices and credit market conditions.

The banking sector observed credit growth parallel with the reduced NPLs levels. This was mainly attributed to the recovery of businesses, the government's efforts to increase credit growth, and the adoption of prudential loan approval processes. Further, banks reported a positive outlook coupled with an anticipated further decline in cost of credit, NPLs, eased credit conditions and intensification of credit recovery efforts.

The regulation and licencing of non-deposit-taking microfinance service providers contributed to the transformation of the microfinance sector. It was reported that there are considerable improvements in loan administration from origination to recovery efforts. Further, it was observed that there had been a continued reduction of interest rates charged by microfinance service providers, although not to the targeted level by the Bank. Some microfinance service providers rose other charges to compensate for the reduced interest rates. The Bank continues licencing and supervising the sector to maintain stability in the financial system.

SACCOS reported that loans were predominantly channelled to trade and personal-related activities; the same observation was for microfinance loans. Further, it was reported that most of the processes involved in loan administration remained unchanged, with an increased number of loan applications attributed to improvements in economic activities.

Banking sector resilience

Stress testing results based on the baseline, adverse and multifactor scenarios indicated continued resilience of the banking sector.

Baseline scenario: This scenario considers the forecasts of banks' operation within the current environment. The findings indicated improvements in compliance with regulatory and prudential thresholds, indicating resilience during shocks.

Adverse scenario: This scenario assumed an increase in aggregate NPLs and sectorial distribution of NPLs for credit risks, adverse movements of interest rates for interest rate risks and adverse movements of foreign exchange rates of major traded currencies. It was found that credit shocks had more impact on capital adequacy than interest and exchange rate shocks. The post-shock indicated that the capital adequacy ratio would be above the minimum regulatory threshold of 10.0 percent, reflecting the banking sector's resilience to all potential shocks.

Multifactor scenario: This scenario considered a combination of risk factors, including credit, interest and exchange rates, and liquidity. Should all factors materialize, capital adequacy ratios would decline but remain above thresholds recommended by the Basel Committee of Banking Supervision of 6.0 percent and 8.0 percent for core and total capital, respectively.

Liquidity stress test: A simple liquidity stress test that considered a percentage of deposits withdrawal for five consecutive days indicated banks' liquidity position would remain stable above the regulatory threshold of 20.0 percent.

Bottom-up stress test: The Bank issued *Banks and Financial Institutions Stress Testing Guidelines, 2022, enabling* banks and financial institutions to develop their own scenarios, calibrate shock levels and gauge their resilience against macro-financial adverse conditions.

The aim is to increase banks and financial institutions proactiveness in risk management, specifically in contingency and recovery planning parallel with the *Business Continuity Management Guidelines for Banks and Financial Institutions, 2021*.

The banks and financial institutions started submitting bottom-up stress testing reports for the quarter that ended September 2022, which contain specific contingency and recovery measures should specific risks materialize. The stress testing results indicated continued resilience of the banking sector towards macro-financial shocks.

Microfinance service providers

The microfinance sector continued to be formalized. The Bank continued to receive and evaluate applications for licenses to carry out microfinance business under Tier 2. As of 31st December 2022, the Bank had granted licenses to 1,095 Tier 2 microfinance institutions, compared to 692 institutions licensed in the previous period. Further, the Tanzania Cooperative Development Commission (TCDC) had licensed 759 SACCOS as of the end of December 2022, compared to 580 licensed in December 2021. The Local Government Authorities had registered 34,127 Community Microfinance Groups, compared to 24,123 licensed during the same period in 2021. Generally, licensing of microfinance service providers at Tier 2, Tier 3, and Tier 4 is progressing well. In addition, the Bank requires all microfinance service providers to share their credit information with credit reference bureaux, thus assisting in reducing non-performing loans in the financial sector.

In Zanzibar, five microfinance service providers under tier 2 were approved by the President's Office of Finance and Planning, and 218 SACCOS were licenced by the President's Office of Labour, Economy and Investment during the period ended December 2022. The microfinance business is expected to improve following the enactment of the Zanzibar Microfinance Business Act in 2023. This development in the regulatory environment will enhance the monitoring and supervision of microfinance businesses and increase public awareness of the available opportunities in the sub-sector.

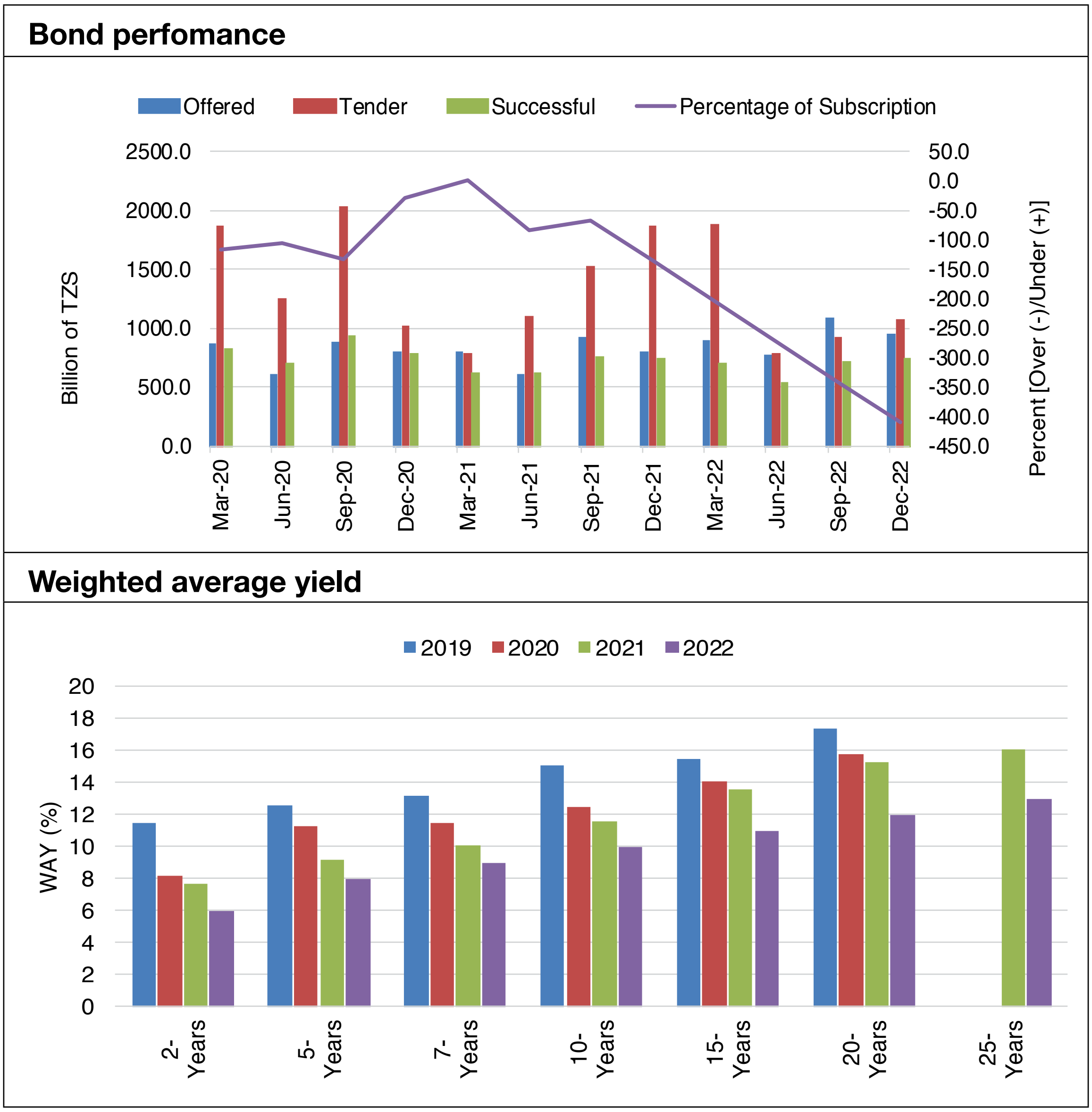
2.5.2. Non-banking

Financial Markets

Primary markets

The primary market activities declined, characterized by low weighted average yields in 2022. Performance in the Government securities generally indicated a decline in participation from TZS 3149.2 billion to TZS 1785.8 billion, implying diversification of investment to the real sector (**Chart 2.19**). In addition, the weighted average yields declined in 2022 across all maturities following the Government's decision to review treasury bonds coupons downward, which aimed at increasing investment to other sectors following the opening-up of the economy in response to COVID-19 pandemic.

Chart 2.19: Performance of the Primary bond market



Source: Bank of Tanzania

The market remained dominated by banks and social security schemes; however, their total subscriptions declined to 73.3 percent from 75.1 percent observed during the previous period (**Table 2.7**). The decline was partly contributed by lower return in the medium-term bonds, that is, 5-, 7-, 10- and 15-year comparisons with 20- and 25-year bonds.

Table 2.7: Participation in the primary bond market by category

	Amount (TZS Billion)				Proportion (Percent)			
Participants	2019	2020	2021	2022	2019	2020	2021	2022
Banks	2,380.0	1,630.7	1,680.1	905.8	71.8	48.4	53.3	50.7
Individual	207.9	263.1	372.2	173.6	6.3	7.8	11.8	9.7
Insurance	314.6	200.5	250.5	112.5	9.5	6.0	8.0	6.3
Brokers	139.2	46.4	45.6	70.2	4.2	1.4	1.4	3.9
Social Security	183.1	1,104.3	685.7	403.1	5.5	32.8	21.8	22.6
Others	91.3	121.3	115.0	120.6	2.8	3.6	3.7	6.8
Total	3,316.0	3,366.1	3,149.2	1,785.8	100.0	100.0	100.0	100.0

Source: Bank of Tanzania

Capital Markets

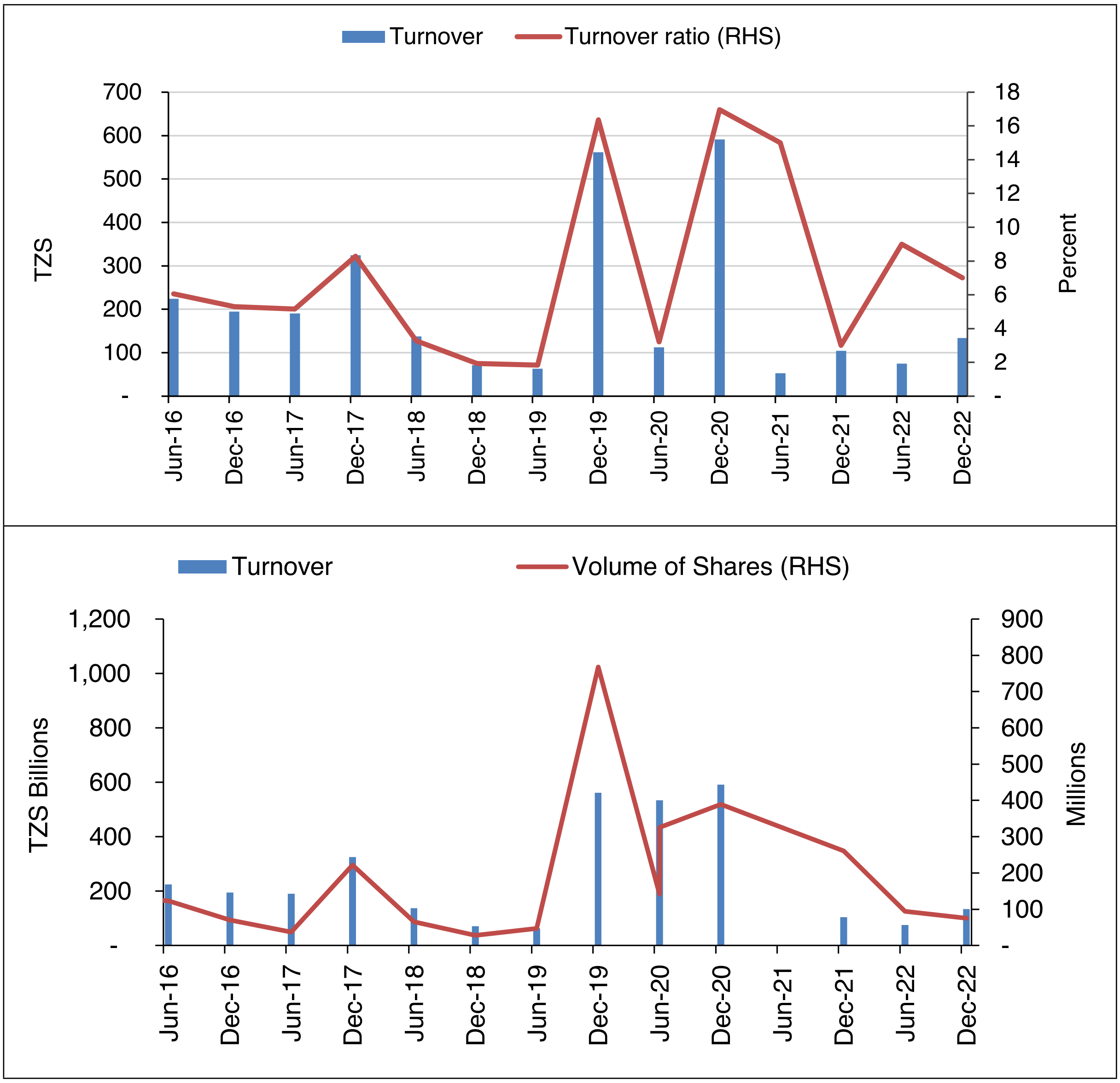
Capital markets sub-sector remained sound and resilient, with increased participation of domestic investors both in the buy and sell sides. Trading activities in equity and bond markets rose during the year ended December 2022. This is reflected by a 21.8 percent increase in combined trading turnover of equities and bonds to TZS 3,172.0 billion during the year ended 31st December 2022 from TZS 2,603.6 billion in the previous period. Also, Net Asset Value (NAV) of Collective Investment Schemes increased significantly by 65.3 percent to TZS 1,231.3 billion from TZS 744.9 billion recorded during the previous year.

Total value of investment in the capital markets increased by 8.2 percent, reaching TZS 34.0 trillion during the year ended 31st December 2022, from TZS 31.4 trillion in the corresponding period. This is attributable to conducive policy, regulatory and operational environment; economic diplomacy; and international relations being implemented by the Government. This has also led to increased participation of domestic investors and opened of new capital market frontiers.

Equity Market

Trading activity in the equity market depicted good performance. During the year ended 31st December 2022, total equity turnover at the Dar es Salaam Stock Exchange increased by 28.1 percent to reach TZS 133.7 billion compared to a turnover of TZS 104.3 billion recorded during the previous year. This was attributed to increase in investors' appetite on the stocks in the financial services and manufacturing sectors due to dividend declarations resulting from improved performance of the companies (**Chart 2.20**).

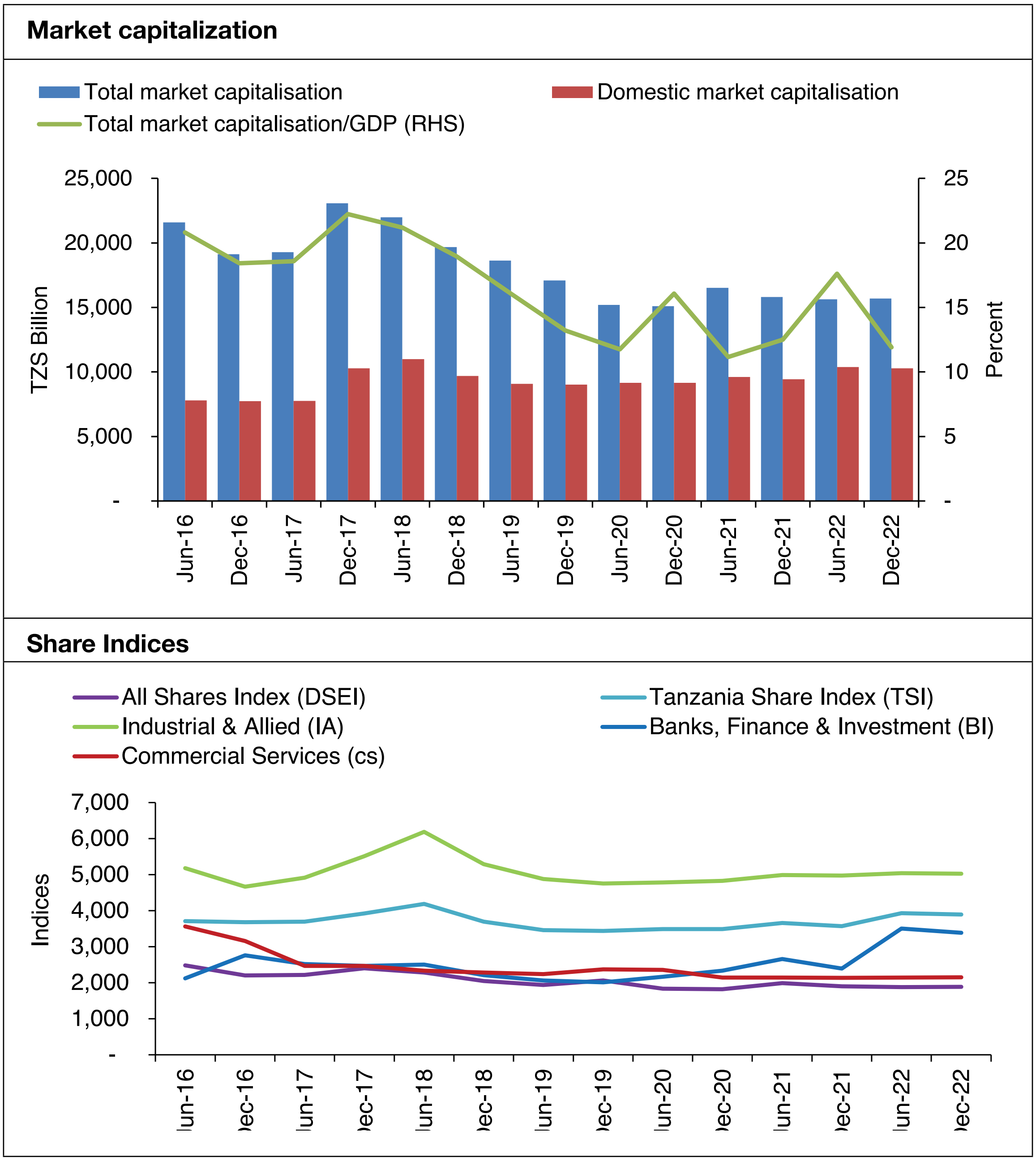
Chart 2.20: Dar es Salaam Stock Exchange Equity Trading



Source: Dar es Salaam Stock Exchange

The depth of equity market as measured by the ratio of total market capitalization to GDP decreased to 11.9 percent from 12.5 percent recorded in previous year. This was due to the decrease in the share prices of cross-listed companies reflecting repercussion of global economic shocks (**Chart 2.21**).

