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LIST OF ACRONYMS

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

FOREWORD

Tanzania's economy has grown steadily in the past decade owing to implementation of prudent macroeconomic policies that sustained conducive environment for doing business and attracting investment. This achievement was also largely supported by stability in the financial sector that fostered soundness and efficiency of the financial system in the intermediation of investment resources. Notable, was the resilience of the financial system that enabled the economy to sail through the recent global financial crisis.

To this end, the Bank of Tanzania continues with its endeavour to build a financial system capable of withstanding shocks to the economy. The efforts include development of institutions, markets and infrastructure that are capable of allocating savings into investment opportunities efficiently, and ensuring an efficient and sound payment and settlement system. Most important is ensuring that the financial system is stable and resilient to both internal and external shocks, capable of providing financial services to the economy even under conditions of distress. The Bank is increasingly paying attention to the use of macro-prudential indicators in monitoring the health of the financial system.

In order to broaden the scope and effectiveness of oversight of the financial system as a whole, the Tanzania Financial Stability Forum (TFSF)[1] was established in March 2013 to bring together all regulatory agencies in the financial sector. The Forum is guided by the objectives, principles and processes for ensuring stability of the financial system in Tanzania. The Forum facilitates the coordination among the members in order to ensure prompt and effective identification of, and responses to, developments that pose threats to stability of the financial system. The financial infrastructure in Tanzania has been significantly strengthened, attaining some depth in the capital markets, robust payment and settlement systems, and made positive steps towards improving financial safety net. This has been supported by a comprehensive and robust regulatory and supervisory framework that is undergoing reforms to meet new challenges

The Bank of Tanzania is also spearheading initiatives to promote financial inclusion of the under-banked and un-banked population. To this end, inclusiveness is also intended to translate the growth potential into job creation and improving the welfare of the majority of

[1] Members of the TFSF are BOT, CMSA, TIRA, SSRA, DIB, Ministries of Finance of the Governments of the United Republic of Tanzania and the Revolutionary Government of Zanzibar.

the population. Provision of financial services to the under-served and especially the small and medium size enterprises that do not have access to formal financing has a great potential for generating wealth for the low income population. The National Financial Inclusion Framework outlines strategies for attaining the objectives through broadening of micro-financial services, and enhancement of bank outreach through agent banking and mobile payments systems.

Tanzania like many developing economies faces challenges from downside risks emerging from global macroeconomic developments. As recovery in advanced economies strengthens, and normalization of monetary policy gains momentum, capital reversal and exchange rate volatility may negatively impact on macroeconomic stability in emerging market economies and possibly spill-over to developing countries. Another risk is the possible increase in interest rates in international financial markets, thus increasing the cost of external borrowing in emerging and developing economies. However, Tanzania is adequately cushioned against capital outflows and associated risks since most of it is direct investment as opposed to portfolio investment. Nonetheless, the growing financial linkages in the sub-Sahara Africa region may pose some risks to the Tanzania financial system.

In view of the above, the Bank of Tanzania will continue to implement policies aimed at promoting the efficiency and safety of the financial system as a whole and enhance financial system soundness, through collaborative efforts with other supervisors at country level through TFSF. In the spirit of this collaborative oversight effort, the production of Financial Stability Reports will be a shared responsibility among regulators. At regional level, enhancement of financial system soundness will be carried out through supervisory colleges and financial stability arrangements.

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

Prof. Benno Ndulu
Governor and Chairman of the TFSF
31st March 2014

EXECUTIVE SUMMARY

The global economy has generally strengthened in recent quarters, and is projected to improve further in 2014 and 2015 driven by recovery in advanced economies, particularly in the United States and United Kingdom. The growth in advanced economies is expected to stimulate demand for exports from emerging and developing economies. However, risks to the projected growth include lower than expected inflation in advanced economies, increased financial volatility in emerging market economies and increased cost of capital which will likely dampen investment and weigh on growth

The global financial environment moderated with improved credit conditions in advanced economies. Based on loan officer surveys in the US and UK, banks were found to have eased lending conditions as economic recovery initiatives gained momentum while in the Euro area, improved conditions were in favor of large corporations. However, the financial system remains vulnerable with high bank leverages and households and corporates holding substantial amounts of debt.

Growth in Sub Saharan Africa (SSA) is expected to accelerate across all countries supported by increased investment demand and commodity boom. The SADC sub-region, which absorbs 29.0 percent of Tanzania's exports, grew by 4.6 percent in 2013 and is expected to grow by 5.1 percent and 5.2 percent in 2014 and 2015 respectively. On the other hand, the EAC sub-region which absorbs 10.0 percent of Tanzania's exports grew by 5.6 percent in 2013 and is expected to grow by 6.4 percent and 6.5 percent in 2014 and 2015 respectively. However, weakening growth in emerging market economies, less favorable commodity prices and domestic risks, such as those related to weather and other supply-side shocks pose risks to individual countries.

Cross-border banking operations in the SSA region depict a growing trend as the national economies continue to integrate. Apart from the leading multi-national banking groups, African banking groups are also expanding their presence, with South African and Nigerian banks leading at the SSA region, while Kenyan banks are leading at the EAC level. Supervisory colleges have been set up to coordinate regulatory oversight for the regional banking groups. However, the region lacks explicit arrangements for handling cross-border banking crisis. At the East African Community level, the EAC Monetary Affairs Committee is in the process of setting up institutional arrangements for coordination of financial crisis management.

Economic performance in Tanzania remained stable during the year ending March, 2014 as reflected by the broad macroeconomic indicators, despite challenges posed by regional and global environments. The economy remained strong in 2013 at 7.0 percent growth, which was above the regional averages in SSA and the EAC. The growth is expected to increase further to 7.2 percent and 7.5 percent in 2014 and 2015, respectively. Contributing factors to this outlook include government efforts to improve infrastructure, sustain prudent fiscal and monetary policies and increase in aggregate demand.

The Tanzanian shilling remained fairly stable against major currencies except the Japanese Yen. The shilling appreciated against the Indian Rupee and South African Rand which had depreciated against the US Dollar on account of capital outflows. In real terms, the Tanzanian shilling appreciated against a basket of currencies of major trading partners. This could negatively impact Tanzania's export competitiveness if it persists for long.

The financial sector remained stable and efficient in providing financial services to the economy during the year ending March 2014. The banking sector which accounts for about 70 percent of total assets of the financial system, continued to grow in line with strong performance of the economy. The growth was driven by stable macro-economic conditions, establishment of new banks and expansion of branch network, growing banks linkage with SACCOS, introduction of agent banking, expansion of mobile banking and integration of mobile financial services to the banking system. During the year ending March 2014, the banking system remained profitable, liquid and adequately capitalized. However, asset quality deteriorated on account of increase in non-performing loans in the personal, trade, manufacturing and agricultural credit categories.

The Tanzania insurance sector performed satisfactorily in terms of market growth, profitability, assets portfolio and investment mix in the year ending December 2013.

The Social Security Sector continued to grow in terms of coverage and assets portfolio of the Funds, while the value of benefits offered increased sharply. Financial inclusion initiatives including communication strategy, mobile money technology and public awareness programs are expected to increase the Sector's coverage. During the year ending March 2014, the Social Security Regulatory Authority (SSRA) issued four Guidelines which aimed at improving the governance of the Funds and safeguarding the interests of the members. In January, 2014, the government repealed the GEFP Act and replaced it with the

GEPF Retirement Benefit Act No. 8 of 2013 that transformed GEPF from a provident fund to a pension fund.

The capital markets continued to grow on account of new listing and share price appreciation with the financial sector being the main driver of the growth. The Enterprise Growth Market (EGM), an equity market to cater for Small and Medium Enterprises (SMEs) and star-ups, was established in September 2013. This development enhanced the potential for capital markets deepening, widening access to capital and fostering job creation and economic growth. During the year ending March 2014, regulatory framework was put in place to mitigate the potential risks arising from the new market segment.

Technological advancement and institutional innovations have continued to deepen inter-connectedness among financial sectors at national, regional and global levels. At the national level, the Payment Systems wholesale transactions declined while retail payments and clearing house transactions increased substantially. The developments in retail payments are explained by the on-going expansion in mobile phone penetration on the back of expanding mobile phone payments platforms. Such rapid growth requires strong regulatory oversight. To this end, the Bank is awaiting enactment of the new National Payment Systems statute directed at enhancing regulatory oversight.

Despite these positive developments, the deepening of financial systems inter-connectedness heightens risks transmission mechanisms across financial sectors and countries, hence calling for inter-agency cooperation in the financial systems oversight and crisis management. The Tanzania Financial Stability Forum plays a central role to that end.

The outlook for financial stability in the next six months remains positive. Expected stronger global trade and high commodity prices will positively impact on Tanzania's exports. FDI is expected to increase, particularly in the extractive industries. Domestic and Regional economies are expected to grow and remain resilient to negative spillover effects from global developments.

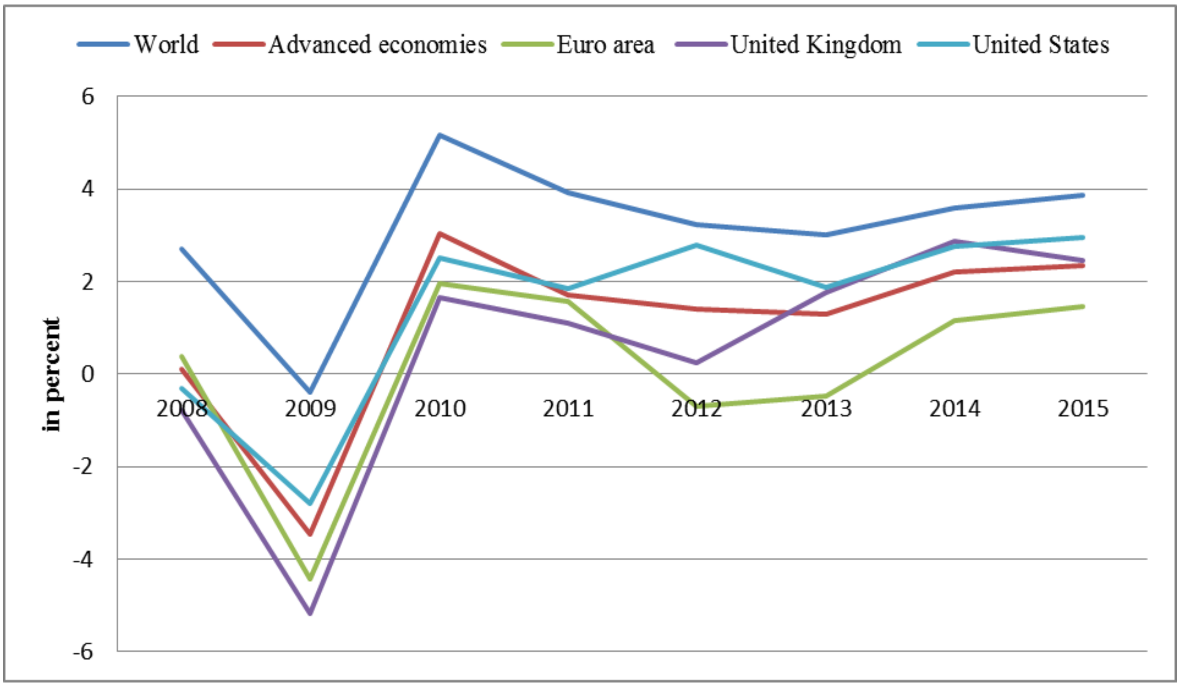
However, the increase of real rates in response to normalization of monetary policy in advanced economies may negatively impact on the cost of capital, foreign borrowing and capital reversals in emerging market economies. Relative appreciation of Tanzanian Shilling against Trading Partners' currencies may weaken Tanzania's exports competitiveness. These call for among others, strengthening macro-prudential oversight, continued implementation of prudent monetary and fiscal policy, sustained investment in infrastructure, broadening and deepening of capital markets.

1.0 MACRO-ECONOMIC AND FINANCIAL ENVIRONMENT

1.1 Global Economic Developments

The global economy has generally strengthened in recent quarters despite downward revision in October 2013, driven by recovery in advanced economies particularly the United States and United Kingdom. It is projected to improve further in 2014 and 2015[2] due to strengthening of global activities and increase in world trade volume during the second half of 2013. The strong growth in advanced economies implies increase in demand for exports from emerging and developing economies. However, risks to the projected growth include: lower than expected inflation in advanced economies, increased financial volatility in emerging market economies and increased cost of capital which will likely dampen investment and weigh on growth (**Chart 1.1**).

Chart 1.1: World GDP Growth Rates



Source: IMF, World Economic Outlook database, April 2014

The stronger growth in the USA was supported by increase in domestic demand in line with declining unemployment and reduction in uncertainties over the fiscal stance. The economy

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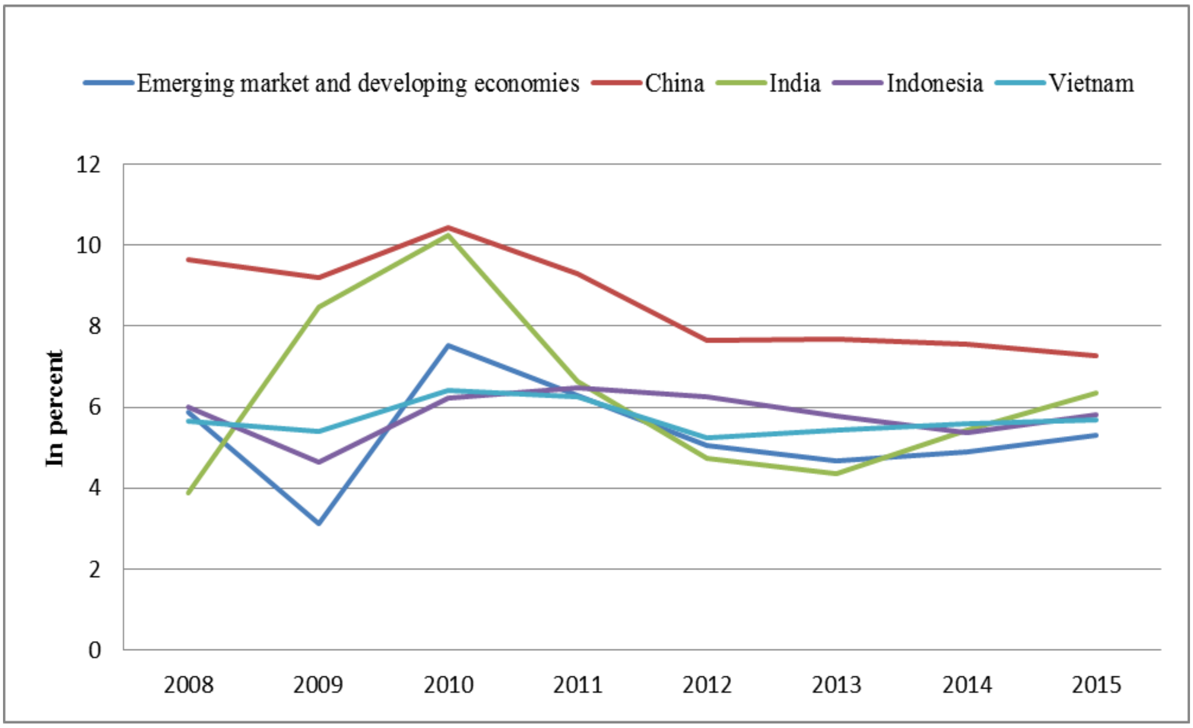
2 IMF World Economic Outlook (WEO) April, 2014.

grew from 1.9 percent in 2013 and is projected at 2.8 percent and 3.0 percent in 2014 and 2015, respectively.

Growth in the Euro zone picked up signifying recovery from recession. Specifically, domestic demand has finally stabilized with exports also contributing to ending the recession. The growth is expected to pick up to 1.2 percent and further to 1.5 percent in 2014 and 2015, respectively. This development may contribute positively to Tanzania exports. However, high unemployment and debt, low investment, persistent output gaps, tight credit, and financial fragmentation continue to weigh on the recovery.

Despite adverse implications of capital reversals and exchange rate volatility emanating from normalization of monetary policy in the advanced economies, increased economic activity and domestic demand in the advanced economies propped up exports in emerging market economies. Output grew by 4.7 percent in 2013 and it is projected to reach 4.9 percent in 2014 and further to 5.3 in 2015 **(Chart 1.2).** The projected output is susceptible to risks emanating from tighter financial conditions and higher cost of capital which could lead to a larger than projected slowdown in investment and consumption thus dampening economic growth.

