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TANZANIA FINANCIAL STABILITY REPORT

March 2017

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

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LIST OF ACRONYMS

AfDB	-	African Development Bank
ATMs	-	Automated Teller Machines
BIS	-	Bank for International Settlement
CMSA	-	Capital Market and Securities Authority
CPMI	-	Committee for Payment and Market Infrastructures
DFI	-	Development Finance Institutions
DIB	-	Deposit Insurance Board
DSE	-	Dar es salaam Stock Exchange
EMEs	-	Emerging Market Economies
EMV	-	Europay MasterCard and Visa
EPOCA	-	Electronic and Postal Communication Act
FATF	-	Financial Action Task Force
GDP	-	Gross Domestic Product
GPW	-	Gross Premium Written
HHI	-	Herfindahl Hirschman Index
IMF	-	International Monetary Fund
IPO	-	Initial Public Offer
LTV	-	Loan to Value
MCB	-	Mwalimu Commercial Bank
MFB	-	Microfinance Bank
NAV	-	Net Asset Value
NFCs	-	Non-Financial Corporates
NPLs	-	Non- Performing Loans
PLC	-	Public Limited Company
POS	-	Point of Sale
RoI	-	Return on Investment
SMEs	-	Small and Medium Enterprises
SSA	-	Sub-Saharan Africa
TACH	-	Tanzania Automated Clearing House
TBL	-	Tanzania Breweries Limited
TIRA	-	Tanzania Insurance Regulatory Authority
TISS	-	Tanzania Interbank Settlement System
TMRC	-	Tanzania Mortgage Refinancing Company
TRWA	-	Total Risk Weighted Assets
TZS	-	Tanzania Shilling
USD	-	United States Dollar

FOREWORD

This Report is being released at a time when risks arising from global macro-financial environment have moderated. However, new risks have emerged to developing countries, as inflation in advanced economies is moving closer to the target, opening the possibility of exit from accommodative monetary policies that may lead to tightening of global financial conditions.

Our banking sector remained resilient supported by stable macroeconomic environment, however, credit risk continues to persist, with higher provisions squeezing banks profitability and reducing credit flow to the private sector, as banks take precautionary lending stance. We have eased monetary condition to reduce cost of funding, engaged banks to take various options including loan restructuring and directed them to use credit reference bureau for loan underwriting as measures to contain credit risk going forward.

Ongoing implementation of the Electronic and Postal Communication Act, 2010 is expected to increase vibrancy of the equity market as telecommunication companies make their initial public offers. Vodacom Tanzania Limited, the first telecommunication company to issue shares to the public in March 2017, included use of mobile money platform in its issuance in order to increase geographical outreach and accommodate small-scale investors.

Other financial sub-sectors have also been implementing a number of measures to enhance operational perfomance and mitigate potential risks. Introduction of a web based application for tracking motor vehicle insurance premium payment in April 2017 and planned guidelines that will require direct payment of premium to insurers will foster liquidity management and consumer protection. Social security sector continues to improve administrative efficiency in compliance with the Social Security Schemes (Administrative Expenses) Guidelines, 2016.

The Bank and other financial sector regulators remain committed to fostering financial sector development and enhancing regulatory oversight to accommodate new developments with a view to preserve stability of the financial system.

Prof. Benno Ndulu
Governor and Chairman of Tanzania Financial Stability Forum
31st March 2017

EXECUTIVE SUMMARY

Risks to global economic and financial environment declined, but uncertainties remain. Global economic growth has gradually been picking up beginning fourth quarter of 2016 and the momentum is expected to remain solid in 2017 on the back of increasing global demand and improving labour market particularly in advanced countries. Monetary policy remained accommodative in most of the advanced economies save for the US. Moreover, higher commodity prices are supporting positive outlook for emerging markets and developing economies. Against this backdrop, growth is expected to accelerate to 3.5 percent in 2017 from 3.1 percent in 2016 (IMF World Economic Outlook April, 2017). However, further tightening of monetary policy in the US could heighten volatility in the global financial and currency markets. In addition, emerging trade protectionist policies may pose risks to the gains from globalization.

Risks to growth in Sub-Saharan Africa are expected to subside, supported by a gradual recovery in commodity prices. In 2016, the region grew at 1.4 percent, which was the lowest in the last two decades. However, growth is expected to accelerate to 2.6 percent in 2017, driven by higher commodity prices and a gradual pick up of global demand. These factors are expected to spur economic activities of the three largest economies of the region namely, South Africa, Nigeria and Angola, which were worst hit in 2016. Additionally, other commodity exporting countries are expected to continue posting strong growth, benefiting further from increasing investment in infrastructure. Meanwhile, the regional growth is challenged by heightened political risk relating to presidential elections in several countries, downgrading of South Africa's credit rating as well as Nigeria's currency overvaluation, which may dampen investors sentiments and affect capital flows and investment.

Domestic economy is expected to remain strong. The economy grew by 7.0 percent in 2016 underpinned by continued investment in infrastructure projects, low global oil prices and diversified economic activities. Growth is projected to rise to 7.1 percent in 2017 benefiting from improving global demand, rising global commodity prices, large scale infrastructure development with improved outlook for power generation, which will further spur industrial production.

Inflation remained subdued, averaging 5.2 percent in the six months to March 2017 and is expected to abate in the near term as food harvest season approaches. The current account deficit narrowed by 70.7 percent to USD 407.7 million supported by decline in import bill and increased export earnings, which sustained general stability of the Shilling.

During the period, cost of borrowing in the interbank cash market exhibited a declining trend while lending rates were elevated, reflecting banks' risk aversion amid increasing non-performing loans. The cost of borrowing in the interbank cash market is expected to decline further as accommodative monetary policy pursued by the Bank continues to take effect complemented by Bank's new rules that will increase efficiency and transparency in the interbank cash market operations.

The Banking sector remained stable, albeit with growing exposure to credit risk. The sector remained resilient as reflected by sustained high level of capital and favourable liquidity buffer. Capital and liquidity ratios for the sector were 19.0 percent and 36.0 percent as at end March 2017, above regulatory requirements of 10.0 percent and 20.0 percent respectively. However, NPLs ratio increased to 10.9 percent from 9.1 percent recorded at end September 2016. The increase was attributed to slow growth in gross total loans, and an absolute increase in NPLs in all activities except personal and trade. Higher provisions for NPLs continued to squeeze banks' profitability despite an increase in interest margin.

The NPL ratio is likely to moderate in the near term as banks step up measures to strengthen credit risk management practices. The Bank continues to engage banks to consider various options to improve asset quality, including loan restructuring. To further strengthen the banking sector's resilience, Bank has directed all banks to maintain capital conservation buffer of 2.5 percent of risk-weighted assets and off-balance sheet exposures effective August 2017 and maintain a capital charge for operational risk.
During six months to end March 2017, payment systems operated without major disruptions, with negligible unsettled transactions. Tanzania Interbank Settlement System (TISS) and Tanzania Automated Clearing House (TACH) recorded an increase in values transacted with low operational, liquidity and settlement risks.

DSE continued to face concentration and liquidity risks. Concentration risk as measured by domestic market capitalization of top 6 traded stocks accounted for 76.6 percent of the 18 domestic listed and trading equities. Foreign investors continued to record increasing participation on the buying side during the six months to March 2017, in the equity and bond market where they bought 96.2 percent and 38.9 percent of traded shares and bonds respectively. Total turnover declined by 26.8 percent to TZS 157.8 billion, signalling selling pressure emanating from social-economic needs during the quarter and decreased foreign investors activity**.** Shares of Tanzania Breweries Limited (TBL) were the most traded, accounting for 67.0 percent of the total trading; followed by Tanzania Cigarette Company Limited (18.0 percent). Subdued stock market activity continues to affect return of collective and social security schemes, as well as insurance sector. However, the shift to other investments avenues with higher returns is expected to improve the return in investment.

Risks stemming from Non-Financial Corporate Sector heightened on account of increased debt burden and declined profitability. The Non-Financial Corporates survey which was conducted in February 2017, showed 60 percent of the respondents experienced increased debt burden during the previous 12 months. Decline in profitability was cited as a factor which reduced firms' ability to service debts as well as internal sources of financing. The decrease in firms' capacity to service debt was also reflected in growth in NPLs of the banking sector. However, firms were optimistic on the performance outlook, citing higher commodity prices and continued improvement in port services as main drivers of perceived outlook.

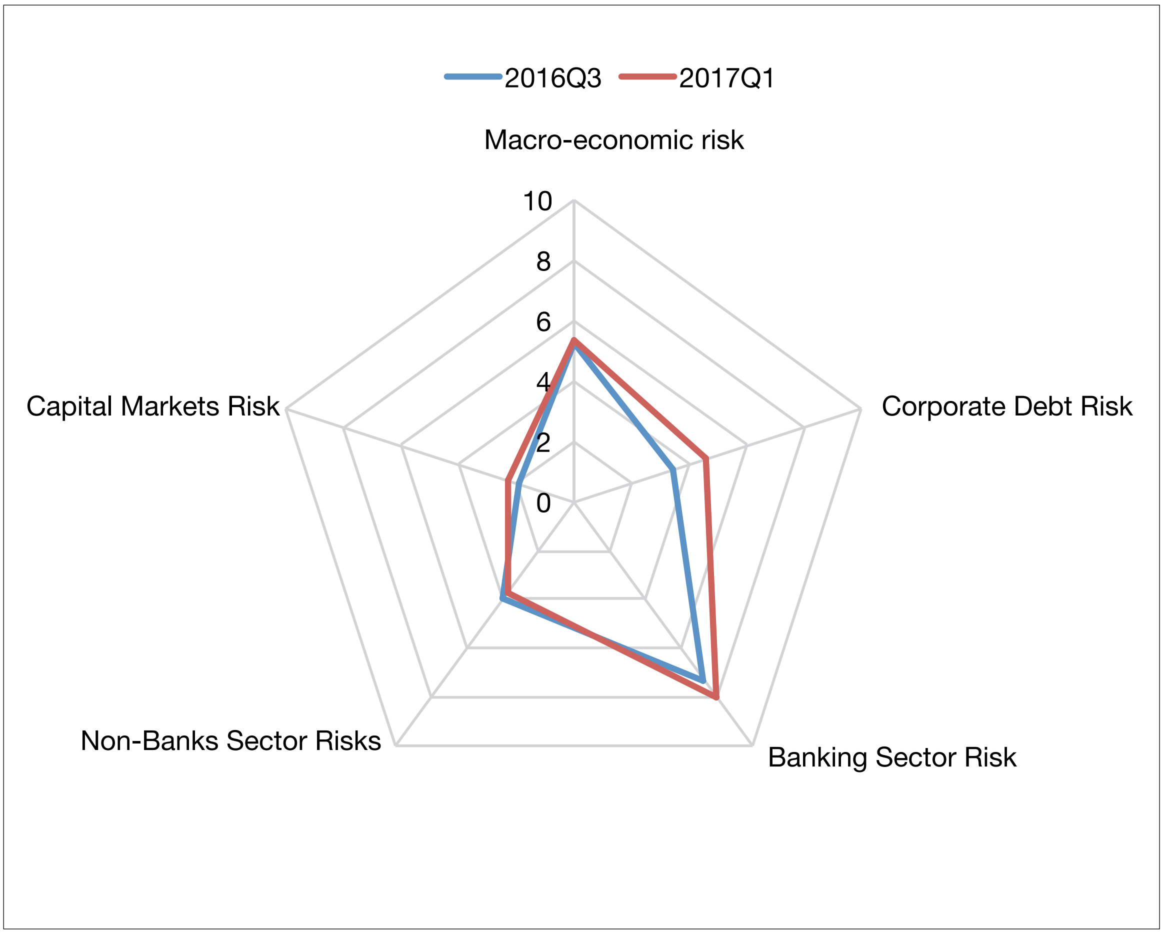
The insurance sector remained sound, supported by strong capital base and liquidity. Insurers continued to maintain adequate capital levels as evidenced by sound solvency ratios for both life assurance and general insurance businesses at 70.9 percent and 28.1 percent, respectively, being above the minimum prudential requirements of 25.0 percent and 8.0 percent, respectively. The strong capital position provides the sector with a cushion to withstand adverse deviations in actuarial liabilities. Meanwhile, enforcement of regulatory requirement on receivables management by TIRA, contributed to the improvement in liquidity of the insurers to 103.2 percent in March 2017 up from 69.2 percent in similar period of the prior year, being above the prudential requirement of 90.0 percent.

Social Security Sector remained sound, with sustained operational efficiency. The sector's total assets increased by 11.2 percent to 11,323.7 billion in March 2017, while the ratio of administrative costs to contributions which measures operational efficiency was 8.8 percent, below the maximum limit of 10.0 percent. Government efforts to clear pension benefit arrears in the previous period, contributed to reduction in benefit payment, subsequently, the ratio of contribution income to benefit payments increased to 1.5 times from 1.1 times in March 2016.

The Financial Stability Risk Map below provides a summary of evolution of risks to the domestic financial stability in six months' period to March 2017. The Risk Map tracks five categories of risk areas, Macro-economic, Corporate Debt, Banking Sector, Non-Bank Financial Institutions and Capital Markets. Scores range from a minimum of zero and a maximum of ten, assigned to each of the five risk areas based on their significance to the financial system and historical trends.

Since the last Financial Stability Report issuance in September 2016, risks arising from global macro-economic environment subsided, reducing risks to the domestic economy. However, risks emanating from corporate sector increased, as their profitability shrank, lowering debt-servicing capacity, exposing the banks to heightened credit risk. Slowdown in DSE trading activities persisted, with declining share prices exposing Non-Bank Financial Institutions (insurance companies and social security schemes) to increased market risk.

Financial Stability Risk Map



Financial Stability Outlook and Conclusion

Risk stemming from Domestic macroeconomic and financial environment will be contained in the six months to September 2017, as the pace of economic activity gains momentum supported by improving global demand, higher commodity prices as well as accommodative monetary policy, which will ease liquidity conditions among banks. Compliance with a 2.5 percent capital conservation buffer effective August 2017, will provide additional cushion to banks while anticipated loan restructuring together with increasing risks management practices are expected to moderate modestly the rising NPLs. The Bank will continue to conduct regular stress tests for early detection of vulnerabilities in the sector with a view to taking appropriate mitigation measures.

The insurance sector is poised to maintain favourable capitalisation and profitability while the operationalisation of the electronic platform for verification of the validity of insurance covers effective on the 17th April 2017, will reduce liquidity risks to the sector. Activities in the DSE are expected to pick up supported by increasing mobile trading platform and positive economic outlook.

1.0 MACROECONOMIC AND FINANCIAL ENVIRONMENT

1.1 Global Economic Developments

Global economic and financial environment improved, reducing macroeconomic risks in the near term. Global economic growth picked up in the fourth quarter of 2016 and the pace is expected to persist in 2017, on the back of a general increase in global demand, improving labour market especially in advanced economies and higher commodity prices that will boost economic activities in emerging market and developing economies. Accordingly, growth is projected to increase to 3.5 percent in 2017 from 3.1 percent in 2016 (IMF World Economic Outlook, April 2017) (**Table 1.1 and Chart 1.1**). However, the on-going geopolitical tensions, and protectionist trade policies may pose risks to global trade and investment, thus adversely weighing on growth prospects.

In advanced economies, risks to growth eased, albeit in an environment of policy uncertainties. Growth in the US strengthened, reflecting recovery in activities during the last quarter of 2016, supported by buoyant financial markets and increased business confidence. In the Euro area, financing conditions eased, lowering corporate sector debt burden while exports recorded robust performance. On the backdrop of these dynamics, growth in advanced economies is projected to increase to 2.0 percent in 2017 from 1.7 percent in 2016. However, policy uncertainties associated with cross-border trade restrictions could derail growth momentum in the medium term.