Chart 2.21: Performance of the Dar es Salaam Stock Exchange



Source: Dar es Salaam Stock Exchange

The share of domestic market capitalization increased by 9.1 percent to TZS 10,279.9 billion from TZS 9,426.2 billion, while the Tanzania Share Index, which tracks performance of domestic listed companies, improved by 9.1 percent to 3,888.8 points from 3,565.2 points due to increase in share prices of listed companies in the financial services and manufacturing sectors. All Share Index (DSEI), which tracks performance of all listed companies, declined to 1,882.0 points from 1,896.7 points recorded in December 2021 mainly on account of decrease in share prices of cross-listed companies (**Chart 2.21**).

Market Concentration

Market concentration risk was low. Domestic companies' market share, measured as a percentage of market capitalization, increased by 9.9 percent to 65.5 percent in December 2022 compared to 59.6 percent recorded in December 2021. The low market concentration risk was attributed by increase in share prices of CRDB, DSE, NMB, SWISSPORT, TOL and TWIGA counters. Overall, market concentration risk was low with domestic listed companies' dominance (**Table 2.8**).

Table 2.8:Total market capitalization

Percent

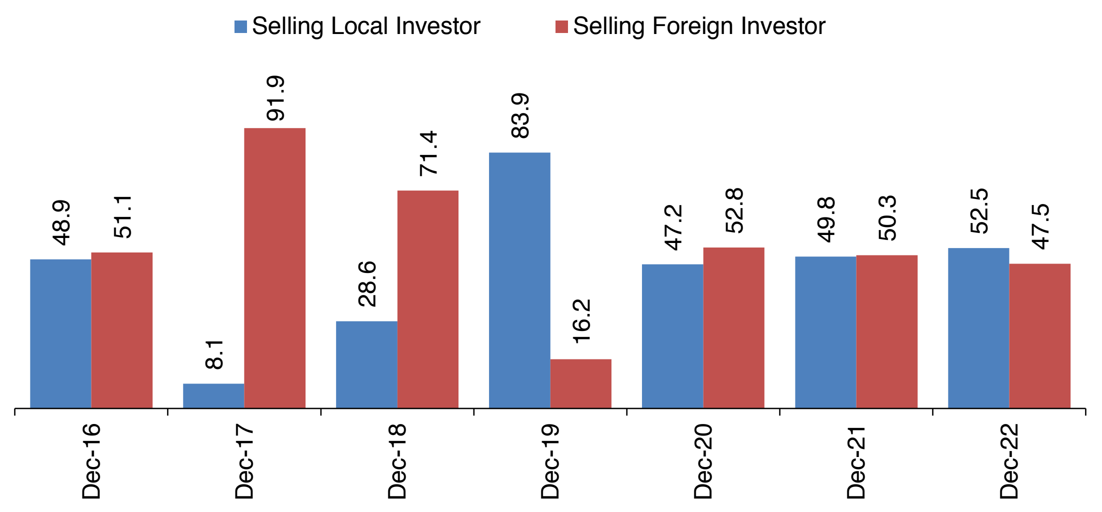
Cross Listed Companies (CLC)	Dec-19	Dec-20	Dec-21	Dec-22
EABL	20.4	17.2	16.8	16.0
JHL	3.3	2.8	3.0	1.7
KA	1.7	3.0	2.9	2.9
KCB	20.9	15.9	17.3	13.4
NMG	1.0	0.4	0.4	0.5
CLC as percent of total market capitalization	47.3	39.3	40.4	34.5
Domestic Listed Companies (DLC)				
TBL	18.8	21.3	20.3	20.5
VODA	11.1	11.4	10.9	11.0
TCC	9.9	11.3	10.8	10.8
NMB	6.8	7.8	6.3	9.6
CRDB	1.5	3.4	4.6	6.6
TPCC	2.1	3.0	3.9	4.2
OTHERS	2.4	2.6	2.8	2.8
DLC as percent of total market capitalization	52.7	60.7	59.6	65.5

Source: Dar es Salaam Stock Exchange

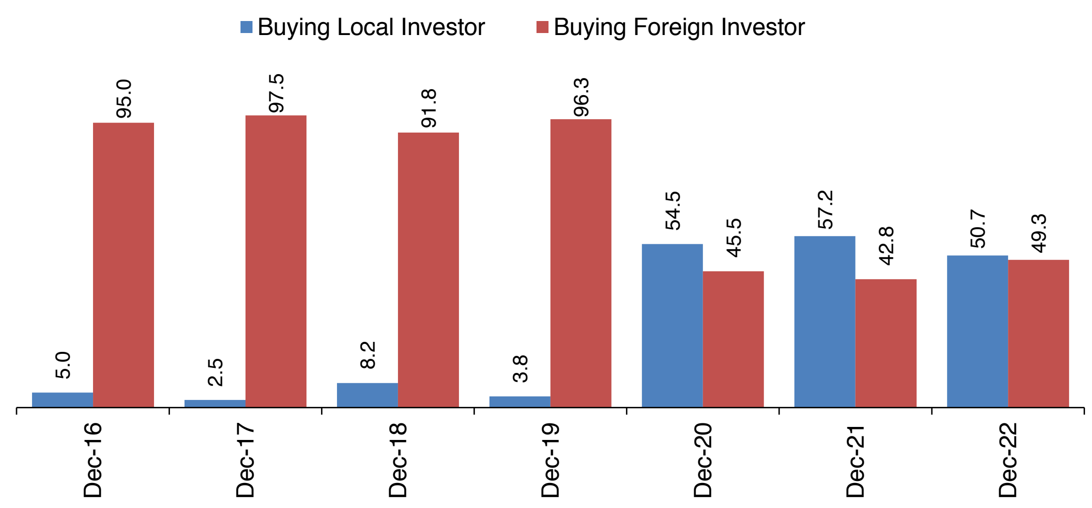
Market participation of local investors relative to foreign investors improved due to enhanced public and investors awareness programs, usage of digital trading platforms, and supportive regulatory measures. During the year 2022, local investors' participation accounted for 50.7 percent on the buy-side and 52.5 percent on the sell-side. This signals investors' confidence in the performance of listed companies and improvement in business environment in the country (**Chart 2.22**). To further encourage local investors, the Government will continue to conduct awareness campaigns; promote the usage of technology-enabled platforms; improve investment environment; and provide supportive regulatory environment (**Table 2.9**). On the other hand, a drop in foreign participation is mainly attributed by global economic shocks, including, war in Ukraine and interest rates hike to tame inflation in advanced economies, which shifted investors' appetite in the advanced economies.

Chart 2.22: Investors' participation in the DSE

Sell side



Buy side



Source: Dar es Salaam Stock Exchange

Table 2.9: Equity Trading Participation in the DSE by investors' category

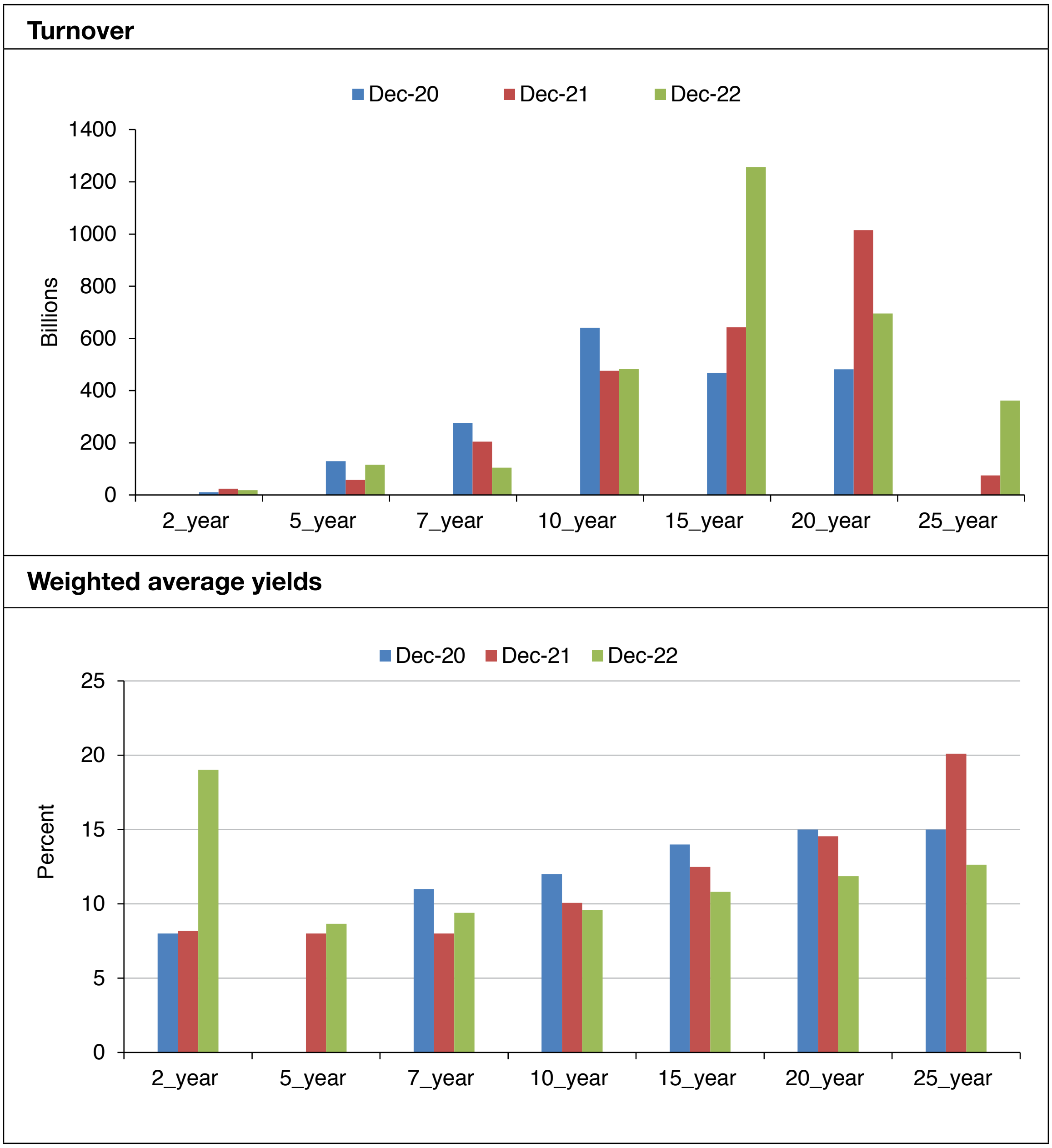
	Jan 21 to Dec 21			Jan 22 to Dec 22		
Category	Purchase	Sale	Net Flows	Purchase	Sale	Net Flows
Individuals	23,162	20,121	3,041	31,117	45,224	(14,107)
Corporations	24,660	26,513	(1,853)	25,162	24,125	1,037
Social Security	7,226	-	7,226	11,560	-	11,560
Insurance	-	-	-	-	872	872
Banks	-	5	5	-	-	-
Foreigners	49,274	57,683	(8,409)	65,822	63,440	2,381
Total	104,323	104,323	-	133,661	133,661	-

Source: Dar es Salaam Stock Exchange

Government bond market

Performance of government bonds in the secondary market continued to improve. During the year ended December 2022, trading turnover of Government Bonds on the secondary market increased by 16.7 percent to TZS 3,037.7 billion from TZS 2,497.8 billion recorded during the year ended 31st December 2021. The increase in turnover of Government bonds was attributed to, among others, the investors' confidence in the bond market, efforts on public education and attractive yield to maturity offered (**Chart 2.23**). Commercial banks continued to be the main participants, followed by other corporations and individuals (**Table 2.10**).

Chart 2.23: Government bond turnover



Source: Dar es Salaam Stock Exchange

Table 2.10: Government bonds secondary market trading participation by categories

TZS billion

Particulars	Jan 21 to Dec 21			Jan 22 to Dec 22		
	Buy	Sell	Net Flow	Buy	Sell	Net Flow
Banks	1,104.2	1,523.7	(419.6)	1,408.6	1,701.0	(292.4)
Corporation	556.2	363.0	193.1	1,081.4	906.0	175.4
Individual	547.8	521.5	26.3	223.0	253.0	(30.0)
Social Funds	205.3	32.3	173.0	300.6	112.1	188.5
Insurance	32.0	57.2	(25.2)	23.6	53.2	(29.5)
EAC	52.4	0.0	52.4	0.4	12.3	(11.9)
Total	2,497.8	2,497.8	0.0	3,037.7	3,037.7	0.0

Source: Dar es Salaam Stock Exchange

Corporate bonds

Corporate bonds market depicted satisfactory performance. During the year ended 31st December 2022, the value of listed corporate bonds increased by 11.5 percent from the previous period reaching TZS 143.8 billion. This was due to the listing of NBC Twiga Bond. In contrast, the value of corporate bonds traded decreased by 56.9 percent during the year, reaching TZS 626.4 million. The decrease in corporate bonds turnover reflected investors' view for holding the corporate bonds to maturity due to the attractive yield to maturity offered, especially by NMB Jasiri Bond and NBC Twiga Bond.

Collective Investment Schemes

During the year ended 31st December 2022, total Net Asset Value (NAV) of the Collective Investment Scheme increased by 65.3 percent to reach TZS 1,231.3 billion. The increase was due to good performance of the securities (equities and bonds) in which the funds have invested in. In addition, the establishment of Faida Fund operated by Watumishi Housing Investments, contributed to the increase (**Table 2.11**).

Table 2.11: Collective Investment Schemes

	Million				Million			Percent	
	Outstanding units				Net Asset Value			Net Asset Vaulue Growth	
Scheme	Mar-18	Dec-20	Dec-21	Dec-22	Dec-20	Dec-21	Dec-22	Dec-21	Dec-22
UTT-AMIS Funds									
Umoja Fund	392.7	351.1	346.9	344.7	237,355.4	269,464.7	302,291.7	13.5	12.2
Wekeza Maisha	4.0	2.7	3.8	9.0	1,431.0	2,536.6	6,658.7	77.3	162.5
Watoto Fund	9.8	9.1	9.5	15.4	3,686.1	4,599.0	8,426.9	24.8	83.2
Jikimu Fund	168.3	127.8	114.3	120.2	17,964.4	17,321.6	19,122.6	-3.6	10.4
Liquid Fund	138.8	578.9	1,006.3	1,632.8	152,620.4	304,337.4	559,272.1	99.4	83.8
Bond Fund		593.6	1,313.6	2,810.6	63,929.9	146,666.6	322,543.9	129.4	119.9
Total		1,663.3	2,794.5	4,932.6	476,987.2	744,925.9	1,218,315.9	56.2	63.5
Watumishi Fund									
Faida Fund		-	-	3,114.0	-	-	12,948.6	-	-
Grand Total	713.7	1,663.3	2,794.5	8,046.6	476,987.2	744,925.9	1,231,264.5	56.2	63.5

Source: Capital Markets and Securities Authority

Other fund management companies

Performance of investment funds such as Watumishi Housing Company, Real Estate Investment Trust, TSL Investment Management Limited and other Fund Management Companies remained stable and stood at TZS 146.8 billion. Funds placed with fund managers by individual clients were 43.9 percent of the total portfolio, whereas funds placed by institutional investors were 56.1 percent. Funds were diversified into several asset classes, with 48.7 percent placed in money market instruments; followed by real estate at 32.3 percent; Treasury bills, equities and Government bonds 19.0 percent.

