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BANK OF TANZANIA

FINANCIAL STABILITY REPORT

September 2015

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LIST OF ACRONYMS

DSE	-	Dar es Salaam Stock Exchange
EAC	-	East African Community
EAPS	-	East African Payment System
ECH	-	Electronic Clearing House
EMEs	-	Emerging Market Economies
GDP	-	Gross Domestic Product
GEPF	-	Government Employees Pension Fund
GPW	-	Gross Premium Written
HHI	-	Herfindahl Hirschman Index
IMF	-	International Monetary Fund
LAPF	-	Local Authorities Pensions Fund
NBS	-	National Bureau of Statistics
NFCs	-	Non-Financial Corporates
NIC	-	National Insurance Corporation
NOP	-	Net Open Position
NPLs	-	Non- Performing Loans
NPS	-	National Payment Systems
NSSF	-	National Social Security Fund
PFMI	-	Principles of Financial Market Infrastructure
PSPF	-	Public Service Pensions Fund
ROA	-	Return on Asset
ROE	-	Return on Equity
SADC	-	Southern African Development Community
SSA	-	Sub-Saharan Africa
SSRA	-	Social Security Regulatory Authority
TBA	-	Tanzania Building Agency
TIRA	-	Tanzania Insurance Regulatory Authority
TISS	-	Tanzania Interbank Settlement System
TPA	-	Tanzania Ports Authority
TRWA	-	Total Risk Weighted Assets
TZS	-	Tanzania Shilling
UK	-	United Kingdom
USD	-	United States Dollar
ZSSF	-	Zanzibar Social Security Fund

FOREWORD

The Financial Stability Report for six months to September 2015 is released at a time of elevated uncertainty in the global financial environment, with emerging markets taking a prominent role. The level of liquidity and market resilience may be declining, especially for bonds, and may result into elevated global market and liquidity risks. In addition, falling commodity prices have increased risks for economic activity in emerging market and developing economies. While falling prices of oil and other commodities would provide a boost to the world economy, they would also cause imbalances in the producing countries. Exporters of oil and other commodities have already been affected by falling prices, and some countries are facing economic stress.

Furthermore, the strong dollar has not only triggered exchange rate volatility globally but it has also led to tightening of financial conditions. While some emerging economies have been hit by volatility in global currency markets, expectations about normalization of monetary policy in the US has added to the tight financial conditions.

Tanzania was not spared from the tight liquidity conditions during the period as pressure emanating from strong US dollar mounted. However, the resulting depreciation helped to correct overvaluation of the shilling contributing to improvement of Tanzania's export competitiveness. Besides, decline in oil prices contributed to reduction in the country's import bill, contributing to improved current account.

As indicated in this report, the projected economic growth hinges on sustained investment in infrastructure, manufacturing and tourism sectors. However, sustained investment, under the prevailing tight financial conditions, requires supportive macroeconomic and financial environment. Despite the downside risks, the financial system remained resilient. The Bank of Tanzania will continue to pursue policies aimed at mitigating build-up of systemic risks and fostering resilience of the financial system to internal and external shocks to sustain provision of financial services to productive sectors.

Opening of the capital account to the rest of the world in December 2015 is expected to enhance mobilization of both domestic and external financial resources, while injecting more liquidity into markets. However, this may expose the financial system to new risks particularly, those relating to international capital flows. The Bank will continue to monitor and use targeted macroprudential policy tools to mitigate risks emanating from capital flows volatility.

The Bank will remain vigilant in assessing and identifying risks to the financial system, through enhanced coordination and collaboration with other regulators under the Tanzania Financial Stability Forum.

Prof. Benno Ndulu
Governor
30th September 2015

EXECUTIVE SUMMARY

This report presents financial stability assessment for the six months to September 2015. It covers analysis of the macroeconomic environment and financial conditions, performance of the domestic financial sector, results of stress testing of banks, financial and market infrastructure developments and finally a statement of stability outlook and policy recommendations.

Environmental Scan

Global economic growth remained modest and uneven across countries and regions, while financial market volatility increased. Weak recovery in advanced economies and slower growth in emerging market economies pose risks to global economy. Global growth projections for 2015 were revised downward to 3.1 percent, from 3.5 percent projected in April 2015 (World Economic Outlook, October 2015). Likewise, growth in advanced economies was revised to 2.0 percent from 2.4 percent and emerging market and developing economies to 4.0 percent from 4.3 percent. Strengthening of US dollar has led to tightening of global financial conditions; while increased uncertainty about normalization of monetary policy in advanced economies triggered volatility in global financial markets.

Sub-Saharan Africa (SSA), particularly oil exporting countries remained vulnerable to growing domestic and external risks. Economic growth in SSA for 2015 was revised downwards to 3.8 percent in October 2015 from 4.6 percent projected in April 2015. The downwards revision was on account of over-reliance on raw commodity exports coupled with decline of prices and slow-down of EMEs. Meanwhile, the growth of SADC sub-region is projected to slowdown to 3.0 percent from 3.7 percent. Widening current account, fiscal deficits and growing public and private debt added to the vulnerabilities. On the other hand, the EAC region is projected to grow at 6.1 percent in 2015, despite regional and global environment risks. The growth is supported by investment in infrastructure, communication, manufacturing and banking sector.

Domestic economy remained resilient to shocks on account of strong macroeconomic performance. GDP growth for 2015 was revised downward in October 2015 to 7.0 percent from 7.2 percent in April 2015 due to low export commodity prices mainly gold and some traditional export commodities. Drivers of the projected growth include the on-going investment in infrastructure, expansion in private and public sector construction activities as well as improvement in external sector.

Public Sector Debt continued to grow but remained sustainable as reflected by sustainability indicators. Debt to GDP ratio was 35.7 percent in Sept 2015 well below the 74.0 percent indicative threshold due to strong GDP performance and recent GDP rebasing. However, while the country's debt carrying capacity has increased, the national debt portfolio remains vulnerable to exchange rate volatility and resource constraints. The main reasons include strong US dollar and increasing needs to finance public debt.

Corporate sector reduced offshore borrowing as the US dollar strengthened, commodity prices declined and expectations of tighter global financial conditions. Household debt edged upwards on account of increased access to credit and growing housing mortgage loans. However, household debt servicing cost as a proportion of gross income remained broadly unchanged at around 19.0 percent.

Financial Sector Performance

Banking sector continued to grow in terms of deposits and assets, supported by favourable macroeconomic environment, and remained resilient to internal and external shocks. Total assets grew by 12.4 percent during the year to September 2015, while deposits grew by 6.7 percent. The sector was adequately capitalized, with ratio of core capital to total risk weighted assets of 16.7 percent well above the regulatory requirement of 12.5 percent. The credit portfolio was fairly diversified as measured by ratio of aggregate large exposures to core capital of 126.8 percent in September 2015 from 137.0 percent recorded in March 2015. The levels were within the regulatory limit of 800.0 percent. Stress testing results revealed that, in aggregate terms, the sector was resilient to interest, credit and exchange rate shocks.

Financial markets experienced tight liquidity conditions owing to strengthening of the US dollar and policy actions to mitigate exchange rate volatility. The Shilling depreciated by 20.6 percent to TZS/USD 2,135.4 in September 2015 from TZS/USD 1,771.0 in March 2015. As foreign exchange volatility increased, money markets experienced tight liquidity which was accompanied by rising cost of funds, with overnight interbank quarterly weighted average rate in September 2015 doubled to 14.3 percent from March 2015. On the other hand, capital markets experienced slowdown as reflected by a decline in total market capitalization by 1.8 percent to TZS 22,166.4 billion on account of depreciation of share prices of some domestic and cross listed companies.

Insurance sector recorded growth in terms of assets and premiums with favourable financial soundness indicators. Total assets grew by 11.8 percent mainly driven by investment in bank deposits and government securities. Gross premium underwritten increased by 12.6 percent with general insurance contributing most of the growth. Liquidity risk improved on account of capital enhancement and improvement in collection of receivables for general insurance. General and Life insurers' liquidity ratios increased to 106.7 percent and 57.4 percent in June 2015, respectively from 63.2 percent and 43.5 percent in that order recorded in December, 2014. The sector was adequately capitalized at end June 2015 as measured by solvency ratios of both General Insurance and Life Assurance of 63.0 percent and 28.8 percent, respectively, above the minimum requirement of 25.0 percent and 8.0 percent in that order. The sector continued to operate profitably as reflected by growth in return on investment at 6.7 percent and 3.2 percent for general and life insurers, respectively, during the year to June 2015 from 4.0 percent and 2.6 percent in that order.

Social security sector recorded growth in terms of contributions and assets, amid declining Return on Assets. The sector complied with the 2015 Investment Guidelines except for lending to Government which was above the 10.0 percent threshold. Government strategy to fund the liabilities through issuance of non- cash bond will reduce the non-compliance. Return on Assets declined to 2.3 percent in September 2015 from 3.4 percent in March 2015 on account of increase in administrative expenses.

Financial and Market Infrastructure

During the six months to September 2015, regulatory oversight was enhanced by enacting new statutes, issuing new regulations, rules and guidelines. These include:

- The Banking and Financial Institutions (Mortgage Finance) Regulations, (2015) to promote sustainable mortgage financing industry and The Foreign Exchange (Bureau de Change) Regulations, (2015) to strengthen monitoring of foreign exchange market.

- The Commodity Exchange Act, 2015 to promote and facilitate development of an orderly, fair and efficient market for commodities and foster price discovery.

- The Social Security Schemes (Investment guidelines), 2015 as revised in September 2015 to broaden the scope of investment and provide improvement in risk management.

- The National Payment Systems Act, 2015 to provide a legal basis for regulatory and supervisory oversight.

Financial Stability Outlook and Policy Recommendations

Tanzania's financial system is expected to remain resilient in the next six months in light of positive macroeconomic outlook and improvement in regulatory oversight. However, the system is vulnerable to increased downside risks arising from unfolding global macroeconomic and financial environment. It is recommended to address the remaining challenges to financial stability as follows:

- To implement countercyclical fiscal policy with a view to sustaining investment in infrastructure and human capital development while monetary policy focuses at maintaining macroeconomic stability through mitigating exchange rate volatility and inflationary pressures.

- To focus on regional integration as a strategy to diversify export markets while increasing value addition in export products in view of projected decline in import demand in EMEs and continued fall in commodity prices.

- To enhance focus on cross-border risks to financial stability in Tanzania through strengthening and broadening of regulatory and supervisory oversight both internally and across borders in light of the growing interconnectedness among banks and other financial institutions and opening up of capital markets in the SSA region.

- To promote development of domestic debt and equity markets as the global environment transits from cheap funding to more expensive source. This entails deepening and broadening of the domestic capital markets though expanding securitization to foster issuance of appropriate securities such as infrastructure bonds and other instruments to attract institutional and other investors.

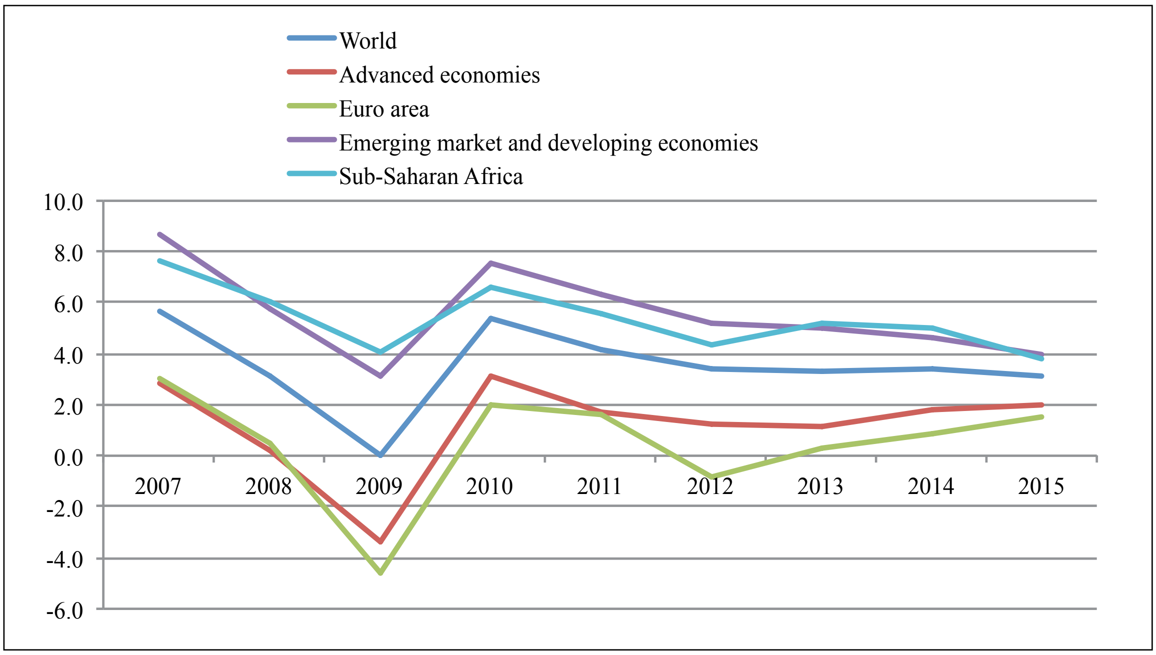
1.0 MACRO-ECONOMIC AND FINANCIAL ENVIRONMENT

1.1 Macroeconomic Environment

Global economic growth remained modest and uneven across countries and regions, while financial market volatility increased in recent months. Recovery in advanced economies improved slightly though persistently weak while emerging market and developing economies continued to slowdown. According to October 2015 World Economic Outlook (WEO), global growth projections for 2015 were revised downward to 3.1 percent, from 3.5 percent projected in April 2015 (**Chart 1.1**).

Diverse economic performance in the US and the euro area contributed to subdued economic growth in advanced economies. Increase in consumption and investment, low fuel prices and strengthening housing market contributed to recovery in the United States, while low productivity, high public and private debts, financial sector weakness and low investment weakened economic performance in the euro area. Projected growth for 2015 in advanced economies was revised downward to 2.0 percent in October 2015 from 2.4 percent in April 2015. Nevertheless, this reflects a slight increase from 1.8 percent achieved in 2014. However, slower than anticipated growth in emerging market economies may contribute to further weakening of the recovery in advanced economies.

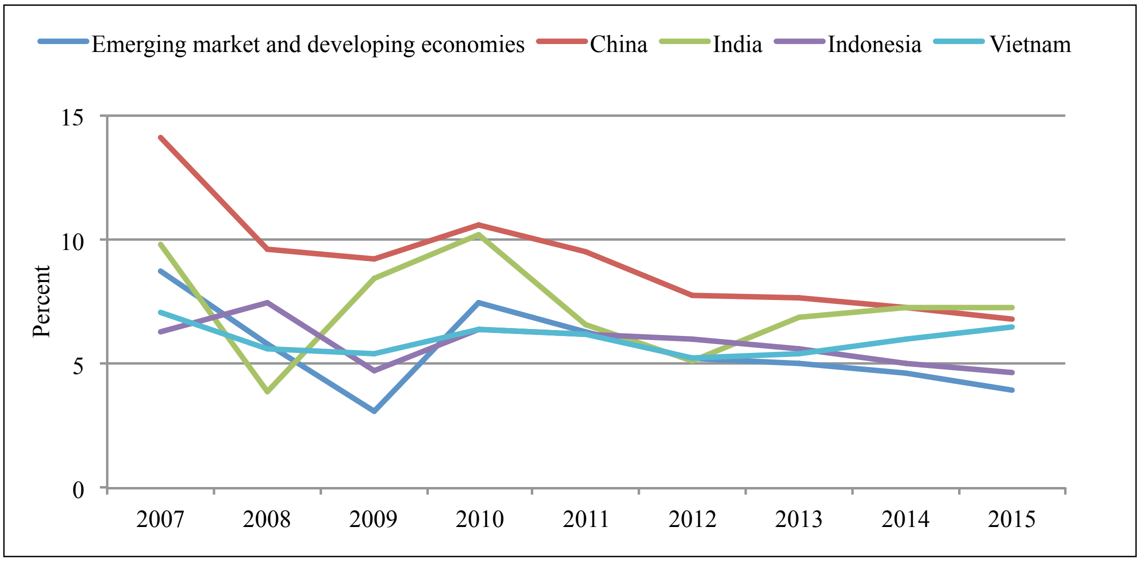
Chart 1.1: World GDP Growth Rate



Source: *IMF, World Economic outlook, October, 2015*

Emerging market and developing economies were more vulnerable to developments in the global macroeconomic and financial conditions. Projected growth in 2015 in emerging market and developing economies was revised down to 4.0 percent in October 2015 from 4.3 percent projected in April 2015 on account of economic slowdown in major Emerging Market Economies (EMEs). The downward revision was attributed to slowdown in corporate sector performance which was highly exposed to international borrowing and foreign exchange volatility. Growth in developing economies was more affected by decline in commodity prices and tight global financial conditions (**Chart 1.2**).

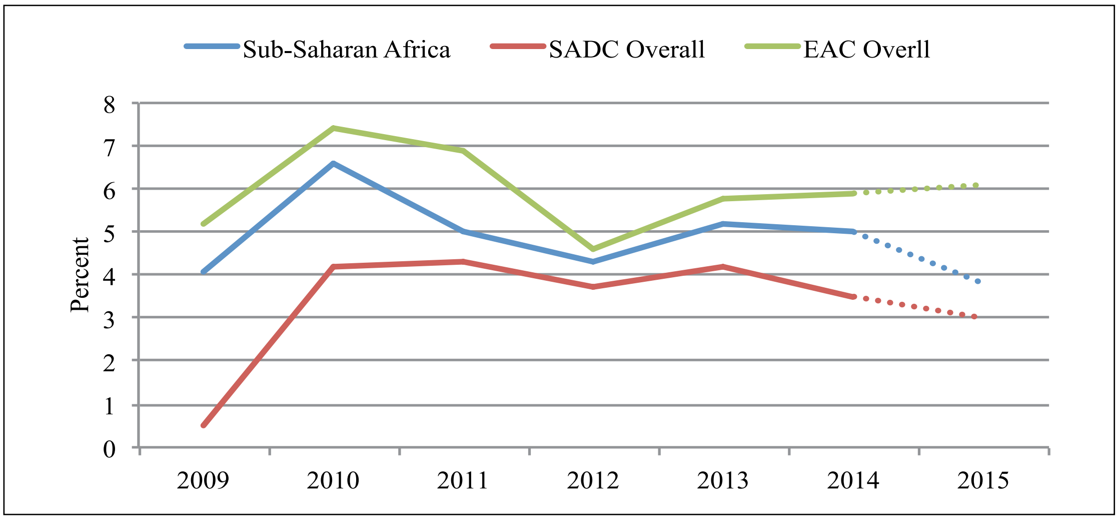
Chart 1.2: GDP Growth Rates for Emerging Markets and Developing Economies



Source: *IMF, World Economic Outlook database, October, 2015*

Increased macroeconomic imbalances in Sub-Saharan Africa (SSA), reflected by weak economic growth and widening fiscal and current account deficit. Low commodity prices, decline in import demand for commodities in China and other EMEs, and tight global financial conditions were the main drivers. Projected growth for 2015 in SSA was revised downward to 3.8 percent in October 2015 from 4.5 percent in April 2015. Oil exporting countries which account for about half of the region's GDP were affected mostly by falling oil prices. In contrast, net oil importers recorded improvements in fiscal and current account balances (**Chart 1.3**). Meanwhile, projected growth in SADC sub-region was revised down to 3.0 percent from 3.8 percent on account of same factors affecting the region.