Table 1.1: Global Real GDP Growth and Projections

Percent

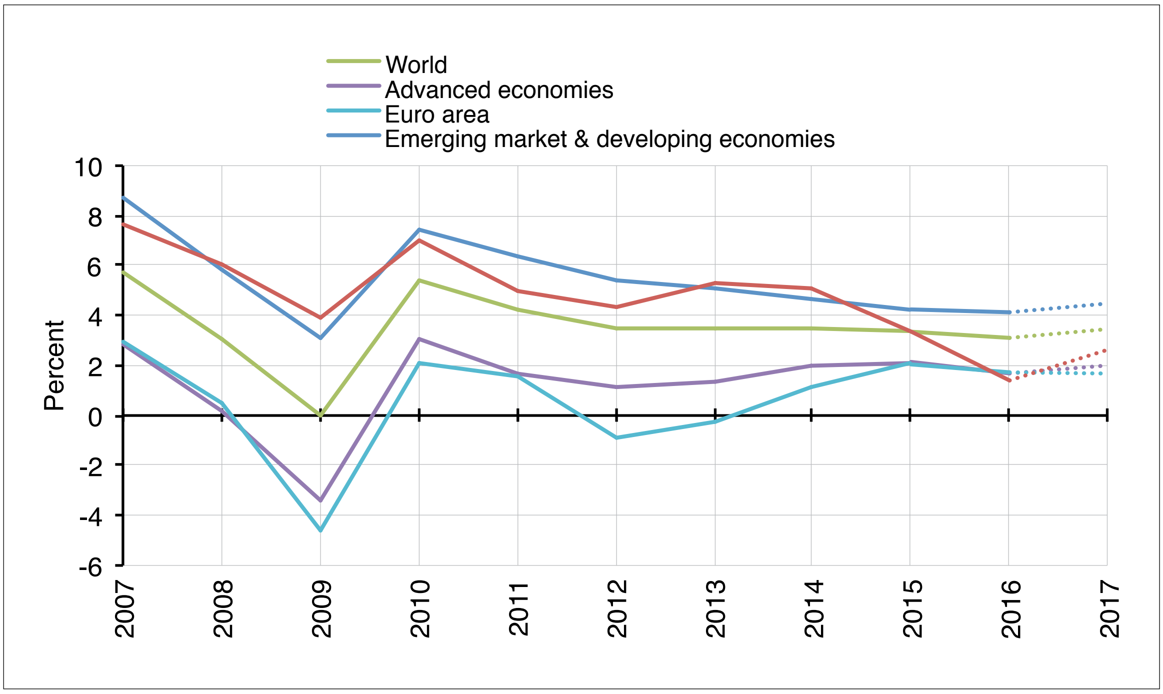
	2011	2012	2013	2014	2015	2016	Projections 2017	Projections 2018
World	**4.2**	**3.4**	**3.3**	**3.4**	**3.4**	**3.1**	**3.5**	**3.6**
Advanced Economies	**1.7**	**1.2**	**1.1**	**1.8**	**2.1**	**1.7**	**2.0**	**2.0**
United States	1.6	2.2	1.7	2.4	2.6	1.6	2.3	2.5
Euro Area	1.6	-0.8	0.3	0.9	2.0	1.7	1.7	1.6
Japan	-0.1	1.5	2.0	0.3	1.2	1.0	1.2	0.6
United Kingdom	1.5	1.3	1.9	3.1	2.2	1.8	2.0	1.5
Emerging Market & Developing Economies	**6.3**	**5.2**	**5.0**	**4.6**	**4.2**	**4.1**	**4.5**	**4.8**
China	9.5	7.9	7.8	7.3	6.9	6.7	6.6	6.2
Sub-Saharan Africa	**5.0**	**4.3**	**5.2**	**5.1**	**3.4**	**1.4**	**2.6**	**3.5**
South Africa	1.6	2.2	1.7	2.4	2.6	1.6	2.3	2.5

Source: *IMF, World Economic Outlook, April 2017*

Growth prospects in emerging markets and developing economies is gaining momentum but vulnerable to external shocks. In 2016, emerging markets economies grew by 4.1 percent supported by improving commodity prices and relatively stable US dollar. China's economy was more robust than earlier projected, driven by strong fiscal support and private consumption, while the Russian and Brazilian economies which contracted in 2016 showed some positive sign of recovery. On the basis of these developments, growth is expected to accelerate to 4.5 percent in 2017 from 4.1 percent in

2016. However, downside risks remain as growth prospects for the US could lead to further tightening of monetary policy, likely to fuel market volatility in the EMEs.

Chart 1.1: World GDP Growth Rates

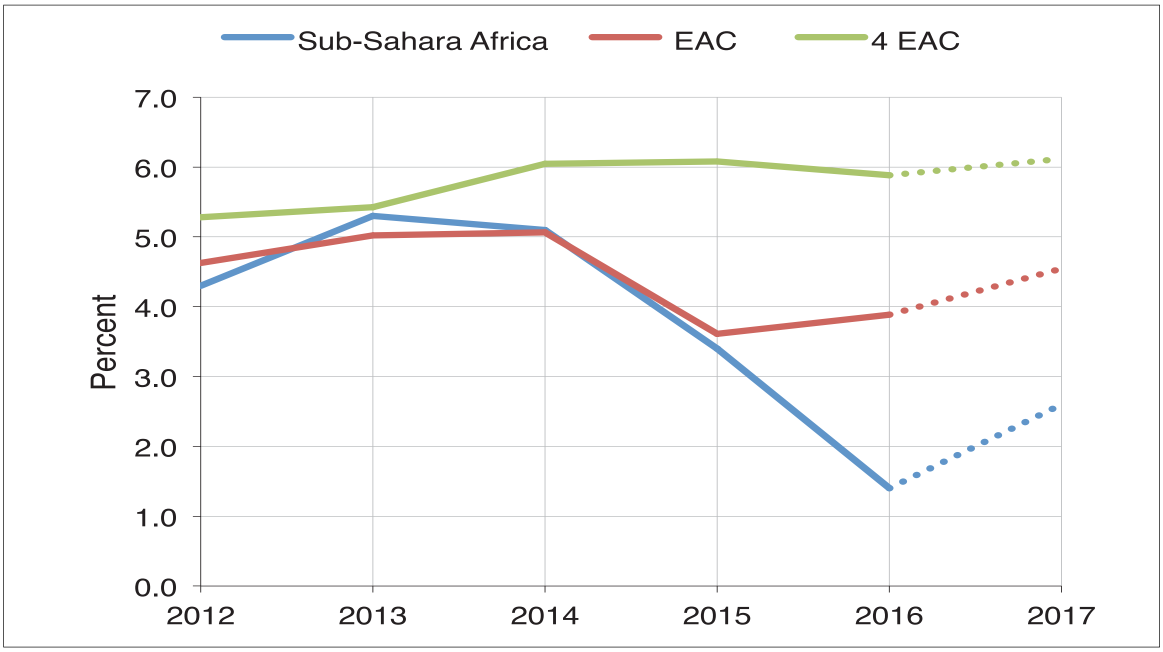


***Source:** IMF, World Economic Outlook database, April 2017*
***Note:** Dotted lines denotes projections*

Risks to growth in Sub-Saharan Africa are projected to subside, supported by recovery in commodity prices. Continued recovery of commodity prices is expected to boost economic activities of the region's three biggest economies namely, South Africa, Angola and Nigeria, which experienced sluggish growth in 2016. Concurrently, agricultural exporting countries are expected to continue posting firm growth supported by investment in infrastructure. The regional growth is projected to accelerate to 2.6 percent in 2017 from 1.4 percent in 2016. However, elevated political risk arising from forthcoming elections in several countries in the region, downgrading of South Africa's credit rating and Nigeria's currency overvaluation may reduce capital inflows and investments. In addition, further tightening of US monetary policy may increase cost of borrowing, and trigger exchange rate volatility.

Growth outlook in the EAC region remains favourable, supported by rising commodity prices and investments in infrastructure. The region grew at 5.8 percent in 2016 and is projected to grow at 5.7 percent in 2017. The growth is attributed to increasing infrastructure investment and higher commodity prices coupled with improved global demand. However, continued rise in global oil prices and tighter global financial conditions may exert pressure on the region's current account balances and debt burden, respectively.

Chart 1.2: Economic Growth in Sub-Saharan Africa and EAC

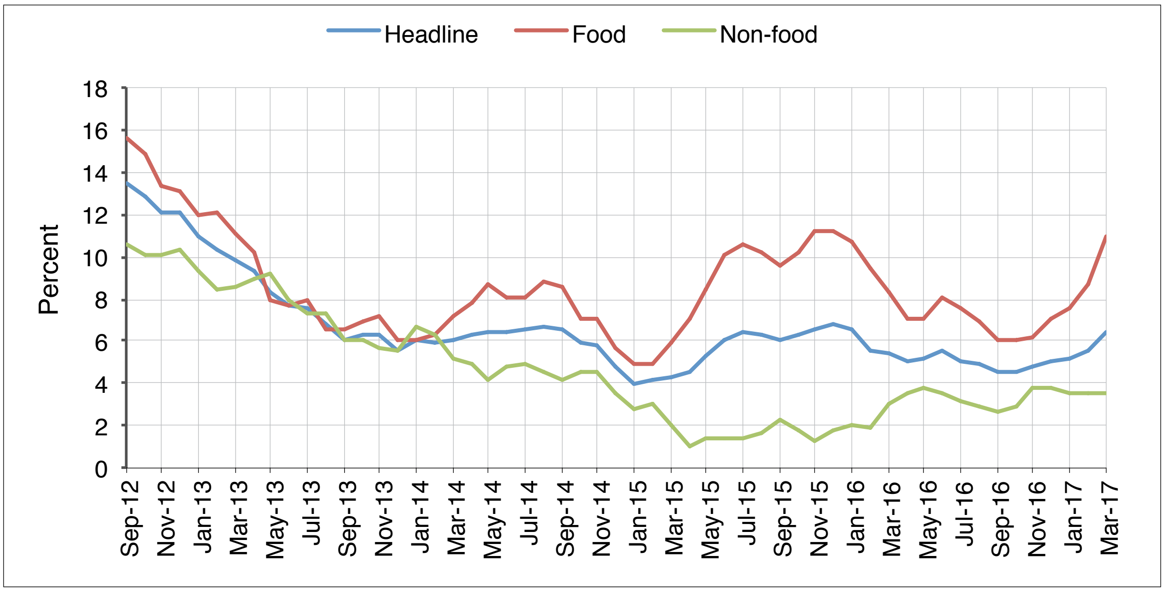


Source: *IMF, World Economic Outlook database, April 2017*
Note: *4 EAC: Tanzania, Kenya, Uganda and Rwanda*

1.2 Domestic Macroeconomic and Financial Environment

Domestic economy is expected to remain strong, but vulnerable to external shocks. The economy grew by 7.0 percent in 2016, mainly underpinned by increased investment in infrastructure and stability in power supply. Going forward, growth is projected to rise to 7.1 percent in 2017 as the Government continues to implement major infrastructure projects, coupled with improving global demand. Inflation remained at single digit level averaging 5.2 percent in the six months to March 2017 and is expected to abate in the near term as food harvest season approaches (**Chart 1.3**).

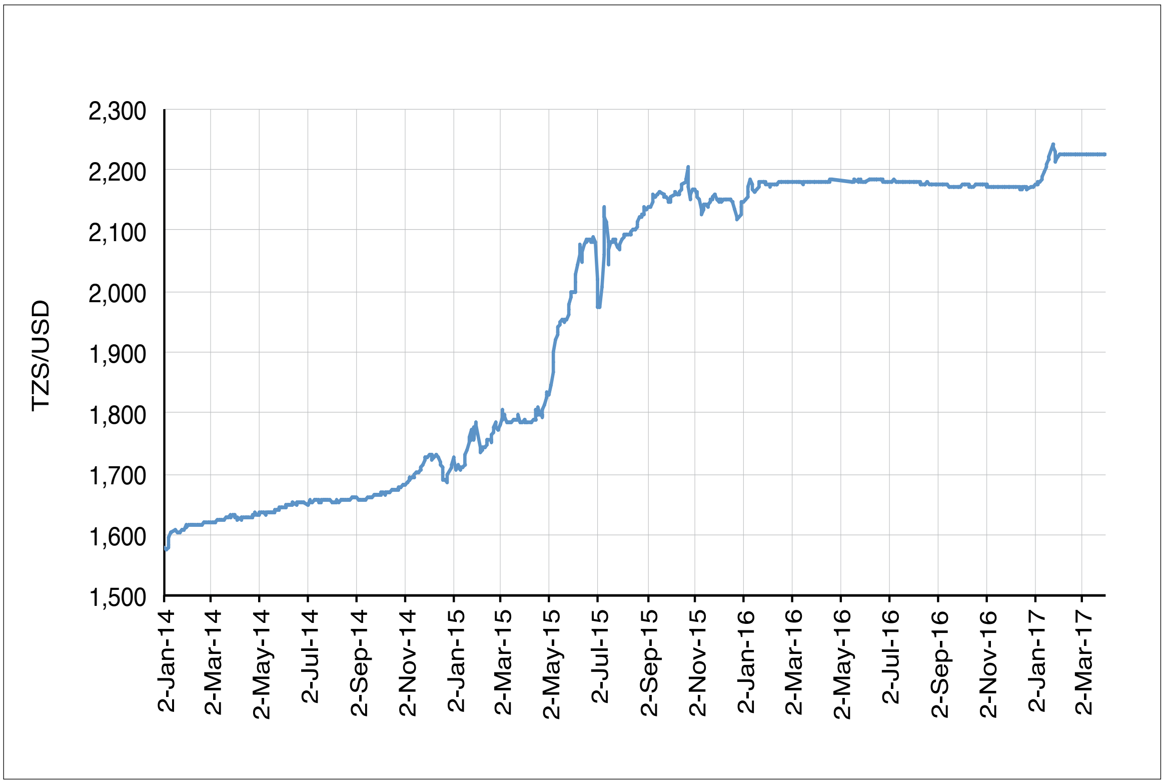
Chart 1.3: Domestic Inflation Developments



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

External sector performance improved, with current account deficit narrowing to USD 407.7 million in the six months to March 2017, compared to USD 1,392.1 million registered in the preceding six months, mainly on account of recovery in commodity prices and low import bill. The improvement in the current account contributed to the general stability of the shilling against the US dollar **(Chart 1.4)**.

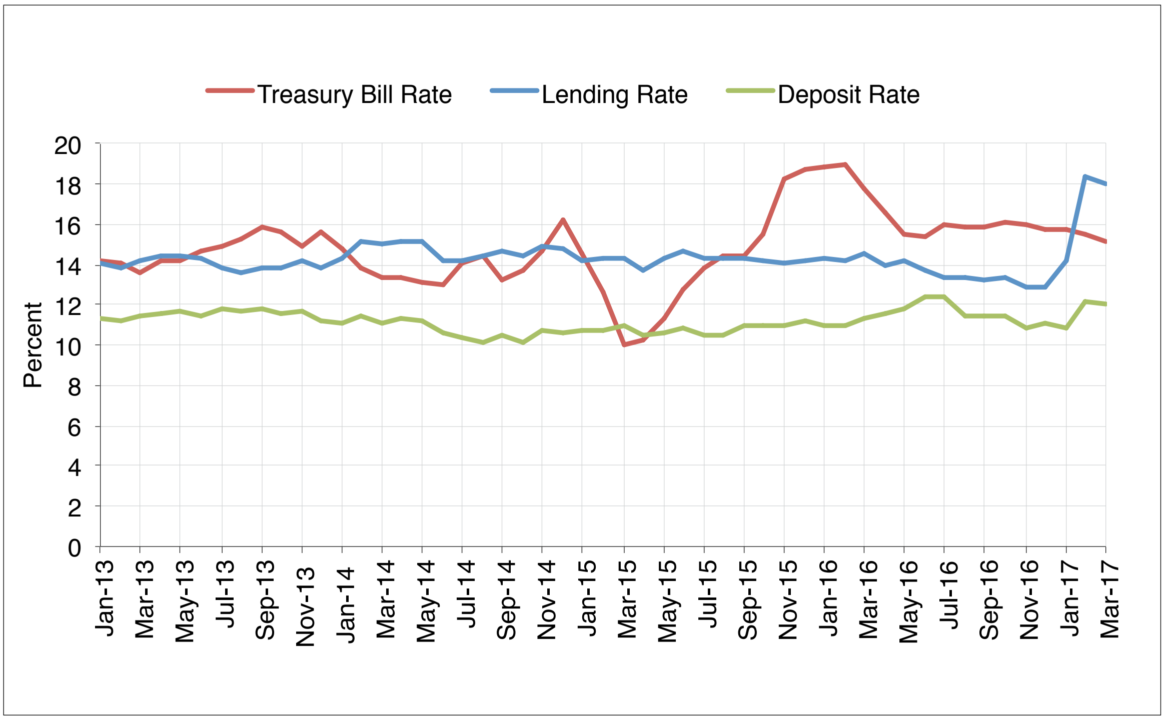
Chart 1.4: Development of TZS against US Dollar (Jan 2010=100)



Source: *Bank of Tanzania.*

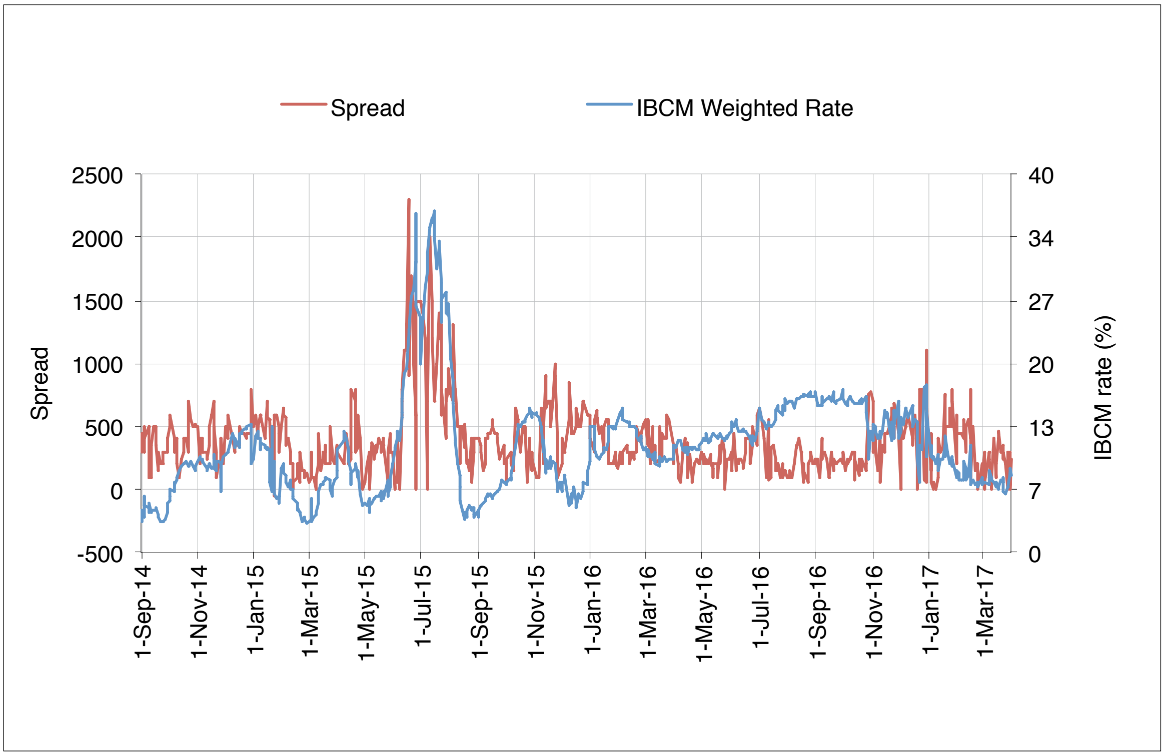
Cost of borrowing in the interbank cash market remained low, while lending rates charged by banks increased amid decline in asset quality **(Chart 1.5)**. The interbank cash market rate is expected to decline further as accommodative monetary policy pursued by the Bank continues to take effect, complemented by the Bank's new rules that will increase efficiency and transparency the interbank cash market operations (**Chart 1.6**). Despite the positive outlook, risk to macroeconomic environment remains, with potential further tightening of the US monetary policy, affecting cost of borrowing from global financial markets and divert capital flows to US dominated assets.