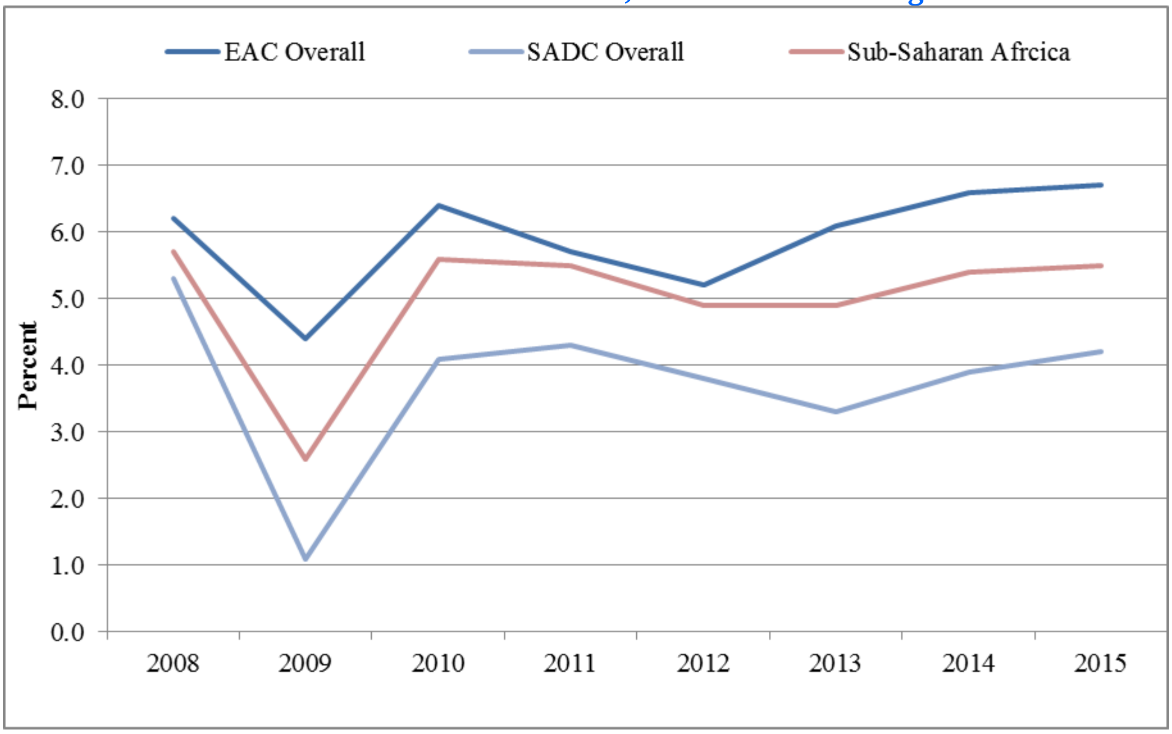
Chart 1.2: GDP Growth Rates for Emerging Markets and Developing Economies



Source: IMF, World Economic Outlook database, April 2014

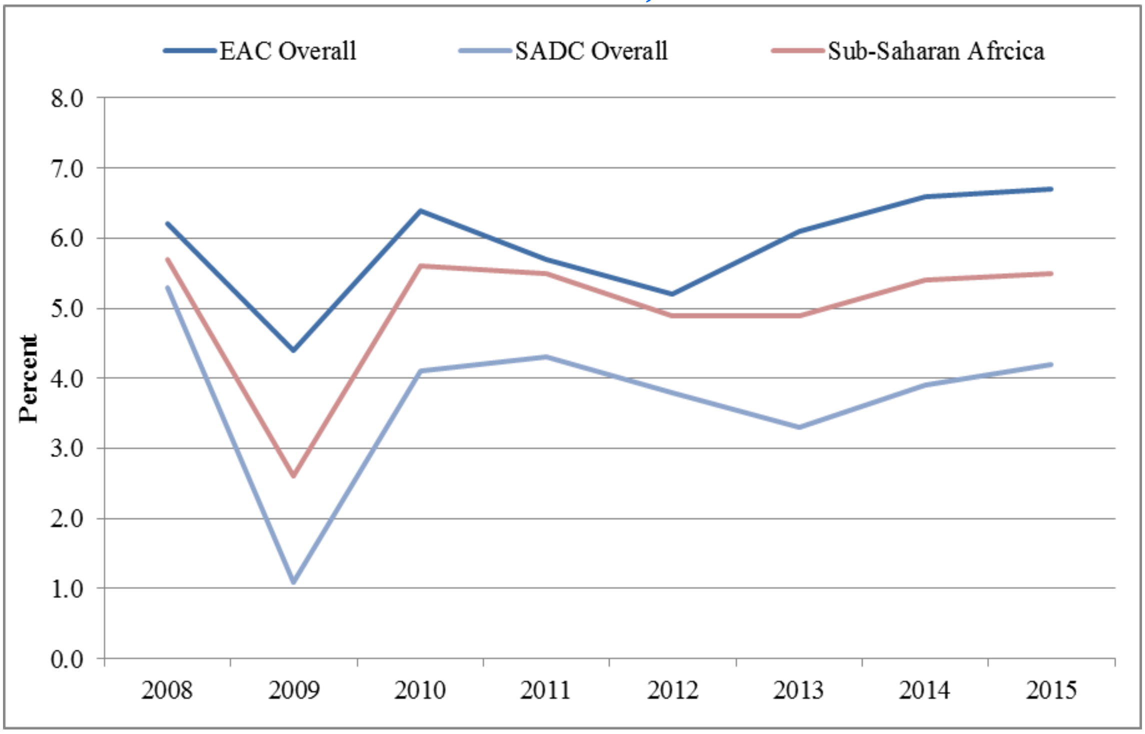
Strong investment demand in Sub-Saharan Africa continues to support growth with output expansion of 4.9 percent in 2013, rising to 5.4 percent in 2014 and 5.5 percent in 2015. Other contributing factors include commodity boom which boosted exports and improved macroeconomic policies and institutions. The SADC sub-region, which absorbs 29.0 percent of Tanzania's exports, grew by 4.6 percent in 2013 and is expected to reach 5.1 percent in 2014 and 5.2 percent in 2015. On the other hand, the EAC sub-region which absorbs 10.0 percent of Tanzania's exports grew by 5.6 percent in 2013 and is expected to reach 6.4 percent in 2014 and 6.5 percent in 2015. **Chart 1.3** shows that the EAC sub-region, on average grew faster than Sub-Saharan Africa and the SADC sub-region.

Chart 1.3: Economic Growth in Sub-Saharan, EAC and SADC Regions



Source: IMF, WEO Database, April 2014

Chart 1.4: Economic Performances in the EAC, SADC and Sub-Saharan Africa



Source: **IMF, WEO Database, April 2014**

Major risks to the growth outlook for the region stem from external factors. These include subdued growth in the emerging market economies and less favorable commodity prices. Domestic risks, such as those related to weather and other supply-side shocks pose risks to individual countries but are less of a threat to the region as a whole. To sustain the performance, SSA countries will need to create fiscal space to accommodate pressures arising from the shocks.

1.2 Global Financial Environment

Against the backdrop of strengthening global economic activity and increased demand in advanced economies, credit conditions improved in the US, UK and Euro area. In the US, banks eased lending standards as economic recovery initiatives gained momentum. Similarly, credit conditions in the UK eased, while in the Euro area improved conditions were in favor of large corporations[3]. However, the global financial system is currently experiencing challengs towards attaining financial stability. The system remains vulnerable with high bank leverages and households still holding substantial amounts of debt. In addition, the risk of prolonged low inflation below target may have negative impact on financial markets.

[3] Loan Officer Surveys, 2013 in respective economies

In emerging markets and developing economies, financial conditions may remain tight in the event of capital reversals and exchange rate volatility. The risks notwithstanding, these economies will continue to benefit from increased exports due to stronger demand in advanced economies and potential currency depreciation.

Financial Conditions in Sub Saharan Africa

The emergence of Africa-based regional lenders has significantly increased cross-border banking activity. According to the IMF, cross-border operations of African banks have increased ten times in the last twenty years, with strong growth since 2010. South African and Nigerian banks have presence in most of the SSA region. South African-based banks have subsidiaries in 16 countries while Nigerian banks have subsidiaries in 21 countries. Most of these banks fund their cross border operations with local deposits in respective jurisdictions with modest cross border loans, implying limited cross-border exposure.

A notable characteristic of the SSA regional banks is that they are members of conglomerates with operations in other sectors including capital markets, insurance, microfinance, pensions, money transfer, leasing and non-financial sectors. This makes for complex corporate structures with multiple holding companies and diverse shareholding structures. Moreover, the growing regional financial groups lack cross-border regulatory and crisis management and resolution frameworks. To avoid boom and bust cycles and ensure their sustained contribution to growth, efforts should be intensified to strengthen the macro-prudential oversight and surveillance of financial groups in the region.

Likewise, the same trend applies to the EAC coupled with innovations of new financial products and services. On one hand, these developments have improved access to financial services through mobile money, agent banking and microfinance. However, new challenges and risks have emerged due to limited oversight of cross-border operations of banks with presence in the EAC region.

1.3 Domestic Macroeconomic Environment

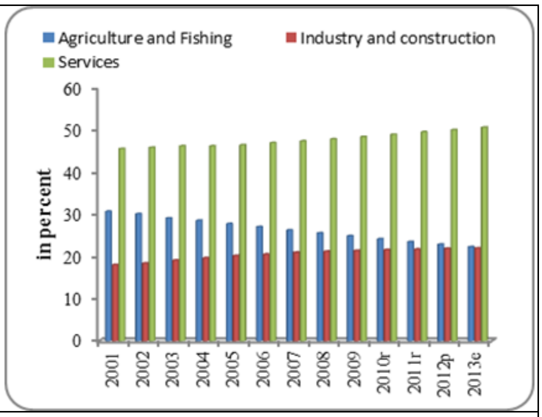
Overall, macroeconomic performance remained stable in the twelve months to March 2014, mainly driven by transport and communications, trade and repairs, agriculture, manufacturing and construction. In the medium term, growth will be supported by the ongoing investments in infrastructure and extractive industries in particular gas and oil.

1.3.1 Economic Performance

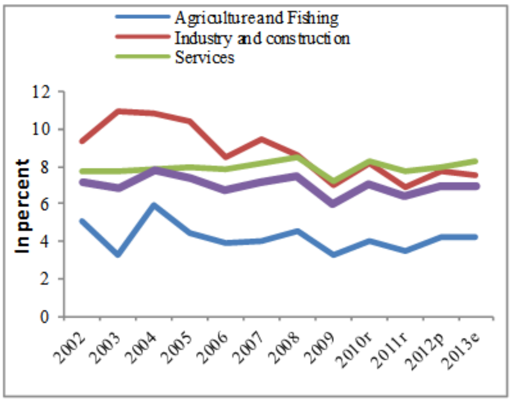
Generally, Tanzania’s economic growth remained strong in 2013 at 7.0 percent, which was above the regional averages in the SSA and EAC. It is expected that this performance will improve further to 7.2 percent and 7.5 percent in 2014 and 2015, respectively. Contributing factors to this outlook include government efforts to improve infrastructure including roads and energy, increased aggregate demand, and sustained prudent fiscal and monetary policies.

Table 1.1: Tanzania: GDP and Sectors Performance

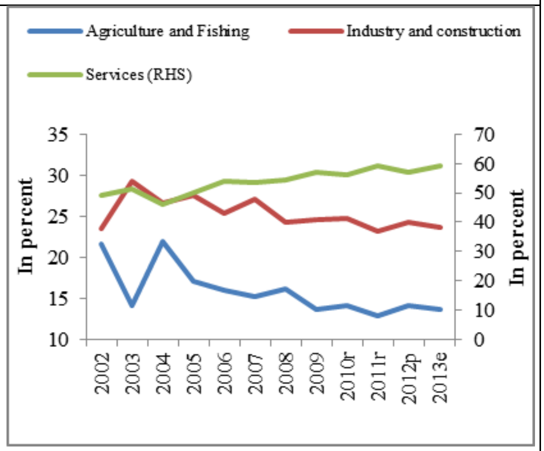
Share in GDP	2010r	2011r	2012p	2013e
Agriculture and Fishing	**24.1**	**23.4**	**22.8**	**22.2**
Crops	17.3	16.8	16.5	16.1
Industry and construction	**21.6**	**21.7**	**21.8**	**22.0**
Mining and quarrying	2.4	2.3	2.3	2.3
Manufacturing	9.6	9.7	9.9	9.9
Construction	7.0	7.2	7.3	7.4
Services	**48.8**	**49.5**	**49.9**	**50.5**
Trade and repairs	14.5	14.7	14.8	15.0
Transport & Communications	8.1	8.5	9.0	9.5
Real estate and business services	10.3	10.2	10.2	10.2
Public administration	7.8	7.8	7.7	7.6



GDP Growth rate in Percent	2010r	2011r	2012p	2013e
GDP at market prices (2001-100)	7.1	6.4	6.9	7.0
Agriculture and Fishing	4.1	3.5	4.7	4.5
Crops	4.2	3.9	3.1	3.8
Industry and construction	**8.2**	**6.9**	**7.8**	**7.5**
Mining and quarrying	2.7	2.2	7.8	6.9
Manufacturing	7.9	7.8	8.2	7.7
Construction	10.2	9.0	7.8	8.6
Services	**8.3**	**7.8**	**8.0**	**8.3**
Trade and repairs	8.2	8.1	7.7	8.3
Transport & Communications	12.2	11.3	12.5	13.4
Real estate and business services	7.6	5.9	6.7	6.4
Public administration	6.5	6.8	5.8	5.1



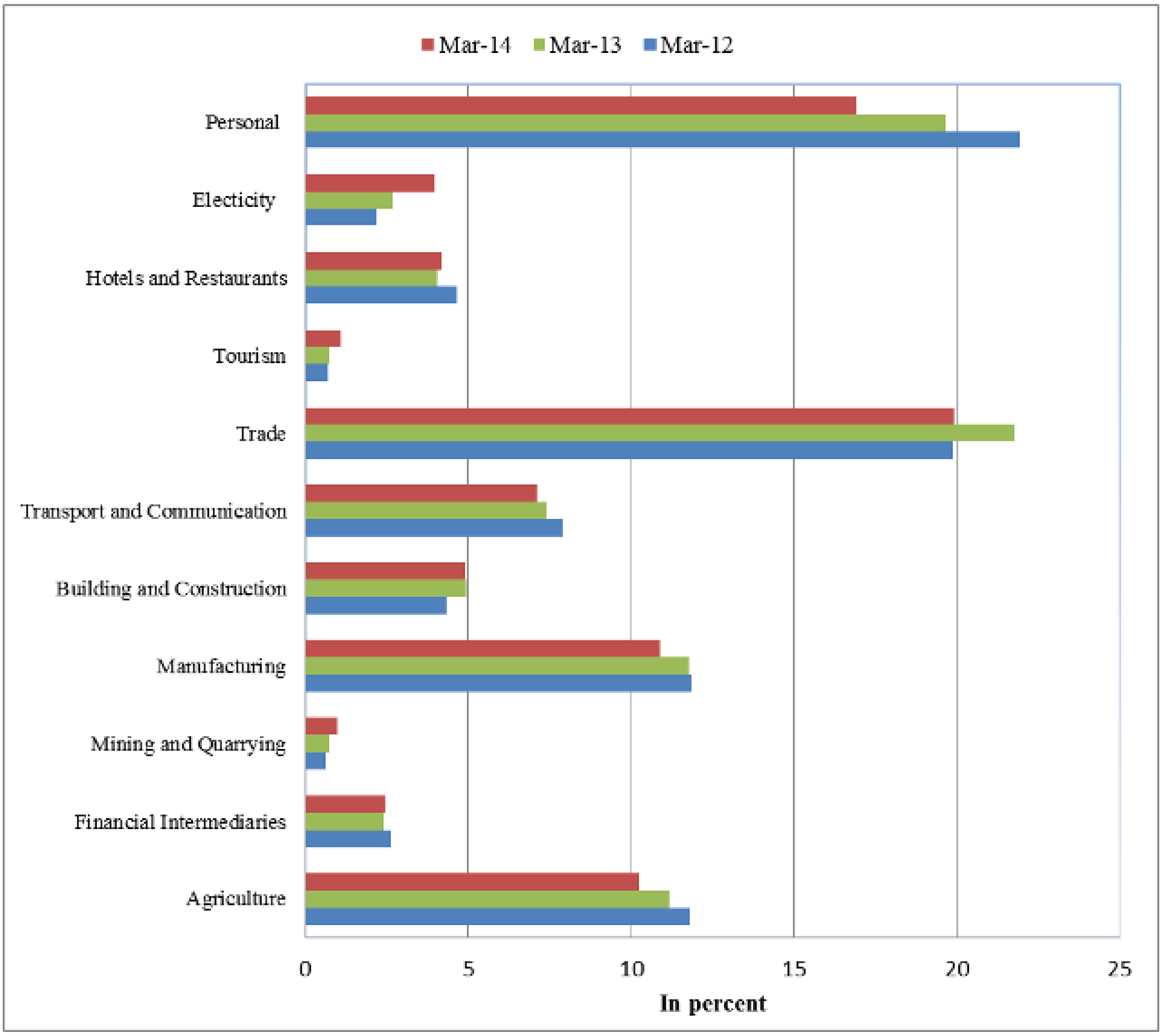
Contribution to GDP Growth rate in percent	2010r	2011r	2012p	2013e
Agriculture and Fishing	**14.2**	**12.9**	**14.1**	**13.7**
Crops	11.0	9.5	11.4	10.6
Industry and construction	**24.7**	**23.2**	**24.3**	**23.6**
Mining and quarrying	1.0	0.8	2.6	2.3
Manufacturing	10.6	11.7	11.5	10.8
Construction	9.8	9.9	8.1	8.9
Services (RHS)	**56.3**	**59.2**	**56.9**	**59.0**
Trade and repairs	16.6	18.4	16.4	17.6
Transport & Communications	13.4	14.4	15.4	17.1
Real estate and business services	10.9	9.6	9.9	9.4
Public administration	7.2	8.3	6.5	5.7



Source: NBS and BOT Calculations

In 2013, crop production, trade and repairs, manufacturing, real estate and business as well as transport and communication contributed about 60 percent to GDP and close to 66 percent of GDP growth rate (**Chart 1.5**). Together, these sectors absorbed about 65 percent of total bank lending during the same period. To the extent that the banking sector continues to provide credit to these sectors, the projected GDP growth rates will be attained.