Chart 1.3: Economic Growth in sub-Saharan Africa, EAC and SADC



Source: *IMF, World Economic Outlook Database, October, 2015.*

Economic performance in the EAC remained above SSA average. Economic growth in the EAC was driven by investments in natural resources and infrastructure. GDP growth projection for 2015 was revised downwards to 6.1 percent in October 2015 from 6.6 percent in April 2015 on account of the same factors affecting the region. Nevertheless, the revision reflects acceleration from 5.9 percent in 2014 while SSA average reflects deceleration to 3.8 percent from 5.0 percent in 2014. Being net importers of oil, the EAC continues to benefit from low oil prices thus contributing to improvement in current account and fiscal balances.

1.2 Financial Conditions

Risks to global financial conditions increased with diverse trends across countries and regions. Improved macroeconomic prospects in the US point to early normalization of monetary policy while persistent low growth in the euro area led to prolonged monetary policy accommodation. On other hand, greater exposure of emerging market economies to global financial markets impacted the corporate sector negatively through capital flows and exchange rate volatility.

Financial conditions in Sub-Saharan Africa tightened owing to strong US dollar and its spillover effects. Financial market volatility coupled with sharp depreciation of local currencies against US dollar kept currencies under pressure, and increased the private and public external debt burden. Monetary policy actions to mitigate exchange rate volatility further tightened the conditions. The region remained vulnerable to growing domestic and external risks arising from continued decline in commodity prices; widening fiscal deficit and growing public and private debts.

The EAC sub-region was not spared from the impact of the strong dollar and its spillover effects. Monetary policy interventions to protect local currencies varied across countries with differing results. Countries which applied macro-prudential policy tools experienced gradual but sustained stability, while countries that intervened through running down reserves triggered speculative tendencies that heightened volatility.

1.3 Domestic Macroeconomic Environment

Tanzania's economic growth remained vulnerable to spillover-effects from slowdown in emerging market economies and tight financial conditions. GDP growth for 2015 was revised downward in October 2015 to 7.0 percent from 7.2 percent in April 2015 due to low export commodity prices mainly gold and some traditional export commodities. Despite the downward revision, GDP growth remains strong driven by the on-going investment in infrastructure, expansion in private and public sector construction activities as well as improvement in external sector.

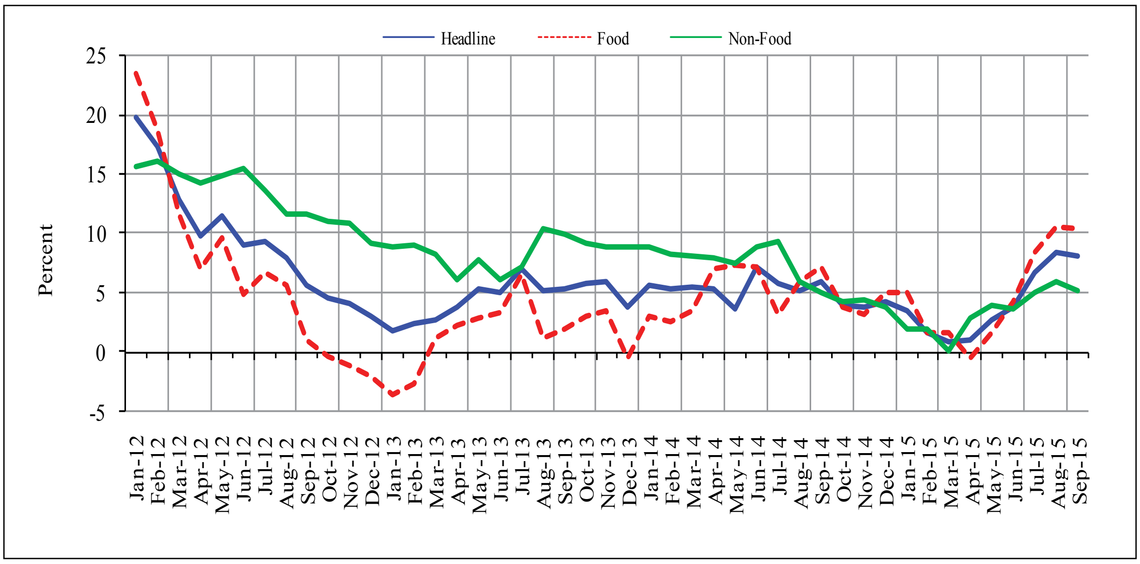
The six-month period average annual inflation to September, 2015 increased to 5.8 percent from 4.8 percent, in the previous six-months to March 2015. Inflation is expected to remain in single digit on account of prudent monetary policy, reliable power supply, and low food and oil prices.

Slowdown in GDP growth and widening current account deficit pose downside risk to Zanzibar's macroeconomic environment. GDP is projected to slowdown to 6.8 percent in 2015 compared to

7.0 percent recorded in the preceding year. The economy remains strong driven by growth in industry and services sectors.

Annual headline inflation in Zanzibar increased to 8.1 percent in September 2015, from 6.0 percent recorded in the corresponding period in 2014 driven by increase in some imported food items. Going forward inflation is expected to remain in single digit supported by favourable food supply and low oil prices (**Chart 1.4**).

Chart 1.4: Zanzibar Inflation Rate Development



Note**:** *New weights are based on Zanzibar Household Budget Survey (HBS) 2009/10.*
Source: *Office of Chief Government Statistician (OCGS).*

External debt stock remained sustainable though vulnerable to further strengthening of the dollar and US Federal Reserve interest rate rise. During the year to September 2015, the stock increased by 9.7 percent to USD 15,320.1 million. The increase is largely attributable to Government borrowing to finance public infrastructure projects. The share of outstanding external debt by maturity up to five years is insignificant while debt above 10 years accounts for 86.7 percent of the stock, suggesting low risk to the economy in the short term (**Chart 1.5**).

Public Sector Debt continued to grow but remained sustainable as per findings of the September 2015 Debt Sustainability Analysis. The Present Value of Public Sector Debt to GDP stood at 35.7 percent in June 2015 well below indicative threshold of 74.0 percent due to strong GDP performance and recent GDP rebasing. While rebasing has increased the country's debt carrying capacity, the ability to repay loans has not necessarily increased as revenue to GDP ratio has remained relatively low. Compared with EAC regional average, Tanzania is the lowest in tax revenue generation to GDP suggesting there is potential for revenue collection improvement. Although the national debt portfolio remains sustainable, it is vulnerable to increased exchange rate volatility and resource constraints. Stress test results of debt sustainability indicators showed that, public sector debt to revenue ratio including grants exhibited a downward trend while gross financing of public debt showed an increasing trend. (**Chart 1.6**) shows Tanzania's debt sustainability indicators.

Chart 1.5: Government Debt by Maturity

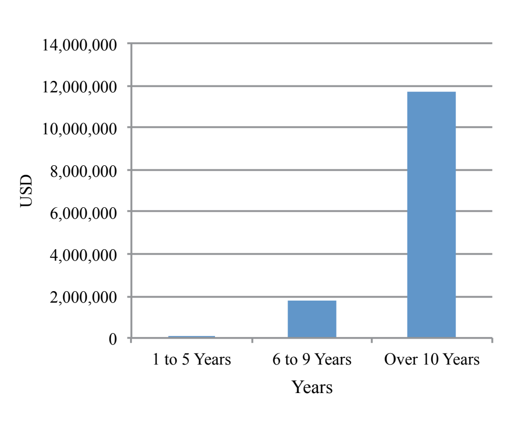
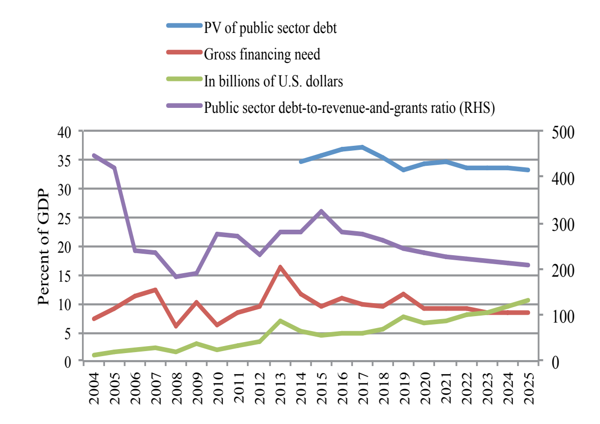


Chart 1.6: Debt Sustainability Indicators



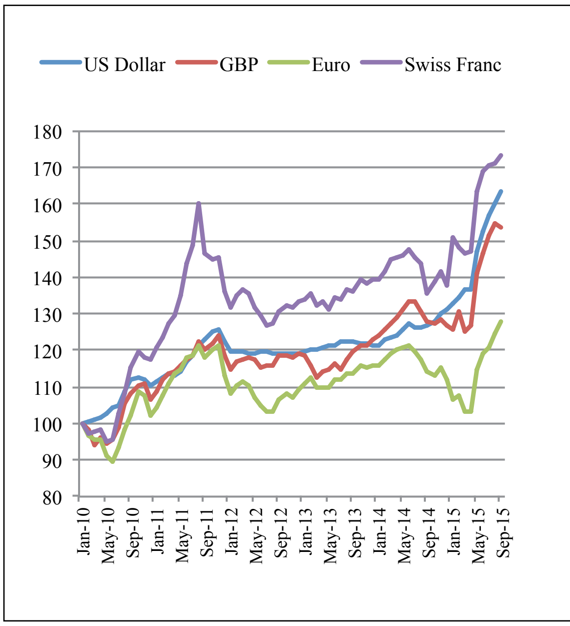
Source: *Bank of Tanzania and Ministry of Finance.*

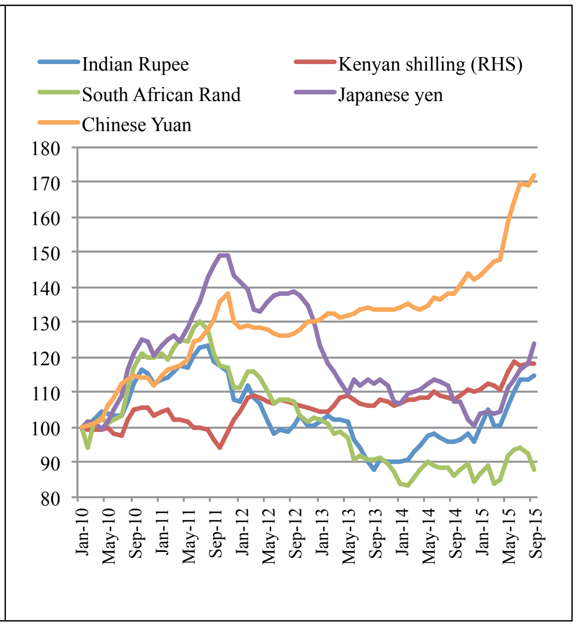
1.4 External Sector Developments

Tanzania gained export competitiveness as the shilling depreciated against currencies of major trading partners. The current account improved by 14.7 percent in the year to September 2015 on account of growth in exports of goods and services and a decline in import bill arising from low oil prices (**Chart 1.7**). However current account deficit to GDP remained high at 10.4 percent, which compares with Kenya and Uganda at 10.4 percent and 9.7 percent, respectively. According to 'Economic Insight: Africa' analysis, the countries are vulnerable to a US Federal Reserve interest rate rise[1]. Decline in capital inflows, increased cost of off-shore borrowing and debt service burden; and sharp asset market corrections are the potential transmission channels of the risks.

[1] Economic Insight: Africa is produced by Center for Economic and Business Research available online at http://www.icaew.com/en/about-icaew/where-we-are/africa

Chart 1.7: Exchange Rates Development of TZS against Selected Currencies (Jan 2010=100)

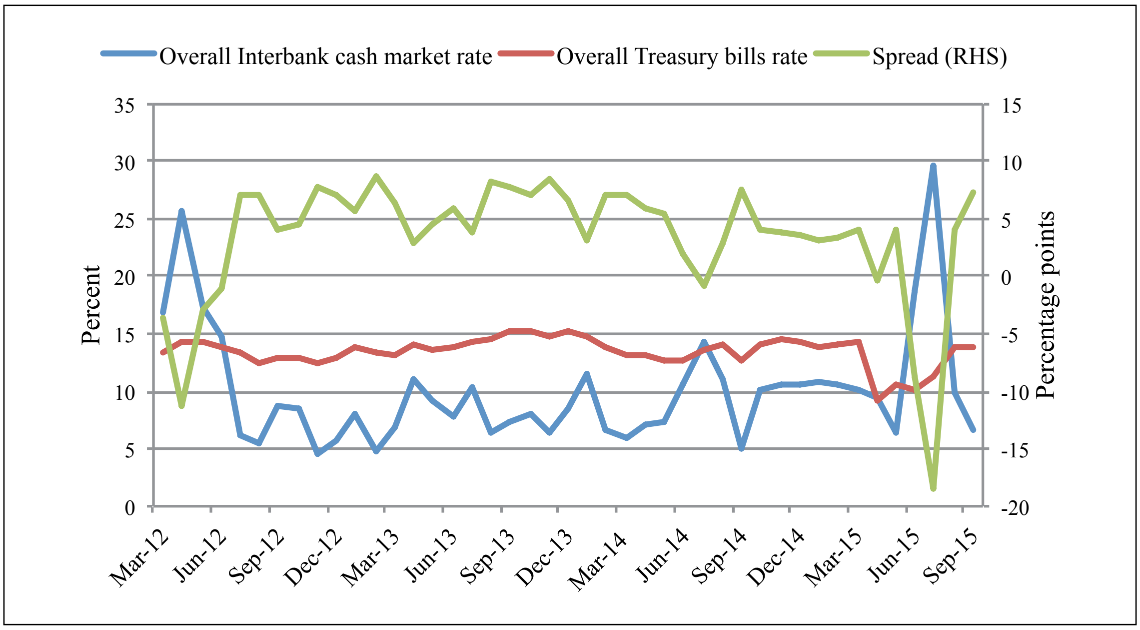




Source: *Bank of Tanzania*.

Policy actions to mitigate exchange rate volatility contributed to tightening of domestic liquidity conditions. Overnight rates in the interbank cash market increased to 29.7 percent in July 2015, from 6.4 in May 2015 suggesting liquidity squeeze (**Chart 1.8**). During the period, T-bill and T-bond market became highly under subscribed impacting negatively on fiscal operations.

Chart 1.8: Monthly Interest Rate Movements; 2012-2015



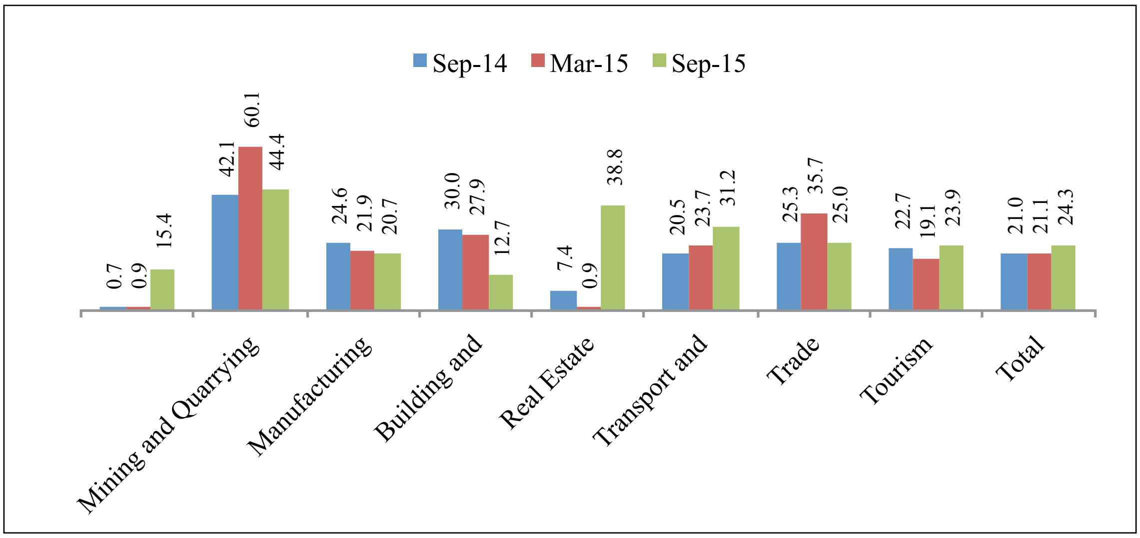
Source: *Bank of Tanzania*

2.0 NON-FINANCIAL CORPORATE AND HOUSEHOLD SECTORS

2.1 Non-Financial Corporate Sector Financial Conditions

Non-Financial Corporate (NFC) sector increased borrowing to finance investment in 2015 except for few sectors exposed to the decline in global commodity prices. This confirms optimistic sentiment by the firms about performance of the economy as revealed by NFC survey and reported in the March 2015 FSR. Credit growth increased by 24.3 percent in the year to September, 2015 compared to 21.1 percent in March 2015. Activities that recorded acceleration in credit growth were real estate, transport and communication, tourism and agriculture, which also recorded strong growth rates in output (**Chart 2.1**).