Chart 1.5: One Year Interest Rate Movements January 2013 to March 2017



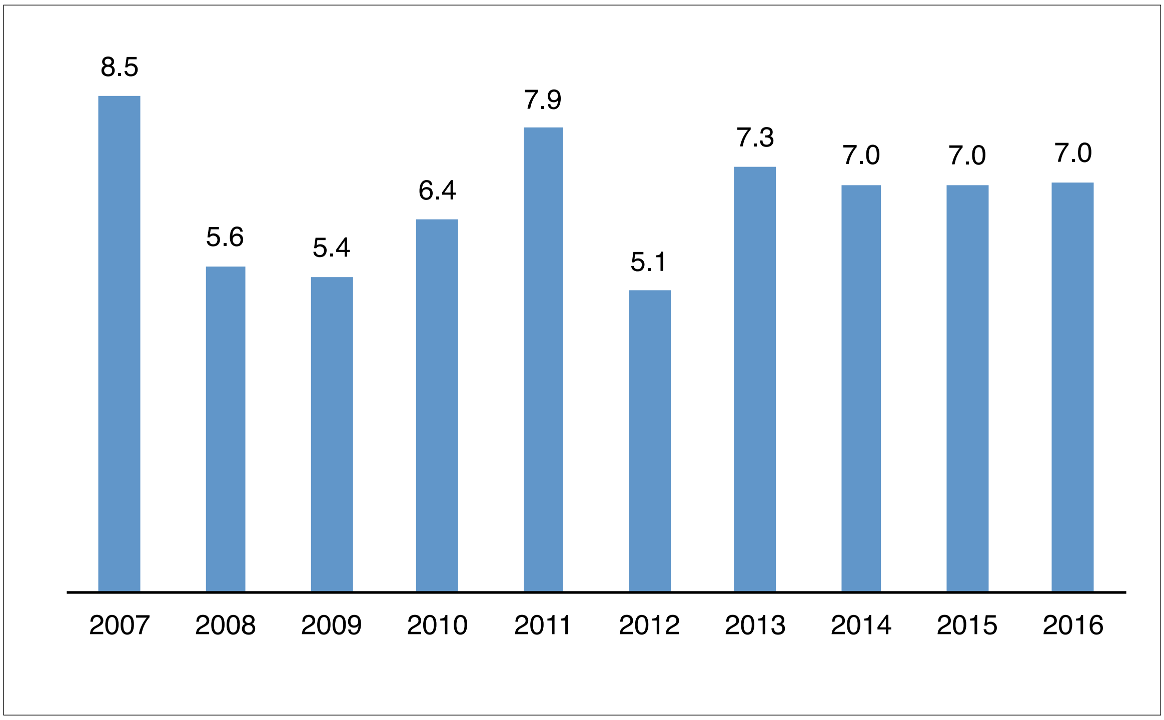
Source: *Bank of Tanzania.*

Chart 1.6: Interbank Cash Market Rate from September 2014 to March 2017



Source: *Bank of Tanzania.*

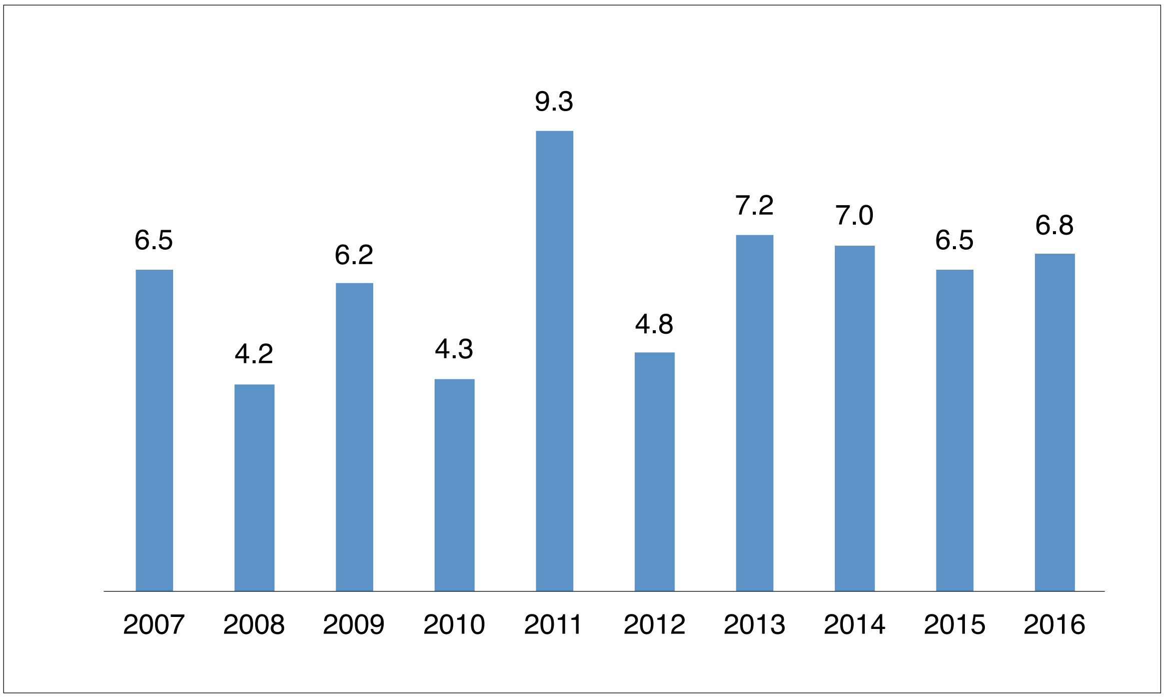
Chart 1.7: Annual Real GDP Growth Rates for Tanzania Mainland



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

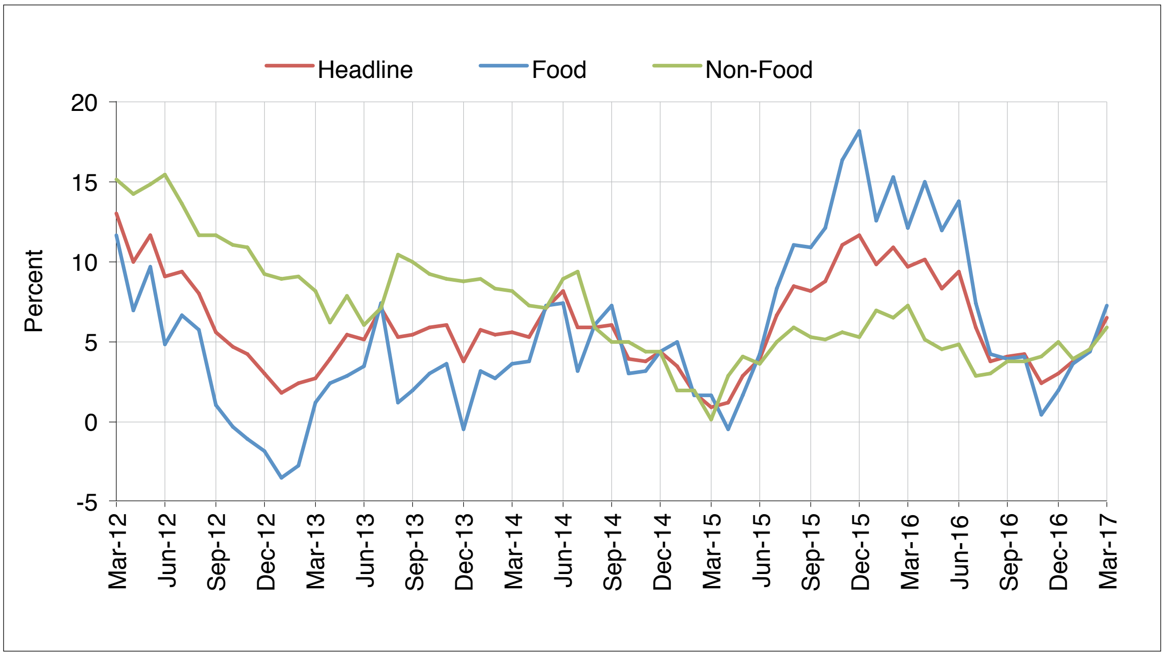
Zanzibar's macroeconomic environment remained stable with healthy external sector. In 2016, GDP grew by 6.8 percent compared to 6.5 percent in 2015. Activity that recorded highest growth rates were mining and quarrying (18.8 percent), construction (11.3) relatively to 2.1 percent recorded in 2015 **(Chart 1.8)**. Headline inflation remained under control, averaging 4.0 percent in the six months to March 2017, compared with an average of 6.8 percent in the preceding six months. **(Chart 1.9)**. In the same period Zanzibar continued to maintain current account surplus of USD 17.6 million compared to USD 33.1 million in the preceding six months.

Chart 1.8: Annual Real GDP Growth Rates for Zanzibar



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

Chart 1.9: Zanzibar Inflation Developments



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

2.0 NON- FINANCIAL CORPORATE AND REAL ESTATE SECTORS

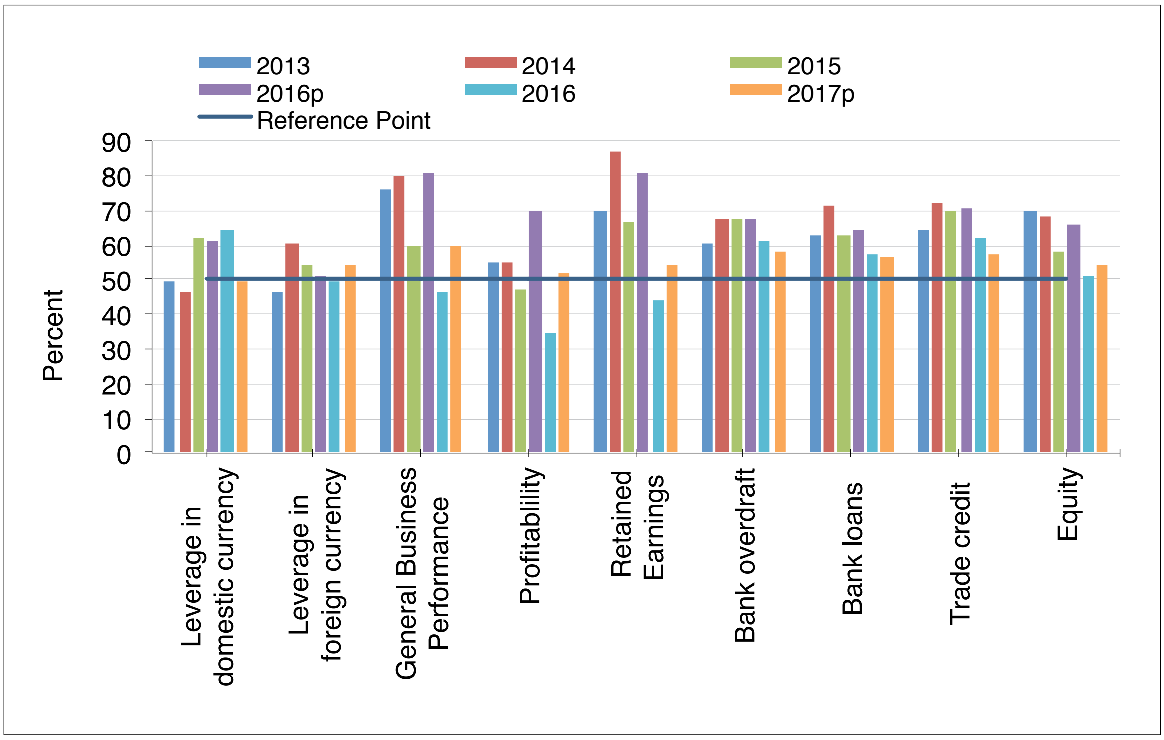
2.1: Non-Financial Corporate Sector

Non-Financial Corporates (NFCs) financial condition survey is one of the macro-prudential tool that the Bank uses annually to monitor and identify vulnerabilities arising from the Non- Financial Corporates with a view to devising appropriate macro-prudential policy actions to mitigate identified potential risks. The survey covers leverage behaviour; ability to meet financial obligations from internal sources; currency mismatch; as well as internal and external business environments.

This year's survey was conducted in January and February, 2017 from a sample of 420 NFCs operating in Tanzania engaged in Manufacturing, Agriculture, Transport and Communication, Tourism, Hotels and Restaurants, Mining, and Building and Construction activities.

According to survey results, 64.0 percent of the respondents revealed that domestic debt burden increased in 2016, which is consistent with their previous perception reported in 2015 survey (**Chart 2.1**). Factors which were cited to contribute to the increase in domestic debt burden include unfavourable business environment and decline in profitability which reduced firms' ability to service debts. The decrease in firms' capacity to service debt was also reflected in growth in NPLs of the banking sector. It was further revealed that in 2017 servicing of foreign currency denominated debt will increase in anticipation of strengthening of the US dollar against the Shilling.

Chart 2.1: NFC's Overall Leverage, Business Performance and Profitability



Source: *Bank of Tanzania Survey for Non-Financial Corporates*
Note*: *P denotes projection.*

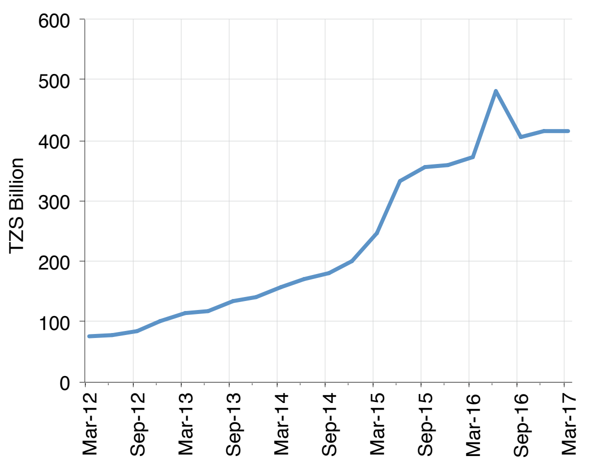
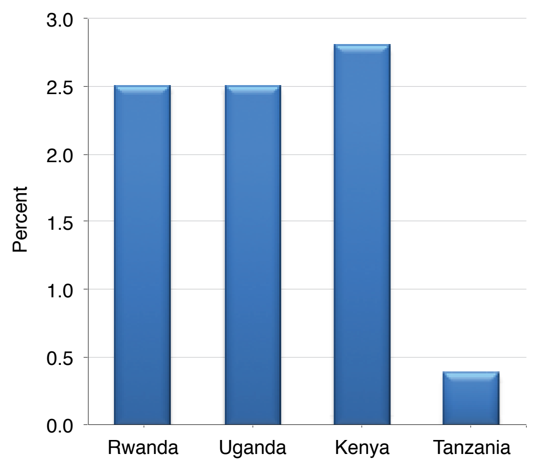
Firms expect improvement in general performance in 2017 compared to 2016. They cited higher commodity prices, continued improvement in port services, payment of government suppliers, and fair trade practices as drivers of the perceived outlook. This is consistent with their perceived funding structure where equity funding is likely to increase following expected improvement in profitability. External sources of funding (trade credit, bank loans and overdraft) are also expected to decline, a development which will likely lower firms' debt burden.