Total value of investment in the capital markets increased by 8.2 percent, reaching TZS 34.0 trillion as of 31st December 2022, compared to previous period. The increase was attributed to conducive regulatory policies, pickup of economic activities, and good operational environment which led to good performance of listed companies; increased participation of domestic investors; and new capital market frontiers (**Table 2.12**).

Table 2.12: Value of Investment in the Capital Market

Billion

Items	2021	2022
Equity	15,809.4	15,684.6
Government Bonds	14,749.6	16,943.9
Corporate Bonds	128.9	143.8
NAV of Collective Investment Schemes	744.9	1,231.3
Total Value	31,432.8	34,003.4

Source: Capital Markets and Securities Authority

Insurance

The insurance sub-sector remained sound, as depicted by increased gross premium and profitability, coupled with adequate capital and liquidity. Total assets increased by 11.1 percent to TZS 1,420.6 billion in 2022 compared to the previous year, mainly on account of increase in income from investment and capital injection. The Gross Premium Written (GPW) increased by 25.9 percent in 2022, mainly due to post-pandemic business rebound related to transport, tourism, accommodation, and aggressive marketing by insurance companies and other insurance registrants. Furthermore, policy interventions by the Government to improve insurance outreach, such as improvement of regulatory frameworks, development of automated systems for tracking premiums, and public awareness, contributed to the growth (**Table 2.13**).

Table 2.13: Insurance sector performance

	Billion			Percentage Change	
Particular	Dec-20	Dec-21	Dec-22	Dec-21	Dec-22
Total Assets	1,179.5	1,278.6	1,420.6	8.4	11.1
Total Liabilities	780.6	862.5	855.4	10.5	(0.8)
Total Net worth	398.9	416.0	565.2	4.3	35.9
Total Investments	871.7	939.7	1,029.4	7.8	9.5
Gross Premium Written					
General Insurance	688.6	747.4	905.7	8.5	21.2
Life Insurance	135.7	165.0	242.9	21.6	47.2
Total	824.3	912.5	1,148.7	10.7	25.9

Source: Tanzania Insurance Regulatory Authority

Liabilities decreased marginally by 0.8 percent due to the payment of outstanding payables during the period under review. As result of increase in assets and decrease in liabilities, net worth increased by 35.9 percent to TZS 565.2 billion in 2022 from TZS 416.0 billion in the previous period (**Table 2.13**). The growth in net worth is attributed to increased retained earnings and additional capital from shareholders. The increase in net worth implies that the insurance sector's financial conditions improved, thereby contributing to the stability of the financial system.

The general and life insurance business grew, implying improvement in financial inclusion, reduction of risks and improvement in savings culture. General insurance business grew by 21.2 percent in 2022, mainly due to business recovery from the impact of the pandemic, awareness programmes and the take up of new digital platforms as distribution channels. Motor insurance was the leading class under general insurance, followed by Fire and Health insurance.

Table 2.14: Market share for gross premium written as per business class

	Billion		Market share percent	
Class of Business	Dec-21	Dec-22	Dec-21	Dec-22
Motor	264.7	288.0	35.4	31.8
Fire	160.2	177.6	21.4	19.6
Health	137.2	144.9	18.4	16.0
Engineering	27.4	96.7	3.7	10.7
Other General	37.4	68.1	5.0	7.5
Accident	52.5	57.4	7.0	6.3
Marine	32.3	33.7	4.3	3.7
Aviation	35.3	33.7	4.7	3.7
Oil & Gas	0.5	5.7	0.1	0.6
Total General Insurance	747.4	905.7	100.0	100.0
Group life	131.4	204.5	79.6	84.2
Individual Life	33.7	37.7	20.4	15.5
Other life	0.0	0.8	0.0	0.3
Total Life Insurance	165.0	242.9	100.0	100.0

Source: Tanzania Insurance Regulatory Authority

Life Assurance business increased by 47.2 percent due to increase in credit life insurance as the economy picked up, aggressive marketing and public awareness programs. Life insurance was dominated by Group Life Class at 84.2 percent, followed by Individual Life 15.5 percent (**Table 2.14**).

The insurance sub-sector was well capitalized with increase in return on investment. During 2022, general insurers' solvency ratio was 76.2 percent, above the minimum prudential requirement of 25.0 percent. Likewise, life insurers' solvency ratio was 46.4 percent compared to the minimum prudent standard of 8.0 percent. Few companies were undercapitalised despite the ratios being above the acceptable minimum level. Some of the undercapitalized companies injected additional capital, and the Tanzania Insurance Regulatory Authority (TIRA) continued to require the remaining undercapitalized companies to inject additional capital to enhance the ability of the industry to absorb shocks.

The rate of return on investments increased to 9.2 percent for General insurance compared to 8.8 percent during the preceding year, partly attributed to increase in banks' deposit rates and investment in Government securities. However, the rate of return on investments for life insurance remained at 5.0 percent in 2022.

Profitability of general insurance business increased, coupled with increased return on equity. The profit increased by 69.0 percent to TZS 71.1 billion in 2022, while return on equity increased to 16.5 percent from 11.9 percent due to increase in underwriting income.

General insurers' combined ratio, which measures the profitability of a given year's insurance underwriting, decreased to 98.4 percent in 2022 from 100.6 percent recorded during the preceding year. The ratio was within the maximum prudential limit of 100.0 percent, implying sufficient ability to cover policy acquisition expenses and generate reasonable profits. TIRA continues to undertake close supervision to enforce compliance, conduct capacity building, as well as encourage the usage of digital platforms in insurance.

The general and life insurance retention rates were within the prudential retention ratios of 30-70 percent and 50-90 percent, respectively (**Table 2.15**). In order to increase retention ratios, efforts are underway to establish insurance consortiums and insurance-linked securities.

Insurance sub-sector had adequate liquidity to meet maturing insurance obligations. General insurers' liquidity ratio slightly increased to 115.9 percent during the period ended 2022 compared to 111.5 percent recorded in the preceding year. Life Insurance liquidity ratio increased to 83.3 percent from 63.6 percent in the same period. Liquidity ratios for General Insurers and Life insurers exceeded the minimum prudential requirement of 95.0 percent and 60.0 percent, respectively.

Table 2.15: Financial soundness indicators of the insurance sector

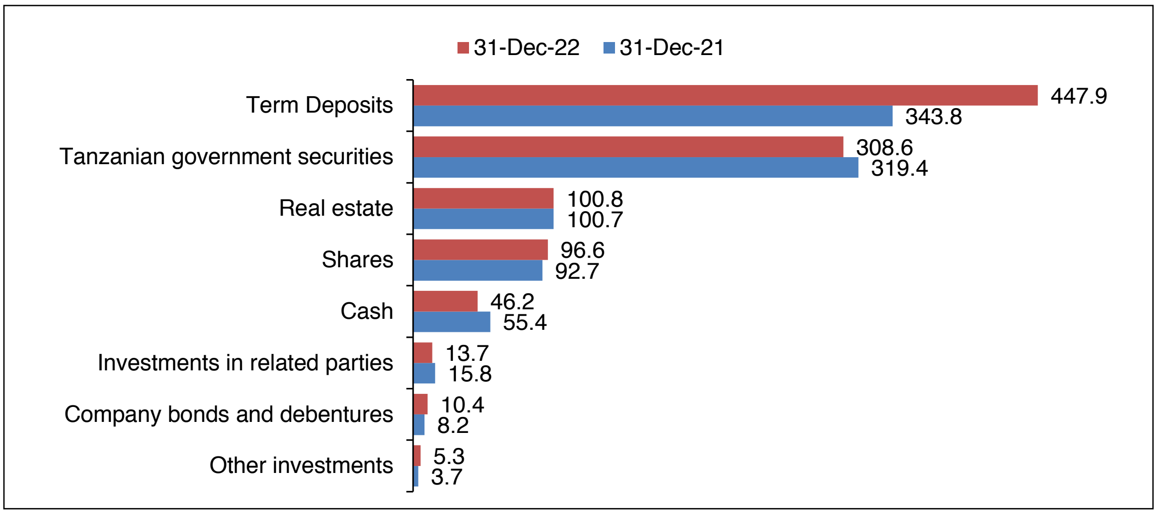
Indicator	Statutory requirement	Dec-21		Dec-22	
		General	Life	General	Life
Capital Ratios					
Solvency Ratio	General ≥ 25%; Life ≥ 8%	62.2	21.0	76.2	46.4
Change in Capital and Reserves		7.8	(12.2)	21.3	120.0
Assets Quality Ratios		0.0	0.0	0.0	0.0
Rate of return on investment		8.8	5.0	9.2	5.0
Investment Mix:					
Investment in Government Securities	Category 1:	34.1	33.6	30.7	28.5
Investment in bank deposits	Total Min 40%	43.1	22.3	47.7	35.4
Investment in real estates	Max 30%	5.3	22.7	5.0	19.0
Reinsurance ratios					
Retention Ratios	General; 30%< RR < 70% Life; 50%< RR < 90%	52.7	85.7	49.8	85.7
Actuarial Liabilities (General)					
Actuarial Provision to Capital Ratio	Max 250%	81.9	437.5	80.7	191.7
Earnings Ratios					
Return on Equity		11.9	(5.4)	16.5	8.1
Liquidity Ratios					
Liquidity Ratio	General ≥ 95%; Life ≥ 50%	111.5	63.6	115.9	83.4
Total Receivables as % of Capital & Reserves	Max 100%	49.7	52.0	49.1	33.6
Loss Ratio		49.7		46.6	
Benefit Ratio			67.6		59.4
Expense Ratio		45.1	48.2	44.7	44.4
Combined Ratio	Max 100%	100.6		98.4	

Source: Tanzania Insurance Regulatory Authority

The sub-sector's ability to withstand adverse deviations of actuarial liabilities was satisfactory as reflected by the ratio of 80.7 percent and 191.7 percent in 2022 for general and life, respectively, against the statutory maximum limit of 250.0 percent, on account of capital enhancement (**Table 2.15**).

Insurers' investment assets increased by 9.5 percent to TZS 1,029.4 billion in 2022 from TZS 939.7 billion in the previous year, largely attributed to an increase in Gross Premium Written and investment income resulting from improved business environment.

Chart 2.24: Investment mix (TZS billion)



Source: Tanzania Insurance Regulatory Authority

Insurance penetration as measured by a ratio of insurance premium to GDP and density as measured by insurance premium to population rose to 0.7 percent and TZS 18,616.8 in 2022 from 0.6 percent and TZS 15,814.3 in the previous year, respectively. However, the penetration ratio remains low and below the target of 1.25 percent, calling the need to intensify public awareness, innovation in service delivery and products that suit the demand (Table 2.16).

Table 2.16 Insurance penetration and density

	Gross Premium Written (TZS Million)			Insurance	Insurance
Period	Life	General	Total	Penetration	Density (TZS)
2018	104,272.0	587,630.5	691,902.5	0.54	13,154.0
2019	119,606.6	694,006.0	813,612.6	0.58	14,983.7
2020	135,705.8	688,642.7	824,348.6	0.55	14,746.8
2021	165,044.7	747,438.5	912,483.2	0.56	15,814.3
2022^{p}	242,911.7	905,746.4	1,148,658.1	0.67	18,616.8

Source: Tanzania Insurance Regulatory Authority
Note: p: GDP is projected

Social Security

Mainland Tanzania

Social security sub-sector was resilient, with improved assets and ability to meet maturing obligations. At the end of December 2022, total assets grew by 7.2 percent to TZS 16,789.4 billion, while the total Return on Investment increased by 22.0 percent to TZS 329.6 billion compared to December 2021. Funds increased investment in fixed deposits and government securities relative to other investments mainly due to increased returns and lower risk. The Fund's market share continued to be dominated by PSSSF, which accounted for 48.8 percent followed by NSSF (41.0 percent), NHIF (6.5 percent) and WCF (3.7 percent).

The sector's ability to cover obligations weighed by net assets against benefit liabilities was satisfactory, implying Social Security Schemes' improvement to settle present and future liability. Funding ratios increased to 68.9 percent in December 2022 from 58.5 percent recorded in the previous year. The increase was attributed to adoption of parametric reforms on the sector's benefits formula. Further, liquidity of the Schemes slightly declined as indicated by current assets to current liabilities ratio. The ratio stood at 1.04 times from 1.3 times recorded in the previous period. The decline was partly attributed to benefit pay-outs arising from increase in number of pensioners relative to new entrants. Despite the decline, the sector's ability to settle benefit obligations remained favourable.

Efficiency of the sector as measured by administrative expenses to contribution ratio was rated strong and improved, recording 5.6 percent, which is below the prudential limit of 10.0 percent compared to 6.2 percent recorded in December 2021. The main contributing factor was the continued improvement in cost management of all the Funds. However, short-term benefits Social Security Schemes' administrative expenses continued to be above the limit. This warrants concern for close supervision to make sure the two Schemes' administrative expense is within the limit of 10.0 percent of a total contribution to ensure contributions are utilized for the fundamental functions of the Scheme.

The ability of the sub-sector to pay benefits from members' contributions was below prudential thresholds. Benefits to contributions ratio declined to 1.26 times in December 2022 from 1.57 recorded in the previous year. The decrease was attributed to low entry compared to the exit of members. The ongoing recovery of the economy and increase in investments are expected to increase number of contributors, which will enhance the ability to honour its obligations. The Government continues to provide enabling environment to improve stability of the sub-sector.

Table 2.17: Tanzania Mainland: social security selected financial indicators

Percent

		NSSF		PSSSF		NHIF		WCF		Sectoral average	
Indicators	Prudential Limit	Dec-21	Dec-22	Dec-21	Dec-22	Dec-21	Dec-22	Dec-21	Dec-22	Dec-21	Dec-22
Funding Ratio	For Pension Fund Min .40 percent	87.0	87.0	30.1	50.0	-	-	6.4	6.4	58.5	68.9
Efficiency Ratio	Max. 10% of total Contribution	11.0	8.0	7.0	4.3	10.0	14.0	25.0	34.9	6.2	5.6
Total Contribution /Benefit (Times)	Min. 1.5 times	1.6	2.3	1.2	1.0	7.3	0.8	7.8	4.2	1.6	1.3
Dependency ratio	Min (1Pensioner: 4Active Contributors)	27.0	27.0	3.0	3.0		-	-	-	5.0	6.0
Returns on Investment		1.6	1.4	2.2	1.9	2.1	32.6	3.3	3.1	2.0	3.7
Total Investment/Total Assets		83.7	89.6	87.6	94.4	62.1	87.0	87.0	90.9	84.0	91.8
Liquidity Ratio (Times)	Min. 1.1 times	0.9	1.1	0.9	1.1	4.6	0.9	5.4	1.4	1.3	1.0
Benefits/Total income		47.7	36.0	58.1	72.0	12.1	109.4	7.4	11.5	47.0	60.6
Fund Balance Growth		16.2	22.0	31.8	13.0	(12.3)	(0.2)	27.2	0.2	21.3	0.1

Source: PMO -LYED

The dependency ratio, as depicted by active contributing members to pensioners, slightly increased as the number of active contributors supporting one pensioner stood at 6.0 in December 2022 from 5.0 in the previous year. This is above the limit, which requires one pensioner to be supported with at least four active contributing members. Nevertheless, the higher number of active contributors relative to pensioners will further enhance the ability to pay pensioners (**Table 2.17**).

The investment portfolio of social security schemes grew, implying improved financial conditions. During the period under review, the investment portfolio of the sector grew by 11.5 percent to TZS 15,435.9 billion which was 91.8 percent of total assets. The increase was driven by an increase in members' contributions and income from investments. The portfolio is dominated by Government securities, real estate, direct loans to the Government, and cash and demand deposits in banks and financial institutions (**Table 2.18**). The dominance in Government securities indicates the ability to honour obligations.

On the other hand, investment in real estate to non-income earning properties, as well as cash and demand deposits in banks and financial institutions, exceeded the prudential limit, which was attributed by finalization of construction projects which had not yet started to earn income and higher payments in contributions in arrears, respectively (**Table 2.18**). The Government continues to engage the Social Security Schemes to restore investments within regulatory limits.