Chart 1.5: Shares of Commercial Banks' Lending by Activities



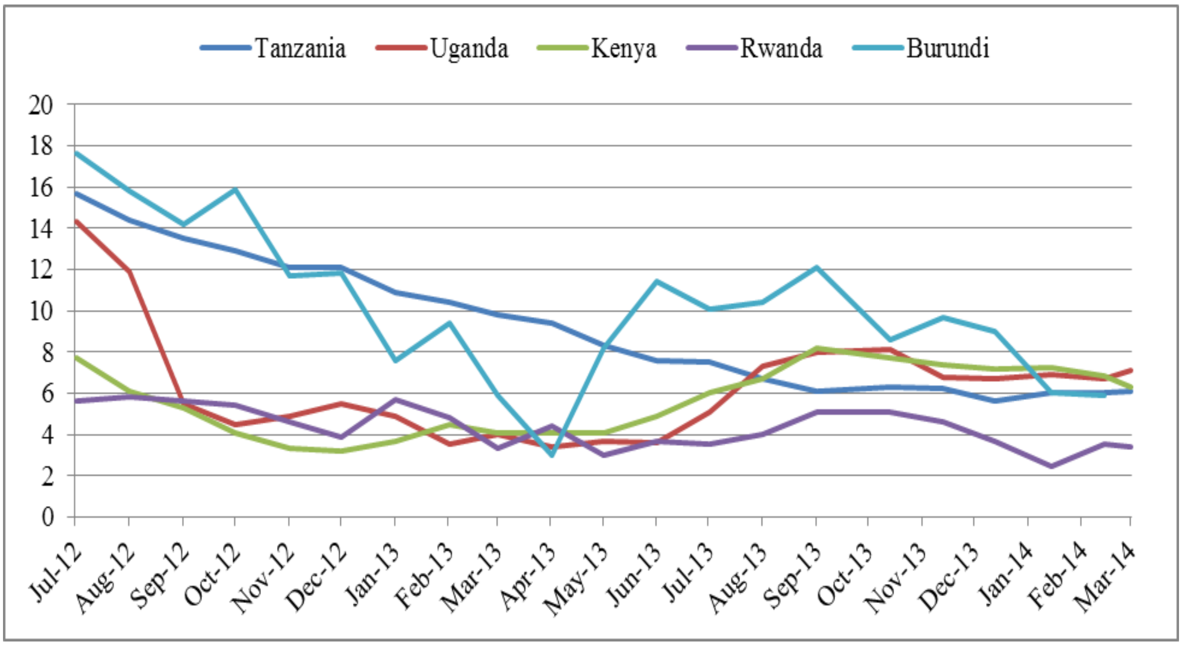
Source: Bank of Tanzania

1.3.2 Domestic Inflation Developments

Inflation remained at single digits during the year to March 2014[4] (**Chart 1.6**). This achievement was mainly attributed to continued implementation of prudent monetary and fiscal policies. Given projected softening of world oil prices and food prices in the SADC region, single-digit inflation is expected to remain. However, the expected increase of food prices in the EAC region may pose risk to inflation.

[4] Source: National Bureau of Statistics March, 2014

Chart 1.6: Inflation Rate Developments in East Africa

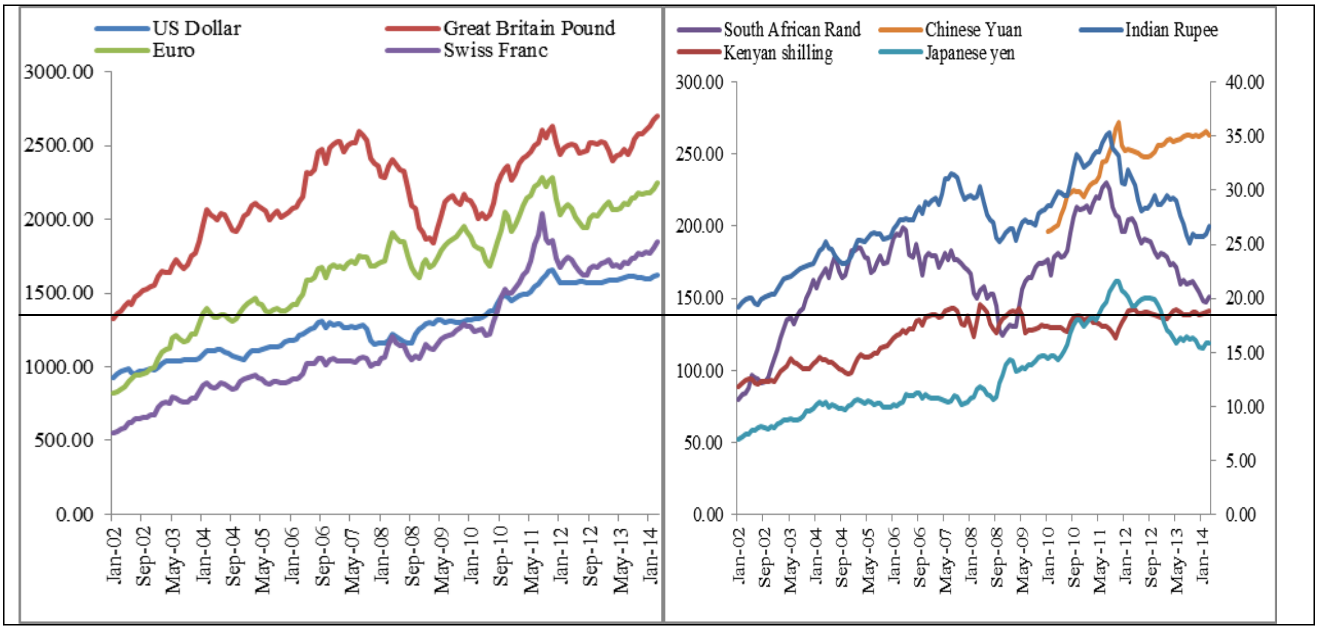


Source: National Bureau of Statistics

1.3.3 Foreign Exchange and Interest Rates

The Tanzanian shilling remained fairly stable against major currencies except the Japanese Yen. With regard to major trading partners the Shilling appreciated against the Indian Rupee and South African Rand which had depreciated against the US Dollar on account of capital outflows due to anticipated policy shift in advanced economies (**Chart 1.7**).

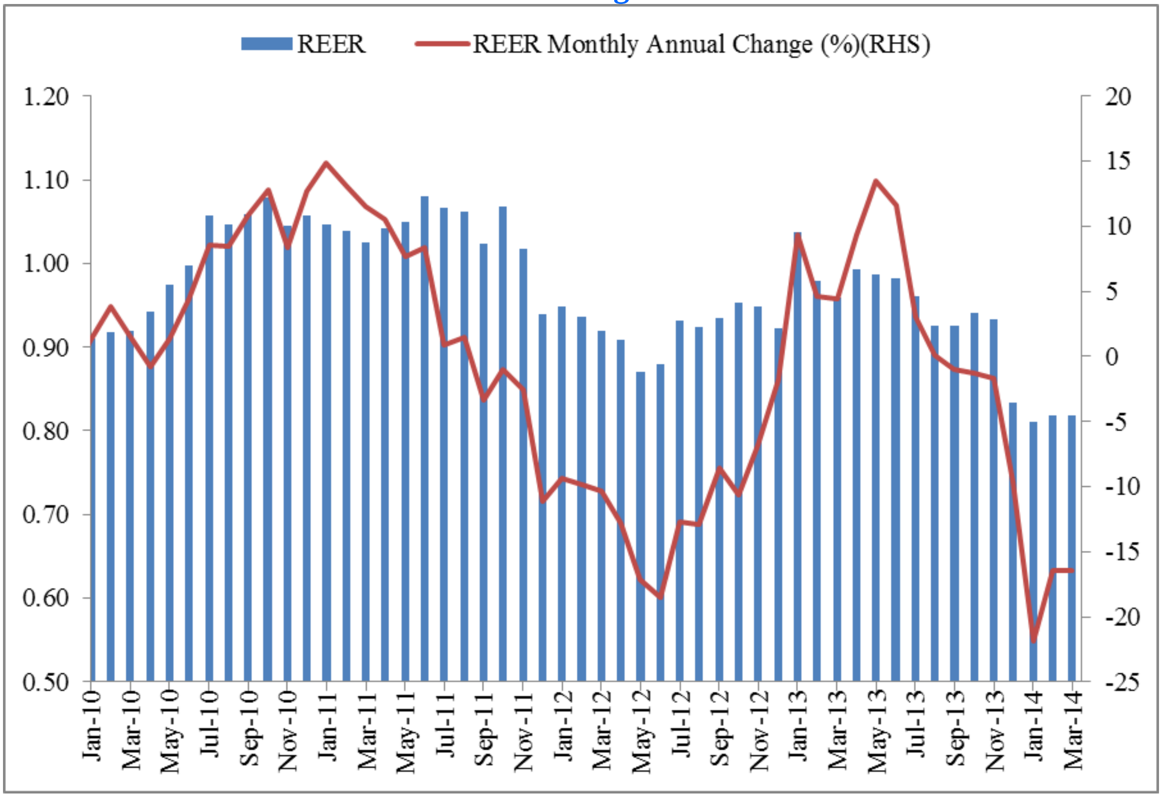
Chart 1.7: Exchange Rate of Tanzanian Shilling against a Basket of Currencies



Source: Bank of Tanzania

In real terms, the Tanzanian shilling appreciated against a basket of currencies of major trading partners. **Chart 1.8** depicts the trend of real effective exchange rate of the shilling from 2006 to 2013. The trend shows that the currency appreciation, which was recorded in 2011 through the mid-2012, is exhibiting the same trend beginning May, 2013. This could negatively impact Tanzania's export competitiveness if sustained for long; hence subject the economy to exchange rate risk due to a widening current account deficit.

Chart 1.8: Tanzania's Real Effective Exchange Rate

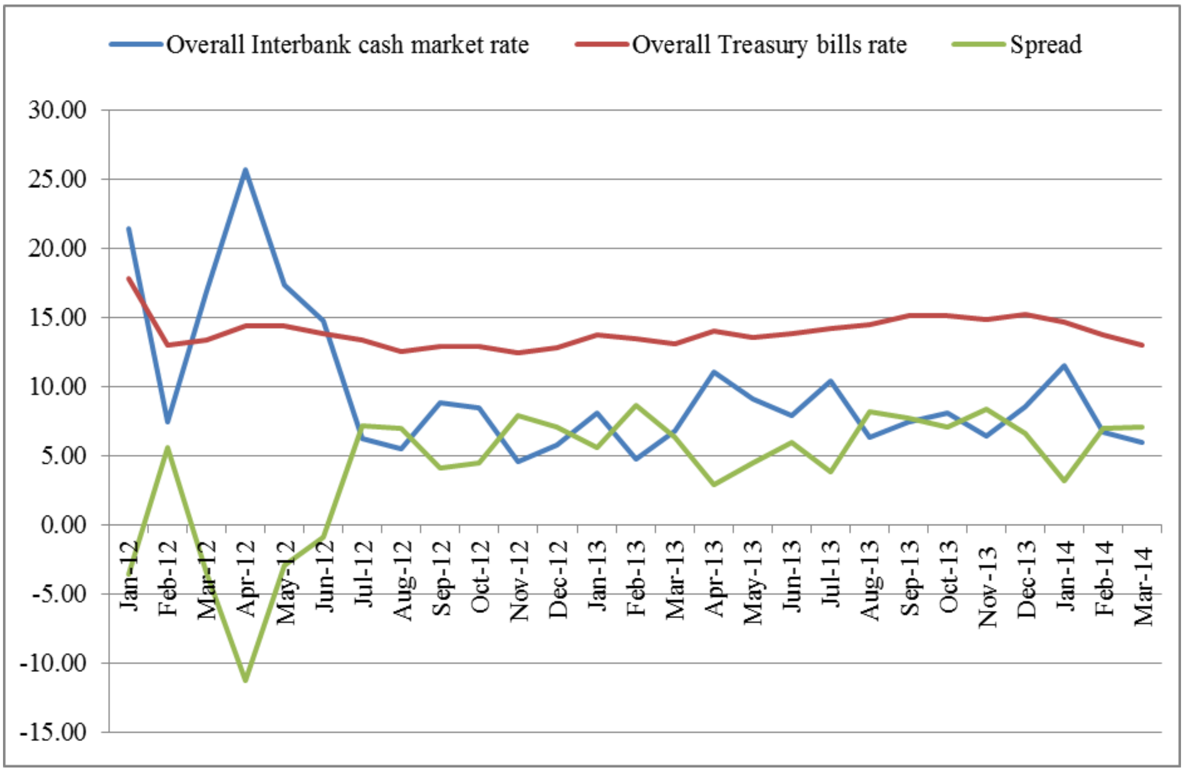


Source: Bank of Tanzania

Interest Rates Development

Overall interest rates remained relatively stable during the year to March 2014. However, beginning January, 2014 treasury bills rates and interbank cash market rates moderated downwards, suggesting easing of monetary policy stance (**Chart 1.9**).

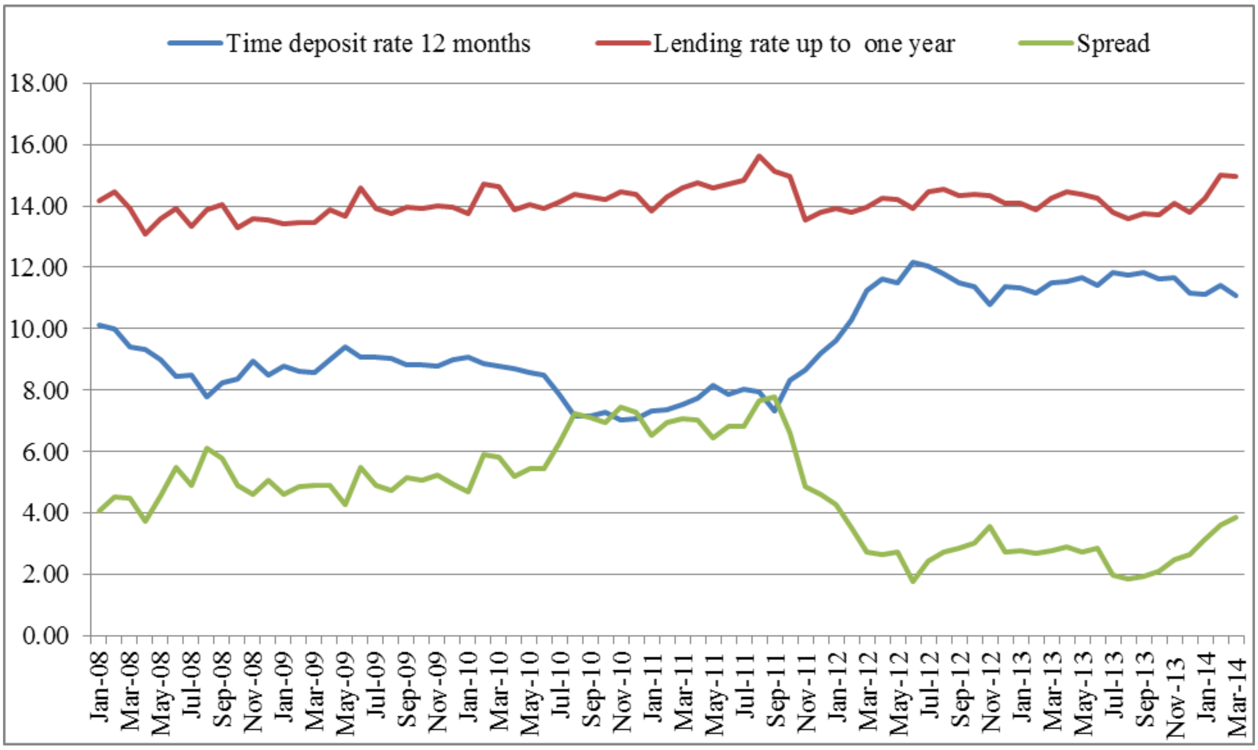
Chart 1.9: Domestic Interest Rate Movements in the Wholesale Market 2005-2014



Source: Bank of Tanzania

In the credit market, the spread between one year lending and deposit rates remained relatively narrow until June 2013 at around 2 percentage points rising to around 4 percentage points in March, 2014. The widening of the spread emanated from decline in deposit rates coupled with increase in lending rates. The development implies a decrease in retail funding through deposit mobilization to an increase in wholesale market in the interbank cash market.