2.2 Real Estate Sector Developments

The number of banks offering mortgage products in Tanzania increased to 29 in March 2017 from 27 in March 2016, with total mortgage debt increasing to TZS 417 billion from TZS 402 billion in September 2016 (**Chart 2.2**). The growth was driven by increase in Loan to Value (LTV) ratio from 80.0 percent to 90.0 percent and extension of loan maturity to 25 years effectively 2015, which continued to attract more borrowers. In addition, Tanzania Mortgage Refinancing Company (TMRC) expanded its refinancing facility to non-members, and received additional funding from African Development Bank (AfDB). However, cost of borrowing remained high with interest rates ranging from 16.0 percent to 19.0 percent per annum.

The mortgage debt to GDP remained low at 0.46 percent, the lowest among the EAC Partners States. However, a number of regulatory changes were carried out to accelerate development of mortgage sector including categorization of mortgage from 100 percent risk weighted assets to 50.0 percent. This will reduce pressure on banks' capital requirements.

Chart 2.2: Outstanding Mortgage debt and Debt to GDP

Outstanding Mortgage Debt	EAC Mortgage Debt to GDP
	

Source: *Tanzania Mortgage Refinancing Company (TMRC)*

3.0 PERFORMANCE OF THE FINANCIAL SECTOR

Financial sector continued to grow in terms of assets supported by macro-economic environment and innovation in digital finance platforms. Total assets of the sector increased by 5.0 percent to TZS 40,670.9 billion as at end March 2017, from March 2016 position, with the banking sector contributing about 70.0 percent of the total assets.

3.1 Banking Sector

The banking sector is comprised of commercial banks, community banks, Development Finance Institutions (DFI) and Microfinance Banks (MFB). Proportion of assets held by each category is shown in **Table 3.1**.

Table 3.1: Structure of Banking Sector Assets

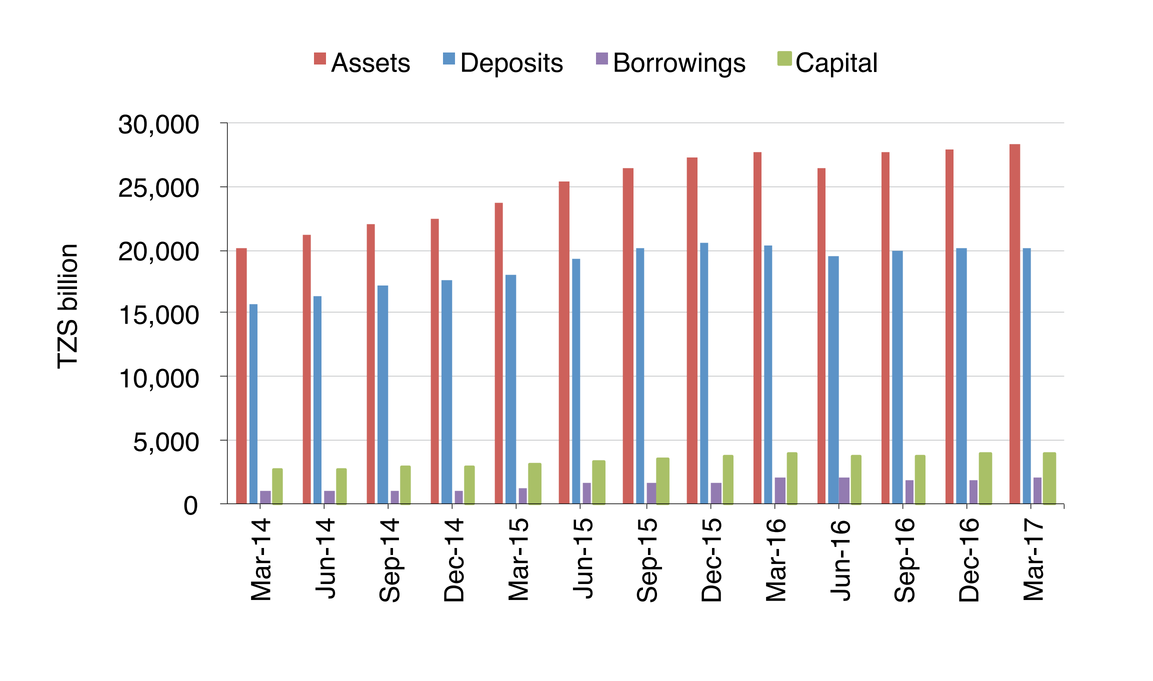
(Percent)

Types of institution	Mar-15	Jun-15	Sep-15	Mar-16	Jun-16	Sep-16	Mar-17
Commercial banks	94.9	95.4	94.7	94.3	94.3	94.2	94.0
Community banks	2.1	2.1	2.2	2.2	2.2	2.3	2.3
DFI	2.5	2.0	2.7	3.1	2.9	2.9	3.1
MFB	0.5	0.5	0.5	0.5	0.5	0.6	0.6
Total Assets (TZS Bn)	**23,602.0**	**25,267.0**	**26,505.3**	**27,659.9**	**26,312.0**	**27,714.9**	**28,314.3**

***Source**: Bank of Tanzania*

Total assets continued to grow steadily, supported by increase in deposits and borrowing which began to pick up from September 2016. The growth in deposits was driven by deposit mobilization efforts partly in response to challenges arising from the transfer of parastatals and other government agencies deposits from commercial banks to the Bank. (**Chart 3.1**).

Chart 3.1: Banking sector assets and financing trend



***Source**: Bank of Tanzania*

Key financial soundness indicators for the banking sector depict that the sector strengthened its capital adequacy and liquidity buffer **(Table 3.2).** However, the loan portfolio quality deteriorated, squeezing profitability despite an increase in interest margin.

The banking sector remained adequately capitalised, supported by earnings and capital injection. Core and total capital to Risk Weighted Assets (RWA) increased to 19.0 percent and 21.0 percent as at end March 2017, from 17.3 percent and 19.1 percent respectively, at end September 2016, above regulatory requirement of 10.0 percent and 12.0 percent respectively. The increase in capital adequacy ratios was attributed to entrance of a new bank, additional capital by some banks and increase in holdings of government securities whose risk weight is zero. However, out of 60 banks, ten community banks, two commercial banks and one development financial institution, which hold 0.3 percent, 1.7 percent and 2.9 percent of total banking sector assets respectively had inadequate capital level (**Table 3.3**). The Bank is engaging the respective banks to restore capital position to required regulatory levels and implement other problem banks' resolution measures.

Table 3.2: Selected Financial Soundness Indicators for the Banking System

(Percent)

Indicator	Statutory Requirement	2015 Jun	2015 Sep	2015 Dec	2016 Mar	2016 Jun	2016 Sep	2016 Dec	2017 Mar
CAPITAL ADEQUACY									
Core Capital/TRWA	Min 10.0	16.1	16.7	17.5	18.0	17.2	17.3	17.9	19.0
Total capital/TRWA	Min 12.0	17.6	18.7	19.5	20.0	19.2	19.1	19.9	21.0
LIQUIDITY									
Liquid Assets/Demand Liabilities	Min 20.0	37.3	35.7	37.2	36.6	37.0	34.2	35.1	35.9
Total Loans/Customer Deposits		76.6	78.9	78.9	82.6	85.8	87.1	86.3	86.0
EARNINGS AND PROFITABILITY									
Net Interest Margin-LHS		65.9	67.1	67.0	65.5	68.0	69.3	69.7	70.4
Non-Interest Expenses/Gross Income		65.1	67.2	68.1	63.1	64.7	66.9	67.6	67.6
Personnel expenses to non-interest expenses		45.9	44.7	44.1	45.5	45.4	44.9	44.7	45.5
Return on Assets		2.9	2.7	2.7	3.2	3.0	2.5	2.3	2.4
Return on Equity		15.1	13.5	13.0	16.7	15.4	12.1	10.7	11.3
ASSET COMPOSITION AND QUALITY									
Foreign Exchange Loans to Total Loans		38.6	37.8	38.0	37.8	36.7	36.1	36.0	36.5
Gross Non-Performing Loans to Gross Loans	5.0 acceptable	6.6	6.8	6.6	8.3	8.7	9.1	9.6	10.9
NPLs net of provisions/Total Capital		16.5	15.7	14.2	17.0	21.1	22.0	22.1	23.8
Large Exposures to Total Capital		124.0	126.8	124.1	128.7	128.6	125.3	109.6	123.5
Net Loans and advances to Total assets		53.2	54.6	54.7	55.1	56.2	56.5	55.6	54.4
SENSITIVITY TO MARKET RISK									
FX Currency Denominated Assets/Total Assets		34.2	34.9	34.7	33.6	32.0	31.6	31.2	30.8
FX Currency Denominated Liabilities/Total Liabilities		39.8	39.6	39.7	38.9	37.8	38.9	37.4	37.8
Net Open Positions in FX/Total Capital	7.5	-2.2	-2.4	1.3	-1.12	1.4	-2.4	-1.9	2.2

***Source**: Bank of Tanzania*

Table 3.3: Capital Adequacy Analysis

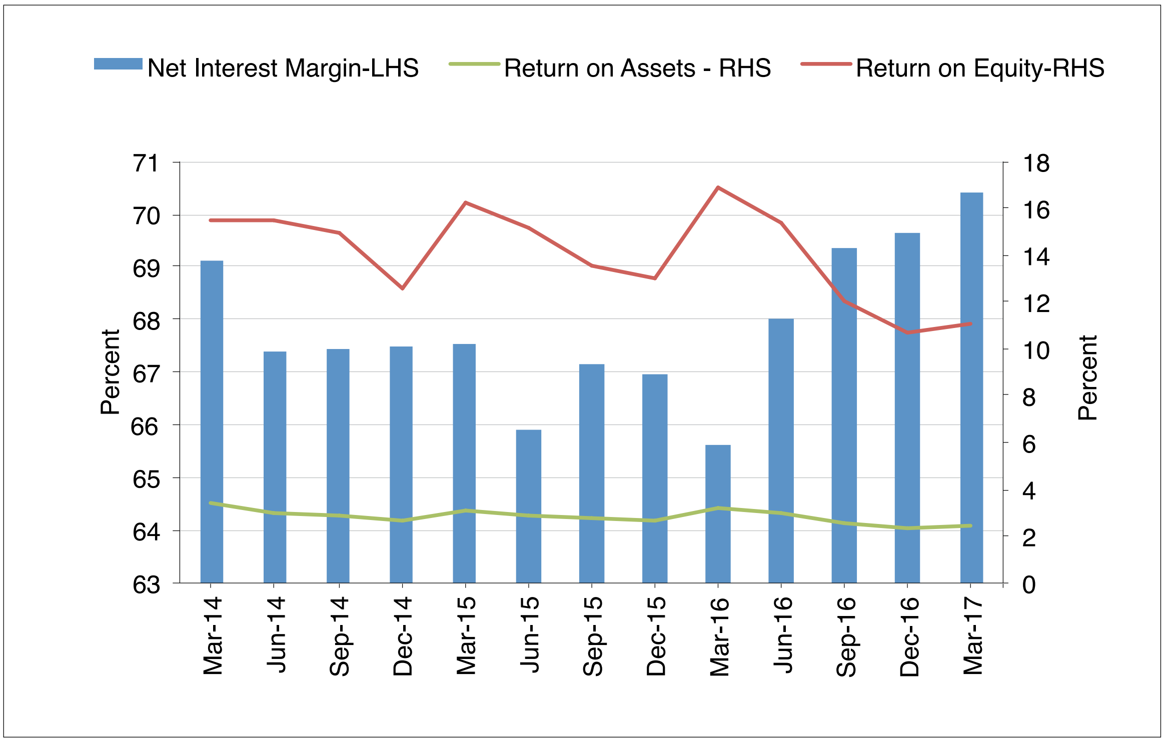
	Sep-16		Mar-17	
ALL BANKS	Core Capital	Total Capital	Core Capital	Total Capital
<8	7	7	11	11
8-10	4	2	2	1
10-12	2	3	3	2
12-14	9	4	2	2
>14	37	43	42	44
Total	59	59	60	60
COMMERCIAL BANKS				
<8	2	2	2	2
8-10	1	0	0	0
10-12	2	2	3	1
12-14	8	3	2	2
>14	27	33	33	35
Total	40	40	40	40
COMMUNITY BANKS				
<8	5	5	9	9
8-10	3	2	1	0
10-12	0	1	0	1
12-14	1	1	0	0
>14	4	4	3	3
Total	13	13	13	13
MICROFINANCE BANKS				
<8	0	0	0	0
8-10	0	0	0	0
10-12	0	0	0	0
12-14	0	0	0	0
>14	4	4	5	5
DEVELOPMENT FINANCIAL INSTITUTIONS				
<8	0	0	0	0
8-10	0	0	1	1
10-12	0	0	1	1
12-14	0	0	0	0
>14	2	2	0	0
Total	2	2	2	2

Source: *Bank of Tanzania*

Banking sector continued to maintain adequate liquidity to meet short-term obligations. The ratio of liquid assets to demand liabilities increased to 35.9 percent at end March 2017, from 34.2 percent at end September 2016, which is above regulatory requirement of 20.0 percent. The increase in the ratio was partly associated with banks' cautious lending stance amid declining asset quality. Loan to deposit ratio stood at 86.0 percent, implying that, deposits remained the main source of funding. The ratio is expected to hover around the same level as banks steps up effort to mobilize more deposits.

The sector remained profitable with declining trend as reflected by the ratios of Return on Asset and Return on Equity. The decline in profitability was mainly driven by growing provisions for NPLs (**Chart 3.2**).

Chart 3.2: Banks' Profitability



Source: *Bank of Tanzania*

Credit risk continued to increase with elevated exposure in all economic activities save for personal loan and trade. NPLs ratio continued to increase, with agriculture; transport and communication; and hotels and restaurants activities being more vulnerable, while some improvement was recorded in personal loans and trade activity. Increase in NPLs was due to slow growth in total loans and an absolute increase in NPLs **(Table 3.5).** Banks interviewed in March 2017 cited several factors including decline in imports as the main factor impairing ability to service loans in transportation sector. It was further cited that declining demand was a driving factor for rising NPLs in hotels and restaurant. However, the levels of NPLs are expected to moderate as economic activities pick up as depicted by Non-Financial Corporate survey and banks step up measures to strengthen credit risk management practices. The Bank continues to engage banks to consider various options to reduce NPLs, including loan restructuring.

It is worth noting that, high level of NPLs was also observed in Kenya and Rwanda as reported in their Financial Stability Reports. Several factors were cited as drivers to increased NPLs, including delayed payments to contractors for government funded projects and security concerns which affected construction and tourism sector, respectively (**Chart 3.6**).

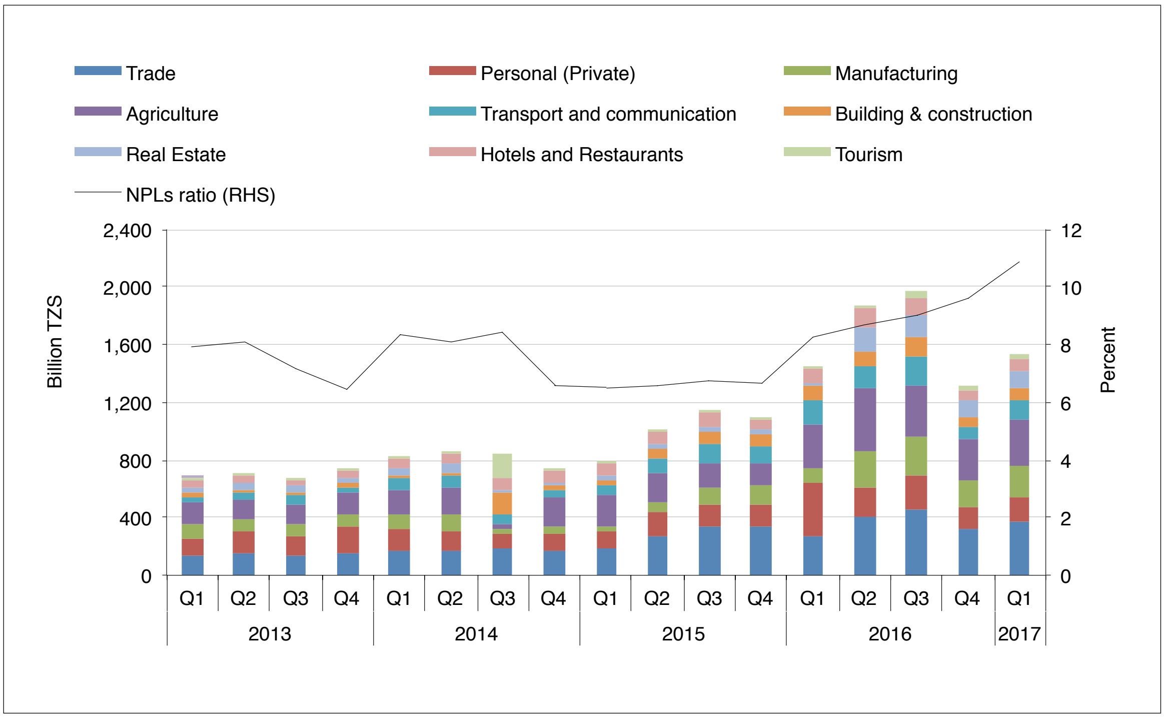
Table 3.4: Trend of Banking exposure to Individual Sector Lending

(Percent)