Table 2.18: Tanzania Mainland: social security portfolio investment mix

Investment Category	Prudential Limit	Dec-21	Dec-22
Government Securities (Treasury Bills, Treasury Bonds.	20 - 100	54.0	53.5
Real Estate	30.0	12.4	10.8
of which Non-Income Earning Property	5.0	5.1	6.0
Cash and Demand Deposit in Banks and Financial Institutions	5.0	8.0	8.0
Direct Loans to the Government	10.0	7.4	8.2
Ordinary and Preference Shares	20.0	4.9	4.8
of which Unquoted Equity	5.0	4.1	4.5
Infrastructure Investments	25.0	2.1	2.0
Investment in Licensed Collective Investment Schemes	30.0	2.1	1.9
Commercial Paper, Promissory Notes and Corporate Bonds	20.0	0.0	0.0
of which Unlisted Corporate Debt	5.0	0.0	0.2
Fixed and Time Deposits, Certificates of Deposits in Banks and Financial Institutions	35.0	0.0	0.0
Guaranteed Fund œSupplementary schemes only	100.0	0.0	0.0
Others -subject to prior approval by the Bank	10.0	0.0	0.0
Total	100.0	100.0	100.0
Total Investment Portfolios as % of Total Assets	>= 85%	84.0	91.0

Source: PMO LYED

Zanzibar Social Security Fund

The Zanzibar Social Security Fund remained sound and well capitalized coupled with growth in net assets. Net assets of the fund for the year ended December 2022 grew by 10.2 percent to TZS 763.6 billion compared to the preceding period. This growth was attributed by increased investment income and contribution. The return on investment which is depicted by the ratio of Investment income to Investment assets grew to 8.0 percent compared to 7.7 percent in the preceding year (**Table 2.19**).

Table 2.19: ZSSF selected indicators

Particulars	2021	2022
Contribution income/Total Benefit payments (a+b) (Times)	6.0	5.0
Dependency ratio (Times)= Total active members / Pensioners	9.0	9.0
Investment income/Investment assets (Percent)	7.7	8.0
Administrative cost (TZS Billion)	7.8	7.2
Administrative cost/Investment income (Percent)	15.8	12.1
Administrative cost/Contributions (Percent)	8.6	6.6
Liquidity ratio = Current Asset /Current Liability (Times)	9.8	3.1
Funding ratio = Net Asset/Benefit liabilities (Percent)	40.0	40.0

Source: Zanzibar Social Security Fund

The Zanzibar Social Security Fund investment assets continued to improve, supported by increased operational efficiency. The Fund's ability to cover obligations weighed by net assets against benefit liabilities remained at 40.0 percent, suggesting a sustained capability to withstand benefit pay-outs. Liquidity of the Fund measured by current assets to current liabilities was 3.1 times in December 2022 from 9.8 times in 2021. This decrease is attributed to a shift from cash and short-term to long-term investments, mainly Government securities. The Fund's operational efficiency, as depicted by the administration cost-to-contribution ratio, improved to 6.6 percent in 2022 from 8.6 percent in 2021 attributed to cost-cutting measures implemented during the period to minimize Fund expenditures.

The dependency ratio, as depicted by active contributing members to pensioners, remained unchanged, as the number of active contributors supporting one pensioner remained at 9.0 in December 2022 as recorded in the previous year. This is above the limit, which requires one pensioner to be supported with at least four active contributing members. The Government will continue to monitor the performance of the Fund to ensure its sustainability.

Table 2.20: ZSSF investment portfolio

	Dec-20		Dec-21		Dec-23	
Particulars	Billion	Share (%)	Billion	Share (%)	Billion	Share (%)
Mapinduzi Memorial Museum Items	0.5	0.1	0.5	0.1	0.5	0.1
Mapinduzi Revolving Restaurant	0.5	0.1	0.5	0.1	0.5	0.1
Work in Progress (WIP)	64.1	12.5	-	0.0	5.9	0.8
Investment Property- Real estate	16.8	3.3	107.6	16.2	97.7	13.1
Investment Property- Recreation and Amusement Park	43.1	8.4	36.6	5.5	34.1	4.6
Investment Property- land	46.6	9.1	53.1	8.0	68.0	9.1
Investment in Equity	22.5	4.4	43.2	6.5	62.4	8.4
Investment in Government Security	208.5	40.7	247.1	37.2	272.4	36.6
Fixed Deposit	97.6	19.1	104.8	15.8	131.4	17.6
Loan	11.8	2.3	59.8	9.0	50.0	6.7
Corporate Bond		0.0	11.5	1.7	22.1	3.0
Total investments Assets	512.0	100.0	664.7	100.0	745.2	100.0

Source: Zanzibar Social Security Fund

Investment portfolio of the Fund at the end of December 2022 grew by 12.1 percent to TZS 745.2 billion compared to the same period in the previous year. The Fund increased its investment mainly in Treasury bonds, fixed deposits, and corporate bonds with investment in Government securities and fixed deposits remaining dominant (**Table 2.20**). The growth, coupled with improved operational efficiency and financial conditions increase the sustainability and resilience while strengthening the Fund's ability to honour maturing obligations as they fall due.

The sector initiated budgetary changes to better the legislative framework and provision of services to members, and to cement the sustainability and effectiveness of the Fund. The changes included new computation of benefits schedule, revisions to the distribution of benefits and new rates of contributions with the view that these amendments will help to ensure the Fund's financial sustainability.

Deposit Insurance

The Deposit Insurance Fund (DIF) remained capable of meeting deposit insurance obligations, contributing to safety, soundness, and public confidence in the banking sector. The ratio of fully insured deposit accounts to total number of insurable deposit accounts rose from 95.0 percent to 97.1 percent, consistent with and above the International Association of Deposit Insurers (IADI) standard threshold of at least 90.0 percent. Moreover, the value of insured/covered deposits to value of total insurable deposits ratio increased to 8.2 percent in 2022 compared to 4.1 percent in 2021, indicating enhanced deposit protection.

The DIF increased by 22.5 percent to TZS 959.4 billion in 2022 from TZS 743.4 billion in 2021. This was attributed to increase in proceeds from investments and deposit insurance premiums. Whereas the ratio of the DIF to total value of deposits was 3.0 percent, the ratio of the DIF to total value of insured deposits was 40.2 percent (**Table 2.21**). The Deposit Insurance Board (DIB) reviewed the deposit insurance coverage limit aimed at increasing depositors' protection as well as meeting national targets, EAC harmonization criteria and international standards.

Table 2.21: Tanzania position as compared to EAC convergence criteria.

Percent

Ratio	EAC and IADI Targets/Standards	Tanzania position
Fund size to total deposits	3.0	3.0
Fund size to total value of insured deposits	20.0	40.2
Value of insured deposits to total insurable deposits (fully and partially covered)	10.0	8.2
Number of fully covered accounts /total number of insurable accounts	90.0	97.1

Source: Bank of Tanzania and Deposit Insurance Board.

During the period, DIB commenced payment of liquidation proceeds to depositors of four banks under liquidation and continued with the deposit insurance compensation exercise to eligible depositors who had not yet collected their insured deposits.

The ongoing efforts to increase the coverage of the Fund, payment of insured depositors and public awareness campaigns are anticipated to improve deposit protection and increase public confidence in the banking system. Further, the Government will continue to broaden the mandate of DIB to enhance contribution of the Fund in promoting the stability of the financial system.
Competition in the financial sector

The financial sector continued to be competitive, characterized by many market players. The banking sector was characterized by many players implying low barriers to entry and exit. However, the sector was dominated by ten banks holding about 70.0 percent of the market shares in deposits and assets. The competitiveness in the financial sector promotes stability and encourages efficient and innovative financial products in the economy. Interest rates remain competitive as the banks continue to establish and publish the rates independently.

The insurance market remained competitive, with HHI below 1000. The market was characterized by many players who hold market shares below 35.0 percent, a threshold for dominance. The HHI index, calculated based on the general insurance gross premium, shows that the relevant market was not concentrated, hence, the likelihood of fewer and larger firms engaging in anti-competitive behaviours was minimal. TIRA continued to establish a minimum indicative rate for general insurance gross premiums.

Further, in a bid to expand their footprints and to compete more effectively in the relevant markets, seven merger transactions were approved by FCC. These transactions include two transactions in the insurance industry, two in banking and three in microfinance. The transactions were aimed at enhancing competitiveness and capital efficiency. The benefits of fair competition overflow to consumers through the provision of consumer-centric financial products, lower prices, improved innovation, and low switching costs.

The banking sub-sector exhibited outstanding compliance with the Fair Competition Act, No. 8 of 2003, which increased and attracted consumers' confidence in financial services and products banks offer. However, during inspections and stakeholders' engagements, it was observed that there was a moderate level of consumers' confidence in engaging with microfinance, insurance and digital financial products or services. This is due to the non-disclosure of some terms and conditions (Standard Form Consumer Contracts) governing business transactions. The Government will continue to take measures to ensure fair competition in the sector, including enforcement of the Fair Competition Act, 2003 and its regulations; the Bank of Tanzania (Financial Consumer Protection) Regulations, 2019; Microfinance Act, 2018 and its regulations; Social Security Act, 2018 and Insurance Act to ensure good conduct in the market. This also encompasses implementing financial education programs and strengthening complaints handling and resolution mechanisms.

3. FINANCIAL SYSTEM INFRASTRUCTURE AND REGULATORY DEVELOPMENTS

3.1 Payment Systems Infrastructure

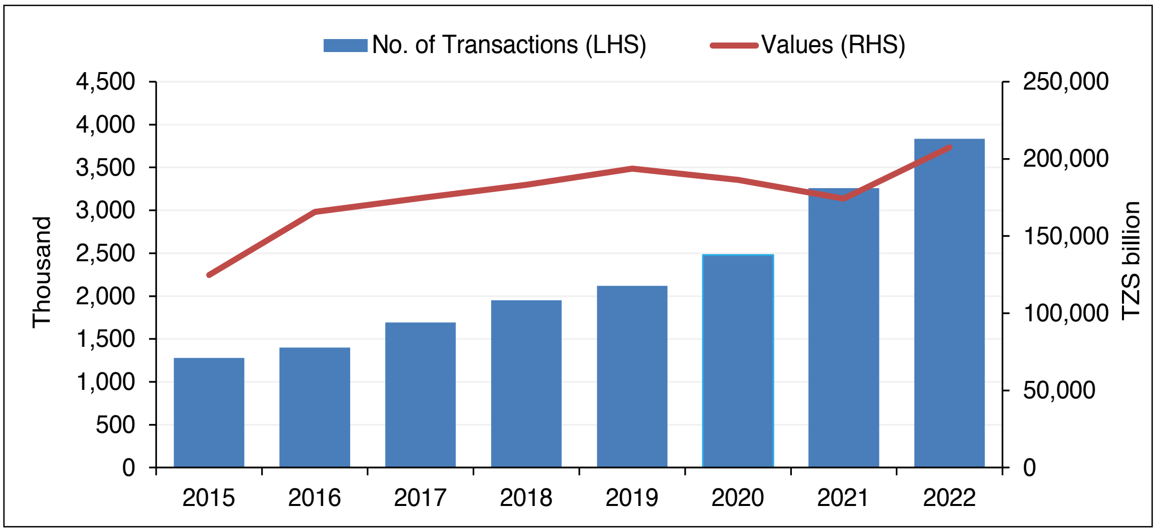
Payment and settlement systems continued to operate smoothly without disruptions. During the period, payments, clearing, and settlement systems operated smoothly, with a noticeable increase in the utilization of digital channels in financial services delivery. Large payment system, Tanzanian Interbank Settlement System (TISS) and retail payment system, Tanzania Automated Clearing House (TACH), remained effective and resilient with no major system performance impediments despite the diverse trends in transactions movements in volume and values. The efficiency and resilience of the payment platforms without disruptions sustained public confidence and stability of the financial system and served the needs of the economy.

The Bank continued to encourage usage of digital payment channels geared towards achieving a cash-lite economy as part of implementing Government's initiative to promote digital economy; and collaboration with various stakeholders in strengthening the safety and smooth running of payment systems in the country.

3.1.1 Tanzania Interbank Settlement System

Tanzania Interbank Settlement System (TISS) remained reliable with high availability. On average, the large value system, TISS, recorded 99.9 percent efficiency in terms of server and database uptime availability. Transactions processed in TISS reached 3.83 million in 2022 compared to 3.26 million in the preceding period. The value of transactions increased to TZS 207,503.42 billion compared to TZS 174,308.54 billion in 2021. Markedly increase in the system performance was partly attributable to the enhanced TISS platform that continues to operate 24/7 (**Chart 3.1**).

Chart 3.1: Volume and value of transactions



Source: Bank of Tanzania

3.1.2 Tanzania Automated Clearing House

Clearing and retail payment systems, namely Tanzania Automated Clearing House, Electronic Fund Transfer (EFT) and card switch transactions operated efficiently. Total number of cheque transactions processed through TACH and respective values of cheque transactions declined by 9.6 percent and 2.4 percent, respectively, which highly contributed to less usage of cheques due to availability of alternative means of payments. EFT transactions, on the other hand, increased by 7.9 percent in volume and by 13.0 percent in value, compared to the corresponding period in 2021 (**Table 3.1**).

Table 3.1: Payment systems' values and volume of transactions

Particulars	Volume transacted (Million) 2021	Volume transacted (Million) 2022	Percentage change (%)
ATM and POS	224.9	266.7	18.6
Internet banking	8.4	15.5	85.7
Mobile banking	71.5	92.1	28.9
Mobile payment	3,158.5	3,595.0	13.8
TACH (Cheque)	0.6	0.6	(8.3)
TACH (EFT)	15.6	16.8	7.9
TISS	3.3	3.8	15.2
Particulars	**Value transacted (Billion) 2021**	**Value transacted (Billion) 2022**	**Percentage change (%)**
ATM and POS	74,911.5	98,101.3	31.0
Internet banking	100,065.3	123,061.3	23.0
Mobile banking	24,973.3	30,651.6	22.7
Mobile payment	115,228.4	114,315.98	(0.8)
TACH (Cheque)	2,025.6	1,977.7	(2.4)
TACH (EFT)	10,694.5	12,079.2	12.9
TISS	174,308.5	207,503.4	19.0

Source: Bank of Tanzania

3.1.3 Digital payment systems

In 2022, the Bank issued licenses and granted approvals on various applications received from banks and other payment system providers to issue payment instruments/products that are customer-centric to encourage usage of digital payment systems as part of attaining the vision of digital economy by 2025. Other promoted areas of interest include use case of Person to Government (P2G), Person to Business (P2B); Business to Government (B2G) and Business to Business (B2B) transactions.

3.1.4 Payment systems developments

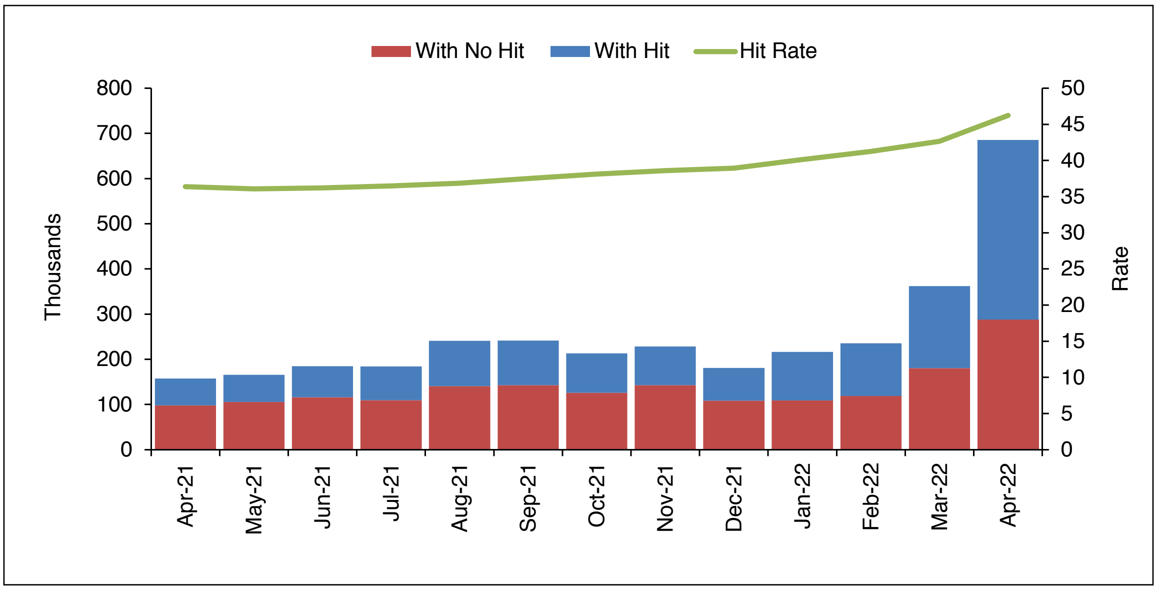
During the period, the Bank developed Tanzania Instant Payment System (TIPS) in order to improve interoperability amongst financial services providers to enhance efficiency and oversight of payment systems. The Bank continued with the development activities of the system by incorporating additional features (use-cases) as well as supporting and fixing issues that may surface in the production environment. The system is an interoperable digital payment platform for retail transactions, which started operations live in August 2021 with five (5) financial service providers (FSPs). As of December 2022, thirty-five (35) FSPs had been on-boarded onto TIPS platform. It is expected that all existing FSPs will be on boarded by the end of April 2023.