Chart 1.10: Domestic Interest Rate Movements in the Retail Market 2005-2014



Source: Bank of Tanzania

Implications of the Global, Regional and Domestic Macroeconomic Developments

The stronger growth in advanced economies in the past six months has contributed to strengthening of the global recovery although it remains uneven and sub-optimal. The stronger recovery is expected to drive demand for exports from emerging market and developing economies. However these developments in advanced economies pose risks of low inflation dragging down economic activity and potential capital flow reversals to the global economy.

Capital outflows from emerging market economies have remained limited as countries implemented policies to address macroeconomic vulnerabilities. However, they implemented the policies under a changing environment including tighter financial conditions from higher interest rates; tougher financial environment as liquidity dries up; volatility in financial markets; and costly macroeconomic weaknesses.

The risk of rapid monetary policy normalization or bouts of high risk evasion by investors may lead to global financial turmoil which in turn will compound on adjustment process in emerging markets with a risk of contagion and broad based financial distress.

Sub-Saharan Africa remained resilient to shocks. The impact of stronger global trade and higher commodity prices will support high growth. However, higher demand for investment in infrastructure to support the growth will come at a higher cost as financial conditions tighten globally. To overcome the challenge, the region needs to; deepen financial markets to tap the internal resources and broaden access to finance; and monitor debt levels to avoid the trap of over-indebtness.

At domestic level, the economy has remained resilient to negative spillover effects of the global and regional developments. The favorable macroeconomic performance that drove economic growth in 2013 is expected to be sustained in 2014 and 2015. Specifically; Foreign Direct Investment (FDIs) and exports drive are expected to increase thus contributing to improvement of current account while inflation is expected to moderate further despite anticipated food shortages in the EAC region. However, tight financial conditions at global level may impact negatively on cost of capital. Efforts to broaden capital markets will reduce the financing gap.

2.0 FINANCIAL SECTOR DEVELOPMENTS

2.1 Performance of Banking Sector

The banking sector, which accounts for about 70 percent of total assets of the financial system continued to grow in line with strong performance of the economy. The growth was supported by establishment of new banks, expansion of branch network, growing banks linkage with SACCOS, introduction of agent banking, expansion of mobile banking and integration of mobile financial services to the banking system. During the year ending March 2014, total assets of the banking sector increased by 12.0 percent to TZS 20,141.3 billion, while deposits increased by 10.9 percent to TZS 15,726.5 billion. As percentage of GDP, bank assets were 37.9 percent in March 2014 compared to 40.2 percent in March 2013[5].

During the year ending March 2014, the banking system remained profitable, adequately capitalized and liquid as reflected by selected financial indicators (**Table 2.1**). However, asset quality declined slightly mainly due to increase in non-performing loans in the personal, trade, manufacturing and agricultural credit categories.

Table 2.1: Financial Soundness Indicators for the Banking System

Indicator	2012				2013				2014
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
1. CAPITAL ADEQUACY									
Core Capital/TRWA	17.9	17.5	17.0	17.4	18.9	17.6	17.7	17.6	18.5
Total capital/TRWA	18.5	18.1	17.6	18.0	19.4	18.1	18.4	18.2	19.4
2. LIQUIDITY									
Liquid Assets/Demand Liabilities	38.4	39.3	39.1	38.1	40.0	38.4	37.0	36.5	36.4
Total Loans/Customer Deposits	65.9	67.5	68.3	67.6	68.8	67.9	67.7	71.4	71.9
3. EARNINGS AND PROFITABILITY									
Net Interest Margin (NIM)	64.6	72.5	65.1	71.8	66.6	66.2	66.1	67.0	68.0
Non-Interest Expenses/Gross Income	64.9	54.2	67.0	54.6	63.0	65.3	66.0	66.9	64.7
Return on Assets (PBT/Average Total Assets)	3.0	2.5	2.7	2.5	2.9	2.7	2.6	2.6	3.0
4. ASSET COMPOSITION AND QUALITY									
Foreign Exchange Loans to Total Loans	33.4	34.2	33.6	34.0	34.0	34.8	35.6	35.6	36.0
Gross Non-Performing Loans to Gross Loans	6.5	8.1	7.5	7.4	7.9	8.1	7.1	6.5	8.3
Large Exposures to Total Capital	120.4	117.8	113.8	136.6	132.7	139.3	135.8	137.5	129.1
Net Loans and advances to Total assets	50.0	50.4	50.0	50.0	48.7	49.0	49.1	50.8	50.8
5. SENSITIVITY TO MARKET RISK									
FX Currency Denominated Assets/Total Assets	31.2	30.2	30.4	31.2	30.9	30.5	30.9	30.6	29.6
FX Currency Denominated Liability/Total Liabilities	33.9	33.6	33.9	34.5	35.1	35.2	35.3	35.1	34.3
Net Open Positions in FX/Total Capital	0.6	-1.1	2.0	1.6	-0.2	1.8	2.5	1.5	2.6

Source: Bank of Tanzania

[5] GDP figures 2012 and 2013 were used

Capital Adequacy

During the same period, the banking industry was adequately capitalized to cushion against inherent risks. On aggregate, the industry Total Capital Adequacy Ratio was 19.4 percent which was above the regulatory threshold of 10.0 percent. Sustainability of this capital level will depend on capacity of the system to improve asset quality.

Asset Quality and Credit Concentration

The banking sector was observed to be relatively exposed to credit risk. The assessment of asset quality of the banking sector, based on Gross Non-performing Loans (NPLs) ratio, revealed marginal deterioration during the year to March 2014. With regard to credit concentration, as measured by Herfindahl Hirschman Index[6] and aggregate large exposures to core capital, the results showed that the industry was fairly diversified (**Box 2**). Meanwhile, review of Net Open Position showed that, the industry had limited exposure to foreign exchange risk. The NPLs increased to 8.3 percent in March, 2014 from 7.9 percent recorded in March 2013. Increase in NPLs was driven by personal loans and lending to trade, manufacturing and agriculture sectors (**Annex 3**).

Earnings and Profitability

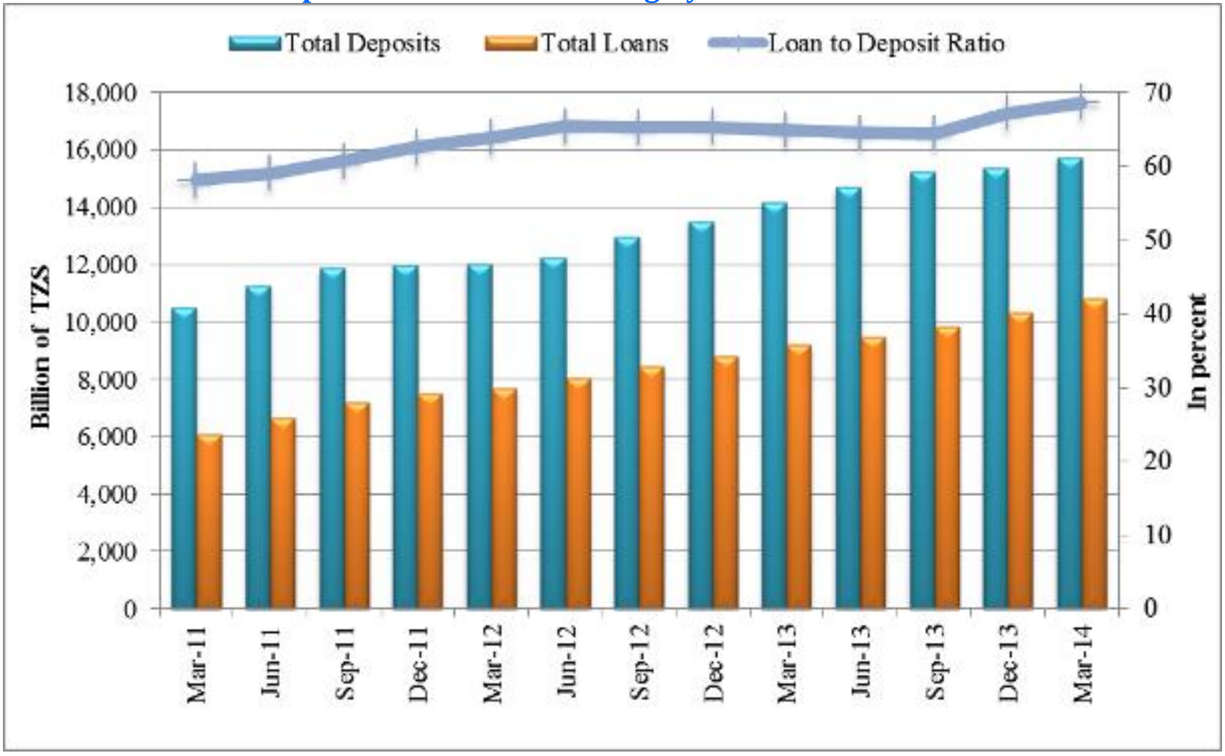
The banking sector continued to be profitable in aggregate terms with Return on Assets at 3.0 percent and Net Interest Margin of 68.0 percent as of March 2014. Sustainability of this level of earnings therefore is subject to effective management of the growing NPLs and the banking sector administrative costs as reflected by increase in Non-Interest Expenses ratio.

Liquidity

The banking industry remained highly liquid. During the period, liquid asset ratio was 36.4 percent compared to the regulatory requirement of 20.0 percent. In addition, the ratio of total loans to total customer deposits was 71.9 percent in March, 2014 growing from 68.8 percent in March 2013 (**Chart 2.1**).

[6] The Herfindahl Hirschman Index (HHI) is a measure used to determine the level of competition in a market or industry. It provides a measure of market share distribution across the banking system. When the HHI value is less than 100, the market is highly competitive. When it is between 100 and 1000, the market is said to be not concentrated. Between 1000 and 1800, the market is said to be moderately concentrated. Above 1800, the market is said to be highly concentrated.

Chart 2.1: Loan to Deposit Ratio of the Banking System



Source: Bank of Tanzania.

Box 1: Banking Sector Concentration

The assessment of bank market concentration (in terms of loans, assets and deposits) using Herfindahl Hirschman Index showed that the banking sector was not concentrated as of March 2014. This is consistent with assessment of credit concentration using the prudential limits provided by the Banking and Financial Institutions (Credit Concentration and Other Exposure Limits) Regulations, 2008.

Credit concentration is measured by the ratio of aggregate large exposures to capital base Large exposures refer to all credit facilities to a single borrower which represents 10 percent or more of the core capital of a bank or financial institution concerned. The prudential banking regulations limit lending to a single borrower with a fully secured credit accommodation to 25 percent of a bank's core capital. ***Chart 1*** *shows that the level of credit concentration in the Tanzanian banking sector is growing but the levels are within the regulatory limits. The prudential banking regulations limit the aggregate large exposures to 800 percent of core capital of the banking institution.*

Chart 1: Credit Concentration Risk

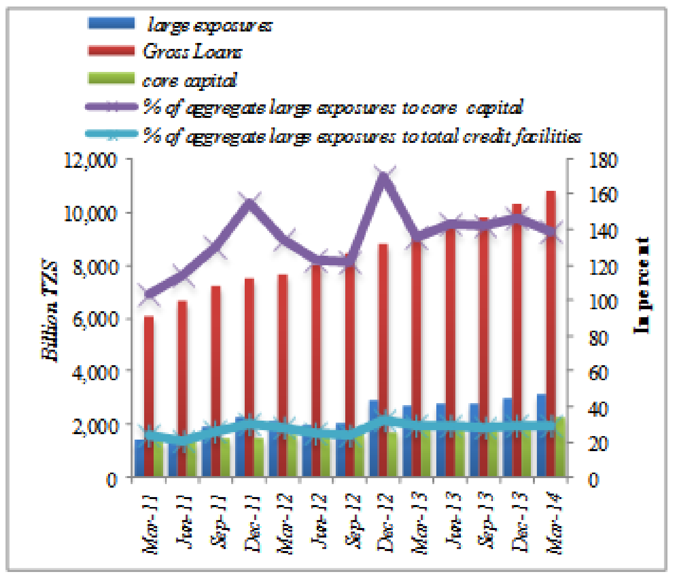
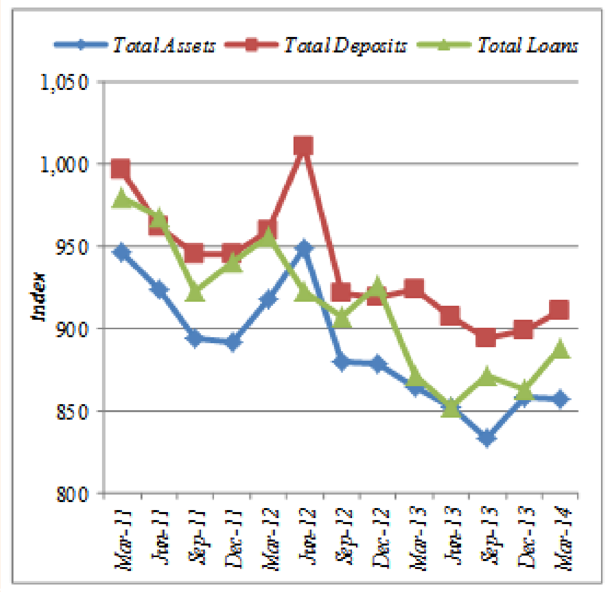


Chart 2: Herfindahl Hirschman Index



Source: *Bank of Tanzania*

*The Herfindahl Hirschman Index (HHI) is a measure used to determine the level of competition in a market or industry. It provides a measure of market share distribution across the banking system. When the HHI value is less than 100, the market is considered to be highly competitive. When it is between 100 and 1000, the market is said to be not concentrated. Between 1000 and 1800, the market is said to be moderately concentrated. Above 1800, the market is said to be highly concentrated. The HHI, calculated for the banking sector (**Chart 2**) suggests that with respect to assets, deposits and loans, the Tanzanian market was not concentrated as at end March 2014. This market structure is expected to be reconfigured by the institutional and technological innovations taking place in the banking system. Banking institutions which are faster and more efficient at implementing the innovative retail outlets are likely going to increase their market share of deposits, loans and assets. The pace of market reconfiguration will be affected by the adoption of agent banking and new mobile money solutions (lending and savings mobilization through mobile phones). The growing linkage between banking institutions and micro-finance institutions such as SACCOS is also expected to contribute to the structural changes in the market. This calls for close monitoring of the developments.*

2.2 Insurance Sector

2.2.1 Performance of Insurance Sector

During the year ending December 2013, the Tanzania insurance sector performed satisfactorily in terms of market growth, profitability, assets portfolio and investment mix. The market grew by 16.4 percent in gross premiums written during the year compared to a similar period of the previous year (**Table 2.2**).