Sector	Sep-15	Dec-15	Mar-16	Sep-16	Dec-16	Mar-17
Trade	24.8	25.2	15.8	19.9	9.7	10.3
Personal (Private)	11.6	11.4	22.4	9.8	4.9	6.3
Manufacturing	9.5	10.5	6.8	10.9	11.6	11.8
Agriculture	12.6	11.9	18.0	17.6	25.9	29.2
Transport and communication	10.5	8.6	9.9	7.0	14.6	14.7
Building & construction	5.7	6.8	5.7	4.9	8.4	11.8
Real Estate	2.4	2.3	1.4	5.6	13.9	13.9
Hotels and Restaurants	7.6	5.9	6.2	4.8	13.3	14.6
Tourism	0.8	0.8	0.9	2.3	15.3	14.5

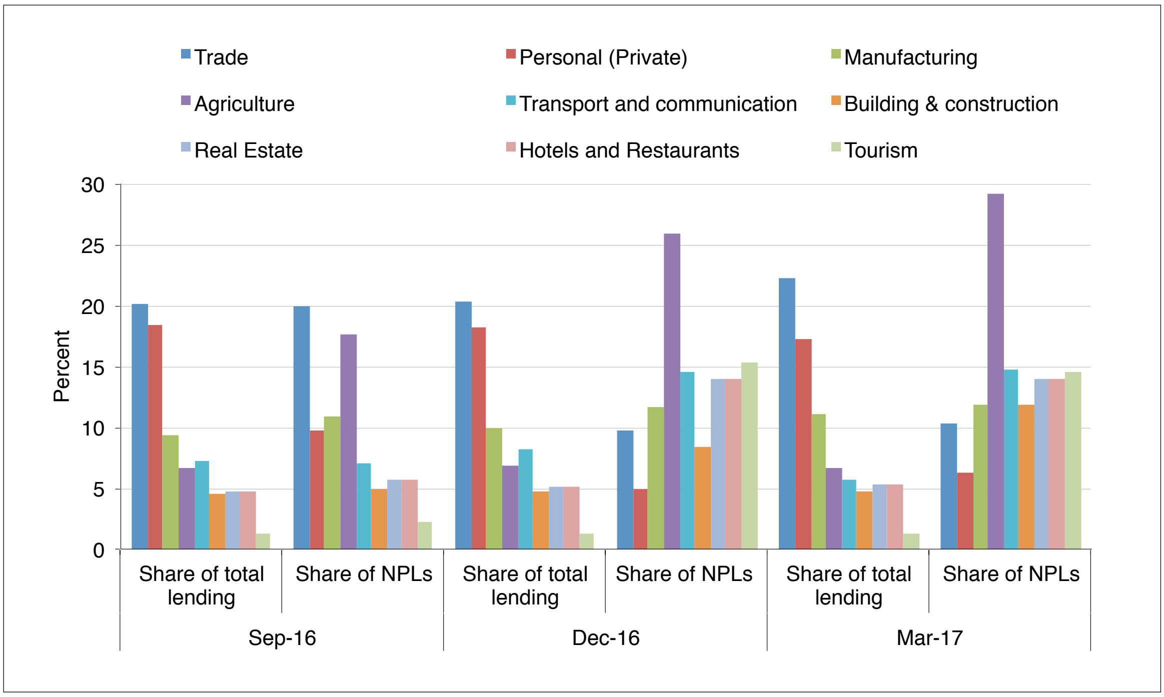
***Source**: Bank of Tanzania*

Chart 3.3: Trend in Non-Performing Loans and NPLs Ratios



***Source:** Bank of Tanzania*

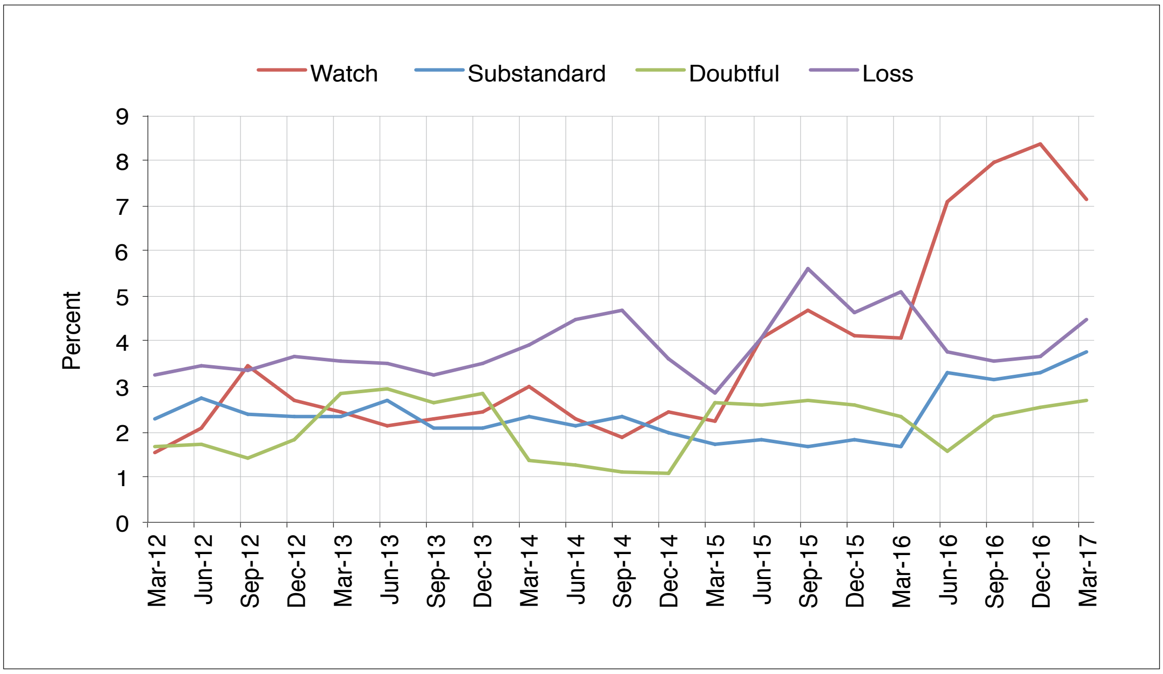
Chart 3.4: Credit and Non-Performing Loans for Selected Economic Activities



Source: *Bank of Tanzania*

The Especially Mentioned[1] loans remained high at 7.1 percent as at end March 2017, with more loans migrating from watch to other categories. This warrants close monitoring to minimize credit risk exposure (**Chart 3.5**).

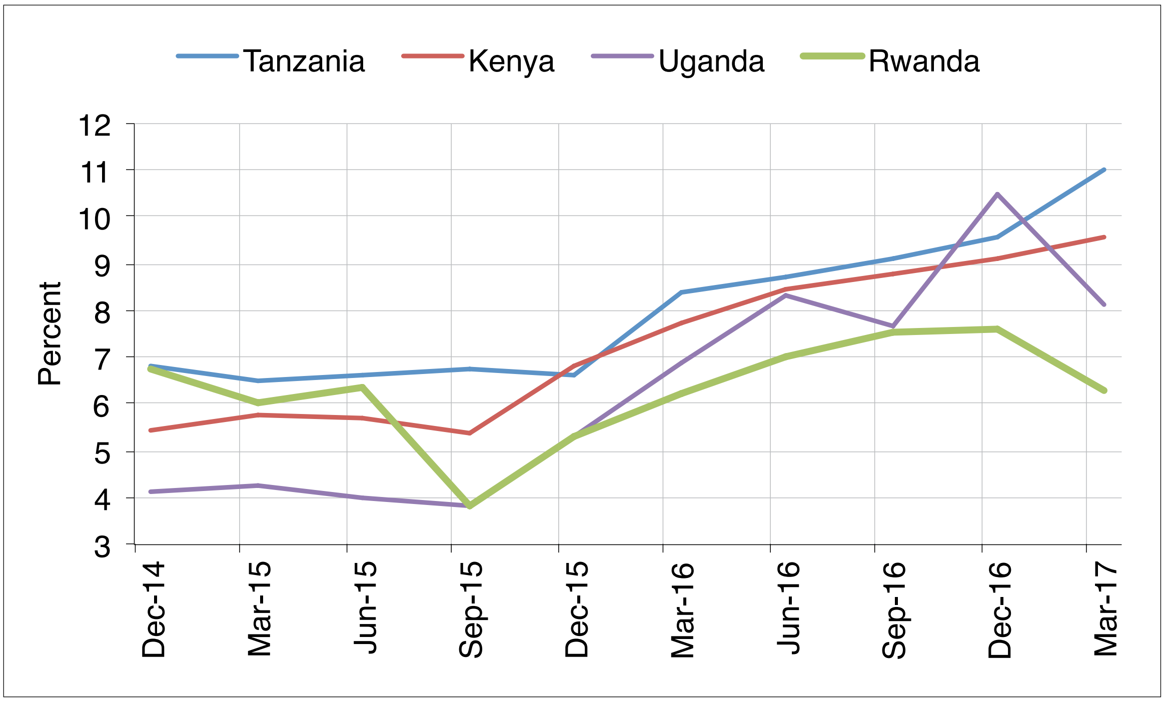
Chart 3.5: Development of Different Categories of Non-Performing Loans



Source: *Bank of Tanzania*

[1] Especially mentioned loans are classified as superior in quality to those classified as substandard, but which are potentially weak and thus require closer management supervision as explained in the Banking and Financial Institutions (Management of Risk Assets) Regulations, 2014

Chart 3.6: EAC NPLs to Gross Loans



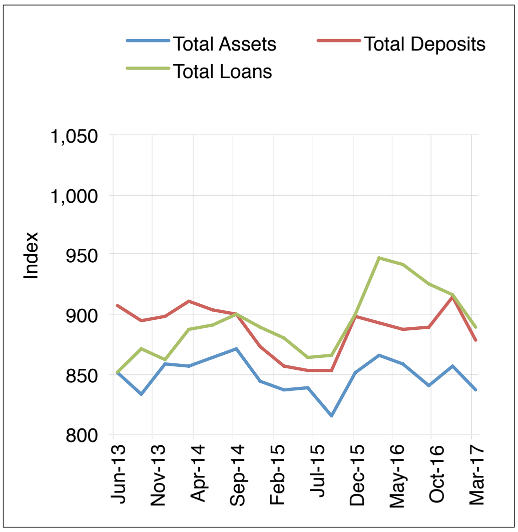
Source: *Bank of Tanzania.*

Credit Concentration

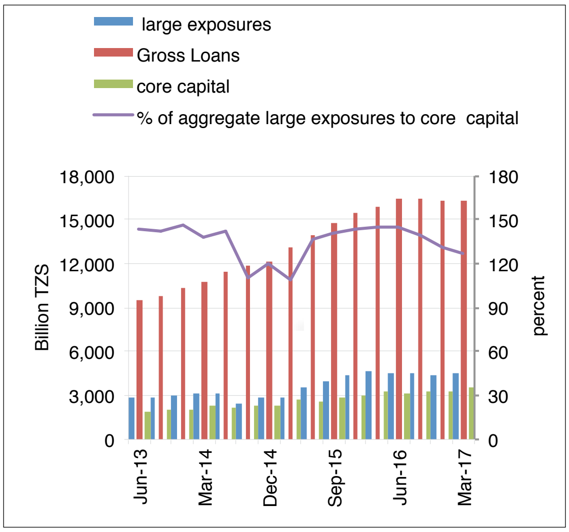
The exposure in banking industry credit portfolio remained within the acceptable regulatory requirement. The aggregate large exposures to core capital decreased to 127.0 percent in March 2017 from 139.0 percent in September 2016, below the regulatory limit of 800.0 percent (**Chart 3.7a**). The trend reflects business structure in the economy which is dominated by SMEs, with few large companies which do not rely on borrowing from domestic banks.

Chart 3.7: Measures of Risk Diversification

a): Credit Concentration Risk



b): Herfindahl Hirschman Index (HHI)

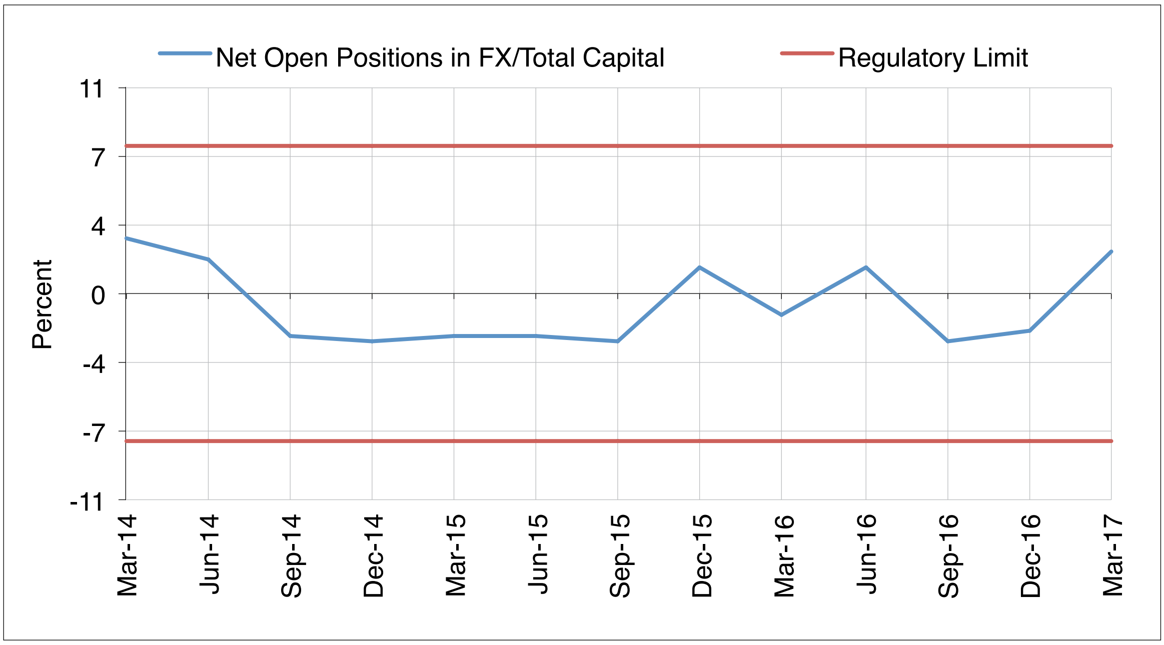


Source*: Bank of Tanzania*

The diversification in terms of deposits, loans and assets for the banking sector approached concentration limits. The indices for total assets, deposits and loans, as measured by the Herfindahl Hirschman Index (HHI), stood at 836, 890 and 925 indices respectively as at end March 2017, close to the limit of 1000. The concentration level is driven by structure of the banking sector in the country, which is dominated by ten largest banks, holding 68.3 percent of total assets of the sector (**Chart 3.7b**).

Foreign exchange risk remained low as reflected by Net Open Position. The Net Open Position remained within the limit of (+/-) 7.5 percent. As at end March 2017, the position was 2.2 percent compared to -2.4 percent in September 2016. The movement implies that, the proportion of foreign denominated assets increased more than foreign currency denominated liabilities (**Chart 3.8**).

Chart 3.8: Development of Tanzania Net Open Position to Total Capital



Source: *Bank of Tanzania*

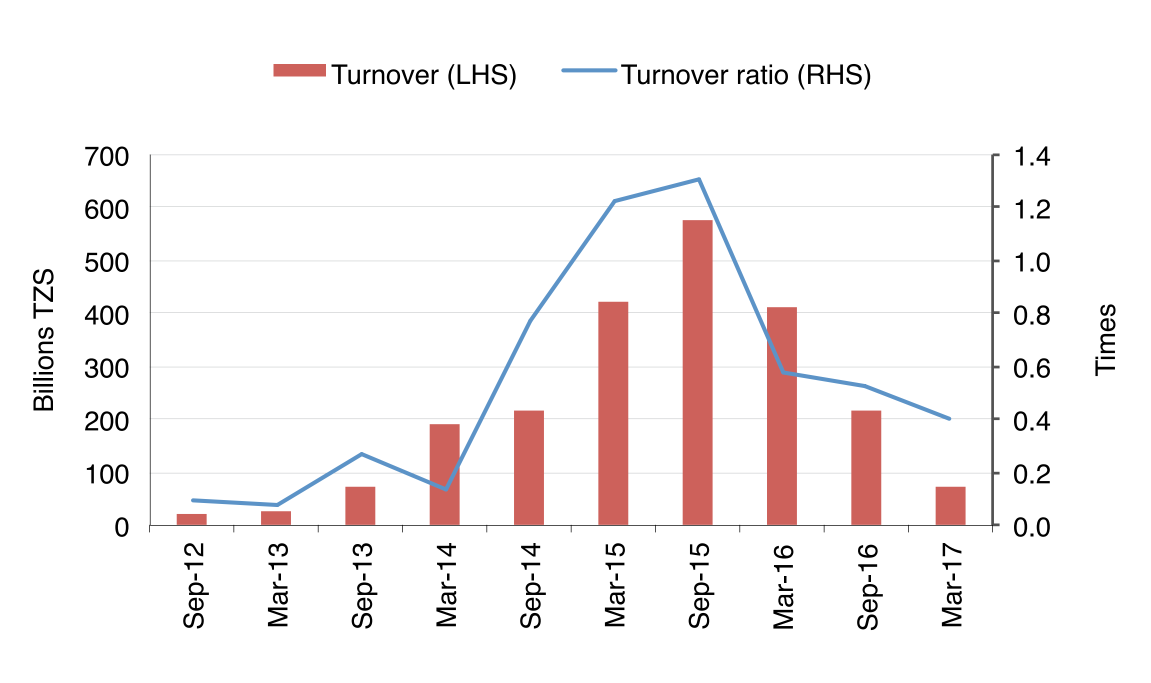
3.2 Non-Banking Financial Sector

3.2.1 Capital Markets

Equity Market

Dar es Salaam Stock Exchange continued to experience slowdown in trading activity reflecting liquidity constraints in the market. During the six months to end March 2017, total turnover declined by 26.8 percent to TZS 157.8 billion, representing 24.4 percent decline in volume of shares and 5.0 percent decline in average prices of traded shares. The drop was a result of selling pressure emanating from social-economic needs during the quarter and decreased foreign investors activity (**Chart 3.9**). During the period under review, shares of Tanzania Breweries Limited (TBL) were most traded accounting for 67.0 percent of the total trading; followed by Tanzania Cigarette Company Limited (18.0 percent) (**Table 3.5**).