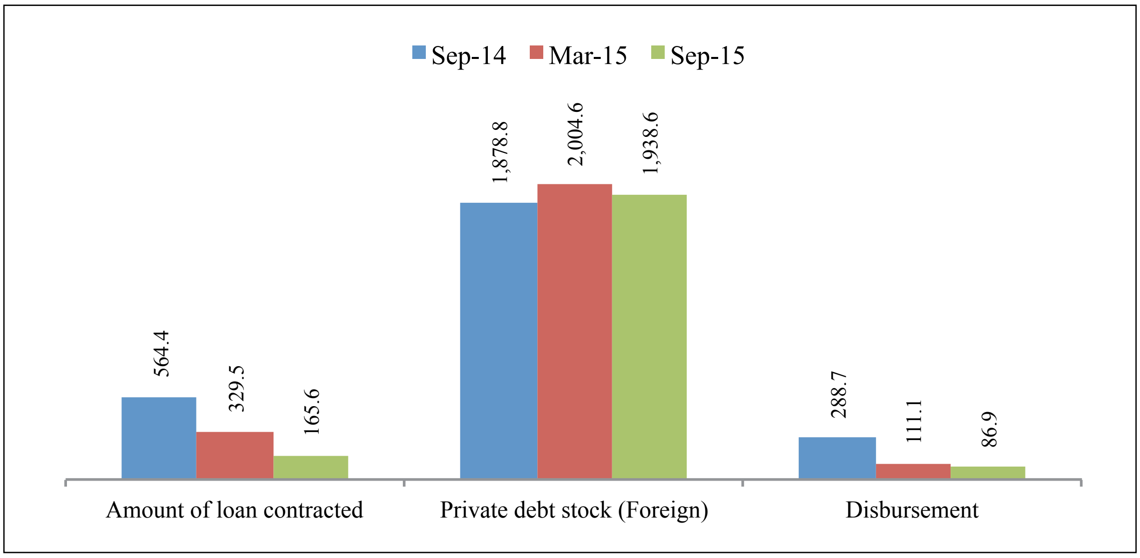
Chart 2.1: Annual Growth of Bank Credit to Major Activities



Source: *Bank of Tanzania*

NFCs reduced offshore borrowing during the six months to September 2015 in response to evolving global macro-economic and financial conditions. The stock of corporate foreign debt decreased to USD 1,938.6 million in September, 2015 from USD 2,004.1 million in March 2015 (**Chart 2.2**). This is in line with pessimistic sentiments by NFCs regarding offshore borrowing as revealed by the NFC Survey carried out in January 2015 and reported in the March 2015 FSR.

Chart 2.2: Developments in NFC Off-shore Borrowing (in millions of USD)

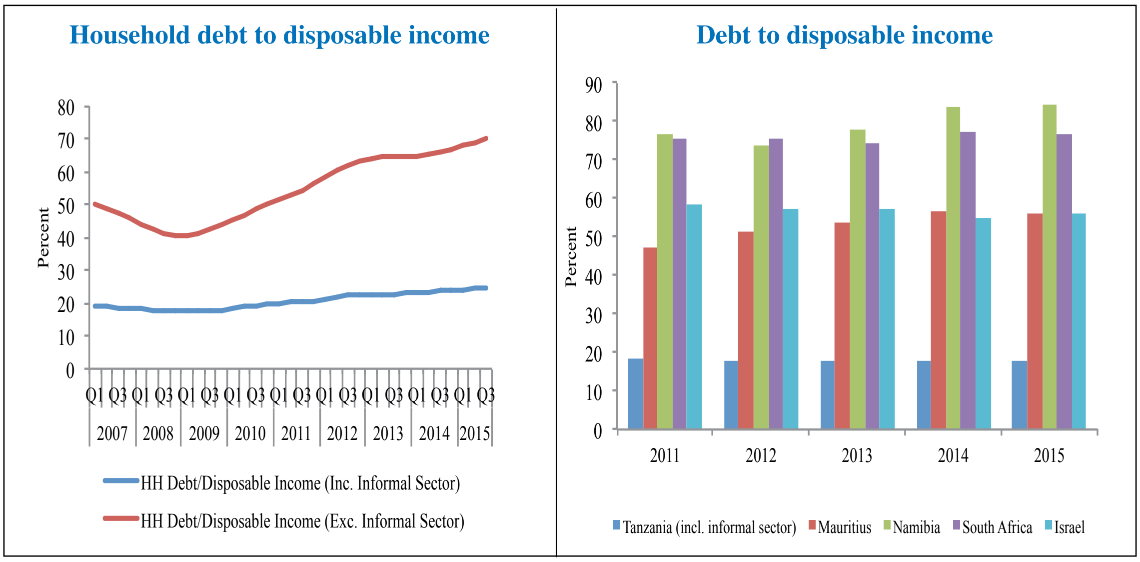


Note: *Loans contracted and disbursed are summations of six months flows*
Source: *Bank of Tanzania*

2.2 Household Financial Conditions

During the six months to September 2015, households increased access to formal financing. The ratio of household debt to disposable income (excluding informal sector) increased to 69.8 percent from 66.0 percent. Compared with other countries; Namibia, Mauritius, South Africa and Israel; Tanzania fairs favourably well (**Chart 2.3**). Housing mortgage finance is one of the components of household debt that is rising rapidly on account of government effort to foster growth of housing industry in Tanzania (**Box 2.1**). Recent reduction of down-payment on mortgage loans from 20 percent to 10 percent is reflection of such efforts to encourage uptake of loans.

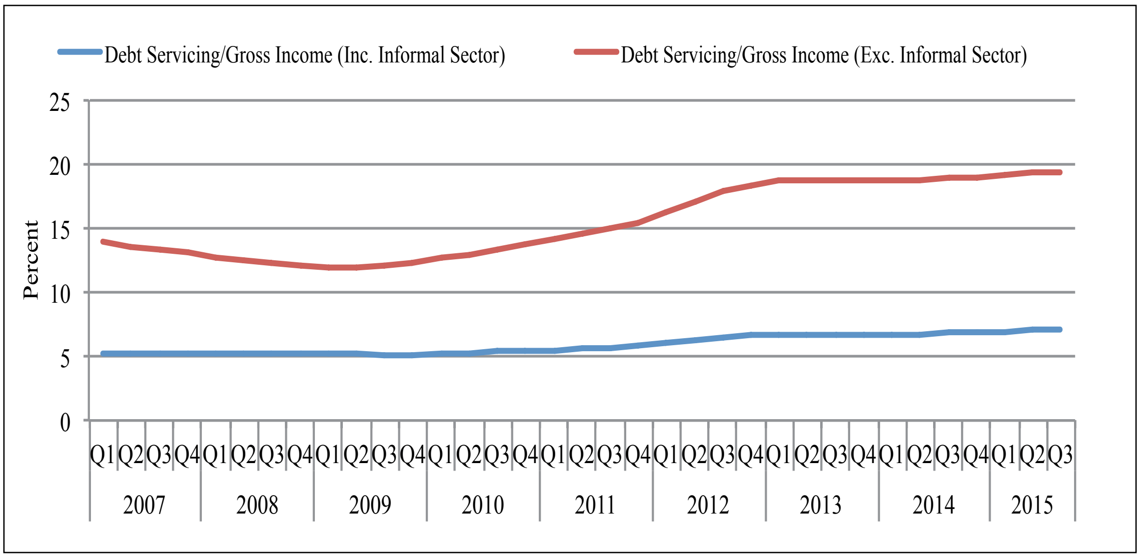
Chart 2.3: Household Debt to Disposable income



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

Household debt servicing cost remained broadly unchanged during the first three quarters of 2015. The ratio of household debt servicing cost to gross income rose to 19.4 percent in the third quarter from 19.1 percent in the first quarter of 2015 (**Chart 2.4**).This is partly explained by relatively stable interest rates.

Chart 2.4: Household Debt Servicing Ratio

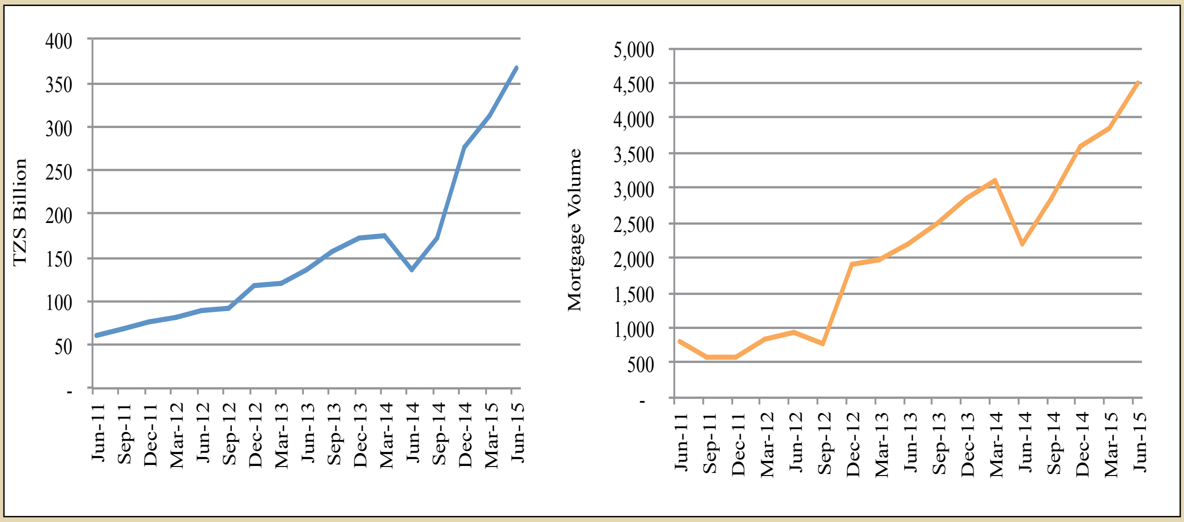


Source: *National Bureau of Statistics and Bank of Tanzania computation*

Box 2.1: Development of Real Estate Sector in Tanzania

The mortgage market in Tanzania has been growing steadily as the pace of housing mortgages increased. As of end June 2015 total outstanding mortgage was TZS 3,684 billion compared with TZS 1,354 billion in the previous year, representing an annual growth of 63 percent. The mortgage volume rose to 4,487 units from 2,201 units during the same period (**Chart 1**).This development is partly attributed to economic growth, growing population, urbanization and increase in number of commercial banks offering mortgage loans product.

Chart 1: Quarterly Outstanding Mortgage Loan Balances and Volume



Source: *Tanzania Mortgage Refinance Company Ltd, 2015*

These developments indicate significant opportunity for real estate development in Tanzania focusing on residential property sector for which there is a wide gap between demand and supply of houses. There is also growing number of Property Developers including National Housing Corporation, Tanzania Building Agency (TBA), Social Security Schemes (NSSF, PSPF, PPF, GEPF and LAPF), ABLA Estate Developers, NIC,TPA, Azimio Estate, Africa Property Limited, Afri Scan International and Asset Base, Mrkfan Realtor, City properties, Golden Land Shelters and private individuals.

A strong real estate market drives economic activity while a weak market slows down economic activity thus threatening financial system stability. This is due to close relationship between housing mortgages, real estate, bank lending and household financial conditions. Until September 2015 mortgage to household debt was 6.3 percent as proportion of total credit in the economy was 2.7 percent.

3.0 PERFORMANCE OF THE FINANCIAL SECTOR

The financial sector continued to deepen as measured by proportion of financial sector assets to GDP. The ratio increased to 43.3 percent in September 2015 from 40.0 percent recorded in March 2015. The banking sector continued to dominate the financial system accounting for 70.8 percent of total assets as at end September 2015, compared to 71.0 percent in March this year. Pension funds and insurance companies on the other hand, accounted for 26.7 percent and 1.9 percent respectively, while collective investment schemes accounted for 0.6 percent.

3.1 Banking Sector

During the six months to September 2015, the banking sector continued to grow in terms of assets, supported by favourable macro-economic environment. Total assets grew by 12.4 percent to TZS 26,352.1 billion. The growth of assets was mainly attributable to increase in deposits, which increased by 6.7 percent to TZS 19,081.7 billion at end September 2015. Deposits is the major source of funding in the banking sector, comprising 72.4 percent of total asset. The growth in deposits mobilisation was driven by introduction of new financial products and leveraging of technological innovations.

The condition of the banking sector was assessed using selected Financial Soundness Indicators (FSIs), concentration and diversification measures. During the period, the sector remained sound as reflected by levels of capital, liquidity, profitability and asset quality (**Table 3.1**).

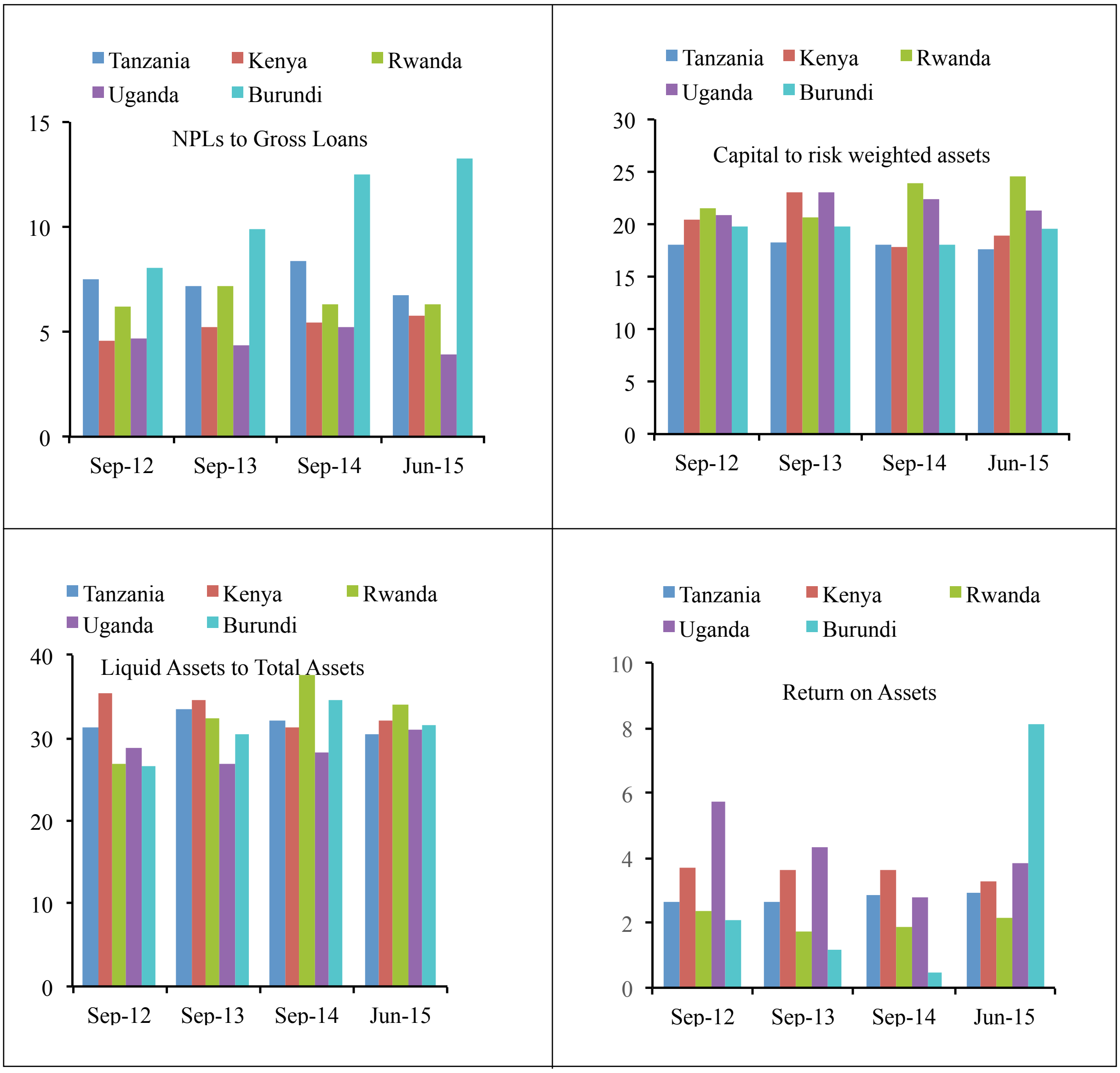
Table 3.1: Selected Financial Soundness Indicators for the Banking System

Indicator	2013		2014				2015		
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
1. CAPITAL ADEQUACY									
Core Capital/TRWA	17.7	17.6	18.5	16.7	16.8	16.7	17.9	16.1	16.7
Total capital/TRWA	18.4	18.2	19.4	17.8	18.0	17.8	19.1	17.6	18.7
2. LIQUIDITY									
Liquid Assets/Demand Liabilities	37.0	36.5	37.1	35.6	37.8	35.6	35.5	37.3	35.7
Total Loans/Customer Deposits	67.7	71.4	71.2	73.3	72.7	74.3	76.8	76.6	78.9
3. EARNINGS & PROFITABILITY									
Net Interest Margin (NIM)	66.1	67.0	69.1	67.4	67.4	67.5	67.5	65.9	67.1
Non-Interest Expenses/Gross Income	66.0	66.9	63.2	65.6	66.0	66.8	63.8	65.1	67.2
Personnel expenses to non-interest expenses	45.1	43.4	46.7	46.5	45.4	44.1	44.6	45.9	44.7
ROA (PBT/Average Total Assets)	2.6	2.6	3.4	3.0	2.9	2.7	3.1	2.9	2.7
ROE (PAT/Average Shareholders' funds)	13.9	12.8	15.5	15.5	15.0	12.6	16.2	15.1	13.5
4. ASSET COMPOSITION & QUALITY									
Foreign Exchange Loans to Total Loans	35.6	35.6	33.6	35.9	35.7	36.8	37.5	38.6	37.8
Gross NPLs to Gross Loans	7.1	6.5	8.4	8.1	8.5	6.6	6.5	6.6	6.8
NPLs net of provisions/Total Capital	16.8	15.6	16.6	17.2	21.0	12.6	14.0	16.5	15.7
Large Exposures to Total Capital	135.8	137.5	105.3	133.7	100.3	106.8	137.0	124.0	126.8
Net Loans and advances to Total assets	49.1	50.8	51.0	51.8	51.4	53.1	53.3	53.2	54.6
5. SENSITIVITY TO MARKET RISK									
FX Currency Denominated Assets/Total Assets	30.9	30.6	28.2	29.4	29.6	30.3	31.7	34.2	34.9
FX Currency Denominated Liabilities/ Total Liabilities	35.3	35.1	32.6	34.4	34.5	35.8	37.6	39.8	39.6
Net Open Positions in FX/Total Capital	2.5	1.5	2.9	1.8	-2.2	-2.5	-2.1	-2.2	-2.4

Note: *ROA - Return on Asset, ROE - Return on Equity, NPLs - Non Performing Loans*
Source*: Bank of Tanzania*

Chart 3.1: EAC Selected Financial Soundness Indicators

Percent



Source: *Tanzania Authorities*

Capital Adequacy

The banking sector remained adequately capitalized to provide a cushion against potential risks. The core and total capital adequacy ratios of the banking sector as at end September 2015 were 16.7 percent and 18.7 percent compared to 17.9 percent and 19.1 percent which was recorded in March 2015. The ratios were above the regulatory requirement of 12.5 percent and 14.5 percent for core and total capital respectively. Compared to other EAC member states, the banking sector in Tanzania had the lowest level of capital adequacy ratio as at end June 2015 (**Chart 3.1**).