Table 2.2: Insurance Performance

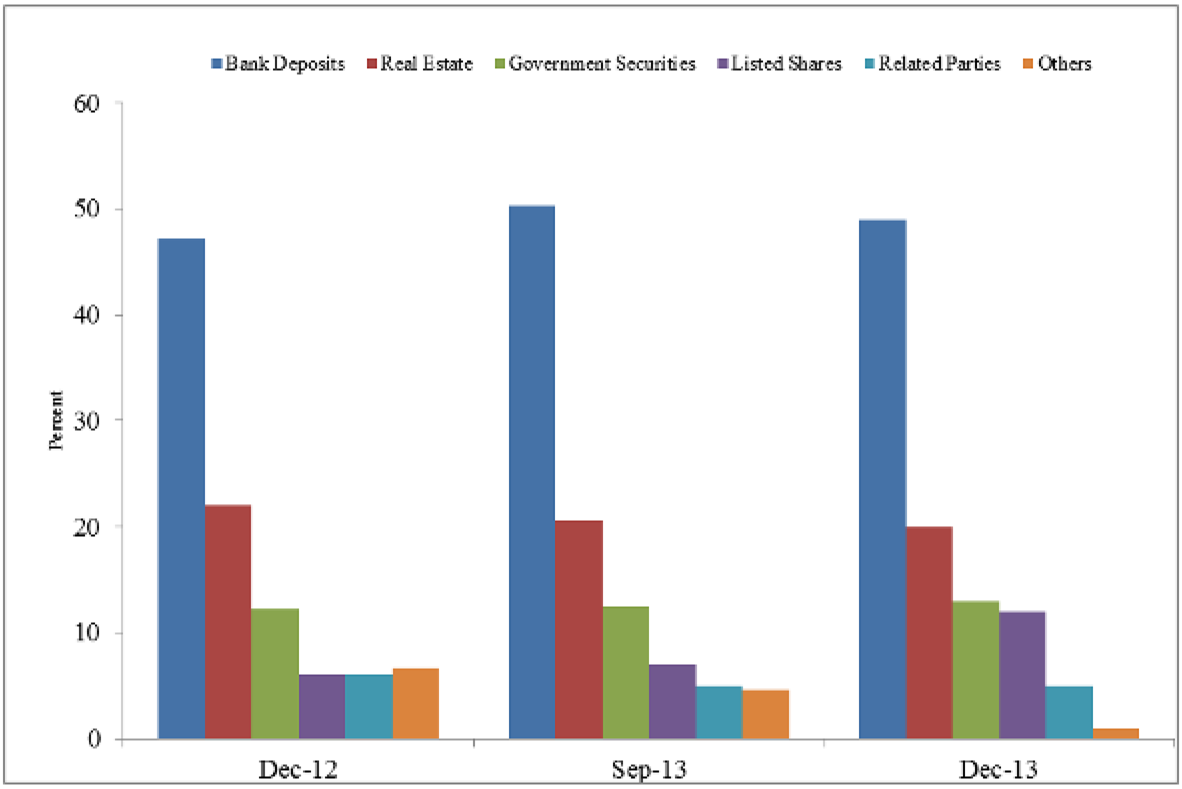
(Billion TZS)

Particular	Dec-11	Dec-12	Dec-13	% Change Dec 12-Dec 13
Total Assets	416.1	450.5	512.6	13.8
Total Liabilities	289.1	317.8	337.2	6.1
Total Net Worth	126.9	132.7	175.3	32.1
Total Investments	291.9	299.8	342.9	14.4
Gross Premium Written				
General Insurance	308	362.9	417.9	15.2
Life Assurance	31.2	43.7	55.5	27
Total	**339.2**	**406.6**	**473.4**	**16.4**

Source: Tanzania Insurance Regulatory Authority

The general insurance underwriting result improved to a profit of TZS 105.1 million during the year ended December 2013 from a loss of TZS 11.9 billion recorded in the preceding year. Regarding the insurance industry investment mix, the portfolio was fairly diversified in line with the statutory requirements. **Chart 2.2** provides investment asset portfolio of the insurance sector.

Chart 2.2: Investment Asset Portfolio of Insurance Sector



Source: Tanzania Insurance Regulatory Authority (TIRA).

Table 2.3 provides assessment of the insurance sector performance using CARAMELS framework[8]. In aggregate terms, the insurance sector remained adequately capitalized during the year ending December 2013 driven by profitability and capital enhancement. This implies that, general and life insurance companies have sufficient capital to support their insurance liabilities. The quality of assets as assessed by return on investment improved while, the return on equity of general insurers also recorded an increase. The increase in earnings was attributed to improvement in underwriting results.

The combined insurers' retention rate increased to 54.5 percent being within the prudential retention ratio, which ranges between 30 percent and 70 percent of gross premium written. The ratio of actuarial liabilities to capital improved to 95.5 percent in the year ending December 2013 from 113.6 percent recorded in the year ending December 2012, signifying capacity of the industry to withstand adverse deviations in actuarial liabilities. During the same period, the combined liquidity ratio for general and life insurers' increased.

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[8] CARAMELS-- Capital, Asset Quality, Reinsurance, Actuarial Liabilities, Management and Corporate Governance, Earnings, Liquidity, Subsidiaries and related parties

Table 2.3: Financial Soundness Indicators for the Insurance Sector

Indicator	Statutory Requirement	2010	2011	2012	2013
1. Capital Ratios					
Solvency Ratio	Min 16	43.6	40.0	41.7	52.0
Insurance Risk Ratio	Max 300	140.6	140.0	155.0	123.4
Change in Capital and Reserves			17.6	4.6	32.2
2. Asset Quality Ratios					
Rate of Return on Investment	Max 20	6.9	11.5	5.2	6.3
Investment in government securities		6.5	9.2	12.2	12.7
Investment in bank deposits	Min 30	28.2	30.9	47.1	49.2
Investment in real estate		22.4	15.8	22.0	20.0
3. Reinsurance Ratios					
Retention Ratio	30<RR<70	52.3	52.3	50.6	54.5
4. Actuarial Liabilities (General)					
Actuarial Provisions to Capital Ratio	Max 250		104.4	113.6	95.5
5. Earnings Ratios (General)					
Return on Equity		8.3	17.6	2.5	12.5
Combined Ratio	Max 100	102.0	106.1	107.0	99.9
Profitability Ratio		7.1	10.2	3.0	12.6
6. Liquidity Ratios					
Liquidity Ratio		72.1	76.9	61.1	72.1
Total Receivables as % of Capital & Reserves (life & nonlife)	Max 100	48.6	51.3	64.7	69.2

Source: Tanzania Insurance Regulatory Authority (TIRA)

2.3 Capital Markets

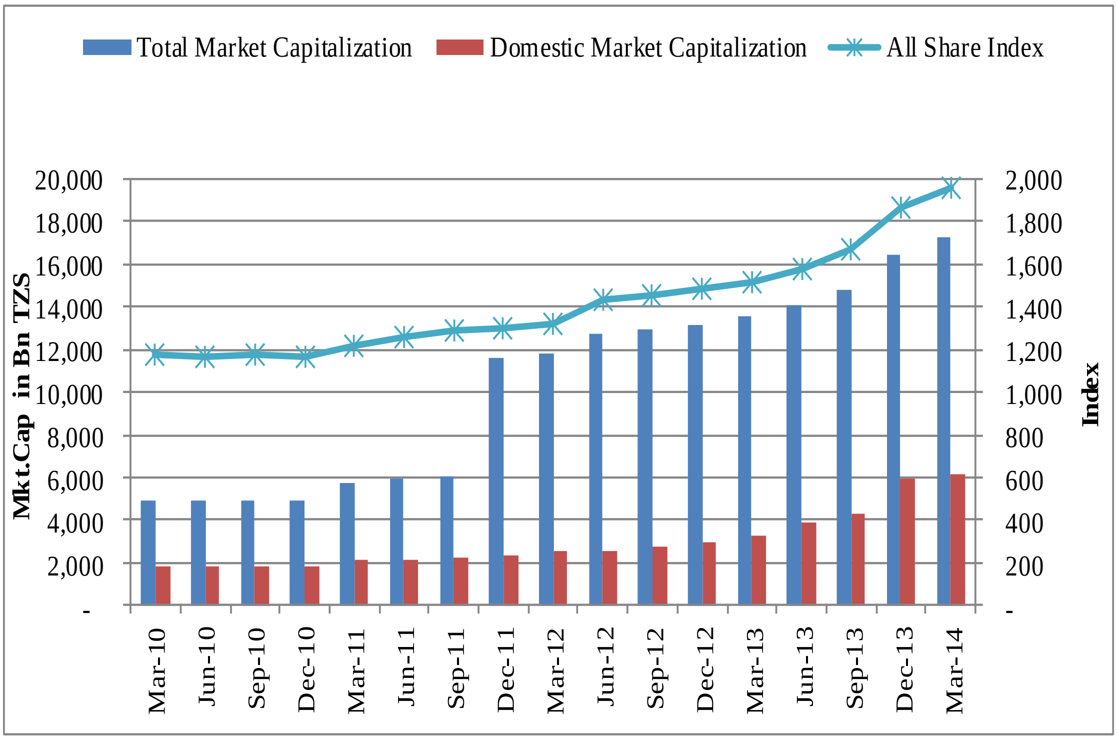
The capital market has been growing steadily on account of new listing and share price appreciation implying investors' confidence with the economy. During the year ending March 2014, Banking and Financing Index (BI) was the main driver of the DSE All-Share Price Index (**Chart 2.3**). Total market capitalization increased by 27.8 percent to TZS 17,301 billion mainly on account of share price appreciation. The overall share index of the Dar es Salaam Stock Exchange Index (DSEI)[9] increased by 28.7 percent to 1,958. The Banking and Financial Share Index (BI) recorded an increase of 62.1 percent to 3,541 while Industrial and Allied Share Index (AI) increased by 27.0 percent to 2,579 and TSI grew by 46.1 percent to 2,937.

The Enterprise Growth Market (EGM), which is the new segment on the Dar es Salaam Stock Exchange was launched on 5th November 2013. The EGM segment is specifically intended

[9]DSEI is made up of Tanzania Share Index (Domestic listed companies) and Foreign Share Index (cross listed companies).

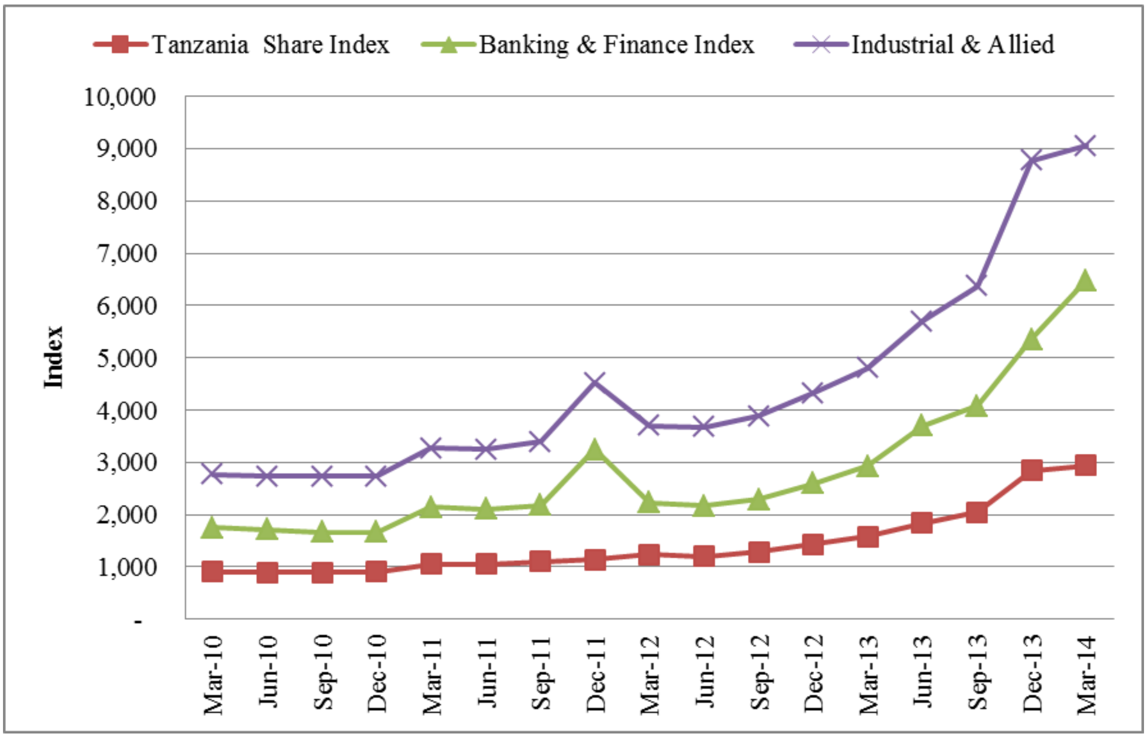
for startup, Small and Medium Enterprises (SMEs) to enable them to access funds through the capital markets. One company has already listed on the Enterprise Growth Market and several other applications to list on that segment are being considered by the CMSA. As at end March 2014, a total of 18 companies were listed on the Dar es Salaam Stock Exchange.

Chart 2.3: All Share Index and Market Capitalization of the DSE



Source: Capital Markets and Securities Authority.

Chart 2.4: Tanzania Share Index, Banks, Finance & Investment, Industrial & Allied Indices Movement

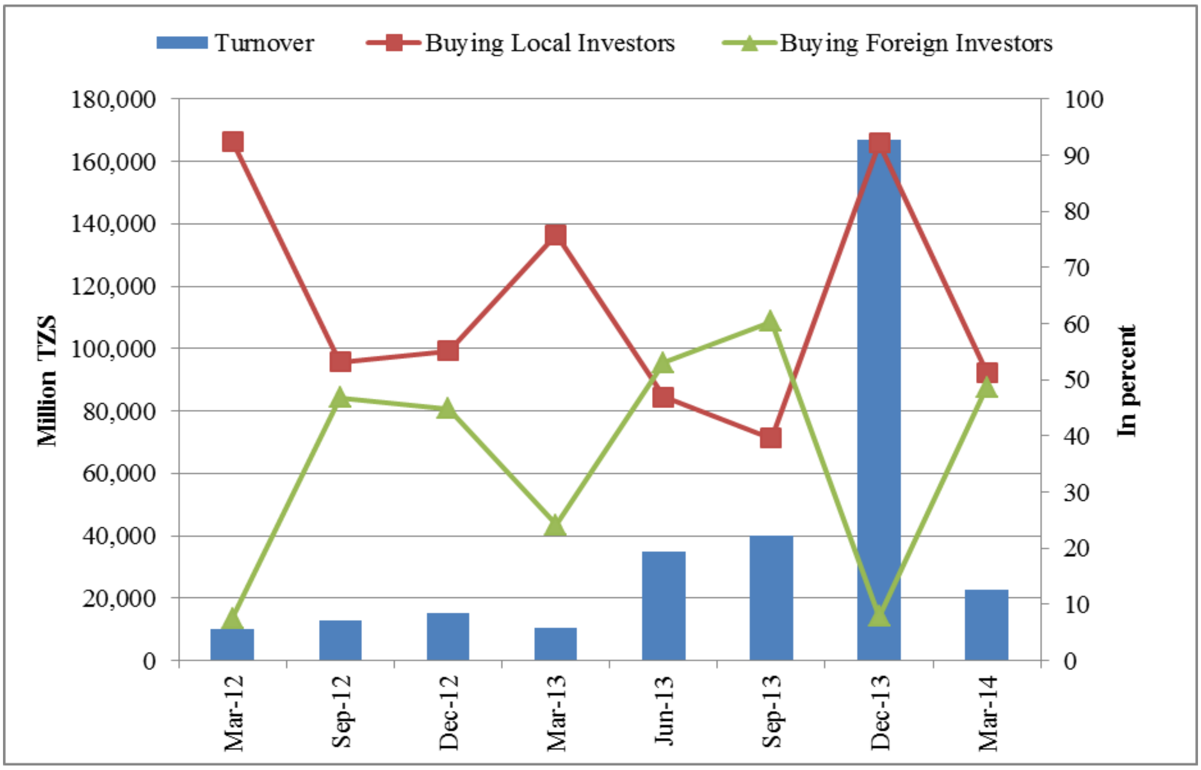


Source: Capital Markets and Securities Authority.

DSE Turnover and Participation Rate

During the year ending March 2014, the DSE recorded an increase in turnover, with a sharp increase in December 2013. The upsurge was attributed to the IFC disinvestment in TBL when it sold its shares amounting to TZS 94.5 billion (**Chart 2.5**).

Chart 2.5: DSE Turnover and Participation Rate



Source: Dar es Salaam Stock Exchange (DSE).

Bond Market

Treasury bonds with different maturities worth TZS 960.76 billion were listed during the year ending March 2014, equivalent to 6.4 percent increase from TZS 903.00 billion which were listed during the corresponding period in 2013. On the secondary market, Treasury bonds worth TZS 356.30 billion were traded during the year ending March 2014 compared to Treasury bonds worth TZS 339.98 billion traded during the year ended March 2013.

A MEDIUM TERM NOTE worth TZS 31.25 billion was issued by way of private placement during the year ending March 2014. During the period, there were 5 outstanding listed corporate bonds worth TZS 42.57 billion compared to corporate bonds worth TZS 79.67 billion recorded in the corresponding period 2013. Decrease in the value of outstanding corporate bond was a result of maturity of Tanzania Breweries Ltd corporate bond worth TZS 37.1 billion in August 2013.

PERFORMANCE OF COLLECTIVE INVESTMENT SCHEMES

Open Ended Collective Investment Schemes

With the exception of Jikimu Fund, all other Schemes experienced an increase in Net Asset Value (NAV) per unit during the period ending March 2014. The increase was mainly due to the appreciation of listed equities which form a large part of the Schemes' investment portfolios. The trends in the NAV per unit for the five collective investment schemes are depicted in (**Table 2.4**).

Table 2.4: Open Ended Collective Investment Schemes

Scheme	Scheme Size (TZS Mil.)		Net Asset Value		NAV Growth for the Quarter
	Mar-14	Mar-13	Mar-14	Dec-13	
Umoja Fund	150,715.1	146,795.7	334.2	329.9	1.3
Wekeza Maisha	2,620.1	2,537.8	225.5	219.2	2.9
Jikimu Fund	10,346.5	9,622.1	115.4	116.6	-1.0
Watoto Fund	1,708.9	1,629.4	201.2	196.1	2.6
Ukwasi Fund	683.4	701.9	110.9	108.3	2.5

Source: Capital Markets & Securities Authority (CMSA).