Registration of financial services access points in the Financial Services Registry (FSR) continued during the period through financial service providers. The number of registered outlets was 117,294, with 301,890 access services points across the country. Of the registered access points, 221,652 or 73.4 percent were already verified, and the remaining 26.6 percent were still under the verification process. The FSR shall facilitate informed decisions for increasing access and usage of formal financial services.

3.2 Credit Reference System

Credit reference system continued to increase efficiency of the credit market, reduce non-performing loans, and enhance stability of the financial sector. The Bank continued to sensitize banks and other stakeholders dealing with lending activity about the usefulness of credit information sharing. These efforts helped enhance credit reference operations, as reflected by the increase in the annual hit rate, number of credit inquiries, and credit reports sold (**Chart 3.2**).

Chart 3.2: Trend of Credit Inquiries



Source: Bank of Tanzania

The credit reference operations continued to improve, as reflected by the increase in the annual hit rate, number of credit inquiries, and credit reports sold as submitted by banks and financial institutions to Credit Reference Databank. The annual hit rate increased by 1,299 basis points to 51.9 percent, implying an increase in the proportion of borrowers' data that has been captured in the system. Credit inquiries and credit reports sold increased by 147.7 percent and 195.4 percent to 5,712,114 and 2,726,381, respectively, compared to the previous period. The Bank continued to sensitize banks and other stakeholders dealing with lending activity about the usefulness of credit information sharing to increase efficiency of the credit market, reduce non-performing loans, and ultimately enhance stability of the financial sector in the long run.

3.3 Financial system regulatory developments

3.3.1. Payment System Developments

During the period under review, pursuant to section 56(3) of the National Payment Systems Act, 2015, the Bank issued standards and circulars pertaining to payment system infrastructure. Among others, the Bank issued the following:

(a) Tanzania Quick Response Code Standard (TANQR Code Standard 2022), which provides guidance on the implementation of QR Codes based on international standards as a basis to offer an alternative channel payment solution between customer and merchant with the view to promoting customer convenience, security and support interoperability among different payment service providers. These standards were issued to boost the use of e-payments under the retail payment ecosystem, enabling more Tanzanians to make electronic payments while ensuring efficiency and safety of payment system in the country,

(b) Circular on the Establishment of Tanzania Quick Response Code Standard (TANQR Code Standard 2022) that requires all payment services providers to comply with the issued standards and submit implementation progress reports within the stipulated timeline. It also sets a moratorium of 1 year from the date of issuance of the circular for existing merchant QR Codes in the market and six months for new issuance of merchant QR Codes in the market to conform with the standards, subject to examination and monitoring by the Bank,

(c) Circular on Notification on Termination of Payment System Instruments, aiming at reminding all Payment System Providers (PSPs) on the requirement to notify and obtain approval from the Bank at least 60 days before termination or disengagement arrangements that led to issuance of approved payment systems instruments (products) indicating reasons for such termination and risk mitigation measures to be taken to reduce the likely negative impact to the public that may erode consumer confidence in the financial services and associated products in particular,

(d) Circular on Targeted Financial Sanctions Guidelines for Reporting Persons issued to all Non-Bank Payment System Providers on the requirement to comply with the Targeted

Financial Sanctions (TFS) Guidelines issued by the Financial Intelligence Unit (FIU), whose purpose is to assist all reporting persons, including non-bank payment system providers in understanding their obligations regarding prohibition against providing services or dealing in any manner with property/assets belonging to the sanctioned individuals and entities.

In strengthening oversight of electronic money services, the Bank prepared a draft Trust Account Management Guidelines and shared it with stakeholders for comments.

3.3.2. Banking Sector Developments

During the period under review, the Bank issued the following Regulations aiming at enhancing regulatory compliance and strengthening supervisory mechanisms:

(a) The Foreign Exchange Regulations, G. N. No. 294 of 2022 to provide guidance on dealing with foreign currency and gold and its conditions, procedures for export and import transactions, requirements for outward remittances as well as guidance on capital and financial account transactions applicable to both, residents and non-residents. Among others, these regulations allow residents of the EAC and SADC regions and Tanzania citizens in the diaspora to participate in the primary auctions and secondary trading of securities issued by the Government of the United Republic of Tanzania with the condition that such securities shall not be sold to residents within six months from the date of purchase. Also, mobile money operators or authorized service providers may make outward remittances within EAC and SADC without supporting documents provided such remittance does not exceed the transaction limit and reasons for such remittance are provided. Thus, the regulations facilitate capital account liberalization within the EAC and SADC regions.

These Regulations revoked the Foreign Exchange Regulations, 1998 and the Foreign Exchange (Listed Securities) Regulations, 2003,

(b) The Banking and Financial Institutions (Mortgage Refinance Companies) Regulations, 2022, were issued with the objective of ensuring safety and soundness of Mortgage Refinance Companies (MRC's) operations. Among others, these Regulations aim at creating conditions for a solid capital base that adequately reflects MRC's risks and sufficient to absorb unanticipated losses as well as good corporate governance, licensing procedures, liquidity requirements and permissible investments. Entry into force of these Regulations revoked, the Banking and Financial Institutions (Tanzania Mortgage Refinance Company) Regulations, 2011,

(c) The Banking and Financial Institutions (Financial Leasing) Regulations, 2022, aim at providing licensing requirements and procedures as well as supervisory powers for leasing companies operating in Tanzania. Further, these guidelines provide for classification and provisioning of lease assets, reporting and disclosure requirements and sanctions for non-compliance.

Further, for the year ended 31st December 2022, the following guidelines were issued to improve confidence and resilience of the banking sector and enhance compliance in the regulatory environment:

(a) Guidelines on Climate-Related Financial Risks Management, 2022, to assist banks and financial institutions in incorporating sound governance and risk management frameworks for climate-related financial risks within their existing risk management frameworks. The Guidelines aimed at enabling the banking sector to better understand, identify, assess, monitor, and mitigate physical and transition risks that could affect soundness and safety of banks and financial institutions, thus jeopardizing the stability of the banking system. Hence, the Bank issued these Guidelines to set out its expectations of a prudent approach to climate-related financial risks with the view to enhancing resilience in the banking sector against these risks,

(b) Stress Testing Guidelines for Banks and Financial Institutions, 2022, to guide banks and financial institutions in carrying out stress testing to enhance resilience against risks. The stress testing will be conducted under baseline, adverse and severe scenarios and prepare mitigation plans in case of unfavourable results.

Implementing these regulations and guidelines is expected to improve the smooth functioning of the financial system, manage potential risks and build resilience in the financial sector.

Also, in the supervisory and regulatory mandate to banks and financial institutions, the Bank issued various notices to the public aimed at imparting awareness to the public and maintaining stability in the banking sector. These include:

(a) Public notice on placement of Yetu Microfinance Bank PLC under statutory administration by the Bank of Tanzania effective from 12th December 2022 following its failure to meet regulatory requirements regarding liquidity and capital adequacy. The notice further informed the public of the suspension of the Board of Directors and Management for Yetu Microfinance Bank PLC and the appointment of a statutory manager to manage its affairs pending determination of an appropriate resolution option by the Bank,

(b) Public notice on Procedures for EAC and SADC Residents and Tanzanian citizens in diaspora to participate in the Tanzanian Government securities' market. Following the issuance of the Foreign Exchange Regulations, 2022 G.N. No. 294 published on 13th May 2022, the Bank issued this public notice to ensure participation of EAC and SADC residents as well as Tanzanian citizens in diaspora in Government securities,

(c) Public notice on prohibited lending practices by unlicensed entities or individuals. Through this circular, the Bank cautioned the public against borrowing from unlicensed entities or individuals and informed all unlicensed entities or individuals providing such services to the public contrary to law on the applicable sanctions.

3.3.3. AML/CFT/CPF Developments

In compliance with the Financial Action Task Force (FATF) Recommendations and other international standards, financial sector developments must commensurate with the developments in the Anti-Money Laundering, Combating of Financing of Terrorism and Counter Proliferation of Weapons of Mass Destruction Financing (AML/CFT/CPF). Following these international requirements, in October 2022, Tanzania was included in the list of jurisdictions under FATF's Increased Monitoring that comprises jurisdictions with strategic deficiencies in the AML/CFT/CFP regime. Since its listing, Tanzania remains committed to working with the FATF, International Cooperation Review Group (ICRG) and Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to address the identified deficiencies.

The identified deficiencies subject to improvement include: improving risk-based supervision of Financial Institutions and Designated Non-Financial Business Professionals (DNFBPs) as well as applying effective, proportionate and dissuasive sanctions for non-compliance; ensuring Law Enforcement Agencies (LEAs) are taking measures to identify, trace, seize, and confiscate proceeds and instrumentalities of crime; conducting a comprehensive Terrorist Financing Risk Assessment and implementing a comprehensive national CFT Strategy; improving authorities' capability to effectively conduct a range of investigations and prosecutions of Money Laundering in line with the country's risk profile; increasing awareness of the private sector and competent authorities on Terrorism Financing (TF) and Proliferation Financing (PF) related to Targeted Financial Sanctions (TFS); and carrying out the TF risk assessment for Non-Profit Organizations (NPOs) in line with the FATF Standards and using it to develop an outreach plan.

Towards addressing the identified deficiencies, various laws were amended in line with FATF's Technical compliance standards and recommendations. Thus, during the period under review the following developments occurred requiring compliance by players in the financial sector.

(a) The Anti-Money Laundering (Amendment) Act, 2022 was enacted amending the provisions of the Anti-Money Laundering Act, 2006. Among others, these amendments impose various obligations to reporting persons on all matters related to AML/CFT/CPF as well as sanctions for non-compliance. Further, this Act makes consequential amendments to other related laws being: The Bank of Tanzania Act, the Capital Markets and Securities Act, the Insurance Act and the Prevention of Terrorism Act,

(b) The Anti-Money Laundering and Proceeds of Crime (Amendment) Act, 2022 was enacted to amend the provisions of the Anti-Money Laundering and Proceeds of Crimes Act, No. 10 of 2009 as applicable in Tanzania Zanzibar. These amendments among others impose new obligations to regulators and reporting persons and carries other provisions related to AML/CFT/CPF compliance including customer due diligence requirements, maintenance and retention of customer records as well as AML/CFT/CPF risks mitigation measures,

(c) The Anti-Money Laundering Regulations, 2022 were issued providing for AML/CFT/CPF risk assessment, customer due diligence, reporting of suspicious transactions, records retention period, training and other relevant provisions. These Regulations also revoked the Anti-Money Laundering Regulations, 2012,

(d) The Anti-money laundering and proceeds of Crime Regulations, 2022 was issued providing for ML/TF/PF risk assessments, customer due diligence, reporting of suspicious transactions, cross border declaration of cash and bearer negotiable instruments, customs officer's obligation, obligation to report electronic funds transfers and cash transactions and other relevant provisions. Regulation 43 (1) of these Regulations revokes The Anti-Money laundering and Proceeds of Crime Regulations, 2015.

Therefore, amendment of these laws demonstrates Tanzania's concerted efforts of addressing the identified deficiencies in line with the FATF standards aiming at maintaining and achieving financial stability.

3.3.4. Social Security Developments

During the period under review, to improve Sectoral resilience, the following developments were made.

(a) The Social Security Schemes (Benefits) Regulations were amended in May 2022. The social security benefits factors were substituted accordingly. The annual accrual factor has been changed from 2.22 to 2.07 per centum or 1/540 to 1/580 per month; the commutation factor changed from 15.5 to 12.5; the commutation rate changed from 50 to 33 per centum of the full annual amount of the pension and monthly pension of 67 per-centum of full pension,

(b) The Social Security Schemes Supervisory Manual was developed in April 2022 and implemented in an off-site surveillance and on-site examination of social security schemes,

(c) The Zanzibar Social Security Fund Act, 2005 was amended in 2022, providing a mandate to Zanzibar Social Security Fund to establish Worker's Compensation Fund for all Government and Private Sector Employees, where each employer shall contribute 1.0 percent of his employee's basic salary. Similarly, the Fund has introduced new benefits (unemployment benefits) amid assurance that it has the financial muscles to foot the expenses as an obligation of ZSSF to support its members to meet their life during unemployment period.

In strengthening the supervision of social security schemes, the quarterly regulatory returns templates for collecting data for mandatory schemes have been reviewed to incorporate new developments in the sector, such as changes made in the Social Security Schemes Investment Guideline, 2021, amendment of the Social Security laws, need for more information for the supervisory purpose and clarity to some areas which were seen ambiguous by stakeholders.

Also, the Bank reviewed Social Security Investment Guideline, 2015, on investment categories and limits for reducing the potential risks emanating from schemes' investments. The Guidelines reviewed, among others, the computation ratio in determining the limits for investment categories to use the fair value of the investment in the category to be expressed as a percentage of the total investment portfolio and not total assets. The use of total assets distorted the diversification of risk principles in investment as it outweighed the limits.

In enhancing liquidity and performance of the sector, the limit for investment in Government securities was extended from 20 percent to 100 percent, up from the limit of 70 percent. Further, the review was made to remove the investment on loans granted to corporate and cooperative societies due to poor performance of investment over the period in the sector. Furthermore, the reviewed Guidelines allowed the sector to invest in Government Securities issued by the Governments of EAC Partner States with the exposure limits not exceeding 30 percent of the total investment portfolio.

In addition, during the period, the Workers Compensation Fund (WCF) reviewed the contribution rate from 1.0 percent to 0.5 percent for private sector employees. This policy action has provided relief to the private sector in terms of operational costs.

Further, there is an introduction of Supplementary Schemes, which will be used to collect supplementary scheme data for off-site surveillance. This will enhance the PMO-LYED and BOT to have timely data collection for analysis and supervision of Supplementary Schemes.

3.3.5. Insurance sector developments

During the period under review, the Tanzania Insurance Regulatory Authority (TIRA) issued various guidelines indicated herein as part of development of the insurance sector regulatory framework.

(a) Guidelines on Investment and Solvency Management, 2022 to lay down an effective and consistent framework for implementation of Regulation 20 of the Insurance Regulations, 2009, which requires companies to establish and maintain at the Bank of Tanzania a security deposit of at least a minimum of 50.0 percent of the prescribed minimum paid-up capital of the company to enhance protection of Policyholders when an insurer suffers a substantial loss which cannot be met from its available resources and improve industry's stability and sustainability,

(b) The Takaful Guidelines, 2022 to establish a mechanism of regulating and supervising the Takaful business undertakings, provide a framework for investment of Takaful funds and set requirements and minimum standards for operation and disclosure that aims to protect the interests of consumers/participants,

(c) Bancassurance (Conduct of Business) Guidelines, 2022 to guide conduct of bancassurance business with the objective of enhancing distribution, access, and availability of insurance products and services in the Country. These guidelines also provide for prohibited practices,

(d) Guidelines on Insurance Claims Management, 2022 to guide insurance companies on claims management and settlement process and provide awareness to policyholders on turnaround time for processing and settlement of claims and prohibited practices, thus protecting the rights of the policyholders thereby improving public confidence in insurance services,

(e) Guidelines on Minimum Benefit Structure for Motor Third Party Bodily Injury and Death Claims, 2022 to enhance claims management in the insurance industry, harmonize procedures and benefits structure for motor third party bodily injury and death claims across the insurance industry and enhance insurance consumer protection,

(f) Insurance Digital Platforms Guidelines, 2022 to establish a mechanism for effective regulatory and supervisory system for Insurance Digital Platforms and encourage the evolvement of insurance digital business model in the market,

(g) Sales Force Executives (SFE's) Guidelines, 2022 to establish an effective regulatory and supervisory system for Sales Force Executives providing for, among others, registration, licensing, and reporting requirements for SFE's. Further, the Guidelines provide for SFE's model and prohibited practices to enhance compliance in the insurance sector,

(h) Guidelines on the Implementation of International Financial Reporting Standard on Standards (IFRS 17) in Tanzania. These Guidelines intends to: set out a standardised process for the effective implementation of IFRS 17; achieve consistency in the application of IFRS 17 across the industry; provide guidance to the industry on the items whose treatments have changed while adopting IFRS 17 and assist insurers to measure insurance contracts using updated estimates and assumptions that reflect the timing cash flows and any uncertainty relating to insurance contracts. Among others, it provides for insurer's obligations, general principles applicable and enforcement mechanisms.

Further, circular was issued to allow short period covers to increase affordability of insurance, thus boosting uptake of insurance. Thus, these developments in the insurance sector enhance compliance with regulatory frameworks and improve customer confidence in insurance services.

3.3.6. Developments in Capital Markets

The Capital Markets and Securities Authority (CMSA) implemented initiatives that have opened new market frontiers, including development of thematic and innovative capital market products and services; promotion of technology-enabled financial service distribution channels; increasing the number of certified market professionals recognized internationally; and enhancement of financial literacy and public awareness.