Earnings and Profitability

The banking sector remained profitable during the six months to September 2015, despite a slight decline ROA. The ratio stood at 2.7 percent in September 2015, compared to 3.1 percent in March 2015. The growing cost of funds reflected by decline in Net Interest Margin (NIM) contributed to the decrease in profitability.

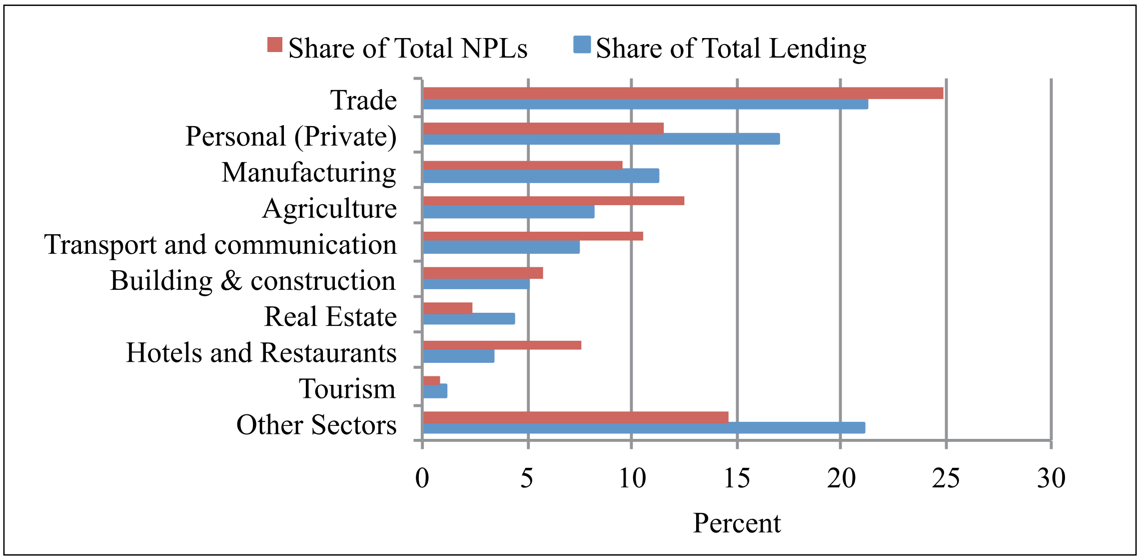
Liquidity

The banking sector liquidity levels remained high during the six months to September 2015. The ratio of liquid assets to demand liabilities was 35.7 percent at end September 2015 way above the regulatory requirement of 20.0 percent. Investment in liquid assets such as risk free government securities owing to high returns and off-shore placements owing to depreciation of the shilling, contributed to the high liquidity levels.

Asset Quality and Credit Concentration

The banking sector asset quality remained broadly unchanged during the six months to September 2015. Asset quality slightly deteriorated as reflected by the ratio of Gross Non-Performing Loans (NPLs) to Gross Loans recorded a slight increase to 6.8 percent at end September 2015 from 6.5 percent recorded in March 2015. Trade, personal and agriculture were the main sectors which contributed to the banking sector NPLs at end September 2015 (**Chart 3.2**).

Chart 3.2: Credit Distribution and Non-Performing Loans at end September 2015

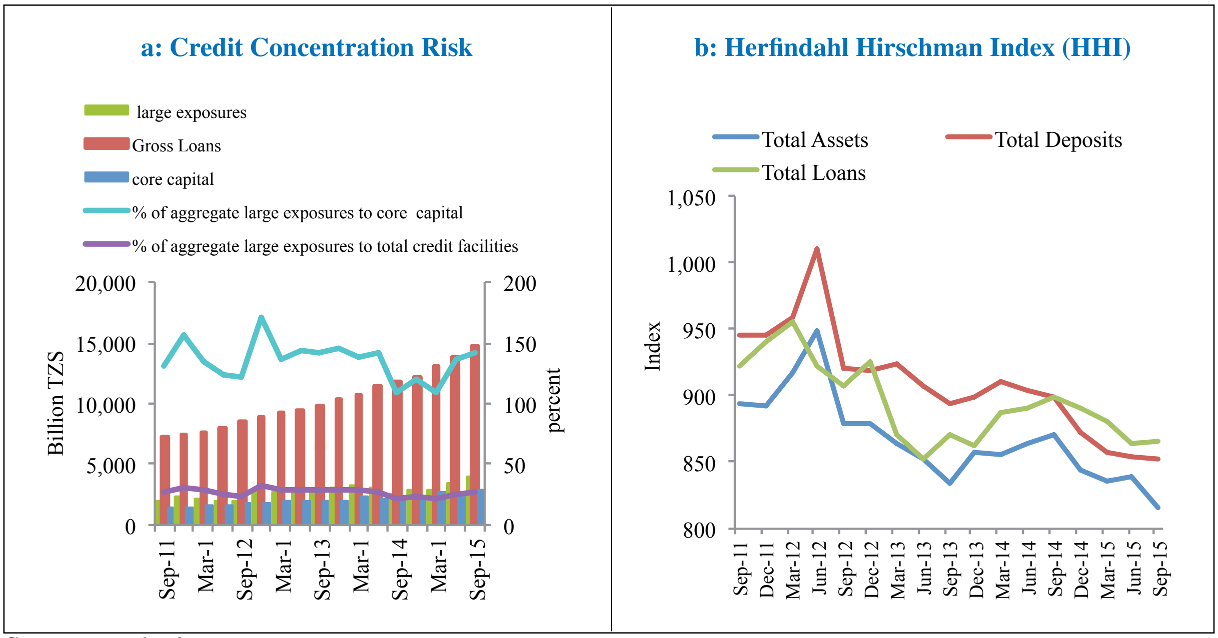


***Source**: Bank of Tanzania*

The ratio of aggregate large exposures to core capital was 126.8 percent in September 2015, a decrease from 137.0 percent recorded in March 2015, suggesting a further decline in risks from large borrowers. The levels were within the regulatory limit of 800.0 percent (**Chart 3.3(a)**).

The sector was fairly diversified as measured by the Herfindahl Hirschman Index (HHI). Diversification indices in three markets, namely deposits, loans and assets improved. The indices declined to 852, 866 and 815, respectively, in September 2015 from 858, 881 and 836, in that order, recorded in March 2015 (**Chart 3.3 b**). All indices were within the no concentration range of between 100 and 1000.

Chart 3.3: Measures of Risk Diversification



Source: *Bank of Tanzania*.

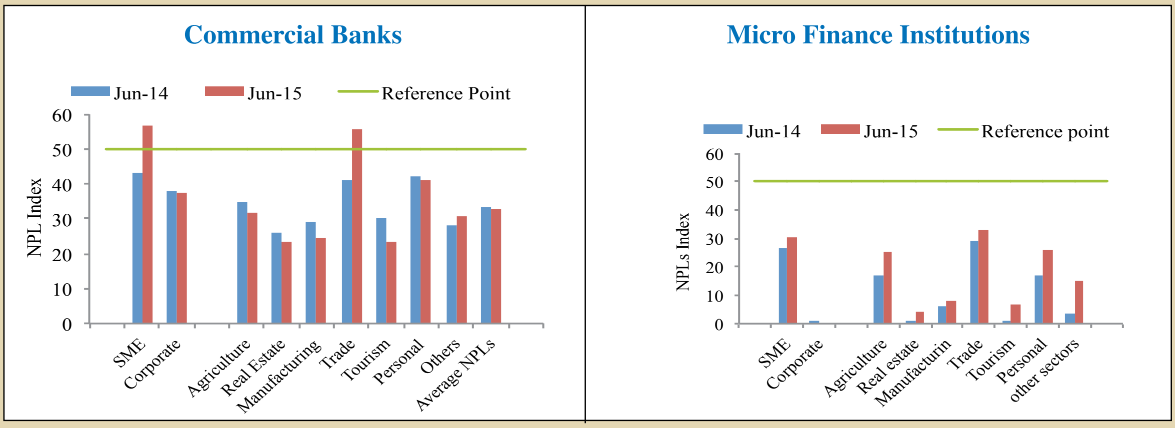
Sensitivity to Market Risks

The banking sector Net Open Position for foreign exchange exposure remained low, at -2.4 percent at end September 2015. This was within the regulatory limit of 5.5 percent, implying that the industry had limited exposure to foreign exchange risk. However, the increase in Net Open Position from -2.1 percent in March 2015 implied that banks were accumulating more foreign currency denominated liabilities than assets, suggesting that in the event of depreciation of the Shilling they will book foreign exchange loss.

Box 3.1: Loan Officers' Opinion Survey on Bank Lending Practices and Conditions

The Loan officers' opinion Survey was carried out in June 2015 to assess bank lending practices and credit conditions covering the first half of 2015 and lenders' perceptions of the credit market for the second half of 2015. The survey gathers views of lenders on price and non-price lending conditions from selected commercial banks and Microfinance Institutions (MFIs). Survey results point to the easing terms of loans, increase in demand and supply of loans, decrease in NPLs (**Chart 3a**) and intensified credit recovery efforts.

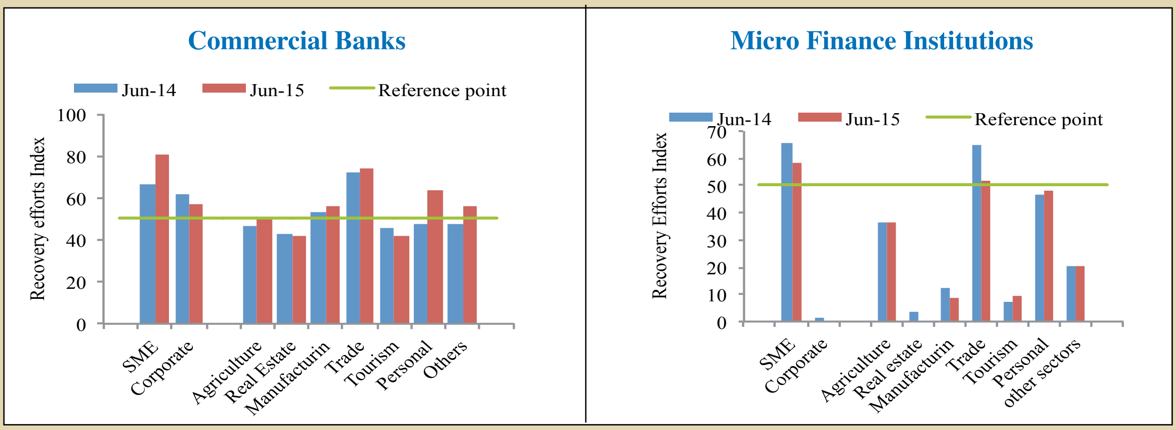
Chart 3a: Direction of Non-performing Loans



Note: *SMEs - Small and Medium Enterprises*
Source: *Bank of Tanzania*

Credit recovery efforts (**Chart 3b**) for commercial banks in SMEs were intensified in 2015 while in Corporate efforts were slightly lowered as compared to June 2014 index, in line with the rise of NPLs in SMEs and low NPLs in corporate

Chart 3b: Recovery Efforts



Source: *Bank of Tanzania*

The credit market outlook for July to December 2015 points to a favourable economic outlook with an increased demand and supply of loans, decrease in interest rate and intensified credit recovery efforts. Banks expect to ease terms of credit as they consider existing terms to be sufficient except for collateral requirements. With regard to MFIs, expectations are to reduce interest rates in response to high competition and low cost of funds accessed from members' subscriptions. In addition, the respondents expect NPLs to decline due to intensive recovery efforts.

3.2 Non-Banking Financial Sector

3.2.1 Financial Markets

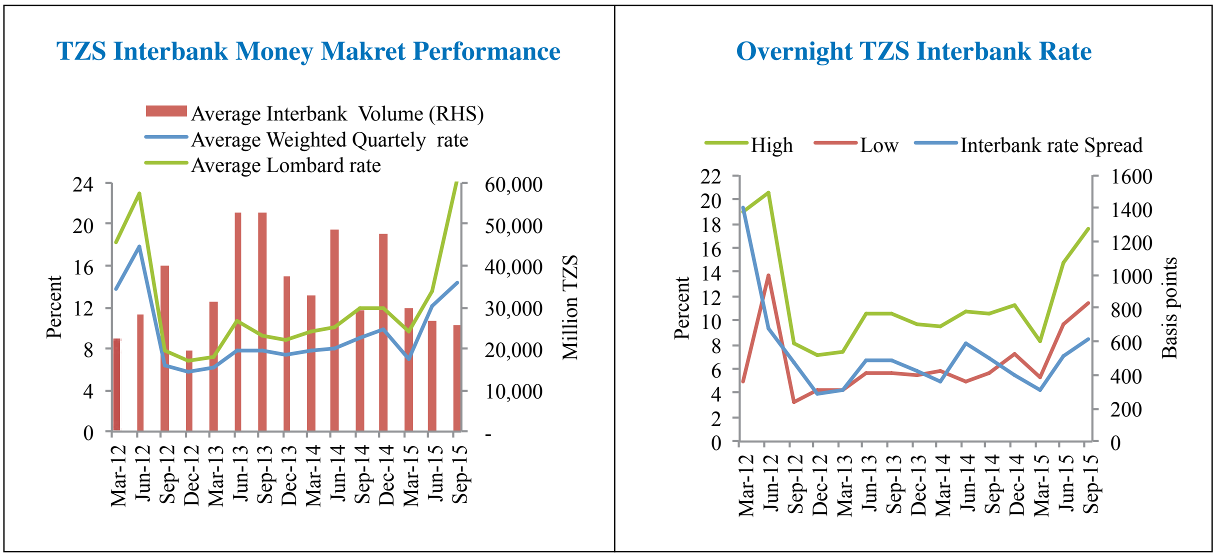
During the six months ending September 2015, financial markets experienced tight conditions. The strengthening of the US dollar and policy actions to mitigate exchange rate volatility contributed to liquidity tightening in the money markets. Liquidity risk increased as reflected by widening spreads, and rising cost of funds as interest rates surged. Capital markets experienced slowdown in trading activity as reflected by decline in market capitalization and share price indices.

Money Markets

Interbank Cash Market

Liquidity risk in the interbank cash market was elevated during the six months to September 2015. Interbank rate spread widened to 614 basis points from 307 basis points as liquidity tightened following a decline in volumes traded in the interbank cash market by 14.5 percent to TZS 25.6 billion. In addition, overnight interbank quarterly weighted average rate doubled to 14.3 percent in September 2015 from 7.0 percent in March 2015 (**Chart 3.4**).

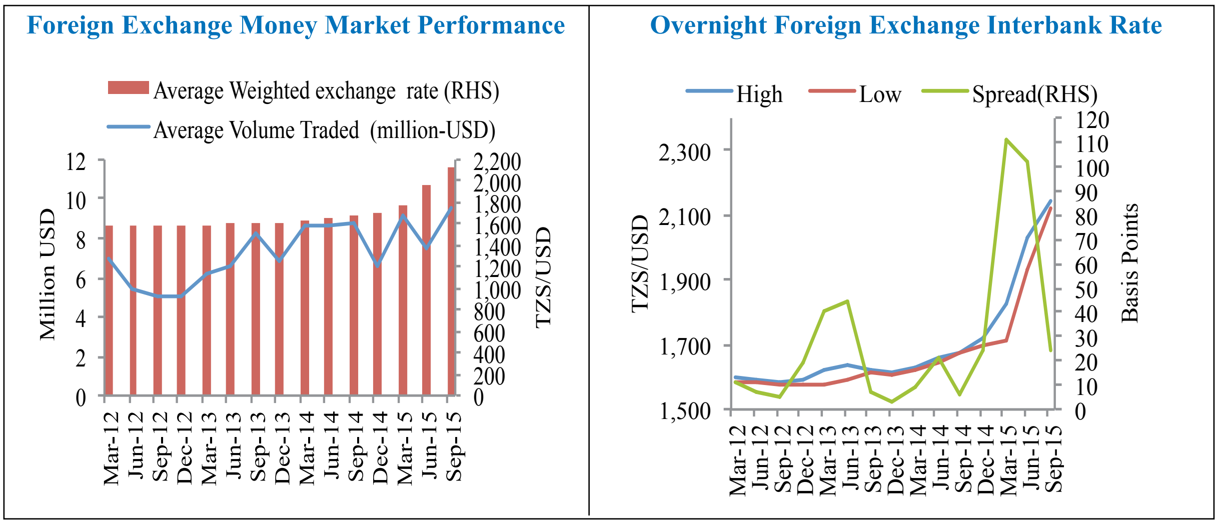
Chart 3.4: TZS Interbank Money Market



Source: *Bank of Tanzania*

Volatility in the foreign exchange market increased exchange rate risk. The Shilling depreciated by 20.6 percent to TZS/USD 2,135.4 in September 2015 from TZS/USD 1,771.0 in March 2015. Volatility increase heightened exchange rate risk, narrowing spreads in the interbank foreign exchange market while widening spreads in the interbank cash market (**Chart 3.5**).