Investment Management Companies

NICOL investment in NMB shares reached TZS 86.46 billion which give comfort to NICOL investors that at least one investment is safe.

TCCIA Investment Company Ltd net assets doubled as at end December 2013 when it increased from TZS 8.36 billion to TZS 16.92 billion mainly due to appreciation of share prices of listed companies, the company has invested into.

2.4 Social Security Sector

The Social Security Sector continued to increase its coverage, with the Funds membership of 1.8 million as at end June 2013, representing an annual increase of 10.8 percent. Net assets of the Funds[10] grew by 25.7 percent during 2012/13 when compared to 2011/12 while total investment portfolio continued to grow albeit at a slower rate (**Table 2.5**). Fixed income investments, which are relatively more liquid, continued to dominate the investment portfolio. The benefits payments to beneficiaries increased by 45.6 percent during 2012/13 when compared to 2011/12. The rapid increase in payments is due to salary increase and maturity of benefits. Financial inclusion initiatives including communication strategy, mobile money technology and public awareness programs are expected to increase Social Security Sector coverage in terms of membership.

[10]These Funds are: GEPF, LAPF, NHIF, NSSF, PPF and PSPF

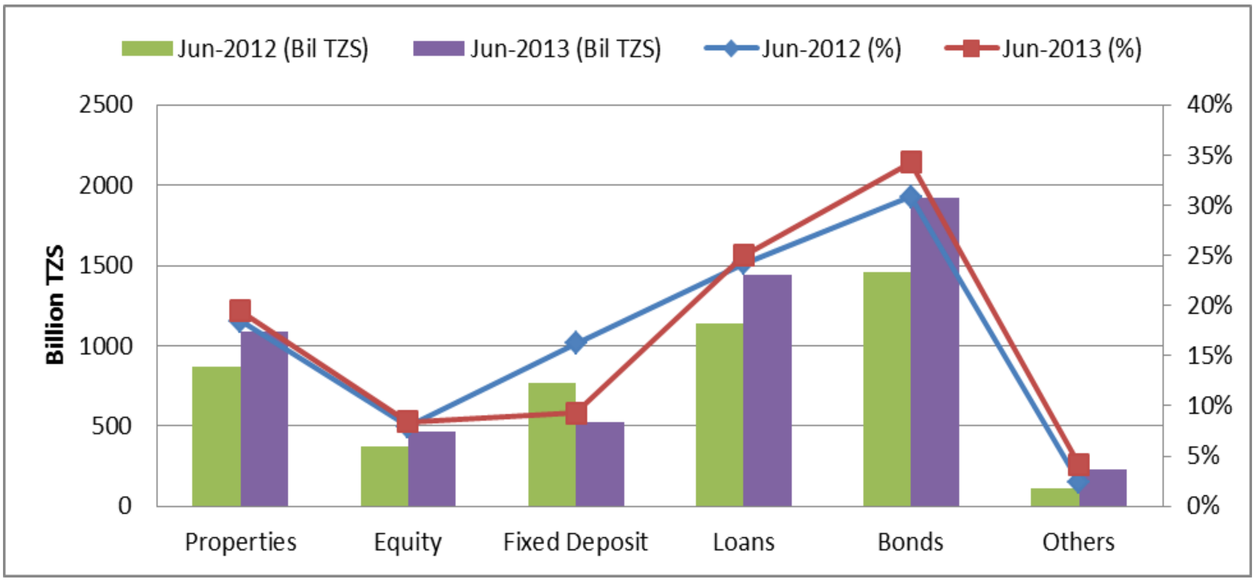
Table 2.5: Social Security Funds' Performance

Item	Unit	Jun-10	Jun-11	Jun-12	Jun-13	Percentage Change		
						2010-11	2011-12	2012-13
Membership	Million	1.4	1.6	1.7	1.8	11.6	4.8	10.8
Pensioners	Thousands	48.6	59.4	72.8	87	22.3	22.4	19.6
Net Assets	TZS Trillion	3.4	4.1	5.4	6.6	23.4	29.4	25.7
Investments Portfolio	TZS Trillion	3.1	3.8	4.8	5.6	19.4	28.5	17.0
Benefit Payments	TZS Trillion	0.5	0.6	0.7	1.1	26.4	27.5	45.6

Source: Social Security Regulatory Authority

During the period under review the pension funds increased investments in properties while reducing equity holdings (**Chart 2.6**). However, the investments mix was in line with Social Security Investment Guidelines (2012) issued by the Bank of Tanzania.

Chart 2.6: Pension Funds' Investment Portfolios



Source: Social Security Regulatory Authority

2.5 Microfinance Sector

Micro-lending in the banking system was directed to different activities including manufacturing, services, small scale agriculture and trade. Total outstanding loans increased by 9.0 percent during the period ending March 2014 (**Table 2.7**). To cushion against credit risks, physical and non-physical assets are used to secure micro-loans. The increasing average loan per borrower is evidence of growing confidence of banks on micro-borrowers.

Table 2.7: Micro-lending in the Banking System

Item	Mar-12	Sep-12	Mar-13	Sep-13	Mar-14
Borrowers	529,024	539,433	616,167	629,564	638,900
Outstanding Micro-Loans by Sectors (TZS Million)					
Manufacturing	6,257	32,247	36,405	49,263	57,761
Services	105,264	1,339,439	1,457,149	1,520,131	1,724,197
Small Scale Agriculture	46,192	55,463	123,986	61,045	125,478
Trade	90,434	291,685	360,772	400,033	249,359
Total Loans	**248,147**	**1,718,834**	**1,978,313**	**2,030,472**	**2,156,794**
Average Loan per Borrower	0.47	3.19	3.21	3.23	3.38

Source: Bank of Tanzania

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

2.6 Cross-Sector Linkages in the Financial System

Technological advancement and institutional innovations have continued to deepen interconnectedness among financial sectors at national, regional and global levels. **Table 2.8** depicts the extent of inter-connectedness among banks (both domestic and foreign), pension funds, insurance and Mobile Network Operators. The growing inter-linkages have fostered integration of financial markets and institutions. On the other hand, this has also amplified risk transmission across financial systems, necessitating a close monitoring of financial interconnectedness.

Table 2.8 Financial System Interconnectedness with Top Ten Banks

Billions of TZS

Items	Jun-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Placements with Banks Abroad	1,159.90	910.1	736.1	579	690.2	743.7	737.4
Placements with Domestic Banks	394	391.6	440.6	549.4	462.3	345.8	437.9
Deposits from Pension Funds	316.5	358.2	309.1	392.6	377.5	240.5	265.8
Deposits from Insurance Companies	151.2	91.9	135.8	119.1	117.6	106.8	186
Borrowings from Domestic Banks	179.9	240.6	311	376	269.7	299.7	369.5
Deposits from Foreign Banks	69.2	70.9	59.7	148.7	79.5	182.5	144.7
Inter-bank Contingent Claims to Foreign Banks	129.1	318.7	269.2	247.5	258.4	224.8	339.8
Deposits from Mobile Network Operators[11]	161.3	192.4	208.3	245.9	301.8	293.5	297.9

Source: Bank of Tanzania

[11] Represents mobile financial services trust account balances.

2.6.1 Linkages among Banks

Placements with other banks abroad by the top ten banks constituted 3.8 percent of the total banking system assets. Meanwhile, deposits from foreign banks increased by 142.4 percent to TZS 144.7 billion in March 2014. The main risk arising from placements with banks abroad is an occurrence of banking crisis in foreign banks and foreign exchange rate fluctuations. To mitigate the potential risks, banking institutions are guided by the Banking and Financial Institutions Regulations[12] which require banks to diversify their placements abroad and comply with foreign exposure limits which are monitored by the Bank of Tanzania on a daily basis.

2.6.2 Banking, Insurance and Pension Sectors

During March 2014, pension funds deposits in the banking system decreased by 14.0 percent to TZS 265.8 billion, reflecting changes in investment mix. In contrast, during the same period, deposits of Insurance companies with the top ten banks increased by 37 percent to TZS 186.0 billion. Insurance companies are required to maintain 30 percent of their assets in bank deposits as mitigation against liquidity risk.

2.6.3 Banking and Telecommunication Sectors

Growth in the use of mobile phones to provide and deliver financial services has been on a steady increase in Tanzania. This development accelerates access to financial services in the economy. Banking and other institutions use the mobile phone networks to deliver financial services. In addition, the banks maintain trust accounts to secure e-money issued by MNOs. As of end March 2014, balances held by MNOs in the Trust Accounts amounted to TZS 297.9 billion.

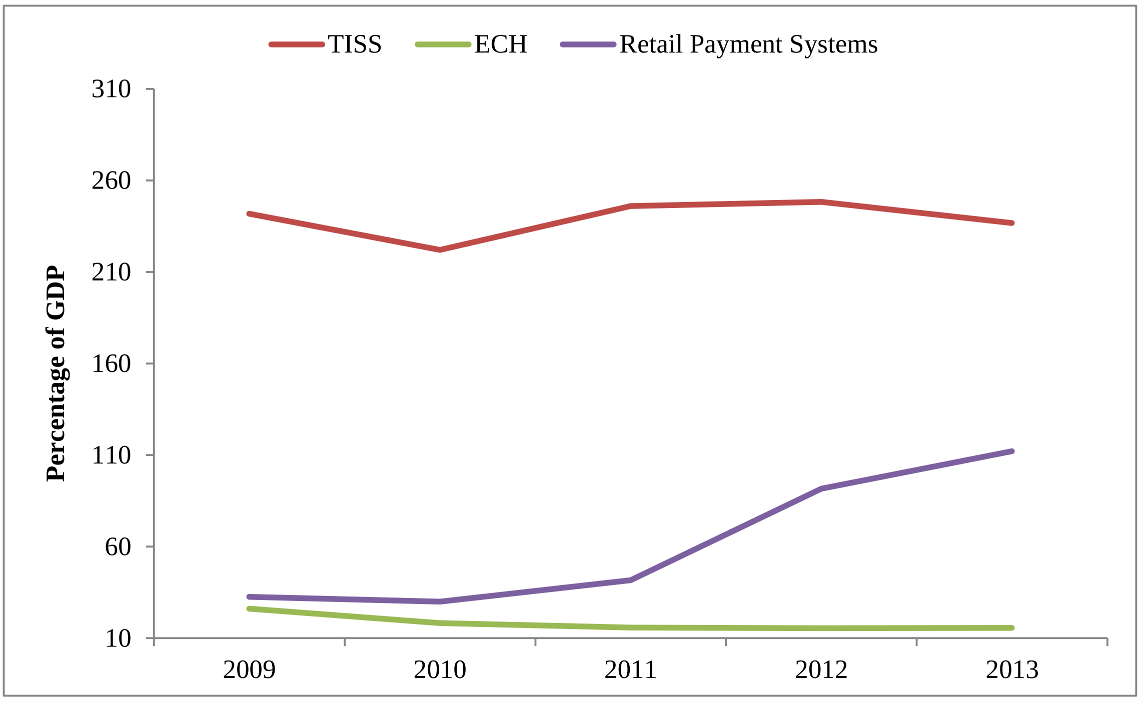
[12]Foreign exchange operations are regulated by "Foreign Exchange Exposure Limits Regulations, 2008, Section 7 and 9"

3.0 FINANCIAL SYSTEM INFRASTRUCTURE AND REGULATORY DEVELOPMENTS

3.1 Payment Infrastructure

The National Payment Systems (NPS) comprises Tanzania Inter-bank Settlement System (TISS), Electronic Clearing House (ECH) and Retail Payment Systems (RPS). During the period under review, the National Payment Systems operated without major disruptions.

Chart 3.1: Payments through National Payment Systems



Source: Bank of Tanzania, National Bureau of Statistics.

Retail payment systems, which are driven by mobile financial services, are growing faster than other payment systems. The number of registered active mobile money service users increased by 40.0 percent to 11.76 million during the period ending March 2014, while the value of transactions increased by 54.2 percent to TZS 3,076.1 billion in March 2014 compared to transactions recorded in March 2013. The major risk facing the mobile money service is loss of public confidence in the event of un-secured e-money. This risk is mitigated by a requirement for MNOs to maintain trust accounts with commercial banks to cover the e-money issued. The Bank continues to monitor developments of mobile money and other payment systems.

3.2 Financial Regulatory Developments

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

3.2.1 Banking Sector Regulations

The Bank is in the process of reviewing the prudential banking regulations which govern the supervision of the banking sector. The review is aimed at incorporating developments in the Tanzanian banking industry, evolving banking supervision and international good practices.

3.2.2 Social Security Sector

During the period under review, the GEPF Act was repealed and a new act GEPF Retirement Benefit Act No. 8 of 2013 was put in place in January 2014. The new Act transformed GEPF from a provident fund to a pension fund. The Social Security Regulatory Authority (SSRA) also issued four guidelines:

i). The Social Security Schemes (Totalization of Contribution Periods) Guidelines, 2014. The guidelines provide for a safeguard of the members' interests by protecting their benefit rights acquired through contributing to more than one scheme.

ii). The Social Security Schemes (Annual Reporting) Guidelines, 2014 to ensure that annual reporting of schemes reflects a true and fair view of the schemes' affairs;

iii). The Social Security Schemes (Interoperability) Guidelines, 2014 to provide for mechanisms to guarantee a coherent medium of communication to support information flow within and outside the schemes;

iv). The Social Security Schemes (Conduct of Affairs of the Annual Members Conference) Guidelines, 2014 to provide guidance to Schemes for proper conduct of affairs during their annual members conferences.

3.2.3 Capital Markets and Securities Regulation

The Enterprise Growth Market (EGM) became operational in 2013, following amendments to the Capital Markets and Securities Act (1994) in 2010. EGM is an equity market specifically intended for Small and Medium Enterprises (SMEs) and start-ups, which have not been able to tap into Main Investments Market Segment. In order to protect investors' interests on an on-going basis, the CMSA had issued the Capital Markets and Securities (Nominated Advisors) Regulations GN NO: 443. The regulations provide guidance on the role of Nominated Advisors (NOMADs) to companies issuing shares through EGM.

3.3 Financial Inclusion Developments

The National Inclusion Framework was officially launched in December, 2013. The Framework sets out a guide for building an inclusive financial system in Tanzania. Inclusive finance is a major contributor not only to economic growth and poverty reduction but also for effective monetary policy transmission and financial sector stability. Financial inclusion brings more people into the financial system and facilitates regular use of financial services through payment infrastructure to manage cash flows and mitigate shocks. The inclusion is made possible by formal providers through a range of appropriate services with dignity and fairness.

3.4 Financial Stability Developments

The EAC Monetary Affairs Committee (MAC) of Central Bank Governors met in Kampala in May 2013 where among others they approved the formation of working groups to support the development and harmonization of financial stability frameworks and crisis management and resolution in the EAC. To that effect the working groups held meetings to develop action plans towards implementation of the MAC directives.

The 16th Financial Stability Board (FSB) Regional Consultative Group (RCG) for Sub-Saharan Africa meeting was held in Mauritius in October 2013. The meeting discussed Basel III efforts to end "Too Big to Fail", increasing supervisory effectiveness and enhancing cross border cooperation. Tanzania is developing a framework for identifying Domestic Systemically Important Financial Institution (SIFIs). Also, the Bank is making progress towards implementing FSB-RCG recommendations with regard to liquidity ratios and additional capital requirements (capital conservation buffer and leverage ratio).

The Tanzania Financial Stability Forum (TFSF)[13] met in November 2013 and discussed potential vulnerabilities and financial stability outlook. The Forum agreed on policy actions to mitigate the identified vulnerabilities.

Box 2: Tanzania Financial Stability Forum

In efforts to achieve oversight of the entire financial system, financial sector regulatory agencies established the Tanzania Financial Stability Forum (TFSF), through a Memorandum of Understanding (MoU) signed on 31st March 2013. The Forum, provides a platform for consultation, exchange of information and policy-making on financial stability. It also broadens the scope of oversight from purely micro-prudential focusing to macro prudential oversight geared towards identification and mitigation of systemic risks as well as crisis management and resolution.

Members of the Forum, chaired by the Governor of the Bank of Tanzania, are Ministry of Finance of the United Republic of Tanzania, Ministry of Finance of the Revolutionary Government of Zanzibar, Tanzania Insurance Regulatory Authority, Social Security Regulator Authority, Capital Markets and Securities Authority, Depository Insurance Board and the Bank of Tanzania.

Forum members agreed to put together their efforts aimed at promoting sound risk management in respective sectors; protecting depositors, investors, scheme members and policyholders with a view to avoiding or minimizing losses where possible; resolving crises effectively and as quickly as practicable; Ensuring that the owners, directors and management of a distressed or failed institution bear appropriate responsibility;Minimizing moral hazards and taxpayer's burden associated with financial crisis resolution arrangements and maintaining appropriate market disciplines.

Forum members further agreed on certain guiding principles on decision making and actions to be taken in an event of a financial crisis. These include relevant statutory objectives of each Member and the objectives agreed upon in the MoU establishing the Forum.