With regard to thematic products and services, the CMSA put efforts on development of new capital market products, including ethical shariah-compliant sukuk bonds. To this end, the following products were approved:

a) The Ethical Sharia Compliant Sukuk Bond dubbed “KCB Fursa Sukuk” issued by KCB Bank Tanzania Limited. The KCB Fursa Sukuk raised TZS 11 billion, compared to the plan of TZS 10 billion, a success rate of 110 percent. The KCB Fursa Sukuk became the first Sharia-Compliant Sukuk Bond issued publicly and listed on the DSE,

b) The National Bank of Commerce Medium Term Note (MTN) Programme worth TZS 300 billion is to be issued in six tranches. The first tranche, dubbed “NBC Twiga Bond”, raised TZS 38.9 billion, compared to the plan of TZS 30 billion, representing a success rate of 130 percent,

c) The Ethical Sharia Compliant Sukuk Bond, issued by Imaan Finance Limited. The Sukuk raised TZS 24.03 billion, compared to the plan of TZS 16.5 billion, a success rate of 146 percent,

d) The Ethical Sharia Compliant Sukuk Bond, issued by Amana Bank Limited. The Sukuk raised TZS 6.75 billion, compared to the plan of TZS 5 billion, a success rate of 135 percent,

e) Collective Investment Scheme named “Faida Fund” operated by Watumishi Housing Investments (WHI). The Public Offer for Faida Fund Units raised TZS 12.95 compared to the plan of TZS 7.5 billion, a success rate of 173 percent.

CMSA Approval of DSE Rules to support thematic and innovative products

In enhancing operations of the Dar es Salaam Stock Exchange (DSE), the Government, through CMSA approved Stock Exchange Rules that facilitate the listing of new products and services, including sustainable equities; sustainable exchange-traded funds; sustainable mutual funds; exchange-traded notes; green bonds; blue bonds and ESG reporting. These developments have improved trading activities on the stock exchange and are expected to enhance access to finance and usage of financial products and services, thus increasing liquidity in the market.

Use of technology to enhance access to capital market products

CMSA has approved using technology-enabled applications such as *Sim Invest* and *Hisa Kiganjani* in the subscriptions and trading of securities in the capital markets. The initiative has facilitated access and usage of capital market products and services to a wider segment of the population in urban and rural areas, particularly the participation of retail investors in stock exchange trading and subscription for units of collective investment schemes. The Authority is currently collaborating with stakeholders in developing a framework for operation and regulation of crowdfunding platforms. Crowdfunding broadly involves funding a project or venture by raising financial resources from a large number of people. The endeavour is expected to facilitate access to finance for start-ups, small and medium enterprises (SMEs).

Certified Professionals recognized internationally

As part of the initiatives to increase the number of certified market professionals recognized internationally, CMSA collaborated with the Chartered Institute for Securities and Investment (CISI) of London, United Kingdom, to conduct the Securities Industry Certification Courses (SICCs) in Tanzania. The objective of SICCs is to enhance the capacity of market professionals to keep pace with developments in the global market space. Market professionals certified under the SICCs are globally recognized and eligible to apply for licenses to provide services in Tanzania, across the East African region and internationally. The number of market professionals recognized internationally increased by 10.5 percent to 737 during the year ended 31st December 2022 from 667 in the corresponding previous period. Similarly, the number of market intermediaries licensed by CMSA increased by 7.8 percent to 166 from 154 in the corresponding previous period.

Protection of Minority Shareholders

In its efforts to enhance investors' protection, CMSA prepared and submitted a proposal for amendment of the Capital Markets and Securities (CMS) Act, Cap 79, for enhancing Protection of Minority Shareholders of listed companies by including a provision for Protection of Minority Shareholders under Section 134A of the Act. The amendments were passed by the Parliament of the United Republic of Tanzania as part of the Written Laws (Miscellaneous Amendments) (No.3) Act 2022 in September 2022. The amendments are intended for implementation of the recommendations of the World Bank Report on Ease of Doing Business.

4. FINANCIAL STABILITY OUTLOOK

The global economy is projected to slow down to 2.9 percent in 2023 due to supply-chain disruptions caused by the war in Ukraine, resurgence of COVID-19 pandemic, particularly in China, tightening financial conditions and climate-related constraints leading to a rise in food and energy prices. Monetary authorities in advanced economies are expected to continue tightening monetary policies to curb inflationary pressures. The uncertainties are likely to increase disruptions in supply chains, energy, and food prices, exert an upward pressure on the exchange rates, cost of borrowing, and debt servicing capacity in developing countries.

The growth of the domestic economy is expected to remain stable amid the analysed potential shocks. The economy is projected to grow at 5.2 percent and 7.1 percent in 2023 for Mainland Tanzania and Zanzibar, respectively. The positive outlook is supported by improvements in business conditions, profitability, adequate capital to fund businesses and public investment in infrastructure.

Despite the positive outlook, the growth of the domestic economy remains exposed to tightening financial conditions, rising food and energy prices, ongoing war in Ukraine and climate-related risks. Business outlook is projected to be positive, mainly due to the expected recovery in business activities from adverse impacts of COVID-19 pandemic, increased salary earners' income, public investments in infrastructure, sustained monetary policy and other regulatory measures.

Household risks are expected to decline as a result of increased disposable income, easing credit terms and conditions and business recovery. However, households remain susceptible to rising food and energy prices. The increase in lending, coupled with high inflationary pressures, may erode households' income and trigger a decrease in deposits and defaults in the banking sector.

The financial sector is expected to remain resilient with adequate capital, liquidity and subdued credit risk supported by expected increase in disbursement of new loans to private sector. However, the sector's resilience is susceptible to uncertainties arising from tightening financial conditions, spillovers from the war in Ukraine and climate-related risks. Further, credit risk is expected to decrease due to intensified credit recovery efforts, enhanced credit underwriting standards and improved borrowers' debt servicing capacity. The expected decrease in NPLs may eventually increase profitability, thus, improving the sector's resilience to shocks.

Risks to financial stability are expected to remain low in the short term on account of the resilient financial sector, a decrease in risks emanating from households and stable growth in the domestic economy. The ongoing adverse global economic and financial developments, however, pose threats to the stability of the financial system.

APPENDICES

Appendix 1: Global real GDP growth and projections

Percent

Particulars	2014	2015	2016	2017	2018	2019	2020	2021	Projections 2022	Projections 2023
World	3.5	3.4	3.3	3.8	3.6	2.8	-3.1	6.2	3.4	2.9
Advanced ecomies	2.0	2.3	1.8	2.5	2.3	1.7	-4.5	5.4	2.7	1.2
United States	2.7	3.6	1.9	2.6	3.1	2.6	-3.4	5.9	2.0	2.6
Euro Area	1.4	2.0	1.9	2.6	1.8	1.6	-6.4	5.3	3.5	0.7
United Kingdom	2.9	2.3	1.8	1.8	1.4	1.2	-9.4	7.6	4.1	-0.6
Japan	4.0	0.8	0.0	1.4	0.5	1.2	-4.5	2.1	1.4	1.8
Emerging market & developing economies	4.7	4.3	4.4	4.8	4.6	3.6	-2.0	6.7	3.9	4.0
China	7.2	7.3	6.7	6.8	6.6	6.1	2.3	8.4	3.0	5.2
Sub Saharan Africa	5.0	3.2	1.5	3.0	3.3	3.2	-1.7	4.7	3.8	3.8
South Africa	1.7	1.3	0.3	0.7	0.8	0.4	-6.4	4.9	2.6	1.2

Source: IMF, World Economic Outlook, January 2023

Appendix 2: Survey for Households' Financial Condition 2022

Rationale

Households' financial condition survey is one of the macro-prudential tools used by the Bank of Tanzania to identify and monitor risks that may arise from the household sector through annual salary earners survey. The household sector plays an important role in the overall economy, partly because of its size and significant exposure to the financial sector, including their saving and borrowing decisions, which affects behaviour of financial institutions. For instance, in December 2022, loans extended to household by banks accounted for 38 percent of the entire loan portfolio issued by the banking sector, while deposits accounted for about 70 percent of the banking sector deposits. In this regard, it is imperative to assess the financial conditions of the household sector to identify any potential risks that may affect the performance of the banking sector, thereby causing financial instability. The Bank uses the Salary Earners Survey to assess the potential threats emanating from the household sector that may pose risks to the financial system.

Methodology

The survey was conducted on three categories of institutions, namely: banks, Microfinance Service Providers (MFSPs) and Savings and Credit Cooperative Societies (SACCOs). The survey covered all banks since they are few and have a significant share of activities in the financial sector. Sampling was conducted for MFSPs and SACCOs due to the large number and location, making it costly to cover all. The survey was conducted in 20 regions across the country: Mainland Tanzania and Zanzibar. The distribution of sample across the regions was based on the regional share of 2020 GDP, assuming that regions with high GDP reflect an increased volume of economic activities and therefore tend to attract more activities of financial intermediaries. This implies that regions with low GDP received a small sample unit compared to regions with high GDP. The determination of respondents for MFSPs in each region was randomly selected, while the sample for SACCOs was stratified as some have specialized loan products depending on the customer base and purpose of establishment.

Data was collected using a structured questionnaire. The administration of the data collection was done in two different ways. To some respondents, it was through an interview whereby the researcher asked the questions and filled out the questionnaire. The other approach was when the respondents fill the questionnaire, and afterwards, the researcher asks the questions to validate the answers.

Survey findings suggested at:

- There was an increase in household income, reflecting the increased ability to borrow and debt servicing capacity. The rise in income was due to payment of arrears, new employment, and staff promotions. Further, the increase was contributed by the revival of business and economic activities following the relaxation of COVID-19 containment measures.

- There was an increase in loans disbursed, outstanding and repayments. The increase was an account of improvement in disposable income, easing of credit terms and conditions, the reluctance of banks' lending to other sectors and reduction of risk weight in the personal loans.
- Households' borrowing cost declined, as depicted by increased maturity and reduced interest rate.
- Personal loans were used for other purposes, including plot purchases, house construction or renovation, establishing small businesses, paying fees, medical expenses etc.
- Most of MFSPs did not use the credit reference bureaus due to costs imposed and awareness, while most of SACCOS have not registered due to minimum capital requirements.

Overall, household risks remained subdued as reflected by the increase in disposable income and ability to service debt, posing minimal threats to financial stability. Further, the continued improvement in global economic growth and recovery of global trade is expected to contribute positively to domestic business activity, thus increasing the salary earners' income. The improvement in income is expected to contribute to a decrease in the level of non-performing loans, sustaining the stability of the financial sector.

Respondents recommended the following:

- Lenders to review the mortgage financing terms and conditions to provide borrowing opportunities to households to minimize the use of personal loans for house construction.
- The Bank to encourage financial service providers to enhance market innovations in developing customer-centric financial products and services.
- The Bank to consider putting in place tailor-made regulations for microfinance service providers based on size, capital and coverage.
- The Government to automate the loan approval processes for public servants, particularly on 1/3 eligibility to expedite credit extension; and
- The Bank to consider reviewing the minimum capital requirement for SACCOs business as it excludes underserved and unserved communities due to this compliance.

Appendix 3: Non-Financial Corporate Sector Survey 2022

Introduction

The Non-Financial Corporate (NFC) Sector Survey is a Macro-prudential tool for assessing the building-up of systemic risk emanating from the NFC Sector to the financial system. The survey provides information on NFCs' financial condition, such as domestic and foreign currency borrowings, leverage position, performance and profitability. It also collects information on investors' perceptions, the expected level of indebtedness, profitability, and debt servicing capacity to establish vulnerabilities originating from the NFCs sector and assists in providing early warning signals.

The NFC surveys are used to obtain opinions on business performance and financial conditions, at present and in the foreseeable future, for sustained financial stability and prompt macro-prudential actions. Findings from these surveys bring an invaluable contribution by highlighting crucial insights on business performance, expectations and the general opinion of the sector.

Rationale of the survey

At the macro level, macro-prudential policy actions dwell on the developments and growing interlinkage between the non-financial corporate sector and the financial sector. Notably, NFCs are the largest borrowers in the banking sector, therefore, may pose potential risks in the event of financial distress. As a result, the corporate solvency crisis may negatively affect the economy by dragging down employment, productivity, growth and well-being. Most macro-prudential tools are solely based on supply-side indicators from the banking sector; however, information from the demand side, i.e., the non-financial corporate sector, is equally important. This assists in assessing potential vulnerabilities emanating from the corporates that may have spillover effects on the stability of the financial system and the real economy.

Survey objectives

The objective of the survey was to assess opinions on the performance of the non–financial corporates sector and identify potential vulnerabilities emanating from the domestic, regional and global macro and financial environment. The survey aimed at assessing NFC's source of financing; NFC's inter-linkage with the banking sector, business performance and expectations; and challenges facing the corporate sector.

Scope of the survey

The survey covered 400 sampled companies in Tanzania, Mainland and Zanzibar. The companies were located in Dar es Salaam, Coastal, Northern Zone (Arusha, Kil0imanjaro, Tanga and Manyara), Lake Zone (Mwanza, Bukoba, Mara and Simiyu), Southern Highlands (Mbeya, Iringa, Njombe and Songwe), Southern Zone (Lindi, Ruvuma and Mtwara), Zanzibar and Central Zone (Morogoro, Dodoma and Singida) and Western Zone (Tabora, Shinyanga and Kigoma).

Methodology

For data collection, the survey deployed a structured questionnaire to collect qualitative and quantitative data. Statistical data were processed and analysed used, and Diffusion Index (DI), as a measure of the dispersion of change, was generated for the presentation of findings. Under the DI, the percentage of respondents for increased, unchanged and decreased categories were assigned a weight of 1, 0.5, and 0, respectively. The Index is then computed as a sum-product of percentage responses under each category and respective weights. The Diffusion Index is calculated by using the following formula: -

$$DI = \sum_{i=1}^{3} z_i w_i$$

Where.

DI is the diffusion index given in percentage,

Z_i Is the percentage of response indicating either increase, remain unchanged or decrease,

W_i Is the weight assigned to the percentage of the given category, whereby, 1 is for increase, 0.5 for remain unchanged and 0 for decrease.

Survey findings

The findings revealed a response rate of 96.3 percent, whereby, out of 400 sampled corporates, 385 companies responded in time. Corporates with annual turnover of up to TZS 100 million were classified as small enterprises and accounted for 17.8 percent of the total respondents; enterprises with investment capital of between TZS 100 million to TZS 1 billion were classified as medium-scale enterprises and accounted for 24.9 percent; and enterprises with investment capital of more than TZS 1 billion were classified as large corporates and accounted for 58.3 percent of the total respondents.

Number of Surveyed Enterprises and Annual Turnover

Sector	More than TZS10 million and up to TZS	More than TZS100 million and up to TZS	More than TZS 1 billion	TOTAL
Agriculture	3	6	19	28
Building and Construction	3	3	13	19
Hotels and Tourism	23	26	30	79
Manufacturing	22	27	128	177
Mining and mirals	4	5	16	25
Oil and Gas	0	1	5	6
Wholesale or retail trade	2	5	9	16
Real estate	0	0	1	1
Transport and communication	1	2	15	18
Others	2	3	11	16
TOTAL	**60**	**78**	**247**	**385**

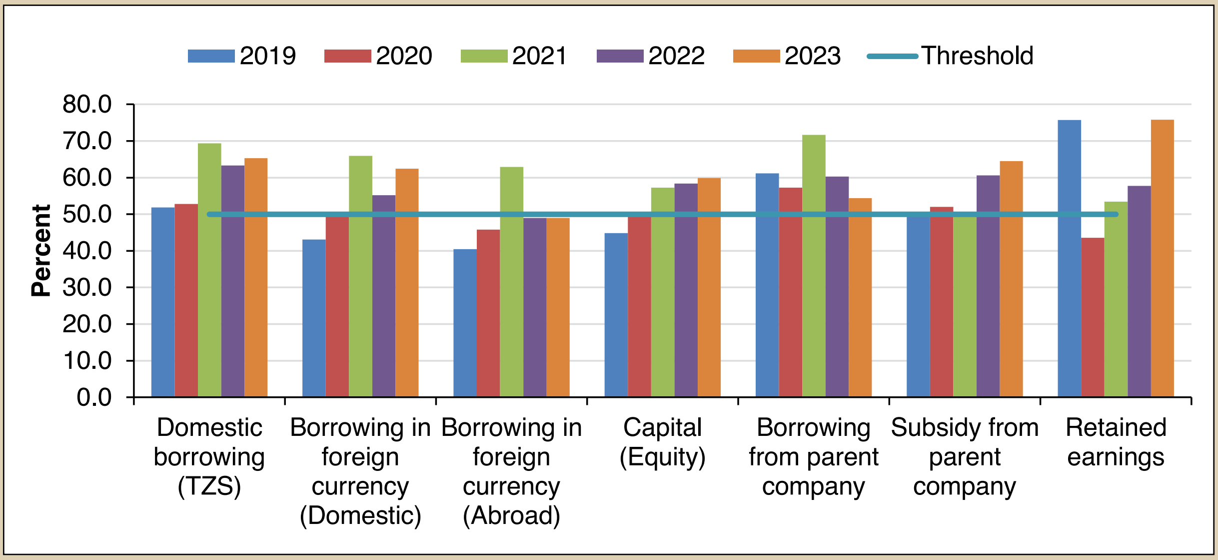
Source: Bank of Tanzania Non-financial corporate sector survey, 2022

Also, the analysis indicated that 21.6 percent of the surveyed firms were from the Lake zone, 17.4 percent from the Northern Zone, 24.7 percent from the Dar es Salaam, Coastal Zone 10.4 percent, the Southern Highlands Zone 10.4 percent, 8.1 percent from the Southern Zone, 3.4 from the Central Zone, 6.0 percent from Western Zone and 5.5 percent from Zanzibar.