Chart 3.9: Dar es Salaam Stock Exchange Turnover Ratio



Source: *Dar es Salaam Stock Exchange*

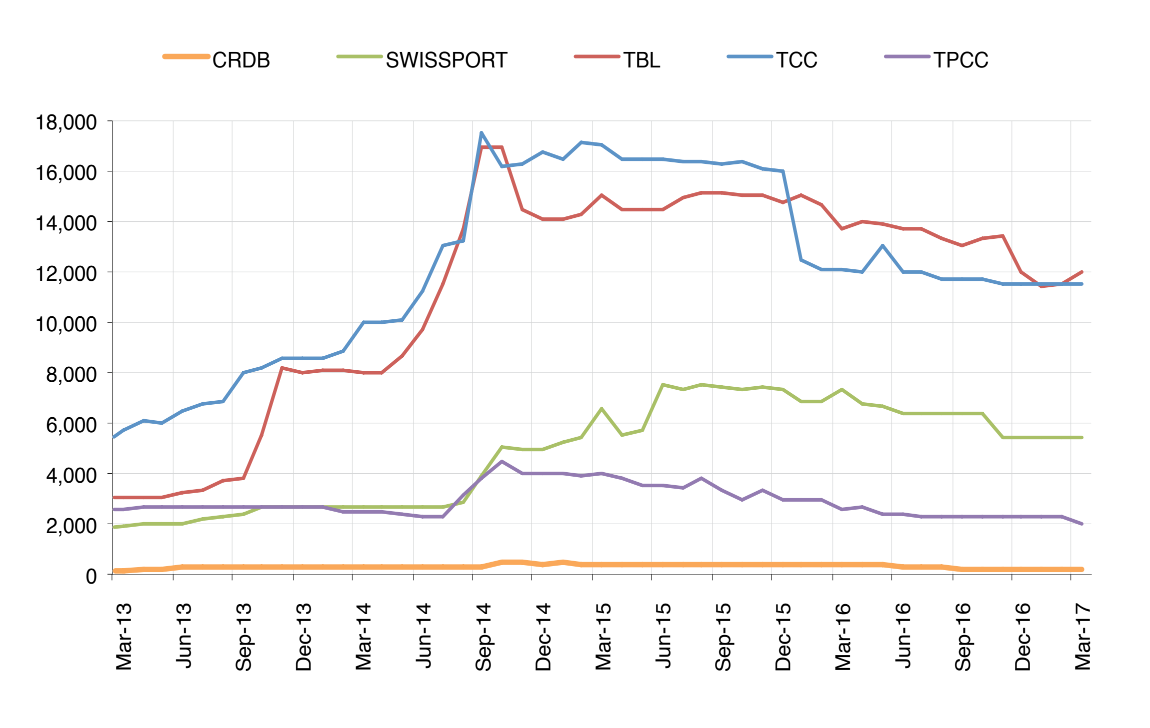
Table 3.5: Securities Proportions to total Turnover

(Million TZS)

Security	Apr 16-Sep 16	Percentage of total turnover	Oct 16-Mar 17	Percentage of total turnover
TBL	110,528,641,060.0	51.3	105,458,332,000.0	66.8
TCC	39,504,558,980.0	18.3	28,296,570,200.0	17.9
CRDB	9,293,154,915.0	4.3	7,920,930,505.0	5.0
SWIS	5,886,325,790.0	2.7	7,079,935,200.0	4.5
TPCC	18,688,103,140.0	8.7	4,525,617,150.0	2.9
DSE	8,202,179,010.0	3.8	2,439,451,340.0	1.5
NMB	21,316,329,760.0	9.9	1,406,252,980.0	0.9
MKCB	6,732,000.0	0.0	427,449,440.0	0.3
MCB	7,951,900.0	0.0	86,656,700.0	0.1
DCB	68,806,010.0	0.0	68,936,110.0	0.0
TCCL	637,092,300.0	0.3	39,087,700.0	0.0
SWALA	2,883,400.0	0.0	20,436,800.0	0.0
TOL	1,287,919,035.0	0.6	15,016,550.0	0.0
MUCOBA	4,896,000.0	0.0	7,972,000.0	0.0
MBP	28,761,600.0	0.0	6,206,400.0	0.0
YETU	4,080,000.0	0.0		-
Total Turnover	**215,468,414,900.0**	**100.0**	**157,798,851,075.0**	**100.0**

Source: *Capital Markets and Securities Authority*

Chart 3.10: End of Period Share Prices of Top movers

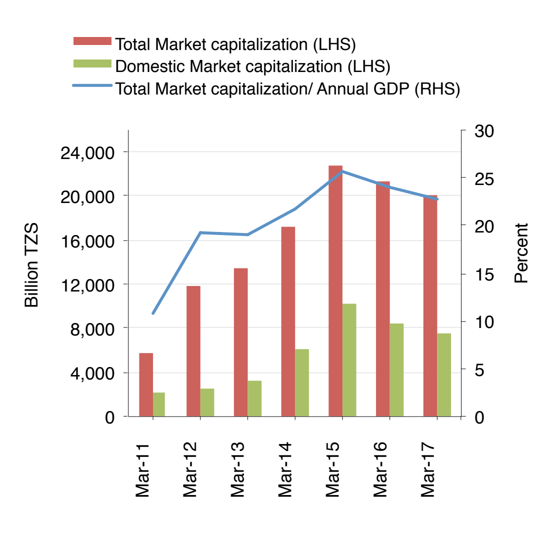


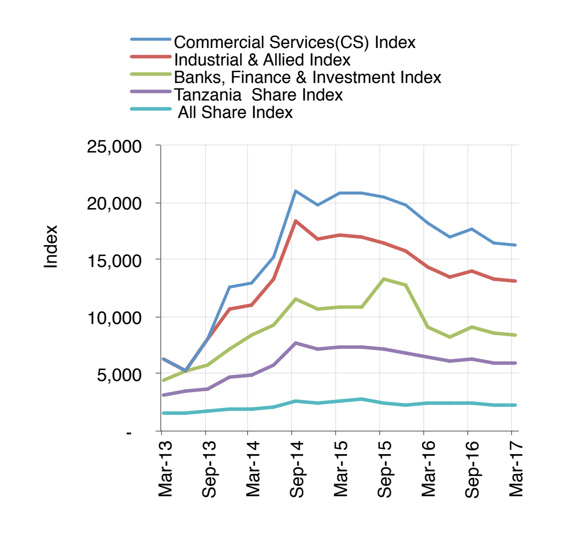
***Source:** Capital Markets and Securities Authority*

During the period under review, domestic market capitalization decreased by 7.3 percent to TZS 7, 507.9 billion with Commercial Services (CS) Index depicting the highest drop of 11.4 percent followed by Banking & Investment Index (8.2 percent) and Industrial and Allied (6.9 percent). The weak performance was partly attributed to declining companies' earnings, and investor's economic outlook (**Chart 3.12**).

Chart 3.11: Performance of the Dar es Salaam Stock Exchange

Stock market	Share Indices





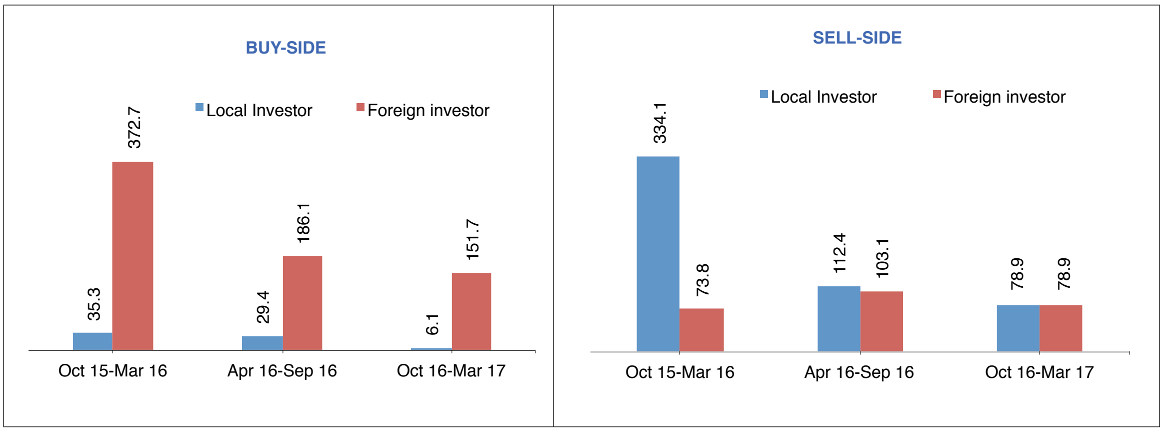
***Source:** Dar es Salaam Stock Exchange*

Market Concentration risk

During six months to end March 2017, market concentration risk measured by domestic market capitalization of top 6 traded stocks at the DSE is still high at 76.6 per cent of total 18 domestic listed and trading shares. Concentration risk on the trade side as shown by the holding structure remained high with non-resident investors' continuing to dominate on the buying side at 96.1 percent, warranting close monitoring (**Chart 3.13**).

Chart 3.12: Dar es Salaam Stock Exchange Investor Participation

(Billion TZS)



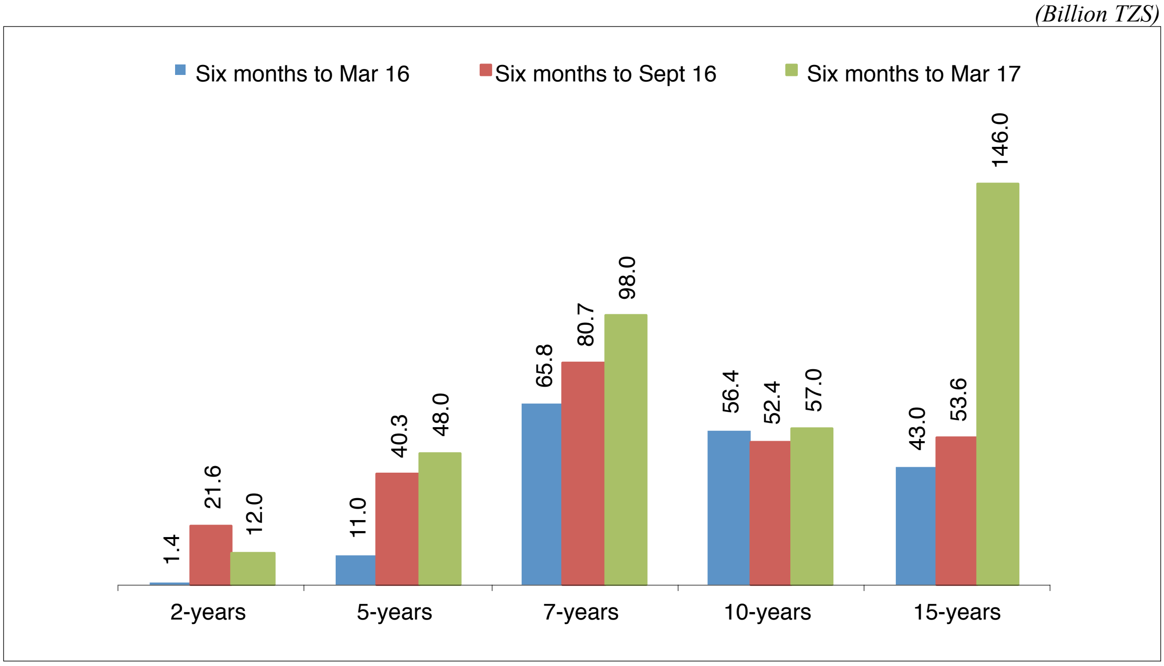
Source: *Dar es Salaam Stock Exchange*

Bond Market

Trading in the secondary market increased by 10.2 percent to TZS 270.2 billion in March 2017, with 15-year bond being the most traded and was dominated by foreign investors (**Chart 3.14 and 3.15**).

Chart 3.13: Market Performance for Government Bonds

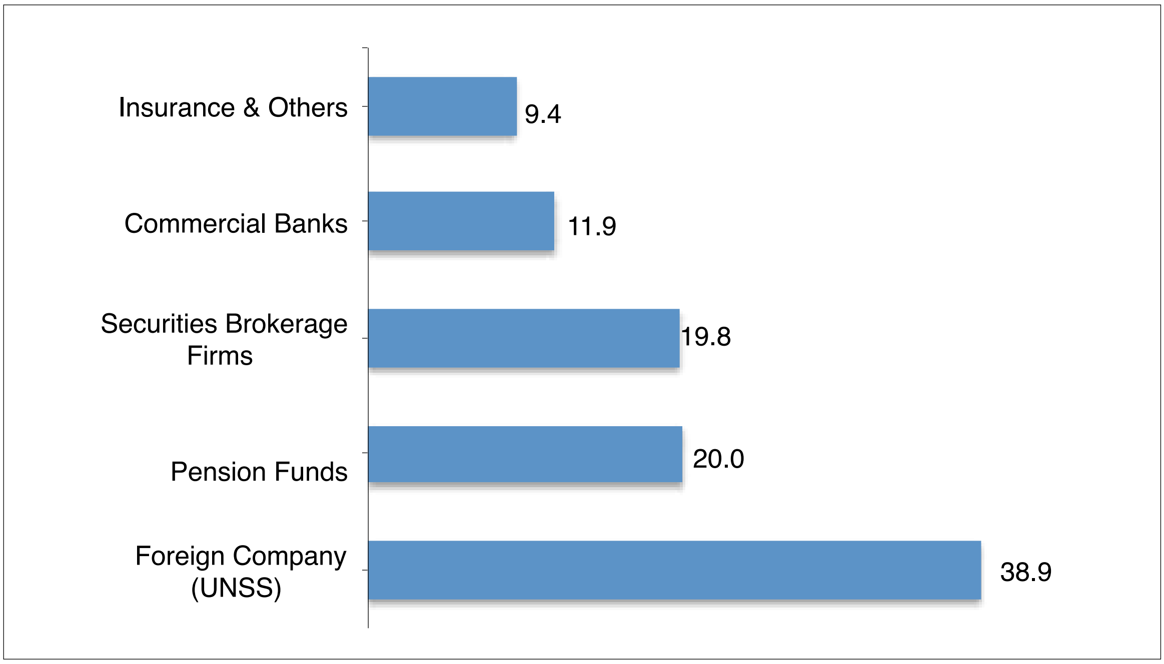
(Billion TZS)



Source*: Bank of Tanzania*

Chart 3.14: 15-years Bond Participants for Six-Months Period ended Mar 2016

(Percent)



***Source**: Bank of Tanzania*

Collective Investment Schemes

The schemes depicted a mixed trend in performance, with Wekeza, Watoto and Liquid Funds gaining in terms of Net Asset Value (NAV) as at end March 2017, compared to end September 2016. On other hand, Umoja and Jikimu realized negative growth in their NAV as share prices continued to decline, and number of outstanding units in the market shrunk as investors shifted to other investment avenues with higher returns (**Table 3.6**).