Finally, in discharging its mandate, the Forum will meet at least once in each quarter. Notwithstanding the quarterly meetings, the Chairperson shall call a meeting any time when a need arises.

[13] TFSF is made of financial sector regulatory agencies in Tanzania.

4.0 FINANCIAL SYSTEM RESILIENCE AND STABILITY OUTLOOK

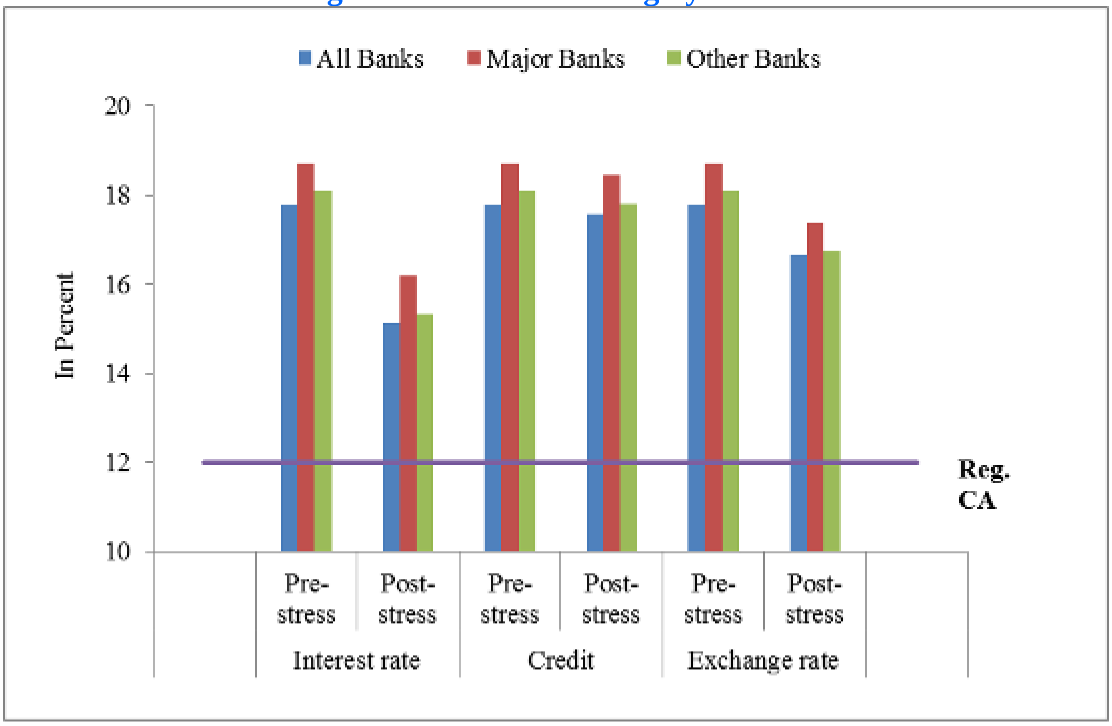
4.1 Financial System Resilience

Banking Sector Resilience

The banking system remained resilient to internal and external shocks during the period under review. The system did not experience major changes in terms of buildup of systemic risks.

A stress test on the balance sheet of the banking system was conducted to assess resilience of the system to credit, interest and exchange rate shocks. The aim was to determine whether the system will have adequate capital to weather off adverse developments. The results of the stress tests for the period ending March 2014 revealed that the banking system was resilient to shocks stemming from interest rate, exchange rate and credit risks (**Chart 4.1**). However, two of the top 10 banks needed additional capital to absorb shocks, of which one was affected by interest rate shock and the other bank by all three shocks.

Chart 4.1: Stress Testing Results of the Banking System



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

Non-bank Financial Sector Resilience

Currently, the non-bank financial sector is not subjected to stress testing. However, plans are underway to develop a stress testing framework for the sectors. Nevertheless, the insurance and social security sectors recorded satisfactory performance during the year ending March 2014. The insurance sector remained well capitalized, with adequate liquidity and improved quality of assets. During the same period, the Social Security Funds continued to grow in terms of membership and assets portfolio. The capital and securities market continued to grow on account of new listing and share price appreciation.

4.2 Financial Stability Outlook

Assessment of the evolving global and regional developments points to stronger global trade and higher commodity prices which will positively support Tanzania's exports. In addition, foreign direct investment particularly in extractive industries is also expected to support economic growth. However, movement from non-traditional to traditional monetary policy in advanced economies poses risk to global financial markets. In particular, end of tapering in the US may impact negatively on the cost of capital and increase the cost of external borrowings. This could be mitigated through broadening of domestic capital markets with a view to enhance long term development finance.

The projected growth in the SSA region, particularly the SADC sub-region, which absorbs 29.0 percent of Tanzania's exports, is further expected to spur Tanzania's economic growth. The growing regional banking groups are also expected to contribute to the integration and development of SSA economies. However, regional financial crisis management and resolution arrangements need to be enhanced in order to address risks arising from cross-border financial operations.

The Tanzanian economy is expected to remain in the growth trajectory in the next six months. The growth is supported by the ongoing investments in infrastructure and extractive industries in particular gas and oil. Inflation is expected to remain at single-digit on account of projected softening of world oil prices and food prices in the SADC region. However, expected increase of food prices in the EAC region may pose risk to inflation.

In the backdrop of this macroeconomic and financial environment, the domestic financial system is expected to remain stable in the next six months. The banking sector is expected to continue expanding given the projected macro-economic conditions and growing outreach driven by adoption of mobile money technology and institutional innovations, including agent banking. However, stability of the banking sector will be subject to containing the non-performing loans particularly, in personal, agriculture, trade and manufacturing sectors. Additionally, enhancement of management of operational risks arising from the mobile money and institutional innovations will be imperative to ensure sustainability of banking system growth.

The insurance sector coverage is expected to expand on account of adoption of mobile money technology. This is subject to the development of appropriate insurance products, including micro-insurance to cater for low income households and small enterprises. Sustainability of profitability of the sector will depend on effective management of risks arising from growing accounts receivable (delayed premium remittances).

Financial system inter-connectedness is expected to grow, increasing efficiency in the financial system resulting from economies of scale and scope. However, these developments heighten risks transmission across institutions and countries. This calls for closer inter-agency regulatory cooperation. The Tanzania Financial Stability Forum is expected to play an increasing role in coordinating financial stability oversight.

At the EAC level, the institutional arrangements for coordinating harmonization of financial stability oversight and crisis management have been instituted under the Banking Supervision and Financial Stability sub-committee of the EAC MAC.

The Bank will continue to implement policies aimed at promoting efficiency and stability of the financial system through collaborative efforts with other supervisory agencies at the national and regional levels.

ANNEXES AND APPENDICES

Annex 1: World GDP Growth Rates

	Actual				April, 2014 Projection	
	2010	2011	2012	2013	2014	2015
World output	**5.1**	**3.9**	**3.2**	**3.0**	**3.6**	**3.9**
Advanced economies	**3.0**	**1.7**	**1.4**	**1.3**	**2.2**	**2.3**
USA	2.4	1.8	2.8	1.9	**2.8**	**3.0**
Euro area	2	1.5	-0.7	-0.5	1.2	1.5
Japan	4.7	-0.6	1.4	1.5	1.4	1.0
United Kingdom	1.8	1.1	0.3	1.8	2.9	2.5
Emerging and Developing economies	**7.4**	**6.2**	**4.9**	**4.7**	**4.9**	**5.3**
Sub-Saharan	5.3	5.5	4.9	4.9	5.4	5.5
SADC	4.0	4.1	4.1	4.6	4.9	5.0
EAC	6.3	5.9	5.3	5.6	6.4	6.7
Tanzania	7.0	6.4	6.9	7.0	7.2	7.5
Developing Asia	**9.5**	**7.8**	**6.4**	**6.5**	**6.7**	**6.8**
China	10.4	9.3	7.7	7.7	7.5	7.3
India	10.1	6.3	3.2	4.4	5.4	6.4

Source: IMF, World Economic Outlook, April, 2014

Annex 2: Economic Performances in the EAC, SADC and Sub-Saharan Africa

	2008	2009	2010	2011	2012	2013	Projections	
							2014	2015
EAC Overall	**7.1**	**4.6**	**6.3**	**5.9**	**5.3**	**5.6**	**6.4**	**6.5**
Kenya	1.5	2.7	5.8	4.4	5.1	5.6	6.2	6.3
Rwanda	11.2	6.2	7.2	8.6	7.7	7.5	7.2	7.5
Tanzania	7.4	6.0	7.0	6.4	6.9	7	7.2	7.5
Uganda	10.4	4.1	6.1	5.1	4.2	5.6	6.2	6.2
Burundi	4.9	3.8	3.8	4.2	4.2	4.2	5.1	6.8
SADC Overall	**4.1**	**2.3**	**5.7**	**5.3**	**5.0**	**4.6**	**5.1**	**5.2**
Sub-Saharan Africa	**5.7**	**2.6**	**5.6**	**5.5**	**4.9**	**4.9**	**5.4**	**5.5**

Source: IMF, World Economic Outlook, April, 2014

Annex 3: Non-Performing Loans by Sectors

(Billions of TZS)

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Agriculture	119.5	180.6	195.4	163.9	199.8	214.9	136.2	113.9	138.5	157.7	164.0	122.5	164.8
Financial Intermediaries	7.3	19.7	2.0	16.2	17.4	16.8	14.5	16.1	18.5	18.2	18.8	15.2	38.5
Mining and quarrying	3.7	10.4	12.6	12.5	17.1	23.0	10.6	9.5	11.7	2.9	3.5	0.7	8.1
Manufacturing	50.0	161.7	186.3	156.8	157.0	157.6	92.4	84.2	96.3	85.4	75.8	72.9	92.5
Building & construction	23.6	29.1	29.6	21.9	67.2	27.1	17.6	26.5	28.6	16.1	20.8	15.6	22.5
Real Estate	31.2	74.5	80.1	82.7	91.8	113.1	19.4	23.0	32.6	40.0	24.1	26.5	32.5
Leasing	0.3	0.4	2.5	4.9	4.6	6.2	3.5	4.6	0.0	0.0	0.3	0.3	0.3
Transport and communication	30.3	76.6	76.6	56.8	55.5	41.9	32.6	49.7	33.6	55.0	39.7	42.8	63.3
Trade	97.5	171.8	159.4	145.8	154.5	163.8	103.5	163.2	132.9	135.0	124.8	113.3	140.0
Tourism	6.5	13.9	14.0	12.7	18.0	19.8	14.0	15.1	20.9	18.4	25.2	36.6	41.3
Hotels and Restaurants	48.0	70.7	64.0	56.7	56.9	64.2	36.3	54.9	38.0	68.0	39.4	51.3	62.4
Warehousing and Storage	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.4
Electricity	1.2	8.2	1.6	9.1	8.2	7.8	0.8	-0.1	0.8	0.2	0.3	0.3	0.1
Gas	1.3	2.0	4.0	2.3	2.0	4.6	-0.2	7.5	7.2	13.0	8.9	6.1	5.3
Water	0.0	0.1	0.1	0.1	0.7	1.0	0.5	0.9	0.6	1.1	1.0	0.7	0.0
Education	14.7	10.5	10.3	13.0	15.8	17.5	16.5	20.5	15.2	8.6	6.2	6.7	8.2
Health	0.4	0.2	0.6	0.5	0.7	0.9	1.1	1.3	1.7	1.9	1.3	1.7	3.0
Other Services	14.7	23.9	30.1	27.1	32.9	43.9	4.3	20.7	24.2	19.0	21.9	18.9	30.5
Personal (Private)	100.3	133.0	144.4	148.1	139.6	162.6	130.9	86.7	108.9	122.5	121.5	110.4	111.1

Source: Bank of Tanzania

Annex 4: Annual Growth of Commercial Banks' Lending by Activity (Percent)

End of Period	Agriculture	Financial Intermediaries	Mining and Quarrying	Manufacturing	Building and Construction	Transport and Communication	Trade	Real Estate	Tourism	Hotels and Restaurants	Electricity	Personal
Jan-12	21.2	27.8	-25.7	17.4	77.6	21.0	26.7	61.5	21.5	32.6	12.4	25.4
Feb-12	20.0	54.6	-13.2	9.1	76.3	13.9	43.1	37.2	6.9	22.1	11.6	12.9
Mar-12	18.4	69.4	26.9	11.4	61.6	4.2	34.3	27.1	9.5	20.0	14.7	26.9
Apr-12	15.1	74.4	217.0	12.4	79.8	16.5	42.0	21.0	37.7	21.7	17.0	16.3
May-12	17.8	65.3	24.4	17.7	42.9	7.0	27.6	41.8	-9.5	23.5	32.2	16.9
Jun-12	4.7	45.7	22.9	4.2	51.6	3.0	33.3	42.9	-12.1	23.0	54.2	14.6
Jul-12	3.9	50.0	-9.0	16.4	59.5	20.5	34.7	30.9	-4.8	17.3	1.4	11.0
Aug-12	31.7	53.1	43.5	23.9	34.0	15.8	36.1	28.5	-11.3	10.2	8.6	30.4
Sep-12	8.4	56.9	46.3	-1.7	46.8	6.3	22.8	26.0	-11.2	2.0	9.5	7.8
Oct-12	-9.9	45.8	74.6	-0.9	33.3	18.0	34.4	29.1	-5.1	-2.4	0.7	4.7
Nov-12	-0.6	41.9	79.2	3.7	22.7	13.6	19.5	12.3	-0.3	1.0	104.2	11.6
Dec-12	2.9	30.2	40.8	6.8	28.0	11.9	21.0	29.6	21.0	0.6	102.8	14.2
Jan-13	13.0	15.5	18.2	5.3	29.9	4.6	25.1	14.0	32.8	1.9	56.0	13.9
Feb-13	7.7	13.4	68.1	16.5	34.2	4.7	24.6	18.6	34.6	2.1	58.2	11.2
Mar-13	12.9	10.5	44.1	18.7	36.0	11.6	30.6	17.4	27.0	3.7	46.1	6.9
Apr-13	25.1	-6.9	-5.3	17.4	24.8	4.3	27.1	26.3	-11.3	8.2	51.8	9.2
May-13	24.9	-6.3	92.3	14.9	50.2	13.5	22.9	19.0	38.1	12.1	63.2	5.3
Jun-13	17.0	-4.7	94.6	18.5	38.1	15.1	12.8	-4.4	59.8	-10.9	59.0	3.4
Jul-13	7.5	15.6	135.7	14.1	42.0	7.2	15.8	11.6	94.4	-8.6	58.2	1.1
Aug-13	4.6	18.9	85.2	18.3	41.8	18.2	16.7	10.5	92.7	-3.0	60.9	-2.5
Sep-13	1.3	4.0	91.2	23.3	19.5	22.6	13.8	23.9	97.8	6.2	80.1	1.6
Oct-13	-3.3	10.0	64.1	18.0	22.3	12.4	7.4	26.0	75.3	4.7	81.7	0.1
Nov-13	-0.9	8.0	68.8	10.4	29.3	19.1	17.5	26.4	87.1	1.5	-10.8	0.0
Dec-13	2.8	8.6	75.4	17.0	25.2	19.3	17.3	28.0	88.5	2.2	19.2	-1.9
Jan-14	10.6	13.5	139.1	19.1	22.3	21.2	16.2	30.0	68.4	4.3	46.4	-2.7
Feb-14	11.2	16.8	58.0	9.8	14.3	12.6	14.1	29.2	77.0	3.4	52.0	2.4
Mar-14	7.1	16.1	62.1	8.5	17.1	12.9	7.2	28.9	74.0	5.9	85.4	1.1

Source: Bank of Tanzania

Appendix 1: Global Commodity Price Trends

Oil (light crude)