Chart 3.5: Foreign Exchange Interbank Money Market



Source: *Bank of Tanzania*

Capital Markets

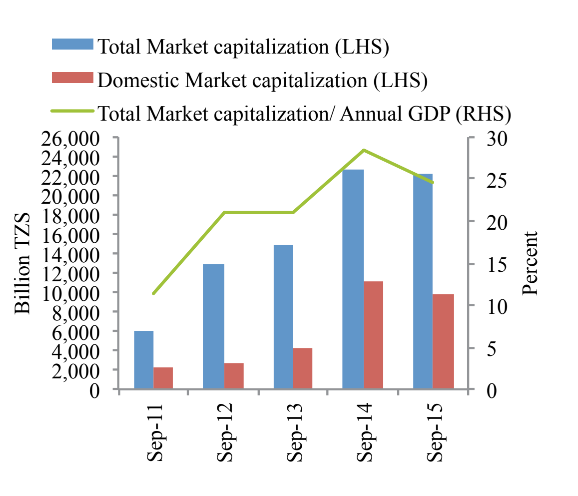
Equity Market

Increased foreign investor participation contributed to enhanced trading at the Dar es Salaam Stock Exchange (DSE). During the six months to September 2015, total turnover increased by 18.5 percent to TZS 498.7 billion from TZS 421.0 billion during the preceding six months. Foreign participation remained high at around 90 percent on both sides of the market. Despite the increase in turnover, total market capitalization decreased by 2.5 percent to TZS 22,166.4 billion on account of depreciation of share prices of some domestic and cross listed companies, whose performance had weakened in the commodities category. All Share Index (DSE ASI) decreased by 2.5 percent to 2,531.1 driven by Tanzania Share Index (TSI) and Industrial & Allied Index (AI) losses which were partially offset by Banks, Finance and Investment Index (BI) as well as Commercial Services Index (CS) (**Chart 3.6**).

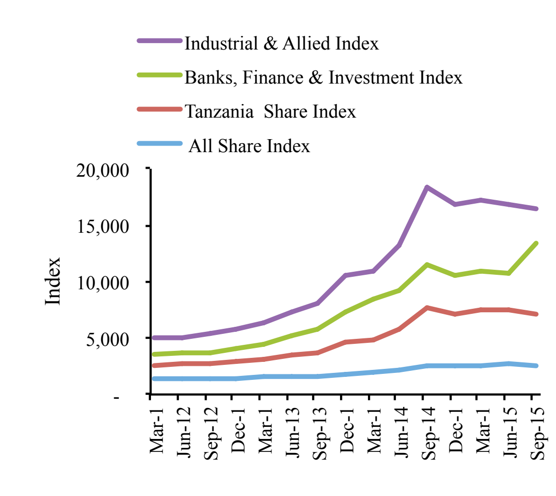
DSE turnover to total market capitalization was 1.0 percent reflecting low level of market liquidity while turnover to GDP was 0.2 percent indicating low market depth. However, on-going reforms and use of technological innovations will contribute to broadening participation in the markets.

Chart 3.6: Performance of the Dar es Salaam Stock Exchange

Stock Market



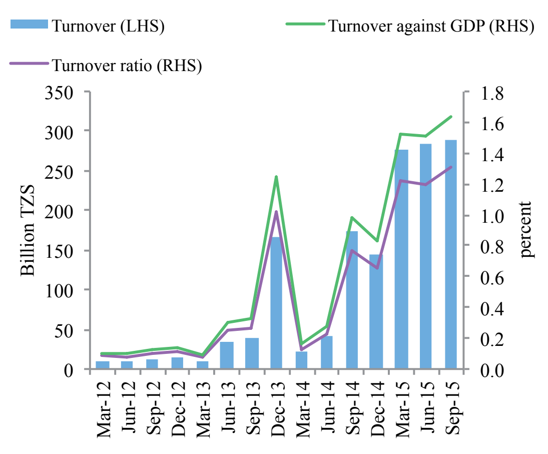
Share Indices



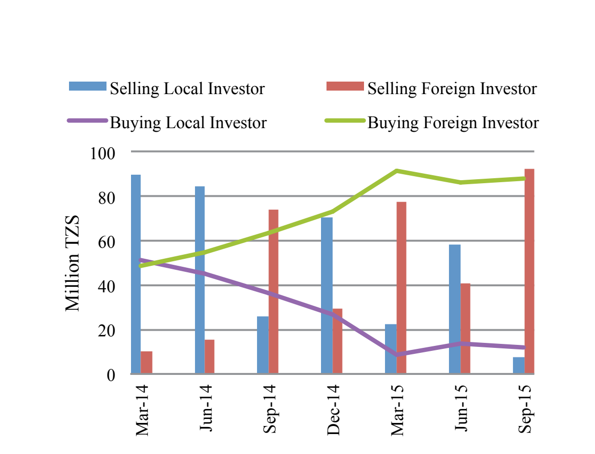
Source: *Dar es Salaam Stock Exchange*

Chart 3.7: Dar es Salaam Stock Exchange Turnover Ratios and Foreign Investor Participation

Turnover Ratios



Investor Participation

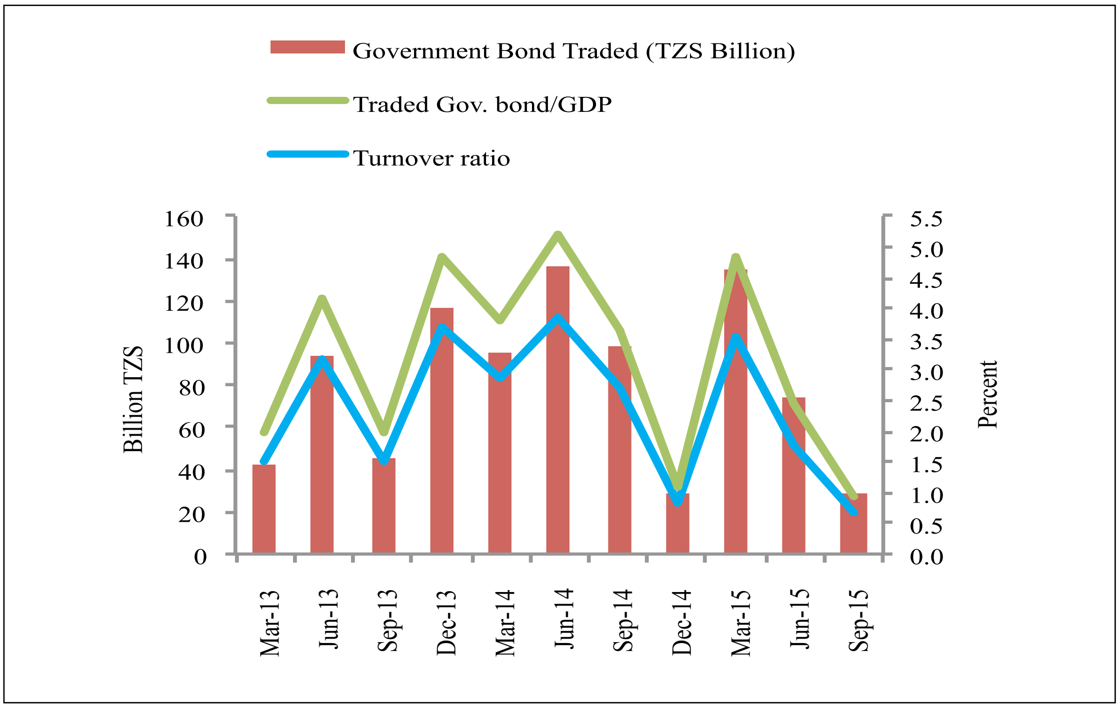


Source: *Dar es Salaam Stock Exchange*

Bond Market

Trading activity in the bond market declined during the six months to September 2015 as liquidity tightened in the money market. Government bonds worth TZS 111.0 billion traded in the secondary market compared with TZS 163.4 billion in the previous six months. Weighted Average Yield to Maturity for 2, 5, 7, 10 and 15–year government bonds increased when compared to the preceding quarter. Specifically, the 2-year bond gained the most, at 14.0 percent while the 15-year bond, the lowest at 2.8 percent. The decline in government bonds trading is also reflected by fall in turnover ratio to 0.7 percent from 3.6 percent recorded in March 2015 (**Chart 3.8**).

Chart 3.8: Market Performance for Government Bonds



Source: *Bank of Tanzania*

Collective Investment Schemes

During the six months ending September 2015, performance of collective investment schemes was moderate on account of equity markets slowdown. The share of equity in collective investment schemes constituted 50.0 percent of total investment portfolio. Performance of the schemes slightly slowed down with more decline in Wekeza Maisha (**Table 3.2**).

Table 3.2: Open Ended Collective Investment Schemes

Millions of TZS

Scheme	Scheme Size		Net Asset Value				NAV Growth	
	15-Mar	15-Jun	Mar 14	Sep 14	Mar 15	Sep 15	Sep 14-Sep 15	Mar 15-Sep 15
Umoja Fund	211,815.9	212,464.9	334.2	449.2	453.2	468.8	4.4	3.4
WekezaMaisha	3,492.9	3,441.5	225.5	279	305.5	303.1	8.6	-0.8
Jikimu Fund	18,485.9	20,833.9	115.4	132.3	131.8	131.4	-0.7	-0.3
Watoto Fund	2,652.8	2,673.8	201.2	267.8	282.6	286.4	6.9	1.3
Liquid Fund	601.8	645.3	110.9	117.3	124.2	131.7	12.3	6.0

Source: *Capital Markets & Securities Authority.*

3.2.2 Insurance Sector

Insurance sector recorded growth in terms of assets and premiums with favourable financial soundness indicators. The growth in total assets was attributable in underwritten premium income and investment returns. General insurer's retention rates during the year ending June 2015 were 57.9 percent of total Gross Premium Written (GPW). The retention rates were consistent with the prudential retention ratio of between 30.0 percent and 70.0 percent of GPW (**Table 3.3**).

Table 3.3: Insurance Performance

Billion TZS

Particular	Jun-14	Jun-15	% Change Jun14 - Jun 15
Total Assets	590.5	692.9	17.3
Total Liabilities	373	451.3	21.0
Total Net Worth	217.5	241.6	11.1
Total Investments	362.1	429.6	18.6
Gross Premium Written			
General Insurance	250	288.1	15.2
Life Assurance	33	33.5	1.5
Total	283	321.6	13.6

Source: *Tanzania Insurance Regulatory Authority*

Exposure to liquidity risk declined on account of enhanced capital. General and Life insurers' liquidity ratios rose to 106.7 percent and 57.4 percent in June 2015, respectively from 63.2 percent and 43.5 percent in the same order reported in March 2015. Both ratios were above the minimum prudential requirements of 95.0 percent and 50.0 percent, respectively.

Insurance sector investment portfolio remained relatively diversified. The insurers' investment assets comprised of term deposits 51.6 percent, real estate investments 17.4 percent, shares 15.8 percent, and government securities 12.0 percent, Investments in Related Parties 2.1 percent and Other Financial Investments 1.1 percent. However, investment in real estate was slightly above the regulatory threshold.

Table 3.4: Financial Soundness Indicators of the Insurance Sector (General and Life)

Indicator	Statutory Requirement	Jun 14		Jun-15	
		General	Life	General	Life
1. Capital Ratios					
Solvency Ratio	General ≥ 25; Life ≥ 8	59.0	36.0	63.0	28.8
Change in Capital and Reserves		9.0	44.0	12.9	-0.6
2. Asset Quality Ratios					
Rate of Return on Investment		4.0	2.6	6.7	3.2
Investment Mix:					
Investment in government securities		16.0	12.5	13.8	7.8
Investment in bank deposits	Min 30	57.0	47.7	60.2	32
Investment in real estate	General Max 15, Life Max 30	10.0	17.8	10.2	34
3. Reinsurance Ratios					
Retention Ratio	General 30<RR<70; Life 50<RR<90	56.0	85.0	57.9	83.1
4. Actuarial Liabilities (General)					
Actuarial Provisions to Capital Ratio	Max 250	37.3	n/a	37.4	n/a
5. Earnings Ratios (General)					
Return on Equity		10.0	31.0	7.2	n/a
6. Liquidity Ratios					
Liquidity Ratio	General ≥ 95; Life ≥ 50	64.0	40.0	106.7	57.4
Total Receivables as % of Capital & Reserves	Max 100	90.0	26.0	86.0	32.5
7. Loss Ratio (Claims Ratio)		54.8	36.9	55.3	40.7

Source: *Tanzania Insurance Regulatory Authority*

Insurance sector was adequately capitalized at end June 2015 as measured by solvency ratio of both General Insurance and Life Assurance. During the year ending June 2015, general insurers' ratio was 63.0 percent, above the minimum prudential requirement of 25.0 percent. Likewise, life insurers' solvency ratio was 28.8 percent compared to the minimum requirement of 8.0 percent. Tanzania Insurance Regulatory Authority continues to apply supervisory tools including additional capital injection to enhance sector's ability to cushion against potential risks (**Table 3.4**).

The level of risks for general insurance as measured by provision for actuarial liabilities to capital was low. The sector's ability to withstand adverse deviations of actuarial liabilities was high as reflected by a ratio of 37.4 percent at end June 2015 against the statutory limit of 250.0 percent on account of capital enhancement during the year to June 2015. Capital enhancement is also reflected by General insurers decline in return on equity to 7.2 percent at end June 2015 from 10.0 percent during the corresponding period in 2014, despite increase in the rate of return on investment to 6.7 percent from 4.0 percent.

3.2.3 Social Security Sector

Tanzania Mainland

Asset of social securities' schemes recorded growth amid declining Return on Assets. The increase in contributions and number of contributing members in proportion to existing pensioners is attributed to increased employment and outreach as reflected by decline in dependency ratio. (**Table 3.5**) provides selected indicators of performance and health of the schemes. The decline in return on assets is attributable to slowdown in investment performance coupled with growing administrative costs. The ratio of administrative expenses to contributions increased to 15.5 percent from 11.3 percent during the period.

Table 3.5: Tanzania Mainland: Social Security Selected Financial Indicators

Percent

Particulars	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Return on Assets	3.5	6.2	9.8	8.6	3.4	5.4	2.3
Contributions / Total Income	70.9	70.4	51.5	61.9	70.8	75.4	78.3
Contributions/ Benefit payments	275.3	297.4	221.4	303.9	273.9	352.5	146.9
Loans/ Total Assets	28.3	27.7	24.8	24.7	24.7	28.4	27.8
Operating costs/ investment assets	10.3	13.7	4.6	8.2	9	11.4	4.9
Administrative Costs / Contributions	9.7	7.6	12.4	9.5	11.3	8.2	15.5
Dependency Ratio (Pensioners/ Contributors)	6.7	4.1	4.1	4.1	4.1	2.2	0.2
Total Assets/GDP	8.6	8.9	10.5	10.9	9.7	10.6	11
Coverage ratio (Total Assets/ Total liabilities)	12.7	15.7	24.6	16.1	19.5	16.9	11.1
Liquid assets/Estimated Benefit	21.8	16.6	23.3	22.7	24	22.6	19.3

Source: *Bank of Tanzania*

The Social Security Sector continued to comply with prudential Investment Guidelines of 2015. However, the ratio of Government loans to total assets increased to 21.7 percent in September, 2015 from 19.3 recorded in March, 2015 owing to accumulation of interest (**Table 3.6**).This would be addressed once the Government strategy to fund the liabilities through issuance of non- cash bond is finalized and implemented.

Table 3.6: Tanzania Mainland: Social Security Portfolio Investment Mix

Particulars	Prudential Limit as Percent of Total Assets	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Bank Deposits	35	10.2	11.2	9.4	9.4	10.7
Government Debt	20-70	19.5	19.5	20.1	18.8	18.2
Commercial Paper, Promissory notes and Corporate bonds	20	0.3	0.2	0.2	0.4	0.5
Loans to Government	10	18.1	17.6	19.3	21.6	21.7
Ordinary and Preference Share	20	12.4	11	10.8	9.5	9.4
Investments in Licensed Collective Investment Schemes	30	1.5	1.4	1.5	1.4	1.4
Real Estate	30	17	20	21.1	17.6	18.9
Loans to Corporates and Cooperatives	10	6.7	7	5.6	6.8	3.9
Infrastructure Investment	25	2.1	2.5	2.6	2.7	1.8
Other Assets		12.2	9.5	9.4	11.9	13.5
Total Assets (Billions)		8,376.3	8,670.4	8,727.0	9,473.5	9,909.8

Source: *Bank of Tanzania*

Zanzibar Social Security Fund (ZSSF)

Zanzibar Social Security Fund continued to grow on account of increased membership, collection of contributions and growth in investment portfolio. Membership increased by 4.5 percent to 75.3 thousand during the period ending June 2015 compared to 72.2 thousand as at end June 2014. However, the dependency ratio increased to 3.3 percent in June 2015 from 2.9 percent recorded in June, 2014 which may threaten sustainability of the Fund (**Table 3.7**).

Table 3.7: Zanzibar: Social Security Performance

Particulars		Jun-11	Jun-12	Jun-13	Jun-14	Jun-15	Percentage Change	
							2013-14	2014-15
Membership	Thousand	61.4	64.7	67.6	72.2	75.3	6.8	4.3
Pensioners	Thousand	0.7	0.9	1.6	2.1	2.5	30.2	20.8
Dependency Ratio		1.1	1.3	2.4	2.9	3.3		
Net Assets	TZS Billion	84.8	110.7	141.6	177.2	-	25.1	
Investment Portfolio	TZS Billion	77.9	101.2	126.3	161.8	171.1	28.1	5.7
Benefit Payments	TZS Billion	3.8	4.5	6.5	10.0	9.3	53.7	-6.7

Source: *Ministry of Finance/ Zanzibar Social Security Fund.*

The Fund continues to implement the investment management policy as stipulated under section 5 (d) of the ZSSF Act. No. 2 of 2005.