Table 3.6: Open Ended Collective Investment Schemes

Scheme	Outstanding units (Millions)			Net Asset Value (NAV) (Millions)			NAV Growth (%)	
	Mar-16	Sep-16	Mar-17	Mar-16	Sep-16	Mar-17	Mar 16-Mar 17	Sep 16 - Mar 17
Umoja Fund	465.0	452.1	409.8	218,867.9	217,838.4	200,966.5	-8.2	-7.7
Wekeza Maisha	11.4	11.6	11.6	3,526.2	3,668.4	3,731.8	5.8	1.7
Watoto Fund	10.6	10.6	11.7	2,924.9	2,986.5	3,345.4	14.4	12.0
Jikimu Fund	223.9	216.9	188.4	27,625.6	27,323.4	23,591.1	-14.6	-13.7
Liquid Fund	18.8	33.6	75.7	2,658.5	5,064.7	12,236.3	360.3	141.6

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

3.2.2 Insurance Sector

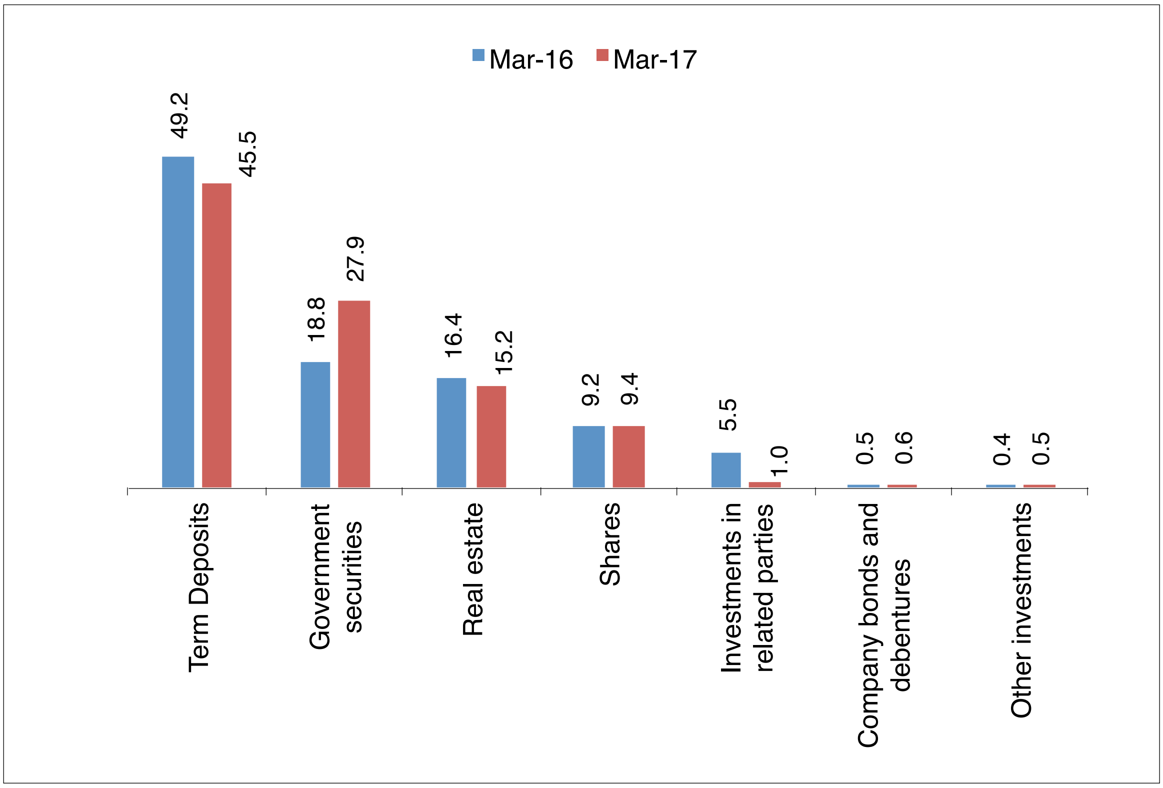
Net worth for the sector continued to grow, albeit stagnation in penetration of insurance services. The growth was driven by an increase in insurers' total assets, supported by increase in Gross Premium Written (GPW) for both life and general insurers (**Table 3.7**). Insurers' total assets increased by 31.5 percent in March 2017 to TZS 896 billion. Meanwhile, the insurers' net worth and investments increased by 35.4 percent and 48.2 percent, respectively. However, insurance penetration as measured by ratio of insurance premiums to GDP remained below 1.0 percent throughout the period under review.

Table 3.7: Insurance Performance

				TZS Billions	Percentage Change	
Particular	Sep-15	Mar-16	Sep-16	Mar-17	Sept 15-Sept 6	Mar 16-Mar 17
Total Assets	703.7	681.6	795.0	896.0	13.0	31.5
Total Liabilities	460.7	434.8	522.8	561.8	13.5	29.2
Total Net Worth	242.7	246.8	272.3	334.2	12.2	35.4
Total Investments	437.6	379.2	492.5	561.9	12.5	48.2
Gross Premium Written	Sep-15	Mar-16	Sep-16	Mar-17	Sept 15-Sept 6	Mar 16-Mar 17
General Insurance	411.3	190.4	449.6	190.7	9.3	0.2
Life Assurance	47.8	17.5	54.4	20.8	13.8	18.9
Total	459.1	207.9	504.0	211.5	9.8	1.7

Source: *Tanzania Insurance Regulatory Authority.*

Chart 3.15: Investment Mix



Source: *Tanzania Insurance Regulatory Authority*

Investment portfolio for the sector remained concentrated to term deposits and government securities. Category I investment assets for general insurers and life insurers accounted for 80.4 percent and 54.4 percent of total assets, respectively, complying with the regulatory requirement of at least 40.0 percent. However, the quality of assets for general insurance which constitutes over 90.0

percent of total insurers' assets continued to decline as depicted by a decrease in Return on Investment (RoI) by 400 basis points to 1.7 percent as at end March 2017. The decline was partly associated with drop in share prices and deposit rates.

Insurance sector performance is assessed using CARAMELS[2] framework (**Table 3.8**).

Table 3.8: Financial Soundness Indicators of the Insurance Sector (General and Life)

Indicator	Statutory Requirement	Mar 16		Mar 17	
		General	Life	General	Life
Capital Ratios					
Solvency Ratio	General ≥ 25; Life ≥ 8	56.4	61.5	70.9	28.1
Change in Capital and Reserves		14.0	-44.9	29.7	21.8
Asset Quality Ratios					
Rate of Return on Investment		2.1	0.7	1.7	1.1
Category I investment assets (Deposits in financial institutions and government securities)	Min 40	77.1	83.1	80.4	54.4
Reinsurance Ratios					
Retention Ratio	General 30<RR<70; Life 50<RR<90	51.3	79.7	54.0	82.6
Actuarial Liabilities (General)					
Actuarial Provisions to Capital Ratio	Max 250	40.3		44.7	
Earnings Ratios (General)					
Return on Equity		4.4		3.1	
Liquidity Ratios					
Liquidity Ratio	General ≥ 95; Life ≥ 50	69.2	138.2	103.2	60.9
Total Receivables as % of Capital & Reserves	Max 100	103.0	25.9	73.5	41.0
Loss Ratio		52.2	44.6	53.7	37.5

Source: *Tanzania Insurance Regulatory Authority*

The sector remained adequately capitalised to withstand adverse deviations in their actuarial liabilities. Capital adequacy, as measured by solvency ratio, recorded 70.9 percent and 28.1 percent in March 2017 for general insurers and life insurers, respectively, being above the minimum prudential requirement of 25.0 percent and 8.0 percent, respectively. Meanwhile, general insurers' ratio of actuarial provisions to capital slightly increased to 44.7 percent in March 2017, compared to 40.3 percent during similar period of the previous year, well within the statutory maximum limit of 250.0 percent. The low actuarial ratio reflects the insurers' ability to withstand adverse deviations in actuarial liabilities.

General insurers remained liquid supported by a decrease in level of receivables. Liquidity ratios for general insurers increased to 103.2 percent in March 2017, from 69.2 percent recorded in March 2016, being above the prudential requirement of 90.0 percent. The increase is attributed to increase in holding of liquid assets to meet financial obligations and implementation of fairly effective receivables collection strategies by insurers. The ratio of total receivables to capital and

[2] CARAMELS-Asset Quality, Reinsurance, Actuarial Liabilities, Management and Corporate Governance, Earnings, Liquidity, Self-Dealing and Related Parties

reserves improved to 73.5 percent in March 2017, from 103.0 percent in March 2016, consistent with the regulatory maximum limit of 100 percent.

Insurance sector profitability declined on account of increase in incurred claims**.** Return on Equity (ROE) for general insurers declined to 3.1 percent in March 2017 from 4.4 percent in March 2016. Further, General insurers' loss ratio slightly increased to 53.7 percent in March 2017 from 52.2 percent in similar period of previous year.

3.2.3 Social Security Sector

Tanzania Mainland

Social Security Sector improved in terms of asset growth. Total asset of the sector rose by 11.2 percent to TZS 11,323.7 billion in the year ending March 2017, driven by members' contribution and investment income. However, the sector's Return on Investment (RoI) declined to 1.3 percent from 2.4 percent in March 2016; attributable to continued decline in share prices in the equity market which outweighed increase in return in government securities. Government securities which constituted 25.6 percent of total assets of the sector contributed 76.6 percent of total investment income while investment in real estate which constituted 20.7 percent contributed 5.6 percent (**Tables 3.9 and 3.10**).

The Pension funds' administrative efficiency as measured by the ratio of administrative cost to contributions was almost the same at 8.8 percent in March 2017, but remained within a limit of 10.0 percent prescribed by the Social Security Schemes (Administrative Expenses) Guidelines, 2016.

The ratio of contribution income to benefit payments improved to 1.5 in March 2017 from 1.1 in March 2016, following Government clearance of pension benefit arrears in the previous period. On the other hand, dependency ratio as measured by pension contributors against pensioners increased by 0.2 percent due to new members' contributions and increase in number of pensioners.

Table 3.9: Tanzania Mainland: Social Security Selected Financial Indicators

Particular		Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Contribution Income/ Benefit Payments	Times	1.2	0.8	1.1	0.4	1.8	1.6	1.5
Return on Investment (Invested Return/Invested Assets)	Percent	1.5	1.6	2.4	1.3	1.2	1.3	1.3
Administrative Cost/ Contributions	Percent	15.5	11.8	8.7	8.6	8.4	9.1	8.8
Coverage Ratio (Assets/Liabilities)	Times	11.7	13.8	14.4	11.6	11.5	12.9	11.2
Dependency Ratio(Pension Contributors/pensioners	Times				11.2	11.5	12.0	11.4

Source: *Social Security Regulatory Authority*

Table 3.10: Tanzania Mainland: Social Security Portfolio Investment Mix

Particular	Prudential Limit as Percentage of Total Assets	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank Deposits	35	10.9	8.0	8.4	8.8	7.7	8.7	9.0
Government Debt	20-70	18.2	18.2	20.3	23.0	24.6	25.4	25.6
Commercial Paper, Promissory notes and Corporate bonds	20	0.5	0.3	0.3	0.3	0.2	0.2	0.2
Loans to Government	10	21.8	21.7	21.0	20.6	19.7	19.1	20.0
Ordinary and Preference Share	20	9.4	9.1	8.8	7.6	6.9	6.4	5.9
Investments in Licensed Collective Investment Schemes	30	1.4	1.5	1.5	1.5	1.6	1.5	1.5
Real Estate	30	19.0	20.1	19.8	19.5	19.6	21.2	20.7
Loans to Corporates and Cooperative Societies	10	3.9	4.0	4.0	4.4	4.4	4.1	3.9
Infrastructure Investment	25	1.8	2.4	2.5	2.6	2.7	2.8	2.9
Other Assets		13.6	14.6	13.9	11.9	12.9	10.8	8.8
Total Assets		9,874.9	9,610.7	10,058.8	10,284.5	10,658.5	11,020.8	11,323.7

Source: *Social Security Regulatory Authority*

3.3 Financial System Interconnectedness and Contagion Risk

Placements with banks abroad recorded a decline reflecting a decrease in foreign exchange risk. Placements abroad are held mainly to cater for foreign obligations. During the six months to March 2017, placements declined by 40.2 percent (**Table 3.11**). The decrease in placements abroad corresponded with the decline in imports during the year ending December 2016. Additionally, stability in exchange rate observed during the year reduced incentive for building offshore placements to earn from exchange rate gain.

Table 3.11: Financial Interconnectedness (Top Ten Banks)

(Billion TZS)

Items	Dec-15	Mar-16	Sep-16	Dec-16	Mar-17	% Change Sep 16-Mar 17
Placements with Banks Abroad	931.8	654.9	964.0	640.7	576.8	-40.2
Placements with Domestic Banks	325.5	618.2	481.4	419.5	469.5	-2.5
Deposits from Pension Funds	357.3	195.7	268.4	329.0	340.9	27.0
Deposits from Insurance Companies	229.1	97.1	216.6	194.6	136.6	-36.9
Borrowings from Domestic Banks	351.1	375.2	207.4	604.0	569.2	119.8
Deposits from Foreign Banks	497.6	314.9	861.4	659.4	818.2	-5.0
Inter-bank Contingent Claims to Foreign Banks	251.9	369.4	369.4	346.0	183.8	-50.2
Deposits from Mobile Network Operators	583.7	569.1	624.4	665.7	620.8	-0.6

Source*: Bank of Tanzania*

Banking sector offshore borrowing declined, reducing exposure to foreign exchange risk. Offshore borrowing decline by 5.0 percent for six months to end March 2017. However, there was borrowing to the banking sector that was sourced from international financial institutions which was meant for financing SMEs and agricultural activities.

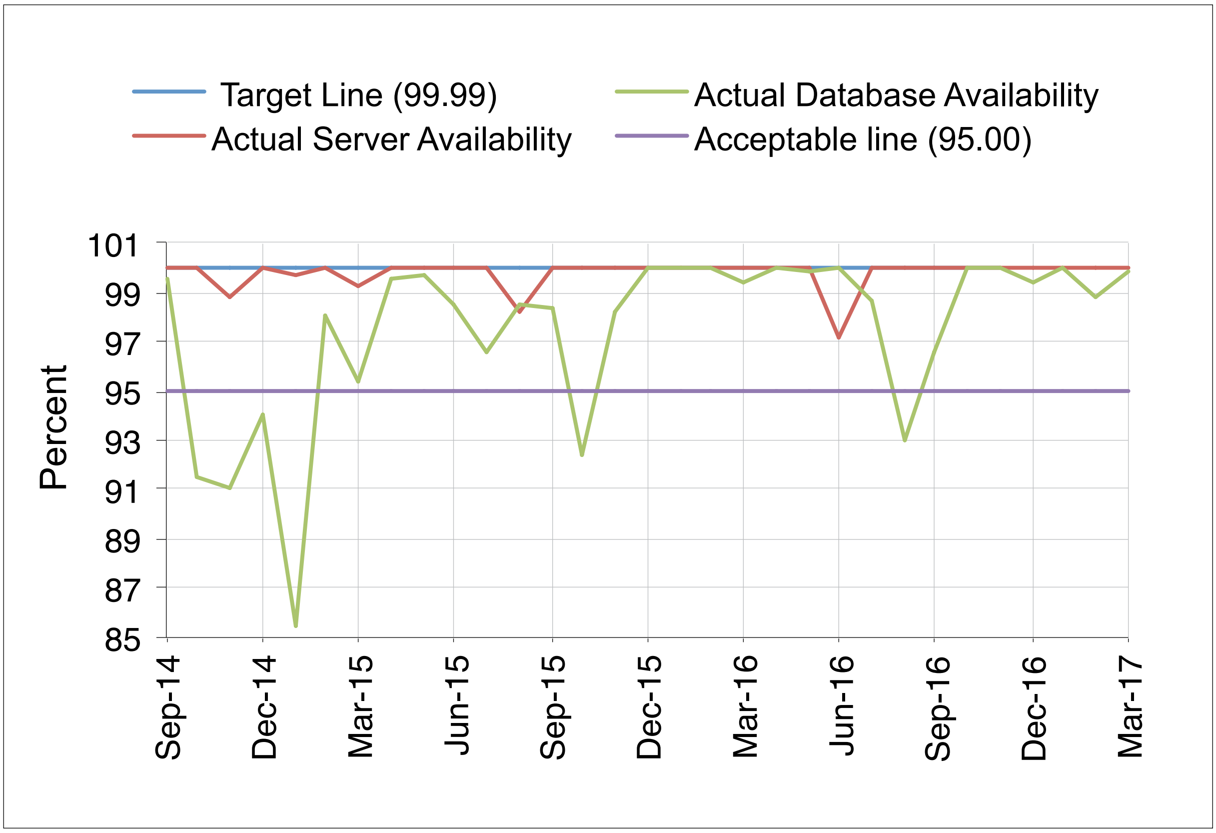
Non-Bank Financial Institutions deposits with the banking sector increased during the period reflecting their growing role as suppliers of wholesale funding to the sector. Pension funds deposits to the banking sector increased by 27.0 percent to TZS 340.9 billion while insurance companies' deposits to the sector decreased by 36.9 percent to TZS 136.6 billion, a decrease which was contributed by an increase in holding of government securities due to higher returns. Insurance regulation No. 20 requires insurers to maintain at least 40.0 percent of their capital in government securities and bank deposits.

4.0 FINANCIAL SYSTEM INFRASTRUCTURE AND REGULATORY DEVELOPMENTS

4.1 Payment System Infrastructure

Payment systems operated with improved efficiency without major disruptions. During six months to end March 2017, the large value systems, Tanzania Interbank Settlement System (TISS) and Tanzania Automated Clearing House (TACH) recorded an increase in values transacted with low operational, liquidity and settlement risks. During the period, there was no server outage and database uptime availability was 99.7 percent, reflecting low level of operational risk. Settlement risk was well contained, recording negligible unsettled transactions (**Chart 4.1**).

Chart 4.1: Systems Availability



***Source**: Bank of Tanzania*

Retail payment systems increased by 14.2 percent in volume and 1.1 percent in values of transactions, compared to six months to September 2016. The growth is owed to increased usage of digital financial services (mobile money, mobile banking, ATMs and POS) (**Table 4.1**).