Sources of Financing

The findings revealed that companies use more than one source of funding. The predominant source of financing is retained earnings, whereby 358 firms, equivalent to 93.0 percent of the interviewed firms, relied on this funding source. About 210 firms equal to 54 percent confirmed usage of domestic borrowing in local currency, while 86 firms or 22.3 percent benefited from domestic borrowing in foreign currency to finance business operations. Further, the survey findings revealed that 41.8 percent of the respondents injected capital (equity) to support their business.

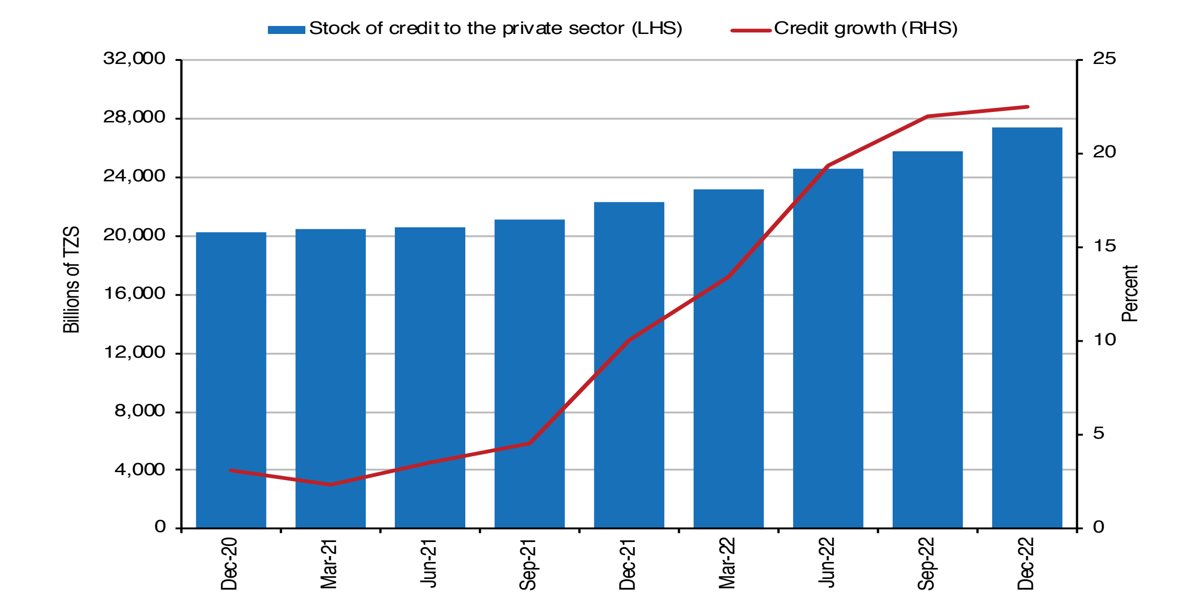
Sources of financing



Source: Bank of Tanzania Non-Financial Corporate Sector Survey, 2022

The respondents revealed that domestic borrowings in both foreign and local currencies increased, reflecting recovery of private sector credit attributed mainly to sustained accommodative monetary policy, prudential measures in the provision of relief to businesses hit by COVID-19 as well as improved business conditions from adverse impact of the pandemic. It was observed an increase in credit extended to private sector which recorded an annual growth of 22.5 percent in December 2022 compared to the growth of 10 percent during the similar period in 2021.

Lending to private sector in Tanzania

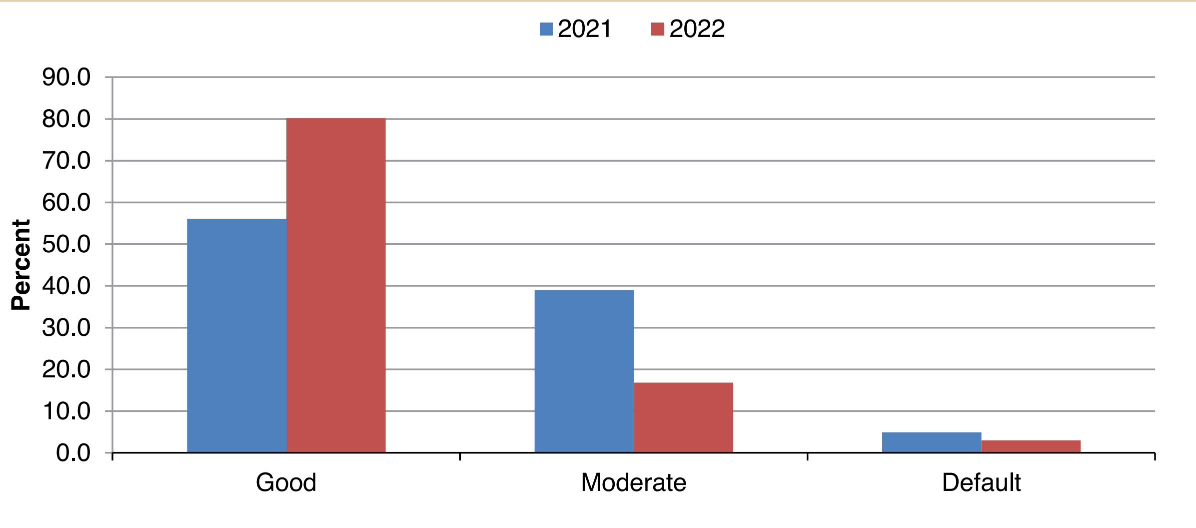


Source: Bank of Tanzania

Debt Servicing and Lending Conditions

The NFCs reported improvement in the status of their loans, whereas 80 percent of the borrowers indicated to be in good condition compared to 68.1 percent in 2021. The improvement was due to the rebound of businesses from the impact of pandemic, a friendly business environment, Government payment of arrears, recovery in global trade and an increase in commodity prices benefiting producers and exporters. The results are consistent with the improvement in banking sector NPLs, which dropped to 5.7 percent, alongside the rebound of banking sector profitability.

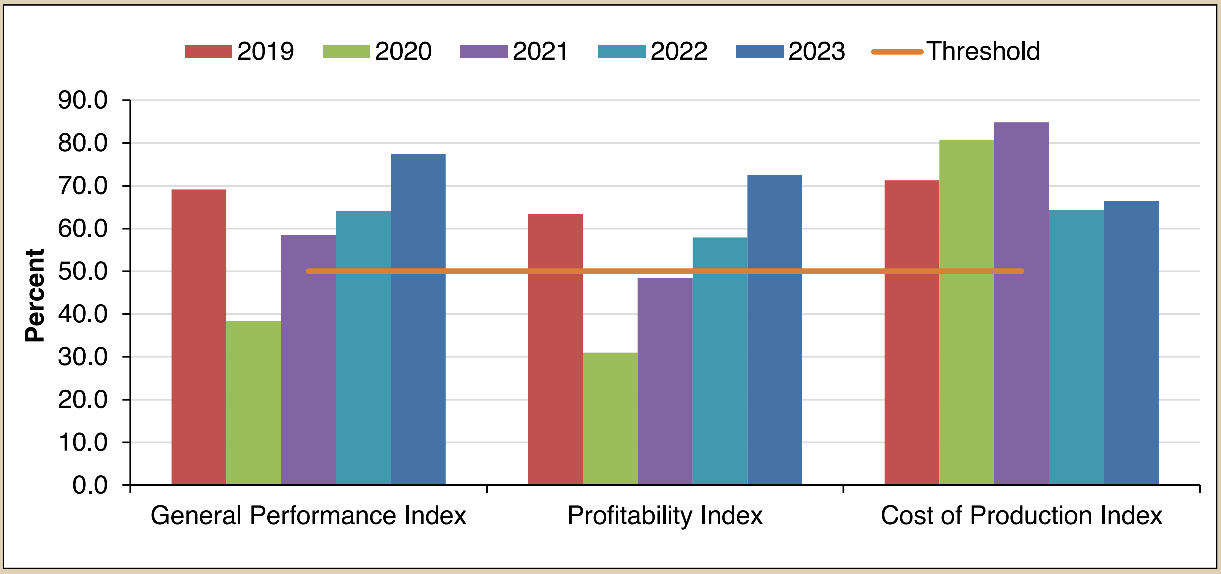
Loan Status



Source: Bank of Tanzania

The 2022 survey revealed that firms' export performance has improved due to global trade recovery and easing border restrictions coupled with exchange rate stability. The improvement in different sectors of the economy is also associated with the impact of prudent monetary and fiscal policies executed to limit adverse spillover effects of global supply shocks. Fiscal policies such as providing subsidies to fuel and fertilizers reduced the cost of doing business, while prudential and monetary policy actions to support credit growth helped credit extension, which propelled business expansion, performance and profitability.

General business performance



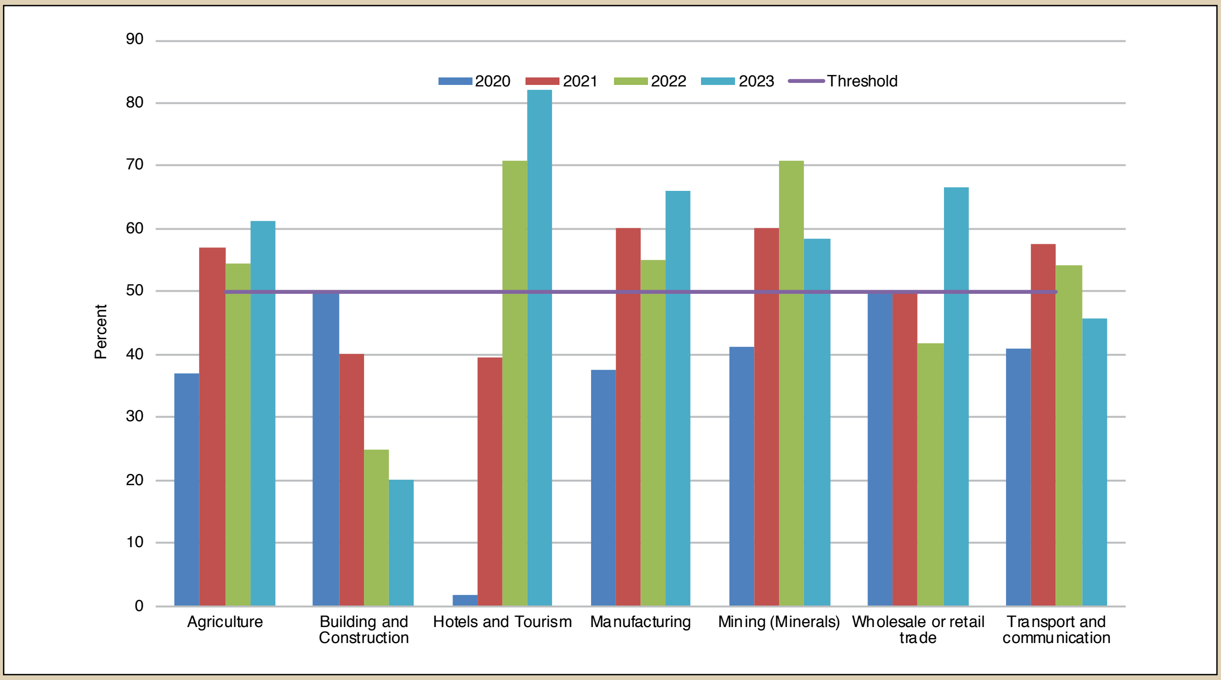
Source: Bank of Tanzania

Conclusively, risks emanating from the non-financial corporate sector were minimal on account of continued economic activity during the pandemic and expected rebounding of the global economy.

Export performance and expectations

Firms' export performance for 2022 improved, owing to a recovery in global trade and easing border restrictions coupled with exchange rate stability. The survey results depict an increased export of goods and services for 2022 since the index stood at 53.1 percent, higher than the threshold point of 50 percent. This was on account of the rebounding of global trade due to the decoupling of strict rules pertaining to COVID-19 containment measures leading to the lifting of cross-border restrictions. The export performance is also associated with the increase in pick-up of commodities prices, the influx of tourists due to the lifting of border restrictions, and government initiatives to promote investments and support the tourism sector, such Royal Tour campaign.

NFC Export Performance and Expectations



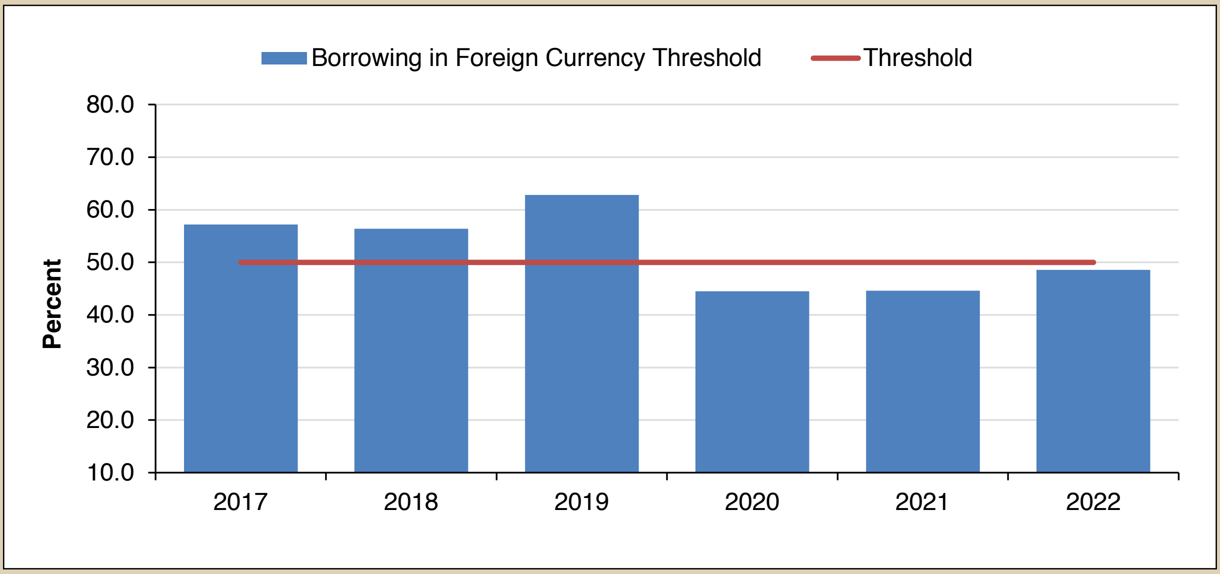
Source: Bank of Tanzania Non-Financial Corporate Sector Survey, 2022

Going forward, the index on export performance is expected to increase to 57.2 percent in 2023, mainly on account of a continued global economic recovery, following the lifting of zero-COVID policy in China and the relaxation of pandemic restrictions in most advanced economies to seasonal influenza.

Foreign Exchange Exposure

Foreign currency exposure slightly increased in 2022. The survey findings depicted increased foreign exchange exposure due to increased demand for foreign currency, reflecting higher imported raw materials, consumables and fuel prices. During the review period, the index for foreign borrowing exposure increased to 48.6 from 44.6 percent recorded in 2021. Still, it remained below the threshold attributed to higher foreign exchange needs to finance capital expenditures.