Table 3.8: Zanzibar: Social Security Performance at June 2015

Investment	Value (billions)	Share of Total (Percent)
Fixed deposit	44.5	22.8
Treasury Bond	65.2	33.4
Equity Investment	8.3	4.3
Government stock	20	10.3
Loan	10.6	5.4
Real Estate	46.5	23.8
Total	**195.1**	**100.0**

Source: *Ministry of Finance/ Zanzibar Social Security Fund.*

3.3 Cross-Sector Linkages in the Financial System

Inter-linkages among financial institutions, markets and markets infrastructure and the real economy continue to deepen, heightening contagion and other risks.(**Table 3.9**) outlines interconnectedness between the banking sector with other financial sub-sector.

Table 3.9: Financial System Interconnectedness (Top Ten Banks)

Billions TZS

Items	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	% change Mar - Sep 15
Placements with Banks Abroad	715.1	657.9	626.8	598.8	751.0	1125.6	88.0
Placements with Domestic Banks	350.9	381.8	418.3	412.5	441.5	405.3	-1.7
Deposits from Pension Funds	290.7	288.0	268.5	236.1	286.7	314.7	33.3
Deposits from Insurance Companies	159.3	188.6	184.4	156.7	213.4	143.0	-8.7
Borrowings from Domestic Banks	277.8	341.1	297.7	373.2	243.3	428.9	14.9
Deposits from Foreign Banks	218.4	214.9	228.5	107.6	108.2	198.4	84.4
Inter-bank Contingent Claims to Foreign Banks	333.3	305.2	252.8	235.9	262.4	225.1	-4.6
Deposits from Mobile Network Operators	332.9	362.1	451.0	452.0	451.8	532.8	17.9

Source: *Bank of Tanzania*

Banks placement abroad recorded a rapid increase during the six months to September 2015. Placements increased by 88.0 percent to TZS 1,125.6 billion from TZS 598.8 billion. The increase was mainly driven by exchange rate volatility as a push factor and tight liquidity and market volatility in global financial system as pull factors.

Non-Bank Financial Institutions deposits with the banking sector exhibited mixed performance. Insurance sector deposits in the top 10 banks declined by 24.2 percent to TZS 143.0 billion[2] while social security sector deposits grew by 9.3 percent to TZS 314.7 billion during the year ending September, 2015. The decline in Insurance sector deposits is partly explained by a shift in investment mix to take into account changes in returns.

[2] This differs from observed increase in the aggregate insurance sector investment mix, Table 3.4, suggesting large proportions of insurance deposit held with banks other than the top ten banks.

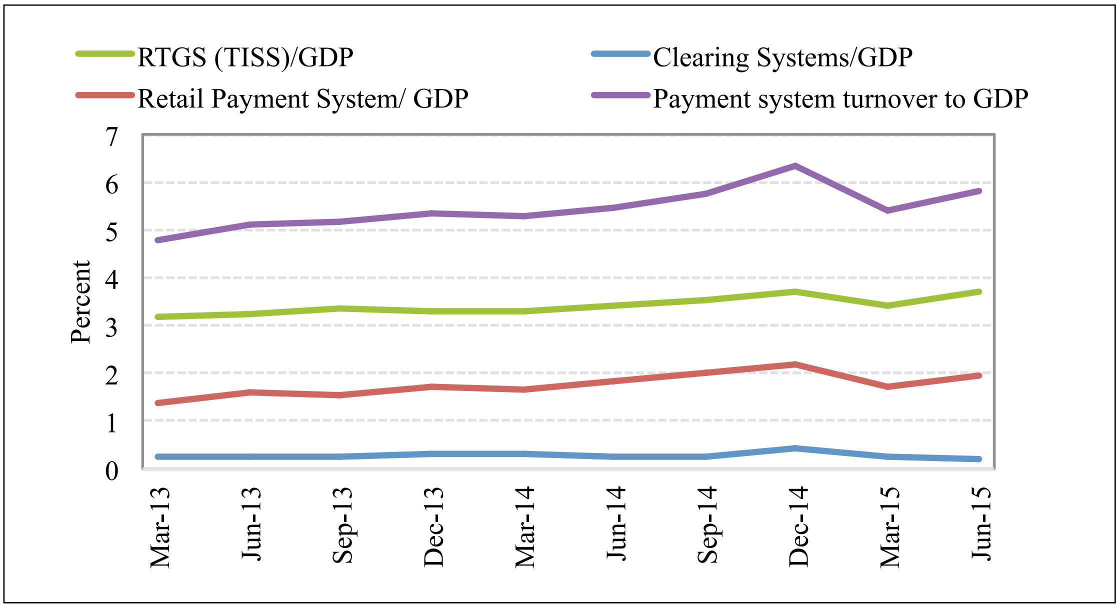
4.0 FINANCIAL SYSTEM INFRASTRUCTURE AND REGULATORY DEVELOPMENTS

4.1 Payment Systems

During the year ending September 2015, the Bank continued to upgrade payments systems to enhance efficiency and security. Operations of Electronic Clearing House (ECH) were automated to facilitate clearing of cheques and electronic funds transfers (EFT) to enhance efficiency and safety. Tanzania Interbank Settlement System (TISS) is being upgraded to comply with international standards under the Principles of Financial Markets Infrastructures (PFMI).

Payments system transactions increased in volume and value indicating reliability and efficiency of the system. On average, the total transactions increased in value and volume by 15.8 percent and 17.2 percent to TZS. 66,383.1 billion and TZS 399.0 million, respectively in the six months to September 2015. Total payments systems turnover to GDP, increased to a peak of 6.3 percent in September, 2014 before declining to 5.8 percent in June, 2015 (**Chart 4.1**).

Chart 4.1: Payment System Turnover Value to GDP

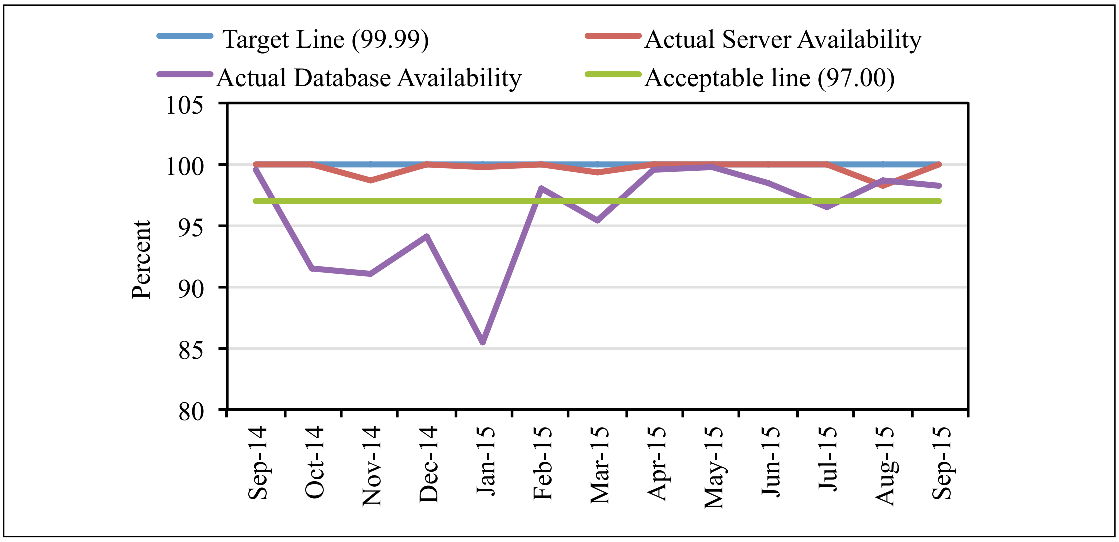


Source: *Bank of Tanzania*

Liquidity and settlement risks heightened as liquidity conditions tightened, necessitating increased recourse to short term liquidity support facility by TISS participants. Access to Lombard increased to TZS. 2,454.4 billion, equivalent to 3.1 percent of the total TISS transactions during the six months to September 2015.

During the six months to September 2015, TISS availability was smooth without major disruptions. The system maintained server uptime efficiency level at 99.7 percent while database uptime improved to 98.5 percent efficiency compared with 92.6 percent in the previous six months to March 2015 (**Chart 4.2**).

Chart 4.2: TISS Database and Server Availability



Source: *Bank of Tanzania*

4.2 Regulatory Developments

4.2.1 Banking Sector

During the period under review, the Bank issued 'The Banking and Financial Institutions (Mortgage Finance) Regulations, (2015)' and 'The Foreign Exchange (Bureau De Change) Regulation, (2015)'. The former aims at promoting sustainable mortgage financing industry. The latter aims at monitoring of the foreign exchange market and to mitigate against associated inherent risks.

4.2.2 Capital Markets

The Commodity Exchange Act, 2015 was enacted in June 2015. The Act promotes and facilitates development of an orderly, fair and efficient market for commodities and foster price discovery. Operationalization of the market will be under the oversight of Capital Markets and Securities Authority.

4.2.3 Social Security Sector

The Social Security Schemes (Investment guidelines), 2015 was revised in September 2015 with the objective of improving risk management in the sector. The revised guidelines have set new permissible investment limits and allow investment within EAC region following the liberalization of capital account in the region.

4.2.4 National Payment System

The National Payment Systems Act, 2015 was enacted in June 2015 with objective of providing a legal basis for regulatory oversight and supervision of the payments systems. It also covers market conduct oversight in the payments systems. In addition payments services providers have been directed to adopt "chip and PIN" compliant cards.

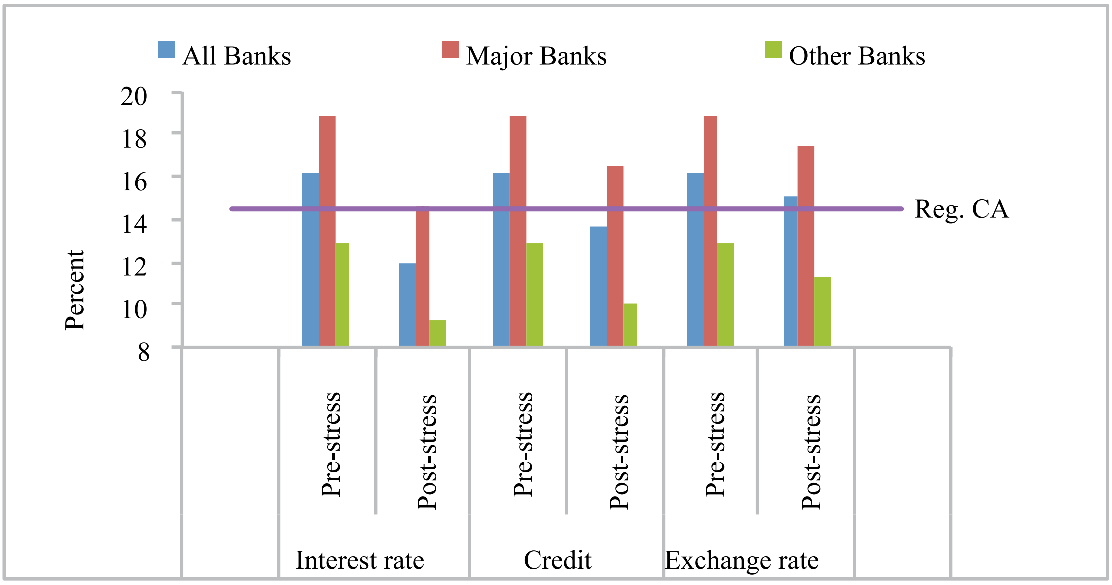
5.0 FINANCIAL SYSTEM RESILIENCE, OUTLOOK AND RECOMMENDATIONS

5.1 Financial System Resilience

Banking Sector Resilience

The results of stress testing revealed that, in aggregate terms the sector was adequately capitalized to absorb the shocks. The banking sector was subjected to shocks relating to increase in credit, interest and exchange rate risks (**Chart 5.1**).

Chart 5.1: Stress Testing Results of the Banking System



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

5.2 Financial Stability Outlook

Risks arising from macro-financial environment are expected to increase in the next six months on account of continued slowdown in emerging market and developing economies due to weakening economic activity, declining commodity prices and tighter financial conditions. Additionally, uncertainties regarding normalization of monetary policy in advanced economies will contribute to further tightening of financial conditions. Volatilities in Emerging Market Economies will negatively affect asset prices and credit allocation as foreign debt servicing capacity for public and private corporations deteriorates thus weakening bank balance sheets.

Risks to EAC macro-financial environment are expected to increase due to slowdown in emerging market economies and decline in commodity prices. However, low oil prices are expected to positively impact on the import bills of EAC member states, while strengthening of US dollar will elevate foreign exchange risk.

The slowdown of emerging market economies, low commodity prices and tight global and domestic financial conditions pose downside risks to sustained growth of Tanzania's economy. Despite the potential risks the economy is expected to grow at 6.9 percent in 2015 and 7.0 percent in 2016 supported by increased investment in infrastructure, manufacturing and tourism sectors.

Risks arising from corporate sector are expected to increase in the next six months on account of exchange rate volatility and weak demand for export commodities stemming from slow growth in the Emerging Market Economies.

Household debt is projected to grow in the next six months on account of government initiative to encourage mortgage lending. Down payment for housing purchases was reduced from 20 percent to 10 percent to encourage uptake of housing mortgage.

Banking sector risks are expected to remain low except for foreign exchange risks stemming from further strengthening of US dollar in the event of US normalization of monetary policy and increase in interest rates.

Risks arising from Non-bank Financial Sector are expected to increase in the next six months. Uncertainties regarding monetary policy normalization in advanced economies may trigger volatility in the domestic financial markets. Risks arising from insurance sector are expected to remain low on account of improved performance. Risks in Social Security Sector are also expected to remain low on account of implementations of reform programs.

6.0 POLICY RECOMMENDATIONS

Tanzania's financial system is expected to remain resilient in the next six months in light of positive macroeconomic outlook and improvement in regulatory oversight. However, the system is vulnerable to increased downside risks from slowdown in economic activity and spillovers from increased financial market volatility. Furthermore, market uncertainties about impact of US policy rate normalisation coupled with adverse implications of divergent monetary policy between the US and the rest of the world add to the risks. In light of the unfolding global macroeconomic and financial environment, it is recommended to address the remaining challenges to financial stability as follows:

- To implement countercyclical fiscal policy with a view to sustaining investment in infrastructure and human capital development while monetary policy focuses at maintaining macroeconomic stability through mitigating exchange rate volatility and inflationary pressures.
- Tanzania to focus on regional integration as a strategy to diversify export markets while increasing value addition in export products in view of projected decline in import demand in EMEs and continued fall in commodity prices.
- To enhance focus on cross-border risks to financial stability in Tanzania through strengthening and broadening of regulatory and supervisory oversight both internally and across borders in light of the growing interconnectedness among banks and other financial institutions and opening up of capital markets in the SSA region.
- To promote development of domestic debt and equity markets as the global environment transits from cheap funding to more expensive source. This entails deepening and broadening of the domestic capital markets though expanding securitization to foster issuance of appropriate securities such as infrastructure bonds and other instruments to attract institutional and other investors.

APPENDICES

Appendix 1: Global Economic Performance (Real Growth Rates)

	Actual					Projections		Difference from April 2015 WEO projections	
	2010	2011	2012	2013	2014	2015	2016	2015	2016
World output	**5.4**	**4.2**	**3.4**	**3.3**	**3.4**	**3.1**	**3.6**	**-0.4**	**-0.2**
Advanced economies	**3.1**	**1.7**	**1.2**	**1.1**	**1.8**	**2.0**	**2.2**	**-0.4**	**-0.2**
USA	2.5	1.6	2.2	1.5	2.4	2.6	2.8	-0.5	-0.3
Euro area	2.0	1.6	-0.8	0.3	0.9	1.5	1.6	0.0	0.0
Japan	4.7	-0.5	1.7	1.6	-0.1	0.6	1.0	-0.4	-0.2
United Kingdom	1.9	1.6	0.7	1.7	3.0	4.0	4.5	-0.2	-0.1
Emerging and Developing Economies	**7.5**	**6.3**	**5.2**	**5.0**	**4.6**	**6.5**	**6.4**	**-0.3**	**-0.2**
Emerging and Developing Asia	**9.6**	**7.9**	**6.8**	**7.0**	**6.8**	**6.6**	**6.4**	**-0.1**	**0.0**
China	10.6	9.5	7.7	7.7	7.3	6.8	6.3	0.0	0.0
India	10.3	6.6	5.1	6.9	7.3	7.3	7.5	-0.2	0.0
Asean-5				5.1	4.6	4.6	4.9	-0.6	-0.4
Sub-Saharan	**6.6**	**5.0**	**4.3**	**5.2**	**5.0**	**3.8**	**4.3**	**-0.7**	**-0.8**
Excluding Nigeria and South Africa	6.2	5.9	5.2	6.4	5.7	4.7	5.5		
Nigeria	10.0	4.9	4.3	5.4	6.3	4.0	4.3	-0.8	-0.7
South Africa	3.0	3.2	2.2	2.2	1.5	1.4	1.3	-0.6	-0.8
Oil Exporting	8.5	4.6	3.8	5.7	5.9	3.6	4.2		
Oil Importing (Excl RSA)	6.9	6.6	6.2	6.4	6.1	5.4	6.1		
SADC	**4.2**	**4.3**	**3.7**	**4.2**	**3.5**	**3.0**	**3.1**	**0.0**	**0.0**
Excluding South Africa									
EAC Overall	**7.4**	**6.9**	**4.5**	**5.8**	**5.9**	**6.1**	**6.6**		
Kenya	8.4	6.1	4.5	5.7	5.3	6.5	6.8		
Rwanda	6.3	7.5	8.8	4.7	6.9	6.5	7.0		
Tanzania	6.4	7.9	5.1	7.3	7.2	6.9	7.0		
Uganda	7.7	6.8	2.6	3.9	4.9	5.2	5.5		
Burundi	5.1	4.2	4.0	4.0	4.7	-7.2	5.2		
Memorandum									
World Commodity prices (U.S. dollars)									
Oil				-0.9	-7.5	-46.4	-2.4	-6.8	-15.3
Nonfuel				-1.2	-4.0	-16.9	-5.1	-2.8	-4.1

Note: *Asean-5 includes Indonesia, Malaysia, Thailand, Philippines, and Vietnam.*
Oil prices are simple average prices of UK Brent Dubai Fateh, and West Texas intermediate crude oil.
Nonfuel are average based on world commodity export weights
Source: *IMF, World Economic Outlook, October, 2015; SSA Region Economic Outlook, October, 2015*