Natural gas

Gold

Corn

Wheat

Live cattle

Cocoa

Coffee

Cotton

Sugar

Source: Bloomberg

Appendix 2: GDP: Growth rates and Sectoral Contributions

Sector Share in total GDP	2003	2004	2005	2006	2007	2008	2009	2010r	2011r	2012p	2013e
GDP at market prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Agriculture and Fishing	**29.0**	**28.5**	**27.7**	**27.0**	**26.2**	**25.5**	**24.8**	**24.1**	**23.4**	**22.8**	**22.3**
Agriculture	27.4	26.9	26.1	25.4	24.6	24.0	23.3	22.7	22.1	21.6	21.0
Crops	20.4	20.1	19.6	19.1	18.6	18.2	17.8	17.3	16.8	16.5	16.1
Fishing	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.4	1.3	1.3	1.2
Industry and construction	**19.1**	**19.6**	**20.2**	**20.5**	**20.9**	**21.2**	**21.4**	**21.6**	**21.7**	**21.8**	**21.8**
Mining and quarrying	2.1	2.3	2.4	2.6	2.7	2.6	2.5	2.4	2.3	2.3	2.2
Manufacturing	8.6	8.7	8.9	9.0	9.2	9.4	9.5	9.6	9.7	9.9	9.8
Electricity Gas &Water	2.6	2.6	2.6	2.4	2.5	2.5	2.5	2.6	2.5	2.4	2.4
Construction	5.8	6.1	6.2	6.4	6.5	6.7	6.8	7.0	7.2	7.3	7.3
Services	**46.1**	**46.1**	**46.4**	**46.9**	**47.3**	**47.8**	**48.3**	**48.8**	**49.5**	**49.9**	**50.7**
Trade and repairs	13.5	13.2	13.1	13.5	13.8	14.1	14.3	14.5	14.7	14.8	14.9
Hotels and restaurants	2.6	2.5	2.5	2.4	2.4	2.3	2.3	2.3	2.2	2.2	2.1
Transport & Communications	6.6	6.7	6.9	7.0	7.2	7.4	7.8	8.1	8.5	9.0	9.7
Financial intermediation	1.6	1.6	1.7	1.8	1.8	1.9	1.9	2.0	2.1	2.2	2.3
Real estate and business services	10.3	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2	10.2
Public administration	7.4	7.8	8.0	8.0	8.0	8.0	7.8	7.8	7.8	7.7	7.6
Other social and personal services	0.8	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6
GDP Growth Rate											
GDP at market prices (2001-100)	**6.9**	**7.8**	**7.4**	**6.7**	**7.1**	**7.4**	**6.0**	**7.0**	**6.4**	**6.9**	**6.9**
Agriculture and Fishing	**3.2**	**5.9**	**4.4**	**3.9**	**4.0**	**4.6**	**3.2**	**4.1**	**3.4**	**4.2**	4.2
Agriculture	3.2	5.9	4.4	3.9	4.0	4.6	3.2	4.1	3.4	4.2	4.3
Crops	3.2	6.6	4.4	4.0	4.5	5.1	3.4	4.4	3.5	4.7	4.7
Fishing	6.0	6.7	6.0	5.0	4.5	5.0	2.7	1.5	1.2	2.9	2.4
Industry and construction	**10.9**	**10.9**	**10.4**	**8.5**	**9.5**	**8.6**	**7.0**	**8.2**	**6.9**	**7.8**	**6.6**
Mining and quarrying	17.1	16.0	16.1	15.6	10.7	2.5	1.2	2.7	2.2	7.8	3.1
Manufacturing	9.0	9.4	9.6	8.5	8.7	9.9	8.0	7.9	7.8	8.2	6.7
Electricity Gas &Water	6.7	6.9	8.7	(0.5)	10.1	5.6	7.9	9.5	1.9	5.9	4.4
Construction	13.8	13.0	10.1	9.5	9.7	10.5	7.5	10.2	9.0	7.8	8.2
Services	**7.8**	**7.8**	**8.0**	**7.8**	**8.1**	**8.5**	**7.2**	**8.2**	**7.9**	**8.0**	**8.4**
Trade and repairs	9.7	5.8	6.7	9.5	9.8	10.0	7.5	8.2	8.1	7.7	7.5
Hotels and restaurants	3.2	3.6	5.6	4.3	4.4	4.5	4.4	6.1	4.6	4.8	3.6
Transport & Communications	7.1	10.5	9.4	8.6	10.1	10.8	11.0	12.2	11.3	12.5	16.1
Financial intermediation	10.7	8.3	10.8	11.4	10.2	11.9	9.0	10.1	10.7	13.2	13.5
Real estate and business services	6.5	6.8	7.5	7.3	7.0	7.1	6.7	7.1	6.5	6.7	7.1
Public administration	9.6	13.6	11.4	6.5	6.7	7.0	4.4	6.5	6.8	5.8	4.6
Other social and personal services	2.0	3.0	2.6	3.7	3.2	3.1	3.2	3.5	3.0	3.8	4.3
Sector contribution to GDP Growth Rate											
GDP at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture and Fishing	**14.0**	**21.9**	**17.1**	**16.0**	**15.3**	**16.1**	**13.6**	**14.3**	**12.8**	**14.1**	13.9
Agriculture	12.6	20.5	15.7	14.7	14.3	15.1	12.9	14.0	12.6	13.6	13.4
Crops	9.9	17.2	12.0	11.7	12.0	12.8	10.3	11.1	9.4	11.4	11.3
Fishing	1.5	1.4	1.3	1.2	1.0	1.1	0.7	0.3	0.3	0.6	0.5
Industry and construction	**29.2**	**26.5**	**27.6**	**25.4**	**27.1**	**24.2**	**24.6**	**24.9**	**23.0**	**24.3**	20.9
Mining and quarrying	4.8	4.3	4.9	5.7	4.0	0.9	0.5	1.0	0.8	2.6	1.1
Manufacturing	11.0	10.3	11.3	11.2	11.0	12.2	12.5	10.7	11.6	11.5	9.6
Electricity Gas &Water	2.5	2.3	3.0	(0.2)	3.4	1.9	3.2	3.4	0.8	2.1	1.5
Construction	10.9	9.6	8.3	8.8	8.7	9.2	8.4	9.9	9.8	8.1	8.7
Services	**51.5**	**46.0**	**50.0**	**54.0**	**53.4**	**54.3**	**57.0**	**56.0**	**59.6**	**56.9**	61.4
Trade and repairs	18.5	10.0	11.9	18.5	18.5	18.6	17.6	16.7	18.2	16.4	16.1
Hotels and restaurants	1.3	1.2	1.9	1.6	1.5	1.4	1.7	2.0	1.6	1.5	1.1
Transport & Communications	6.8	8.8	8.6	8.8	9.9	10.5	13.6	13.5	14.3	15.4	21.1
Financial intermediation	2.5	1.7	2.4	2.9	2.5	2.9	2.8	2.8	3.3	4.0	4.3
Real estate and business services	9.7	8.9	10.3	11.0	10.0	9.7	11.4	10.3	10.3	9.9	10.6
Public administration	10.0	12.8	12.0	7.7	7.5	7.5	5.8	7.2	8.2	6.5	5.2
Other social and personal services	0.2	0.3	0.3	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.4

Appendix 3: IFEM Operations: BOT, Commercial banks sales and Exchange rate

Date	Total traded (Million USD)	BOT sales (Million USD)	Bank sales (Million USD)	ER (TZS/USD)
Mar-02	154.7	62.3	92.5	952.1
Jun-02	196.8	35.2	161.6	970.2
Sep-02	269.0	15.4	253.6	962.7
Dec-02	225.4	25.1	200.3	979.9
Mar-03	217.7	97.2	120.5	1,016.1
Jun-03	243.3	61.2	182.2	1,040.5
Sep-03	283.5	65.8	217.7	1,043.6
Dec-03	236.9	65.4	171.5	1,052.9
Mar-04	251.6	136.4	115.2	1,100.4
Jun-04	182.1	55.2	126.9	1,113.5
Sep-04	245.4	58.1	187.3	1,085.1
Dec-04	300.4	70.1	230.3	1,056.5
Mar-05	122.8	52.7	70.1	1,100.3
Jun-05	123.6	37.6	86.0	1,120.6
Sep-05	219.0	102.8	116.2	1,134.3
Dec-05	236.6	142.7	93.9	1,163.1
Mar-06	202.2	87.3	114.9	1,195.3
Jun-06	311.8	210.6	101.2	1,243.7
Sep-06	341.5	216.7	124.8	1,303.7
Dec-06	279.3	141.3	138.1	1,280.0
Mar-07	238.9	108.5	130.4	1,277.5
Jun-07	303.8	31.0	272.9	1,266.0
Sep-07	315.6	112.1	203.5	1,264.6
Dec-07	332.3	177.2	155.1	1,163.3
Mar-08	199.3	83.7	115.6	1,171.1
Jun-08	355.8	162.2	193.6	1,200.2
Sep-08	373.4	140.0	233.4	1,162.6
Dec-08	326.1	228.5	97.6	1,247.8
Mar-09	419.8	320.1	99.7	1,315.6
Jun-09	388.4	217.8	170.6	1,325.6
Sep-09	439.4	260.0	179.4	1,316.9
Dec-09	376.0	300.0	76.0	1,322.1
Mar-10	253.3	241.0	12.3	1,337.0
Jun-10	213.8	204.0	9.8	1,371.2
Sep-10	255.4	255.0	0.4	1,452.8
Dec-10	626.2	296.1	330.1	1,483.2
Mar-11	540.6	249.1	291.5	1,498.6
Jun-11	415.1	190.7	224.4	1,535.4
Sep-11	586.6	194.1	392.5	1,613.4
Dec-11	632.4	397.9	234.5	1,646.5
Mar-12	441.1	289.8	151.3	1,589.0
Jun-12	327.2	128.6	198.7	1,584.7
Sep-12	309.8	130.7	179.2	1,579.9
Dec-12	316.9	216.9	100.0	1,579.1
Mar-13	389.8	253.1	136.7	1,592.2
Jun-13	153.0	100.9	52.1	1609.3
Sep-13	150.5	63.3	87.2	1617.7
Dec-13	175.8	43.8	132.0	1600.5
Mar-14	190.5	86.0	104.5	1635.3

Source: Bank of Tanzania
Note: ER=Exchange rate

Appendix 4: East Africa's Banking Sector Financial Soundness Indicators – FSIs

	Dec-12					Dec-13					Mar-14				
	Tanzania	**Kenya**	**Uganda**	**Rwanda**	**Burundi**	**Tanzania**	**Kenya**	**Uganda**	**Rwanda**	**Burundi**	**Tanzania**	**Kenya**	**Uganda**	**Rwanda**	**Burundi**
CAPITAL ADEQUACY															
Core Capital/TRWA+OBSE	17.4	18.9	18.8	21.4	18	17.7	19.4	19.1	20.9	19.1	18.4	15.7	20.9	20.5	19.5
Total capital/TRWA+OBSE	18	21.9	21.9	23.9	20.2	18.2	23.2	22.1	23.1	22.3	19.3	18.2	23.6	22.6	21.9
LIQUIDITY															
Liquid Assets/Demand Liabilities	38.1	41.9	77	41.2	59.7	36.5	38.6	46.7	49.4	67.8	36.4	39.2	49.8	46.3	47.7
Total Loans/Customer Deposits	67.6	76.9	74.5	91.9	89.1	71	80.4	63.5	49.42	49.2	71.9	82.3	60.5	86.1	77.5
EARNINGS AND PROFITABILITY															
Net Interest Margin (NIM)	71.8	32.7	12.8	47	47.3	66.9	37.2	67.3	9.5	50.8	68.1	35.6	65.7	45.4	55.4
Non-Interest Expenses/Gross Income	69	37.8	58.1	65.1	89.2	67.2	41.7	63.7	65.3	77	64.7	40.3	60.8	59.6	64.2
Return on Assets-ROA (PBT/Average Total Assets)	2.5	3.7	5.3	2.2	2.4	2.5	3.6	3.1	1.5	1.3	3.0	3.7	3.2	3.2	0.4
ASSET QUALITY															
Gross non-performing Loans/gross Loans	7.4	4.5	4.2	6	8.7	6.6	5	6	6.9	10.3	8.3	5.6	6.2	6.7	11.7
NPLs net of provisions/Total Capital	19	3.5	6.9	5.4	7.1	14.6	5.8	6.3	6	5.2	18.1	8.1	8.3	13.5	7.2
Earning Assets/Total Assets	79.3	87.4	71.3	79.9	79.1	79.5	88.9	69.6	78.6	66.8	80.0	89.3	69.3	82.1	67.0
SENSITIVITY TO MARKET RISK															
FX Currency Denominated Assets/Total Assets	31.2	13.2	31.7	13.3	19.1	30.2	13.7	31.1	16.3	17.2	29.6	14.0	32.5	16.4	18.6
FX Currency Denominated Liabilities/Total Liabilities	34.5	20.9	36.2	21.4	18.8	34.5	22.9	38.1	23.4	17.5	34.3	21.6	38.4	25.1	16.0
Net Open Positions in FX/Total Capital	1.6	2.6	-0.5	-0.2	-10.8	1.5	2.2	-2.7	-2.2	0.1	2.6	3.2	-2.3	-12.6	-4.1

Source: Bank of Tanzania

Appendix 5: National Debt Developments

		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Mar-14
Debt Stock (millions of USD)													
External		7,520.0	8,209.3	8,022.9	4,685.9	5,793.2	6,256.4	7,802.0	8,736.9	9,093.9	10,665.1	13,196.6	13,907.1
Domestic		864.3	913.3	1,616.4	1,562.3	1,807.2	1,466.5	1,962.7	2,309.9	2,577.7	3,277.8	3,831.7	3,996.1
National Debt		8,384.3	9,122.6	9,639.3	6,248.2	7,600.4	7,722.9	9,764.7	11,046.8	11,671.6	13,942.9	17,028.3	17,873.9
Public Debt (excl. Private)		7,458.2	8,215.8	8,716.9	5,175.2	6,318.1	6,525.5	8,243.1	9,204.1	9,861.6	12,063.6	9,364.9	9,911.0
Public External Debt		6,593.9	7,302.6	7,100.5	3,613.1	4,510.9	5,059.0	6,280.5	6,894.2	7,283.9	8,785.8	10,938.2	11,804.6
External Debt service (ESD)		247.2	245.7	196.3	127.0	102.0	152.6	97.8	172.6	68.2	121.3	175.4	70.8
As percent of GDP													
National		71.9	71.1	67.3	43.7	45.1	37.4	45.2	47.7	48.4	49.0	51.2	53.7
External		64.5	64.0	56.0	32.7	34.4	30.3	36.1	37.7	37.7	37.5	39.7	41.8
Domestic		7.4	7.1	11.3	10.9	10.7	7.1	9.1	10.0	10.7	11.5	11.5	12.0
Public Debt		64.0	64.0	60.9	36.2	37.5	31.6	38.2	39.7	40.9	42.4	28.2	29.8
Public External Debt		56.6	56.9	49.6	25.3	26.8	24.5	29.1	29.7	30.2	30.9	32.9	35.5
Budget deficit (RHS)		-2.6	-4.9	-5.2	-5.3	-4.5	-4.5	-6.5	-6.5	-5.5	-4.8	4.4	
Government Expenditure			22.6	19.9	22.2	23.2	23.1	24.5	27.0	27.5	26.9	26.8	
EDS/Exp			8.5	6.9	4.0	2.6	3.2	1.8	2.8	1.0	1.6	2.0	
Growth rates													
GDP (RHS)		6.9	7.8	7.4	6.7	7.1	7.4	6.0	7.0	6.4	6.9	7.0	
External		6.9	9.2	-2.3	-41.6	23.6	8.0	24.7	12.0	4.1	17.3	23.7	5.4
Domestic		9.4	5.7	77.0	-3.3	15.7	-18.9	33.8	17.7	11.6	27.2	16.9	4.3
National Debt		-3.1	8.8	5.7	-35.2	21.6	1.6	26.4	13.1	5.7	19.5	22.1	5.0
Public Debt		8.0	10.2	6.1	-40.6	22.1	3.3	26.3	11.7	7.1	22.3	-22.4	5.8
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	7.9
Memorandum Items													
Budget deficit (TZS)		-302.6	-623.8	-737.7	-755.6	-764.5	-935.1	-1,406.1	-1,515.0	-1,319.5	-1,352.3	1,455.5	
GDP (USD)		11,653.4	12,828.0	14,319.2	14,308.4	16,838.6	20,660.1	21,602.4	23,181.6	24,099.2	28,451.6	33,263.0	33,263.0
Exchange rate TZS/USD	EOP	1,063.6	1,043.0	1,165.0	1,261.6	1,132.1	1,280.3	1,313.3	1,453.5	1,566.7	1,571.6	1,578.6	1,629.60
	AR	1,028.9	1,089.3	1,129.2	1,253.9	1,244.1	1,196.9	1,306.0	1,365.7	1,557.4	1,571.7	1,578.6	1,629.60

Source: Bank of Tanzania
Note: EOP=End of Period
AR=Annual Average

Appendix 6: Performance of the Dar es Salaam Stock Exchange as of March 2014

(Billions of TZS)

	Mar-10	Sep-10	Mar-11	Sep-11	Mar-12	Sep-12	Mar-13	Sep-13	Dec-13	Mar-14
Total Market Capitalization	**4,953**	**4,939**	**5,700**	**6,014**	**11,777**	**12,948**	**13,533**	**14,842**	**16,464**	**17,301**
Domestic Market Capitalization.	1,848	1,834	2,154	2,229	2,595	2,711	3,324	4,309	5,979	6,176
Cross listed Market Capitalization.	3,105	3,105	3,546	3,785	9,182	10,237	10,209	10,534	10,485	11,125
% of domestic listed Companies	37.3	37.1	37.8	37.1	22.0	20.9	24.6	29.0	36.3	35.7
% of cross listed Companies.	62.7	62.9	62.2	62.9	78.0	79.1	75.4	71.0	63.6	64.3

Source: Capital Markets and Securities Authority.

Appendix 7: Organogram of the Directorate of Financial Stability