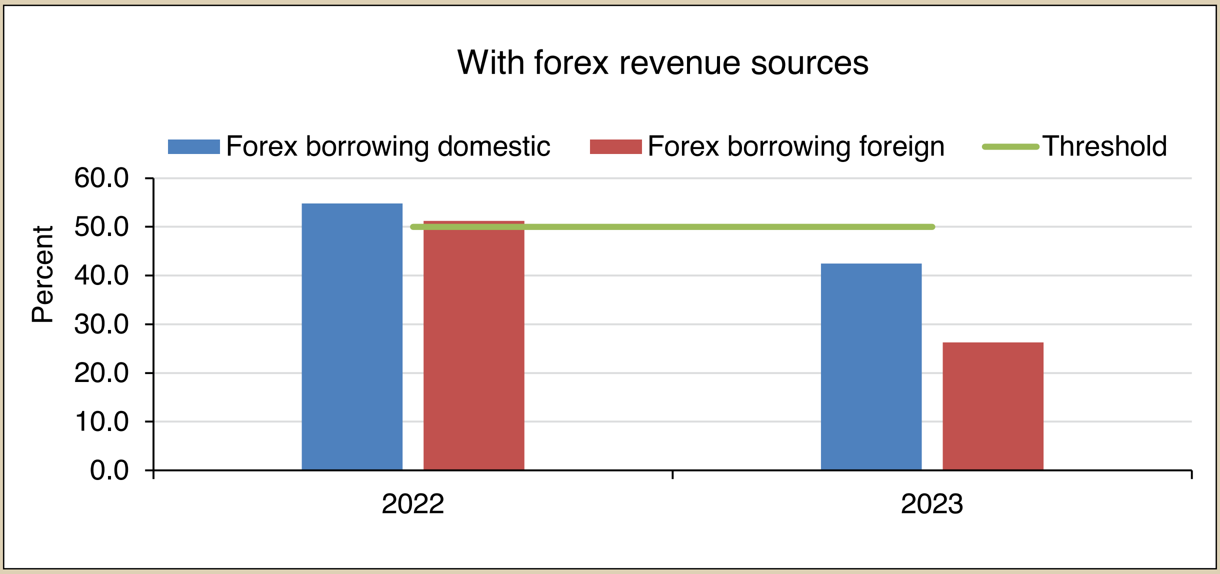
NFC Foreign Currency Borrowing Exposures.

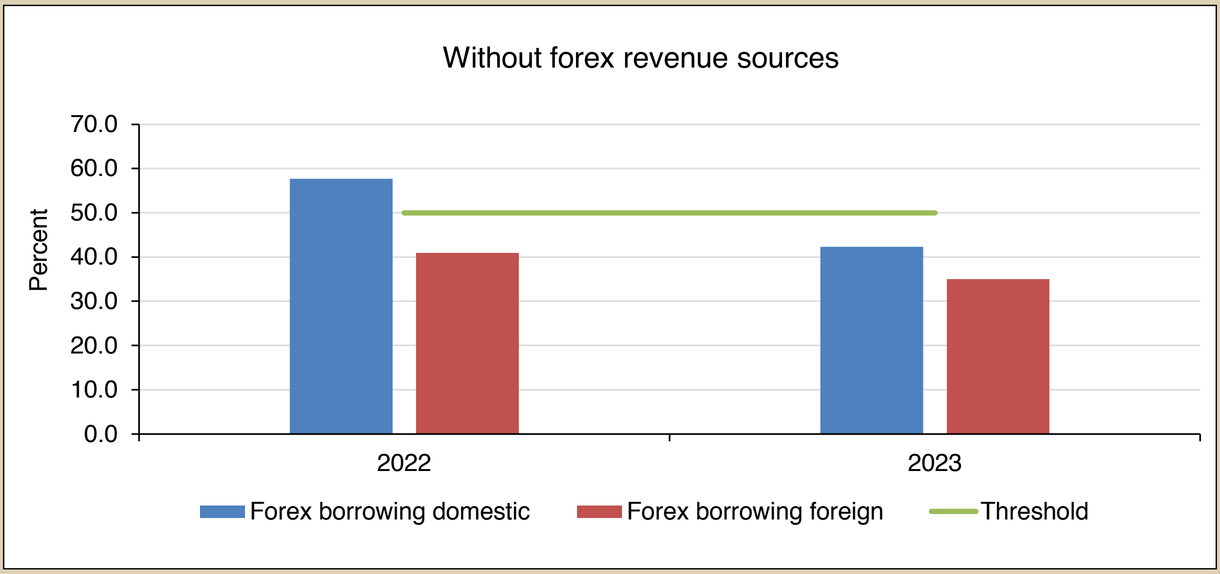


Source: Bank of Tanzania Non-Financial Corporate Sector Survey, 2022

The survey also indicated a slight difference in foreign currency exposure between firms with and without forex revenue sources. For 2022, domestic forex borrowing increased while forex borrowing abroad increased for firms with forex revenue sources and decrease for firms with no forex revenue sources (Chart 3.8). The difference is attributable to higher foreign obligations for firms without forex revenue sources.

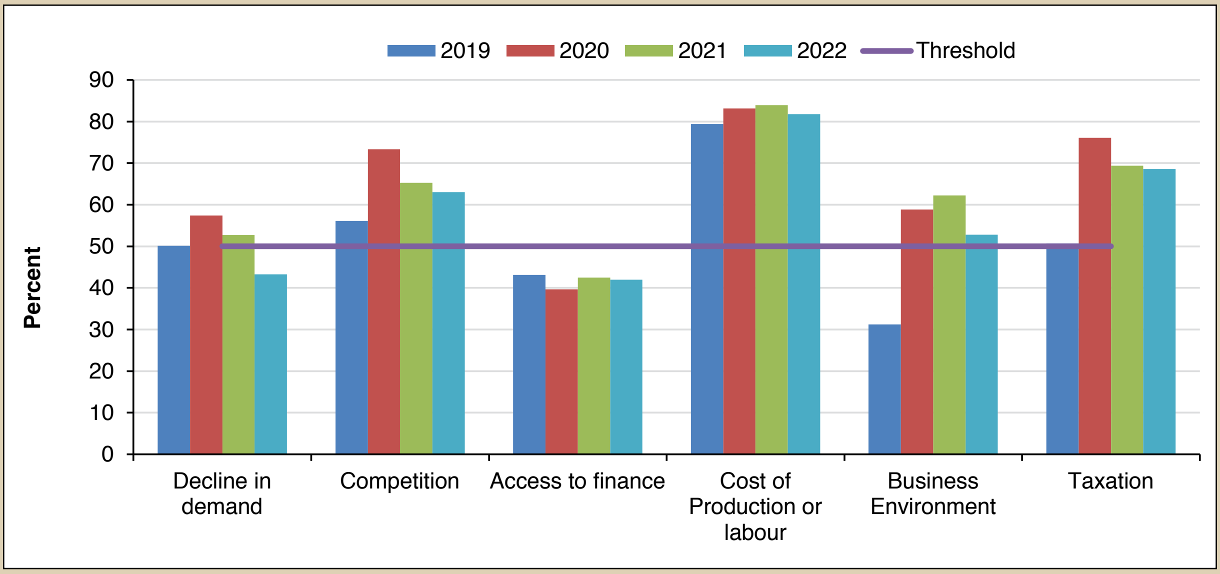
NFC Foreign Currency Borrowing Exposure for Firms with and without Forex Revenue Sources





Surveyed firms reported the cost of production and taxation to be major challenges. The opinion index for cost of production stood at 81.8 percent. The increase in fuel and reagent prices, raw materials, finance costs and drought-related challenges were cited as areas that increased production costs. The respondents indicated to continue facing challenges on tax-related issues, as shown by an index of 68.6 percent in 2022 compared with 69.4 in the preceding year. Challenges pointed out included multiple taxes and levies within value chains, accumulated VAT refunds, unfriendly tax collection and bureaucratic procedures during tax compliance. The index on access to finance and decline in demand was below 50 percent threshold, reflecting improved access to finances and the general increase in demand during 2022.

Firms Business Constraints



Source: Bank of Tanzania Non-Financial Corporate Sector Survey, 2022

Recommendations

Firms reported several challenges that negatively affected their operations, the major one being an increase in the cost of production due to global shocks coupled with inadequate power supply and high freight costs. On the other hand, firms indicated an improvement in the business environment and access to finance mainly due to recovery in business activities, improvement in digital financial services as well as regulatory relief provided to borrowers, improving their credit worthiness and debt repayment capacity.

Appendix 4: Lending Practices and Credit conditions survey 2022

Introduction

The lending practices and credit conditions survey is one of the macro-prudential tools that the Bank uses to monitor and assess the build-up of potential systemic risks arising from the credit market. The survey collects qualitative information obtaining sentiments derived from lending policies and practices, including terms and conditions of loans (cost of credit, collateral requirement, maximum credit size and maturity) and credit recovery efforts. In addition, the survey gathers information on the trend of demand for loans and non-performing loans, external sources of financing and the loan-to-value ratio.

Rationale

The credit market plays an important role in the economy through financial intermediation. Considering this, an inefficient credit market may pose adverse effects on business performance and household income. In this regard, regular monitoring of credit market developments to identify potential build-up of systemic risks is warranted.

Scope

The survey was stratified into seven zones, namely, northern zone, lake zone, southern highlands zone, southern zone, central zone, coastal zone and Zanzibar. The sample size of 508 included: 37 commercial banks, four community banks, four microfinance banks, 218 SACCOs and 247 non-deposit-taking microfinance institutions.

Methodology

A structured questionnaire was used for gathering qualitative data. Interviews with senior credit officers were conducted to draw sentiments and opinions about current and future credit market conditions.

Findings

Banks

The banks' results revealed credit standards for agriculture, transport and communication, building and construction, trade and tourism were tightened with an expectation of easing in 2023, except for the real estate sector owing to the need to reduce NPLs. The maximum size of credit indicates banks decrease their maximum maturity across the sectors except for building and construction, personal and others. In contrast, in 2023, the banks anticipate increasing the maximum amount of loans in all sectors despite the prolonged Russian-Ukraine war and rising oil prices. The interest rates decreased to all sectors with an expectation to continue reducing the interest rates for loans in 2023. In 2022, the banks tightened collateral requirements in all sectors except transport and communication, building and construction, personal and others; in 2023, banks are expected to tighten collateral requirements in all sectors except others.

Further, loan applications are reported to increase except in real estate in 2022, and going forward, banks expect an increase in loan applications in all sectors. In 2022, the direction of non-performing loans revealed a decrease in all sectors except manufacturing and in 2023, the banks expect similar results of decreasing NPLs in all sectors. The banks intensified credit recovery efforts for all sectors in 2022, and intensifying is expected to prevail in 2022 in all sectors. Most banks reported maintaining a slight difference in the level of borrowing while lending in foreign currency reported at large remained unchanged.

Non-deposit-taking microfinance institutions

The survey revealed the microfinance business is predominantly dominated by loans designated for trade and personal-related activities.

Most respondents reported loan approval processes, the maximum size of credit, maximum maturity, interest rate, and loan application remained unchanged for personal and trade sectors in 2022, and similar results of sustaining existing policies are expected in 2023. Further, NPLs remain unchanged during the period under review and expect to decline in 2023. Most of the microfinance reported intensified credit recovery efforts in 2022, which is expected to continue in 2023.

Microfinance institutions reported a few challenges, including low quality of collaterals, poor know-your-customer (KYC) practices and the desired regulatory interest rate of 3.5 percent per month, which is claimed to be low given their level of capital, operating cost and level of risk exposure. The Bank continues to work with non-deposit-taking microfinance institutions to improve the sector.

Savings and Credit Cooperative Societies

SACCOS continue to serve as economic and social development model to improve the standard of living, especially for those with low incomes in rural and urban areas, despite challenges in capital and other licensing requirement as per the requirements of the *Microfinance Act, 2018*.

In 2022, the loan approval process, maximum size of credit, maximum loan maturity, interest rate and collateral requirement remained broadly unchanged, while loan applications reported to increase. The 2023 outlook for credit demand is expected to increase, the direction of NPLs expected to increase, and intensified credit recovery efforts due to ongoing business recovery. The Government continues its efforts to improve the sector considering its role in the financial system.

Appendix 5: DSE market capitalization of individual companies

Percent

No;	Cross Listed Companies	Jun-19	Dec-19	Jun-20	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22
2	EABL	35.3	35.0	28.9	17.2	18.7	16.8	13.5	16.0
3	JHL	6.5	5.7	3.9	2.8	3.3	3.0	2.3	1.7
4	KA	5.1	2.8	3.4	3.0	2.8	2.9	2.9	2.9
5	KCB	25.2	35.6	23.5	15.9	16.4	17.3	14.4	13.5
6	NMG	2.0	1.7	0.6	0.4	0.6	0.4	0.4	0.4
7	USL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Cross Listed Companies Market share as percent of Total Market Capitalization	**74.2**	**80.9**	**60.3**	**39.3**	**41.8**	**40.4**	**33.6**	**34.5**
No;	**Domestic Listed Companies**								
8	CRDB	2.9	2.5	3.8	3.4	4.7	4.6	6.7	6.6
9	DCB	0.2	0.3	0.3	0.2	0.1	0.1	0.1	0.1
10	DSE	0.3	0.2	0.2	0.1	0.2	0.2	0.3	0.3
11	MBP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
12	MCB	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.1
13	MKCB	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
14	MUCOBA	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
15	NICO	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
16	NMB	11.7	11.7	11.7	7.8	7.1	6.3	10.0	9.6
17	PAL	0.6	0.6	0.6	0.4	0.4	0.4	0.4	0.4
18	SWALA	0.5	0.5	0.5	0.3	0.3	0.3	0.3	0.3
19	SWIS	0.6	0.6	0.5	0.3	0.2	0.2	0.3	0.3
20	TBL	33.6	32.2	32.2	21.3	19.5	20.4	20.6	20.5
21	TCC	17.0	17.0	17.0	11.3	10.3	10.8	10.9	10.8
22	TCCL	0.4	0.4	0.4	0.2	0.2	0.4	0.6	0.4
23	TCIL	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1
24	TOL	0.4	0.4	0.4	0.2	0.2	0.2	0.2	0.3
25	TPCC	3.6	3.6	4.0	3.0	3.9	3.9	4.3	4.2
26	TTP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
27	VODA	17.9	19.0	19.0	11.4	10.4	10.9	11.0	11.0
28	YETU	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
	Domestic Listed Companies Market share as percent of Total Market Capitalization	**90.8**	**90.1**	**91.6**	**60.7**	**58.3**	**59.6**	**66.4**	**65.5**

Source: Dar es Salaam Stock Exchange

Appendix 6: Agent banking transactions

Date	Cummulative No. of Agents	Cash Deposit		Cash Withdrawals		Net Deposits (Deposits-Withdraws)
		No of Transactions	Value in Million TZS	No of Transactions	Value in Million TZS	Value in Million TZS
Sep-13	304	6,806	4,158	1,892	621	3,536
Dec-13	591	13,873	9,837	7,713	1,494	8,343
Mar-14	840	23,606	13,766	7,516	2,220	11,546
Jun-14	1,012	29,890	21,568	14,221	4,002	17,565
Sep-14	1,317	49,334	28,813	14,358	4,445	24,367
Dec-14	1,652	65,063	37,280	23,169	6,120	31,161
Mar-15	1,857	99,596	49,992	28,439	7,933	42,059
Jun-15	2,333	139,763	75,276	49,675	14,169	61,108
Sep-15	2,936	188,664	88,768	71,410	19,920	68,848
Dec-15	3,298	195,536	89,996	107,424	27,530	62,466
Mar-16	3,485	323,159	115,086	105,342	27,694	87,392
Jun-16	4,189	378,211	139,663	135,560	35,152	104,511
Sep-16	4,798	483,673	189,095	140,429	37,885	151,210
Dec-16	5,676	532,585	240,589	214,358	51,796	188,793
Mar-17	6,865	728,597	341,786	287,178	67,275	274,511
Jun-17	8,008	722,881	346,022	294,511	76,279	269,743
Sep-17	9,266	936,238	448,506	378,889	100,623	347,882
Dec-17	10,689	965,992	554,219	559,798	185,403	368,816
Mar-18	12,075	1,147,343	607,463	672,507	188,638	418,825
Jun-18	13,679	1,442,737	843,360	852,026	261,039	582,321
Sep-18	17,432	1,679,926	972,504	864,307	273,357	699,148
Dec-18	18,827	1,735,681	1,178,947	1,208,442	393,371	785,576
Mar-19	20,149	2,104,756	1,265,408	1,278,325	394,959	870,449
Jun-19	22,481	2,157,952	1,473,221	1,339,113	472,346	1,000,875
Sep-19	26,158	2,472,026	1,737,378	1,498,254	523,106	1,214,271
Dec-19	28,358	2,463,737	1,895,612	1,990,184	670,956	1,224,656
Mar-20	31,155	2,465,371	1,589,485	1,797,519	576,500	1,012,985
Jun-20	35,523	2,995,436	2,003,055	1,931,714	797,012	1,206,043
Sep-20	38,683	2,995,436	2,003,055	1,931,714	797,012	1,206,043
Dec-20	40,410	3,308,275	2,386,739	2,467,313	905,824	1,480,914
Mar-21	43,591	3,451,481	2,238,058	2,197,609	801,917	1,436,141
Jun-21	45,532	4,080,107	3,309,521	2,371,679	801,917	2,507,603
Sep-21	45,532	4,080,107	3,309,521	2,371,679	801,917	2,507,603
Dec-21	48,923	5,663,333	2,574,253	3,843,129	563,050	2,011,204
Mar-22	54,088	6,317,729	4,773,707	3,880,028	1,441,326	3,332,381
Jun-22	59,291	7,323,640	5,786,812	3,973,246	1,776,667	4,010,146
Sep-22	67,602	7,165,629	6,159,096	3,793,032	1,771,231	4,387,864
Dec-22	75,238	6,654,107	5,972,051	4,371,179	1,857,180	4,114,871

Source: Bank of Tanzania

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