Appendix 2: Annual GDP Performance by Economic Activity - Tanzania Mainland

Economic Activity	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014r	2015p
Sector Share in GDP											
GDP at market prices	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Agriculture and Fishing	**29.1**	**28.4**	**26.8**	**27.3**	**27.2**	**26.3**	**25.2**	**24.8**	**23.8**	**23.0**	**23.0**
Agriculture	**27.3**	**26.7**	**25.2**	**25.7**	**25.7**	**24.8**	**23.8**	**23.4**	**22.5**	**21.8**	**21.8**
Crops	15.7	14.8	13.5	13.7	13.8	13.4	13.0	12.9	12.5	12.1	12.1
Fishing	**1.7**	**1.7**	**1.6**	**1.6**	**1.5**	**1.5**	**1.4**	**1.4**	**1.3**	**1.3**	**1.3**
Industry and construction	**19.4**	**19.7**	**20.2**	**20.4**	**20.0**	**20.5**	**21.3**	**21.1**	**21.5**	**22.2**	**22.2**
Mining and quarrying	4.2	3.5	3.5	3.0	3.4	3.4	3.3	3.4	3.3	3.4	3.4
Manufacturing	6.6	6.8	7.0	7.4	7.4	7.5	7.5	7.4	7.3	7.3	7.3
Electricity Gas &Water	2.0	1.8	1.8	1.8	1.7	1.8	1.6	1.6	1.6	1.6	1.6
Construction	6.7	7.6	7.9	8.2	7.5	7.8	8.9	8.7	9.3	9.9	9.9
Services	**46.8**	**47.4**	**47.4**	**46.8**	**47.0**	**47.6**	**47.8**	**48.8**	**48.7**	**48.8**	**48.8**
Trade and repairs	9.1	9.5	9.9	10.0	9.7	10.0	10.4	10.2	10.0	10.2	10.2
Hotels and restaurants	1.9	1.9	1.8	1.8	1.7	1.6	1.6	1.6	1.5	1.5	1.5
Transport & Communications	8.1	8.4	8.2	8.1	8.7	9.4	9.2	9.7	10.2	10.6	10.6
Financial & Insurance	2.2	2.5	2.8	3.2	3.6	3.8	4.0	4.0	4.0	4.1	4.1
Real estate and business services	10.8	10.7	10.1	10.0	9.8	10.0	9.6	9.7	9.6	9.2	9.2
Public administration & defense	8.5	8.1	8.1	7.2	6.8	6.1	6.5	6.8	6.8	6.6	6.6
Education	3.0	3.0	3.2	3.3	3.4	3.4	3.3	3.4	3.3	3.3	3.3
Health	1.6	1.7	1.6	1.6	1.7	1.6	1.6	1.7	1.7	1.7	1.7
Other social and personal services	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6
less FISIM	-1.0	-1.2	-1.2	-1.3	-1.4	-1.4	-1.6	-1.6	-1.5	-1.5	-1.5
Taxes on products	5.7	5.6	6.8	6.8	7.2	7.1	7.3	7.0	7.5	7.5	7.5
GDP Growth Rate											
GDP at market prices (2007=100)	**7.9**	**4.7**	**8.5**	**5.6**	**5.4**	**6.4**	**7.9**	**5.1**	**7.3**	**7.0**	**6.9**
Agriculture and Fishing	**5.5**	**2.4**	**2.4**	**7.5**	**5.1**	**2.7**	**3.5**	**3.2**	**3.2**	**3.4**	**3.4**
Agriculture	**5.4**	**2.3**	**2.5**	**7.5**	**5.4**	**2.8**	**3.5**	**3.3**	**3.1**	**3.5**	**3.5**
Crops	6.6	-1.4	-1.5	7.8	5.5	3.7	4.8	4.2	3.5	4.0	4.0
Fishing	**6.7**	**2.8**	**0.9**	**7.2**	**0.5**	**0.9**	**2.6**	**2.9**	**5.5**	**2.0**	**2.0**
Industry and construction	**11.7**	**6.2**	**11.0**	**6.5**	**3.3**	**9.1**	**12.0**	**4.0**	**9.5**	**10.3**	**10.3**
Mining and quarrying	16.0	-13.7	9.2	-9.8	18.7	7.3	6.3	6.7	3.9	9.4	9.4
Manufacturing	9.4	8.4	11.5	11.4	4.7	8.9	6.9	4.1	6.5	6.8	6.8
Electricity Gas &Water	6.2	-2.8	3.9	5.1	4.4	7.8	-2.9	3.1	8.1	6.8	6.8
Construction	13.0	19.2	13.1	9.7	-3.8	10.3	22.9	3.2	14.6	14.1	14.1
Services	**8.1**	**6.0**	**8.5**	**4.2**	**5.8**	**7.8**	**8.4**	**7.2**	**7.1**	**7.2**	**7.2**
Trade and repairs	5.8	9.4	12.9	6.5	2.7	10.0	11.3	3.8	4.5	10.0	10.0
Hotels and restaurants	3.6	3.4	4.5	3.3	1.0	3.7	4.1	6.7	2.8	2.2	2.2
Transport & Communications	10.8	7.9	6.0	4.6	12.9	15.4	5.9	10.9	12.7	10.6	10.6
Finance & Insurance	8.3	19.1	21.7	18.8	18.4	12.6	14.8	5.1	6.2	10.8	10.8
Real estate and business services	6.8	3.6	2.9	4.0	3.4	8.3	3.3	6.4	5.9	3.2	3.2
Public administration & defence	13.6	-0.3	9.1	-6.3	-0.7	-5.0	15.9	9.1	7.8	3.9	3.9
Education	4.0	7.7	13.2	9.5	9.2	6.4	5.6	7.4	4.3	4.8	4.8
Health	7.8	9.9	7.0	5.5	7.4	3.3	5.3	11.4	8.8	8.1	8.1
Other social and personal services	3.0	4.9	5.4	5.2	4.6	5.6	5.8	6.6	5.6	5.8	5.8
less FISIM	10.1	23.4	11.7	6.8	20.0	7.9	22.6	1.2	0.1	9.7	9.7
Taxes on products	7.8	3.5	31.0	4.8	12.8	3.8	12.1	0.4	14.2	7.7	7.7
Contribution to GDP growth rate											
GDP at market prices	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Agriculture and Fishing	**20.5**	**14.7**	**7.9**	**36.1**	**25.9**	**11.5**	**11.6**	**15.9**	**10.9**	**11.6**	**11.6**
Agriculture	**19.0**	**13.6**	**7.8**	**34.1**	**25.7**	**11.3**	**11.1**	**15.2**	**9.9**	**11.2**	**11.2**
Crops	13.2	-4.8	-2.7	18.9	14.1	7.9	8.2	10.6	6.2	7.2	7.2
Fishing	**1.5**	**1.1**	**0.2**	**2.1**	**0.1**	**0.2**	**0.5**	**0.8**	**1.0**	**0.4**	**0.4**
Industry and construction	**27.6**	**25.8**	**25.7**	**23.7**	**12.5**	**28.5**	**31.2**	**16.7**	**27.6**	**31.9**	**31.9**
Mining and quarrying	7.9	12.3	3.8	-6.1	10.4	3.8	2.7	4.3	1.8	4.4	4.4
Manufacturing	7.7	11.9	9.3	14.4	6.5	10.4	6.6	6.0	6.6	7.2	7.2
Electricity Gas &Water	1.6	-1.2	0.9	1.6	1.4	2.2	-0.6	1.0	1.7	1.5	1.5
Construction	10.4	27.4	11.8	13.8	-5.8	12.2	22.6	5.5	17.5	18.8	18.8
Services (RHS)	**47.6**	**60.4**	**47.4**	**35.7**	**50.2**	**57.4**	**50.5**	**67.1**	**47.8**	**50.3**	**50.3**
Trade and repairs	6.8	18.4	14.5	11.5	5.0	15.2	14.4	7.6	6.3	14.3	14.3
Hotels and restaurants	0.9	1.4	1.0	1.1	0.3	1.0	0.9	2.1	0.6	0.5	0.5
Transport & Communications	10.7	13.8	5.9	6.8	19.4	20.9	7.1	19.6	17.0	15.6	15.6
Financial & Insurance	2.3	9.1	6.5	9.5	10.8	7.1	7.1	4.0	3.4	6.2	6.2
Real estate and business services	9.3	8.3	3.6	7.4	6.4	12.8	4.2	11.9	7.9	4.3	4.3
Public administration	13.8	-0.6	8.7	-9.2	-1.0	-5.4	12.2	11.6	7.3	3.8	3.8
Education	1.5	4.9	4.8	5.5	5.6	3.4	2.4	4.8	2.0	2.3	2.3
Health	1.6	3.4	1.4	1.6	2.3	0.9	1.1	3.5	2.0	2.0	2.0
Other social and personal services	0.7	1.8	1.1	1.5	1.4	1.4	1.2	2.0	1.2	1.3	1.3
less FISIM	-1.3	-5.1	-1.7	-1.5	-4.6	-1.8	-4.1	-0.4	0.0	-2.0	-2.0
Taxes on products	5.6	4.2	20.7	5.9	16.0	4.3	10.8	0.6	13.7	8.2	8.2

Source: *NBS and BOT Calculations*

Appendix 3: Annual GDP Performance by Economic Activity – Zanzibar

Economic Activity	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014r	2015p
Sectoral Share in total GDP												
GDP at market prices	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Agriculture and Fishing	**21.9**	**21.5**	**26.0**	**24.7**	**25.0**	**24.4**	**24.2**	**23.1**	**20.2**	**21.4**	**19.9**	**19.9**
Agriculture	**17.9**	**17.5**	**20.8**	**19.6**	**19.8**	**19.5**	**19.4**	**18.1**	**15.3**	**16.6**	**15.1**	**15.1**
Crops	13.7	13.3	14.6	13.5	13.8	13.7	13.7	12.7	9.9	11.4	9.9	9.9
Fishing	**3.9**	**4.0**	**5.3**	**5.1**	**5.2**	**4.9**	**4.8**	**5.0**	**4.9**	**4.7**	**4.8**	**4.8**
Industry and construction	**13.5**	**13.7**	**17.2**	**16.8**	**18.0**	**17.9**	**17.9**	**19.4**	**19.9**	**19.2**	**19.0**	**19.0**
Mining and quarrying	0.7	0.8	1.1	1.1	1.3	1.4	1.4	1.5	1.7	1.5	1.5	1.5
Manufacturing	5.1	5.0	8.9	8.5	8.1	8.0	7.9	7.8	7.7	7.7	7.9	7.9
Electricity Gas &Water	1.6	1.6	0.8	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7
Construction	6.1	6.3	6.4	6.4	7.8	7.8	7.9	9.3	9.8	9.3	9.0	9.0
Services	**49.1**	**49.3**	**47.6**	**49.4**	**49.0**	**49.6**	**49.9**	**49.5**	**49.4**	**48.3**	**49.6**	**49.6**
Trade & repairs	9.1	9.9	11.1	11.6	10.1	9.2	8.8	8.6	7.4	7.1	7.5	7.5
Hotels & restaurants	5.7	7.7	8.9	8.8	7.9	7.5	7.3	7.9	7.7	7.8	7.8	7.8
Transport & communication	7.8	8.1	4.9	6.4	7.0	6.8	7.8	8.1	8.8	8.2	8.7	8.7
Financial intermediation	1.7	1.8	3.1	3.5	3.4	4.0	4.4	4.3	4.4	4.3	4.4	4.4
Real estate & business services	1.0	1.0	6.4	6.4	6.5	6.5	6.6	6.4	6.6	6.6	6.6	6.6
Public administration	16.4	13.5	8.0	7.7	9.0	10.6	10.2	9.5	10.1	9.9	10.3	10.3
Other social and personal services	0.4	0.4	1.2	1.2	1.1	1.1	1.1	1.1	1.0	1.0	1.0	1.0
Less FISIM			0.8	0.9	0.9	1.1	1.1	1.2	1.2	1.2	1.2	1.2
Taxes on products	15.6	15.6	9.9	10.0	8.9	9.2	9.1	9.1	11.6	12.4	12.8	12.8
GDP Growth Rate												
DP at market prices (2007=100)	**6.5**	**4.9**	**99.8**	**5.7**	**4.2**	**6.2**	**4.3**	**9.3**	**4.9**	**7.2**	**7.0**	**6.8**
Agriculture and Fishing	**2.8**	**2.9**	**99.7**	**0.2**	**5.5**	**3.8**	**3.3**	**4.7**	**-8.3**	**13.2**	**-0.4**	**-0.4**
Agriculture	-3.9	-2.6	18.9	-5.8	1.3	-1.9	-0.5	-6.4	15.4	8.5	-9.4	-9.4
Crops	2.0	1.6	99.7	-2.1	6.6	5.1	4.3	1.7	18.4	22.9	-7.2	-7.2
Fishing	**4.8**	**6.3**	**99.7**	**2.4**	**5.4**	**1.9**	**1.5**	**13.9**	**2.5**	**3.6**	**8.9**	**8.9**
Industry and construction	**12.5**	**6.6**	**99.7**	**3.5**	**11.6**	**5.4**	**4.6**	**18.4**	**7.5**	**3.4**	**6.0**	**6.0**
Mining and quarrying	4.2	15.5	99.7	9.1	19.8	12.6	6.6	18.4	12.7	-3.6	4.9	4.9
Manufacturing	-5.1	2.4	99.6	0.5	-0.4	4.7	3.5	7.0	3.6	6.9	9.9	9.9
Electricity Gas &Water	6.0	7.5	99.9	7.5	0.0	1.8	0.0	19.0	5.8	4.1	5.3	5.3
Construction	37.6	8.8	99.8	6.3	27.6	5.2	5.7	29.8	9.9	1.9	3.0	3.0
Services	**6.7**	**5.3**	**99.8**	**9.4**	**3.3**	**7.1**	**4.8**	**8.3**	**4.8**	**4.6**	**9.9**	**9.9**
Trade and repairs	2.2	14.8	99.7	9.9	-8.9	-3.1	-1.1	7.7	10.4	2.9	13.0	13.0
Hotels and restaurants	11.5	39.9	99.7	4.5	-6.5	1.1	1.8	18.1	1.5	9.5	6.9	6.9
Transport & Communications	6.9	9.8	99.9	37.4	14.7	3.1	19.2	14.2	13.7	0.0	13.3	13.3
Finance & Insurance	19.1	13.7	-99.6	21.0	1.0	25.0	14.5	5.9	7.6	5.1	10.6	10.6
Real estate and business services	4.7	4.7	98.4	4.8	6.8	5.9	5.7	6.6	6.8	7.7	7.5	7.5
Public administration & defense	6.9	13.5	99.9	1.3	22.3	25.7	-0.1	1.7	12.0	5.2	10.8	10.8
Other social and personal services	4.3	4.3	99.2	4.3	0.5	4.4	3.3	7.9	0.1	6.5	5.3	5.3
less FISIM				21.0	5.2	28.1	8.6	15.7	4.8	10.8	11.4	11.4
Taxes on products	6.4	4.9	99.8	6.5	-7.3	10.2	3.4	9.6	33.4	14.1	10.2	10.2
Contribution to GDP growth rate												
GDP at market prices	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Agriculture and Fishing	**9.7**	**12.8**	**21.4**	**0.8**	**32.3**	**15.0**	**19.0**	**12.1**	**37.1**	**-1.3**	**19.9**	**19.9**
Agriculture	**6.8**	**7.7**	**17.5**	**-1.5**	**25.7**	**13.4**	**17.3**	**4.9**	**34.7**	**-7.3**	**15.1**	**15.1**
Crops	4.4	4.6	13.3	-5.4	21.3	11.3	13.8	2.5	31.4	-11.7	9.9	9.9
Fishing	**3.0**	**5.1**	**4.0**	**2.3**	**6.6**	**1.6**	**1.7**	**7.1**	**2.4**	**6.0**	**4.8**	**4.8**
Industry and construction	**24.6**	**18.3**	**13.7**	**10.6**	**46.6**	**15.5**	**19.1**	**35.2**	**9.5**	**16.5**	**19.0**	**19.0**
Mining and quarrying	0.5	2.4	0.8	1.8	5.4	2.7	2.2	2.8	-0.8	1.0	1.5	1.5
Manufacturing	-4.5	2.5	5.0	0.8	-0.9	6.1	6.5	6.0	7.3	10.9	7.9	7.9
Electricity Gas &Water	1.4	2.4	1.6	1.0	0.0	0.2	0.0	1.4	0.4	0.6	0.7	0.7
Construction	27.2	11.0	6.3	7.0	42.1	6.6	10.4	25.0	2.6	4.0	9.0	9.0
Services	**50.3**	**53.3**	**49.3**	**77.4**	**38.4**	**54.9**	**54.6**	**43.3**	**30.6**	**66.7**	**48.3**	**48.3**
Trade and repairs	3.2	27.6	9.9	19.4	24.5	-4.9	-2.3	7.2	3.0	13.2	7.5	7.5
Hotels and restaurants	9.7	47.2	7.7	7.0	13.5	1.3	3.2	14.2	10.1	7.8	7.8	7.8
Transport & Communications	8.2	15.7	8.1	32.3	22.3	3.5	30.6	11.8	0.0	15.6	8.7	8.7
Financial & Insurance	4.4	4.7	1.8	11.4	0.8	13.7	13.6	2.8	3.1	6.5	4.4	4.4
Real estate and business services	0.7	0.9	0.9	5.4	10.4	6.2	8.7	4.7	7.0	7.1	6.6	6.6
Public administration	17.3	45.6	13.5	1.8	40.7	37.0	-0.2	1.9	7.3	15.5	10.3	10.3
Other social and personal services	0.2	0.3	0.4	0.9	0.1	0.8	0.9	0.9	0.9	0.8	1.0	1.0
less FISIM				-2.8	-1.1	-3.9	-2.1	-1.8	-1.7	-2.0	-1.2	-1.2
Taxes on products	15.4	15.6	15.6	11.3	17.3	14.5	7.2	9.4	22.8	18.1	12.8	12.8

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

Appendix 4: Selected Macroeconomic Indicators

Item	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 (Sept)
National debt to GDP	58.8	33.8	32.1	30.3	34.0	36.9	34.9	35.7	37.9	38.4	39.9
o/w External Debt	48.9	25.4	24.5	24.5	21.6	24.2	24.2	22.3	25.0	26.3	26.7
Inflation rate	5.0	7.2	7.0	10.3	12.2	7.6	12.6	16.0	7.7	6.1	5.3
Trade weighted Exchange rate Index (TWERI)	93.2	104.8	100.0	97.2	93.4	92.2	104.8	111.4	82.0	85.6	88.7
Non- Financial Corporate Debt to GDP				10.7	10.01	10.7	11.3	11.5	12.3	12.9	8.6
Household Debt to Disposable Income											
Including Informal Sector			18.4	17.7	18.0	19.6	20.8	22.6	23.0	24.0	24.3
Excluding Informal Sector			45.7	40.5	43.8	50.1	56.1	63.6	64.4	66.8	69.8
Growth rate of Household Disposable income											
Including informal sector	61.8	18.1	16.3	29.4	10.6	11.6	16.3	14.2	14.1	15.5	0.3
Excluding informal sector	8.5	12.3	18.5	40.6	4.1	6.2	10.3	9.3	14.5	16.0	-2.5
Growth Rate of Per-capital income	**2.3**	**0.7**	**1.1**	**5.0**	**2.7**	**2.7**	**3.8**	**5.3**	**2.7**	**4.2**	**4.6**

Source: *Bank of Tanzania calculations*

Appendix 5: Growth Rate of Commercial Bank Lending by Sector

percent

End of Period	Agriculture	Financial Intermediaries	Mining & Quarrying	Manufacturing	Building & Construction	Real Estate	Transport & Communication	Trade	Tourism	Hotels & Restaurants	Electricity	Personal
Jan-14	10.6	13.5	139.1	19.1	22.3	30.0	21.2	16.2	68.4	4.3	46.4	-2.7
Feb-14	11.2	16.8	58.0	9.8	14.3	29.2	12.6	14.1	77.0	3.4	52.0	2.4
Mar-14	8.2	18.7	63.9	12.1	18.0	28.9	18.7	10.4	76.3	8.2	63.5	2.3
Apr-14	5.5	19.0	44.3	14.3	17.9	25.8	22.7	6.5	91.9	5.2	64.4	6.5
May-14	4.9	38.9	63.9	16.4	23.7	12.5	24.0	14.0	83.1	1.0	60.4	6.5
Jun-14	11.2	31.6	77.6	27.2	26.0	36.9	29.3	18.9	65.0	23.6	58.0	9.8
Jul-14	12.4	17.6	58.8	26.4	30.2	17.7	36.3	21.0	30.3	30.9	63.8	7.4
Aug-14	2.0	23.9	47.4	22.4	26.6	17.8	27.2	28.8	26.1	10.4	57.3	9.7
Sep-14	-0.7	38.2	42.1	24.6	30.0	7.4	20.5	25.3	22.7	15.0	65.1	13.2
Oct-14	4.1	32.5	51.4	27.2	31.3	4.9	32.6	34.6	22.3	17.8	56.7	14.6
Nov-14	5.3	26.9	21.4	22.6	21.2	6.6	17.0	21.9	31.1	16.4	68.0	24.0
Dec-14	9.6	23.7	71.9	19.4	28.3	1.5	27.2	22.7	14.2	17.5	9.4	20.6
Jan-15	-1.3	21.2	57.0	22.4	24.7	0.4	31.7	25.9	24.2	19.1	9.3	22.3
Feb-15	-2.1	33.1	72.4	31.8	25.0	-2.5	34.2	28.6	24.9	17.8	3.2	22.1
Mar-15	-0.9	16.5	60.1	21.9	27.9	-0.9	23.7	35.7	19.1	14.1	8.0	17.6
Apr-15	2.8	14.7	51.8	20.3	22.4	4.8	24.5	39.3	13.9	19.3	14.6	18.9
May-15	6.0	18.0	99.9	32.8	23.1	11.7	31.9	32.7	29.7	24.2	22.5	23.9
Jun-15	7.6	3.0	54.3	26.3	13.2	8.1	30.8	27.3	28.5	10.0	14.6	22.1
Jul-15	6.0	-7.5	50.1	30.7	22.9	19.7	24.8	24.6	31.3	13.6	16.3	25.3
Aug-15	12.9	-14.5	55.7	36.7	19.5	22.0	28.4	14.7	21.5	33.6	16.3	24.8
Sep-15	15.4	1.3	44.4	20.7	12.7	38.8	31.2	25.0	23.9	20.9	10.9	25.1

Source: *Bank of Tanzania*

Appendix 6: National Debt Developments

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 Sept
Debt Stock (millions of USD)													
External	7,520.00	8,209.30	8,022.90	4,685.90	5,793.20	6,256.40	7,802.00	8,736.90	9,093.90	10,665.10	13,196.60	14,560.90	15,320.10
Domestic	864.3	913.3	1,616.40	1,562.30	1,807.20	1,466.50	1,962.70	2,309.90	2,577.70	3,277.80	3,831.70	4,341.60	3,641.70
National Debt	8,384.30	9,122.60	9,639.30	6,248.20	7,600.40	7,722.90	9,764.70	11,046.80	11,671.60	13,942.90	17,028.30	18,917.60	18,961.80
Public Debt (excl. Private)	7,458.20	8,215.80	8,716.90	5,175.20	6,318.10	6,525.50	8,243.10	9,204.10	9,861.60	12,063.60	9,364.90	10,938.70	11,536.90
Public External Debt	6,593.90	7,302.60	7,100.50	3,613.10	4,510.90	5,059.00	6,280.50	6,894.20	7,283.90	8,785.80	10,938.20	12,420.70	12,845.40
External Debt service (ESD)	247.2	245.7	196.3	127	102	152.6	97.8	172.6	68.2	121.3	175.4	70.8	34.8
As percent of GDP													
National	71.9	71.1	67.3	43.7	45.1	37.4	33.8	35.4	34.7	35.7	39	40	39.5
External	64.5	64	56	32.7	34.4	30.3	27	28	27	27.3	30.2	30.8	31.9
Domestic	7.4	7.1	11.3	10.9	10.7	7.1	6.8	7.4	7.7	8.4	8.8	9.2	7.6
Public Debt	64	64	60.9	36.2	37.5	31.6	28.5	29.5	29.3	30.9	21.4	23.2	24
Public External Debt	56.6	56.9	49.6	25.3	26.8	24.5	21.7	22.1	21.7	22.5	32.9	35.5	35.5
Budget deficit	-2.6	-4.9	-5.2	-5.3	-4.5	-4.5	-4.9	-4.9	-3.9	-3.5	-3.3	-3.5	-3.7
Government Expenditure		22.6	19.9	22.2	23.2	23.1	24.5	27	27.5	26.9	26.8	28.3	28.8
EDS/Exp		8.5	6.9	4	2.6	3.2	1.4	2	0.7	1.2	1.5	0.5	0.3
Growth rates													
GDP	6.9	7.8	7.4	6.7	7.1	7.4	6	7	6.4	6.9	7.3	7	6.9
External	6.9	9.2	-2.3	-41.6	23.6	8	24.7	12	4.1	17.3	23.7	10.3	5.2
Domestic	9.4	5.7	77	-3.3	15.7	-18.9	33.8	17.7	11.6	27.2	16.9	13.3	-16.1
National Debt	-3.1	8.8	5.7	-35.2	21.6	1.6	26.4	13.1	5.7	19.5	22.1	11.1	0.2
Public Debt	8	10.2	6.1	-40.6	22.1	3.3	26.3	11.7	7.1	22.3	-22.4	16.8	5.5
Public External Debt	11.1	10.7	-2.8	-49.1	24.8	12.2	24.1	9.8	5.7	20.6	24.5	13.6	3.4
Memorandum													
Budget deficit (TZS)	-302.6	-623.8	-737.7	-755.6	-764.5	-935.1	-1,406.10	-1,515.00	-1,319.50	-1,352.30	-1,455.50	-1667.185	-1,780.10
GDP (USD)	11,653.40	12,828.00	14,319.20	14,308.40	16,838.60	20,660.10	28,909.40	31,218.40	33,630.70	39,012.40	43,697.30	47,249.20	48,004.90
Exchange rate TZS/ USD End of Period	1,063.60	1,043.00	1,165.00	1,261.60	1,132.10	1,280.30	1,313.30	1,453.50	1,566.70	1,571.60	1,578.60	1,723.25	2,149.00
Average Rate	1,028.90	1,089.30	1,129.20	1,253.90	1,244.10	1,196.90	1,306.00	1,365.70	1,557.40	1,571.70	1,578.60	1,659.90	1,944.20

Source: *Bank of Tanzania*

Appendix 7: Non Performing Loans by Sector

Billions of TZS

	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Agriculture	199.8	214.9	136.2	113.9	138.5	157.7	164	122.5	164.8	197.3	213.3	189.5	200.2	190.0	211.3
Financial Intermediaries	17.4	16.8	14.5	16.1	18.5	18.2	18.8	15.2	38.5	41.4	45.9	40.6	38.8	54.5	57.5
Mining and quarrying	17.1	23	10.6	9.5	11.7	2.9	3.5	0.7	8.1	7.8	7.5	7.8	8.5	10.1	26.1
Manufacturing	157	157.6	92.4	84.2	96.3	85.4	75.8	72.9	92.5	94.1	108.3	47.9	46.8	42.7	58.8
Building & construction	67.2	27.1	17.6	26.5	28.6	16.1	20.8	15.6	22.5	22.2	22.6	21.8	23.8	55.5	62.4
Real Estate	91.8	113.1	19.4	23	32.6	40	24.1	26.5	32.5	33.8	36.9	15.1	15.2	15.2	8.7
Leasing	4.6	6.2	3.5	4.6	0	0	0.3	0.3	0.3	0.7	0.4	2.1	2.2	0.1	0.2
Transport and communication	55.5	41.9	32.6	49.7	33.6	55	39.7	42.8	63.3	70.1	66	61	58.2	75.2	81.5
Trade	154.5	163.8	103.5	163.2	132.9	135	124.8	113.3	140	142	163	138.9	153.8	188.7	185.9
Tourism	18	19.8	14	15.1	20.9	18.4	25.2	36.6	41.3	38.5	40.3	29.5	35	14.7	14.2
Hotels and Restaurants	56.9	64.2	36.3	54.9	38	68	39.4	51.3	62.4	67.4	90.1	80.8	62.2	85.9	83.1
Warehousing and Storage	0.1	0.1	0	0.1	0	0	0	0	0.4	1	0.1	0	1.8	0.1	0.2
Electricity	8.2	7.8	0.8	-0.1	0.8	0.2	0.3	0.3	0.1	2.3	2.2	2.1	2.3	2.2	2.1
Gas	2	4.6	-0.2	7.5	7.2	13	8.9	6.1	5.3	6.2	9.3	8.7	11.9	11.7	12.9
Water	0.7	1	0.5	0.9	0.6	1.1	1	0.7	0	0.1	0.1	0.1	0.1	0.2	0.1
Education	15.8	17.5	16.5	20.5	15.2	8.6	6.2	6.7	8.2	13.6	10.3	11.6	13.3	18.3	19.8
Health	0.7	0.9	1.1	1.3	1.7	1.9	1.3	1.7	3	11.2	12	10.6	10.4	11.3	13.2
Other Services	32.9	43.9	4.3	20.7	24.2	19	21.9	18.9	30.5	51.6	49.9	38.1	28.7	36.7	47.7
Personal (Private)	139.6	162.6	130.9	86.7	108.9	122.5	121.5	110.4	111.1	131.9	127.6	109.3	89.5	114.1	96.9

Source: *Bank of Tanzania*

Appendix 8: Financial Soundness Indicators of EAC Banking Systems

	Dec-13					Dec-14					Jun-15				
	Tanzania	Kenya	Uganda	Rwanda	Burundi	Tanzania	Kenya	Uganda	Rwanda	Burundi	Tanzania	Kenya	Uganda	Rwanda	Burundi
CAPITAL ADEQUACY															
Core Capital/TRWA+OBSE	17.7	19.4	19.1	20.9	19.1	16.5	15.9	19.7	21.3	15.3	16.1	15.7	18.8	22.1	17.3
Total capital/TRWA+OBSE	18.2	23.2	22.1	23.1	22.3	17.7	19.2	22.2	24.0	17.3	17.7	18.9	21.3	24.6	19.5
LIQUIDITY															
Liquid Assets/Demand Liabilities	36.5	38.6	46.7	49.4	67.8	36.1	37.7	47.4	48.7	78.2	37.8	38.7	49.0	49.6	73.7
Total Loans/Customer Deposits	71	80.4	63.5	49.42	49.2	74.4	83.7	62.4	94.4	80.5	76.2	83.5	63.8	93.7	87.7
EARNINGS AND PROFITABILITY															
Net Interest Margin (NIM)	66.9	37.2	67.3	9.5	50.8	67.5	36.0	63.0		51.4	65.9	35.6	65.4		59.0
Non-Interest Expenses/Gross Income	67.2	41.7	63.7	65.3	77	66.9	40.9	59.4	60.9	67.8	65.1	38.9	60.6	60.8	68.4
Return on Assets-ROA (PBT/ Average Total Assets)	2.5	3.6	3.1	1.5	1.3	2.6	3.4	3.6	1.9	1.0	2.9	3.3	3.8	2.1	8.1
ASSET QUALITY															
Gross non-performing Loans/ gross Loans	6.6	5	6	6.9	10.3	6.8	5.4	4.1	6.0	11.1	6.7	5.7	4.0	6.2	13.3
NPLs net of provisions/Total Capital	14.6	5.8	6.3	6	5.2	16.2	7.4	6.9	13.4	7.2	16.5	8.1	6.5	12.2	10.1
Earning Assets/Total Assets	79.5	88.9	69.6	78.6	66.8	79.4	88.2	71.5	93.1	66.5	78.7	87.5	69.5	85.1	68.2
SENSITIVITY TO MARKET RISK															
FX Currency Denominated Assets/Total Assets	30.2	13.7	31.1	16.3	17.2	30.3	15.4	31.8	20.9	16.3	34.3	16.4	38.1	18.2	15.9
FX Currency Denominated Liabilities/Total Liabilities	34.5	22.9	38.1	23.4	17.5	36.0	22.6	39.2	30.2	21.3	39.8	23.5	44.4	26.6	18.1
Net Open Positions in FX/ Total Capital	1.5	2.2	-2.7	-2.2	0.1	-2.5	4.3	-6.1	-1.8	-9.2	-2.2	2.9	-5.0	-4.0	3.9

***Source**: Bank of Tanzania*

Appendix 9: Quarterly performance of DSE

	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Total Market Capitalization (TZS Billions)	13,515.80	14,057.90	14,842.00	16,464.30	17,300.70	18,902.20	22,576.30	22,090.40	22,743.30	23,721.49	22,166.42
Domestic Market Capitalization (TZS Billions)	3,323.30	3,865.60	4,308.60	5,979.80	6,175.80	7,490.00	11,021.80	9,925.50	10,235.90	9,927.11	9,809.92
Cross listed Market Capitalization (TZS Billions)	10,192.60	10,192.30	10,533.40	10,484.50	11,124.80	11,412.20	11,554.50	12,164.90	12,507.40	13,794.38	12,356.50
GDP (TZS Billions)	70,953.20	70,953.20	70,953.20	70,953.20	79,442.50	79,442.50	79,442.50	79,442.50	89,775.90	89,775.90	89,775.90
Total Market Capitalization/GDP (Percent)	19	19.8	20.9	23.2	21.8	23.8	28.4	27.80	28.60	26.42	24.69
% of domestic listed Companies	24.6	27.5	29	36.3	35.70	39.60	48.80	44.90	45.00	41.85	44.26
% of cross listed Companies.	75.4	72.5	71	63.7	64.30	60.40	51.20	55.10	55.00	58.15	55.74
Market Turn-over (TZS Millions)	10,423.94	34,933.59	40,051.29	167,050.78	22,622.52	42,691.45	173,284.19	143,636.22	277,316.85	283,684.00	222,248.62
Share Indices											
All Share Index	1,521.50	1,582.50	1,607.10	1,866.60	1,958.10	2,172.70	2,172.70	2,519.60	2,596.30	2,726.77	2,531.08
Tanzania Share Index	1,582.10	1,840.10	2,051.00	2,843.50	2,936.70	3,561.60	5,190.90	4,672.60	4,830.00	4,684.09	4,631.91
Banks, Finance & Investment Index	1,343.00	1,860.10	2,020.00	2,510.90	3,541.10	3,502.80	3,790.10	3,452.30	3,444.00	3,409.78	6,194.49
Industrial & Allied (IA)	1,881.70	1,998.20	2,284.00	3,414.60	3,541.10	4,071.10	6,869.30	6,101.00	6,350.00	6,072.36	3,096.39
Commercial Services (CS)	-	-	1,890.70	1,998.60	2,007.00	1,721.50	2,509.20	2,973.80	3,635.20	4,016.07	3,974.18

Source: *Capital Market and Securities Authority*

Appendix 10: Tanzania Mainland: Trend of Social Security Investment Portfolio

Particulars	Prudential Limit as Percentage of Total Assets	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Bank Deposits	35	7.5	10.2	11.2	9.4	9.4	10.7
Government Debt	20-70	18.6	19.5	19.5	20.1	18.8	18.2
Commercial Paper, Corporate bonds	40	0.3	0.3	0.2	0.2	0.4	0.5
Loans to Government	10	19.9	18.1	17.6	19.3	21.6	21.7
Ordinary and Preference Share	15	10.4	12.4	11	10.8	9.5	9.4
Investments in Licensed Collective Investment Schemes	30	1.4	1.5	1.4	1.5	1.4	1.4
Real Estate	30	19.3	17	20	21.1	17.6	18.9
Loans to Corporates and Cooperative Societies	10	7.8	6.7	7	5.6	6.8	3.9
Infrastructure Investment	25	2.4	2.1	2.5	2.6	2.7	1.8
Other Assets		12.3	12.2	9.5	9.4	11.9	13.5
Total Assets (Billions)		**7,082.4**	**8,376.3**	**8,670.4**	**8,727.0**	**9,473.5**	**9,909.8**

Source: *Bank of Tanzania*

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