Table 4.1: Values and Number (Volume) of Transactions processed

Payment Systems	Values Transacted (TZS. Billions)					Percentage Change	Percentage Change
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Mar 16-Mar 17	S1-S2
TISS	39,997.0	50,749.8	55,638.0	55,769.1	56,551.0	41.4	5.6
Clearing Systems	2,040.7	2,179.7	2,261.4	2,240.6	2,692.5	31.9	11.1
Retail Payment Systems	27,040.5	29,136.8	30,486.5	30,414.2	29,876.7	10.5	1.1
Total value transacted	**69,078.2**	**82,066.2**	**88,385.9**	**176,847.9**	**178,240.3**	**158.0**	**108.3**
Payment Systems	Volumes Transacted (Thousands)					Percentage Change	Percentage Change
	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Mar 16-Mar 17	S1-S2
TISS	378.0	422.6	373.7	430.6	460.6	21.8	11.9
Clearing Systems	17,361.6	18,094.0	18,359.0	18,906.6	18,906.6	8.9	3.7
Retail Payment Systems	385,399.2	411,888.4	433,383.9	476,402.9	488,500.3	26.8	14.2
Total volume transacted	**403,138.8**	**430,405.1**	**452,116.6**	**495,740.1**	**507,867.5**	**26.0**	**13.7**

Source: *Bank of Tanzania*

Note: *S1 denote six months to March 2017*

S2 denotes six months to September 2016

Box 4.1: Digital Delivered Financial Services

Mobile financial service platform provides a room for expanding outreach in funds transfer, savings, credit, securities trading and micro insurance. In addition, innovation has enabled integration of Core Banking Systems with Mobile Financial Service platform to increase efficiency and safety of financial services.

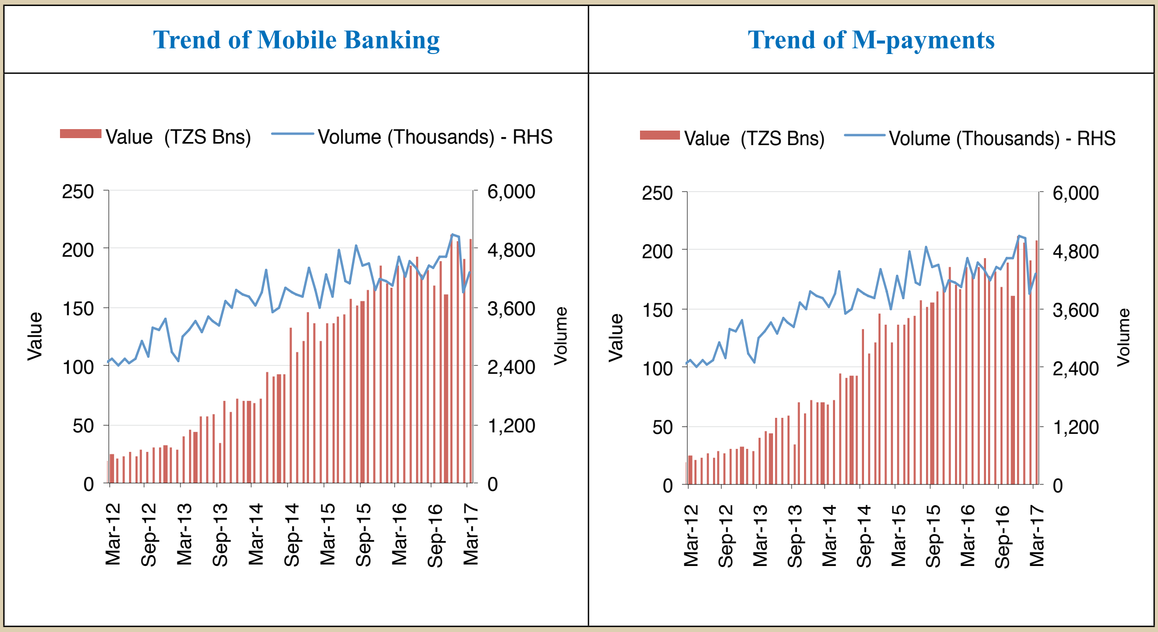
(i) Mobile Banking

Mobile banking infrastructure currently provided by 35 commercial banks has recorded an increase in value and volume of transactions by 7.4 percent and 5.1 percent to TZS. 1,169.6 Billion and 27.6 million respectively, in the six months to March 2017, compared to the preceding six months (**Chart 4.2**). The facility has eased availability of banking services to customers with no geographical limitation to bank branches location, thus increased efficiency and convenience.

(ii) Mobile Financial Services

Money transfer through mobile platform increased by 15.0 percent and 3.8 percent to TZS. 898.0 million and 30,299.5 billion in volume and value, respectively, during the six months to March 2017, a trend which was also observed in the previous period (**Chart 4.2**). Number of registered agents increased by 26.9 percent to 373,639 agents in March 2017, while the number of registered active users have been fluctuating throughout the period and recorded a 2.1 percent decrease to approximately 17.9 million users compared to September 2016. The increase in money transfer through mobile platform both domestically and across East Africa region calls for close monitoring to enhance its performance in its operational capacity as well as control of liquidity risks.

Chart 4.2: Trend of Mobile Banking and Mobile Payments



(iii) Mobile Micro Lending Products

Three mobile network operators introduced micro lending services using mobile platform, namely Vodacom (M-Pawa), Airtel (Timiza) and Tigo (Nivushe). The value and volume of loans disbursed increased to TZS. 514.9 billion and 23.1 million respectively, as at end March 2017

As at March 2017, loans disbursed through M-Pawa were TZS. 91.4 billion in value and 6.9 million in volume since May 2014, while Tigo Nivushe recorded TZS. 90.8 billion in value and 2.9 million in volume since February 2016; Airtel Timiza recorded TZS. 236 billion in value and 11.1 million in volume of loan disbursed since February 2015.

Moreover, mobile money platform has continued advancing its usage to capital market trading whereas since its launching in August, 2015, DSE's mobile trading platform has supported the IPO's trading of Mwalimu Commercial Bank (MCB) and Dar es Salaam Stock Exchange PLC (DSE) of value of approximately TZS 2.5 million. Separately from the mobile IPO transaction value mentioned above, the daily market activity that has come through the mobile trading platform has come from a total of 90 individual investors who have been trading actively through the buying of small amounts of shares on the secondary market. As at end March 2017, the value of secondary market stood at approximately TZS 20 million. The platform is expected to have an increased use where investors can register their new investment account, view prices of shares on the stock market; and place orders on the stock market while prefunding them straight from their mobile money accounts. This development further enhances the Interlinkage of the mobile payment systems with the banking systems.

4.2 Financial System Regulatory Developments

Banking Sector

As part of implementation of Basel II/III the Bank is introducing capital conservation buffer and capital charge for operational risk. All banking institutions will be required to maintain a capital conservation buffer of 2.5 percent of risk-weighted assets and off-balance sheet exposures effective August 2017. Additionally, they will be required to maintain capital charge for operational risks. The minimum capital adequacy ratios will remain at 10.0 percent and 12.0 percent as prescribed in the Banking and Financial Institutions Act, 2006.

Insurance Sector

The Government is in the process of formulating National Insurance Policy to guide development of the sector. The Policy will, among other things, provide an enabling environment to widen and deepen access to insurance products and services in the country; enhance protection of insurance consumers and the general public; and create an enabling environment for emerging systems, products and services in the insurance sub sector.

Tanzania Insurance Regulatory Authority (TIRA) in collaboration with other insurance stakeholders commenced reviewing of Insurance Act 2009 and Insurance Regulations 2009 to accommodate new developments in the industry and alignment with internationally acceptable principles and standards of regulation and supervision. Furthermore, new Investment Regulations are being formulated to allow cross border investment by local insurance companies in compliance with Capital Account Liberalization requirements.

TIRA introduced an electronic platform for verification of validity of motor insurance covers. The application which became effective on 17th April 2017 is accessible online at https//mis.tira.go.tz, and allow for detection and deterrence for fraudulent motor insurance activities in the market. Public sensitization campaigns in various parts of the country on usage of the platform is ongoing, as part of its consumer protection initiatives and liquidity risk management.

Capital Market and Securities

Vodacom (T) Limited issued an Initial Public Offer (IPO) in March 2017 in compliance with requirements of Electronic and Postal Communication Act (EPOCA) 2010. Meanwhile, CMSA continue to receive new IPOs applications from other electronic communication companies.

Social Security Sector

The Revolutionary Government of Zanzibar amended Zanzibar Social Security Fund Act, No. 2 of 2005 through the Zanzibar Social Security Fund (Amendment) Act of 2016, assented by the President of the Revolutionary Government of Zanzibar on 3rd January, 2017. The amendment seeks to improve regulatory efficiency and effective management of the fund for its sustainability and welfare improvement of the members. Areas provided in the amendment include powers of the board in financing fund projects through accessibility to loan facilities; administration of members' contributions; eligibility and administration of entitlement of pension and gratuity benefits; benefits under the fund and computation of the benefits

Payment Systems

The Bank issued licence to 30 commercial banks, five Electronic Money Issuers (Mobile Network Operators) and three data aggregators as payment system providers by end March 2017. This was part of enforcement of the National Payment System Act, 2015, the Payment Systems Licensing and Approval Regulations, 2015 and the Electronic Money Regulations, 2015. According to Schedule III of the Payment Systems Licensing and Approval Regulations, 2015, the licenced payment service providers are required to comply with international payment system standards issued by the Bank for International Settlement (BIS), Committee for Payment and Market Infrastructures (CPMI), Financial Action Task Force (FATF), and Europay MasterCard and Visa (EMV) among others.

Box 4.2: Banks under Statutory Management and Liquidation

The Bank placed Twiga Bancorp Limited under statutory management on 28th October 2016, due to capital deficiency and is considering various options to address the problem.

The Bank placed FBME Bank Limited under liquidation on 8th May 2017, and appointed Deposit Insurance Board (DIB) as a liquidator following the final ruling of the US District of Columbia which permanently banned the bank’s access to the US financial system and necessary support services and trading platforms for provision of normal banking services to its customers.

On 12th May 2017, the Bank placed Mbinga Community Bank Limited under liquidation due to inadequate capital and illiquidity and appointed DIB as a liquidator.

5.0 FINANCIAL SECTOR RESILIENCE

5.1 Banking Sector Resilience

The Bank conducted stress test on the banking system balance sheet in March 2017, with the objective of assessing its resilience to adverse shocks. The process involved assessment of the impact of key risks, namely credit, interest and exchange rates, on capital for banks. The size of applied shocks was determined basing on expert judgment and historical volatility (**Table 5.1**).

Table 5.1: Shock Calibration

Risk-type	Type of Shock	Shock Size	Description
Credit	Sectoral shocks to NPLs: Agriculture Trade Manufacturing Personal	 11.7 5.1 7.4 3.8	Applies a different shock to the existing level of performing loans of the selected sectors, so that a proportion of them became NPLs
	Proportional increase in NPLs	8.2	Applies a uniform shock to the existing level of performing outstanding loans so that a proportion of them became NPLs
Interest Rate	Nominal deposits rate < 3 months 3-6 months 6-12 months 1-2yrs 2-3yrs >3 yrs	 2.2 2.0 1.6 1.9 1.4 4.5	Assess the effect of interest rate change on banks' interest sensitive assets and liabilities.
Exchange Rate	Assumed depreciation of selected currencies USD EUR GBP	 3.7 2.9 1.8	Assess the effect of depreciation on banks' existing foreign currency denominated assets and liabilities

***Source**: Bank of Tanzania*

The resilience of the banking system was assessed against the 10.0 percent capital adequacy ratio. For purposes of systemic and peer assessments, banks were classified into three groups, namely major banks (top ten), other banks (other than top ten) and all banks (**Table 5.2**).

Table 5.2: Summary of Stress Testing Results

Classification	Baseline Capital Adequacy Ratio (Pre-test)	Post – Stress Capital Adequacy Ratio			
		Credit risks		Interest rate	Exchange rate
		Sectorial	Proportional increase in NPLs		
All Banks	17.7	16.7	15.3	14.5	16.5
Major Banks	20.1	19.2	17.9	16.9	19.2
Other Banks	11.4	10.5	8.8	8.3	9.9
Regulatory Capital Adequacy Ratio (Core Capital)	10.0	10.0	10.0	10.0	10.0
No. of undercapitalized Major banks	1	2	2	2	2
No. of undercapitalized Other banks	11	12	12	13	12

***Source**: Bank of Tanzania*

At aggregate level, capital buffer allowed the sector to withstand plausible shocks. However, at bank level, two major banks were affected, one was undercapitalised prior to the shock, while the other was affected by interest rate, credit and exchange rate risks. In addition, 11 small banks were undercapitalised before being subjected to the shocks, while others were affected by; credit risk (one bank), interest rate risk (two banks) and exchange rate risk (one bank). The Bank has engaged the undercapitalized banks to restore capital positions while banks affected by shocks were directed to take appropriate measures to mitigate potential risks.

5.2 Financial Stability Outlook and Conclusion

Macroeconomic and financial environment will be contained in the six months to September 2017, as the pace of economic activity gains momentum supported by improving global demand, higher commodity prices as well as accommodative monetary policy, which will ease liquidity conditions among banks. Compliance with a 2.5 percent capital conservation buffer effective August 2017, will provide additional cushion to banks while anticipated loan restructuring together with increasing risks management practices are expected to moderate modestly the rising NPLs. The Bank will continue to conduct regular stress tests for early detection of vulnerabilities in the sector with a view to taking appropriate mitigation measures.

The insurance sector is poised to maintain favourable capitalisation and profitability while the operationalisation of the electronic platform for verification of the validity of insurance covers effective on the 17th April 2017, will reduce liquidity risks to the sector. Activities in the DSE are expected to pick up supported by increasing mobile trading platform and positive economic outlook.

APPENDICES

Appendix 1: Global Economic Performance (Real Growth Rates)

(Percent)

	Actual							Projections		Difference from January 2017 WEO projections	
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2017	2018
World output	**5.4**	**4.2**	**3.4**	**3.3**	**3.4**	**3.4**	**3.1**	**3.5**	**3.6**	**0.1**	**0.0**
Advanced economies	**3.1**	**1.7**	**1.2**	**1.1**	**1.8**	**2.1**	**1.7**	**2.0**	**2.0**	**0.1**	**0.0**
USA	3.1	1.7	1.2	1.3	2.0	2.1	1.7	2.0	2.0	-0.3	-0.5
Euro area	2.1	1.6	-0.8	0.3	0.9	2.0	1.7	1.7	1.6	0.1	0.0
Japan	4.7	-0.1	1.5	2.0	0.3	1.2	1.0	1.2	0.6	0.4	0.1
United Kingdom	1.9	1.5	1.3	1.9	3.1	2.2	1.8	2.0	1.5	0.5	0.1
Emerging and Developing Economies	**7.5**	**6.3**	**5.2**	**5.0**	**4.6**	**4.2**	**4.1**	**4.5**	**4.8**	**0.0**	**0.0**
Emerging and Developing Asia	**9.6**	**7.9**	**7.0**	**6.9**	**6.8**	**6.7**	**6.4**	**6.4**	**6.4**	**0.0**	**0.1**
China	10.6	9.5	7.9	7.8	7.3	6.9	6.7	6.6	6.2	0.1	0.2
India	10.3	6.6	5.5	6.5	7.2	7.9	6.8	7.2	7.7	0.0	0.0
Asean-5	6.9	4.7	6.2	5.1	4.6	4.8	4.9	5.0	5.2	0.1	0.0
Sub-Saharan	**7.0**	**5.0**	**4.3**	**5.3**	**5.1**	**3.4**	**1.4**	**2.6**	**3.5**	**-0.2**	**-0.2**
Excluding Nigeria and South Africa	6.0	6.0	5.4	6.5	5.8	4.7	3.7	4.4	5.2	n/a	n/a
Nigeria	11.3	4.9	4.3	5.4	6.3	2.7	-1.5	0.8	1.9	0.0	-0.4
South Africa	3.0	3.3	2.2	2.5	1.7	1.3	0.3	0.8	1.6	0.0	0.0
Oil Exporting	9.2	4.7	3.9	5.7	5.9	2.6	-1.4	0.9	2.0	n/a	n/a
Oil Importing	5.3	5.3	4.7	5.0	4.5	3.9	3.4	3.9	4.5	n/a	n/a
SADC	**4.2**	**4.3**	**3.7**	**4.3**	**3.6**	**2.7**	**1.5**	**2.2**	**2.7**	n/a	n/a
EAC Overall	**7.4**	**6.9**	**4.6**	**5.8**	**6.0**	**6.0**	**5.8**	**5.7**	**6.1**	n/a	n/a
Kenya	8.4	6.1	4.6	5.7	5.3	5.6	6.0	5.3	5.8	n/a	n/a
Rwanda	7.3	7.8	8.8	4.7	7.6	8.9	5.9	6.1	6.8	n/a	n/a
Tanzania	6.4	7.9	5.1	7.3	7.0	7.0	6.6	6.8	6.9	n/a	n/a
Uganda	7.7	6.8	2.6	4.0	5.2	5.0	4.7	5.0	5.8	n/a	n/a
Burundi	5.1	4.0	4.4	5.9	4.5	-4.0	-1.0	0.0	0.1	n/a	n/a
Memorandum											
World Commodity prices (U.S. dollars)	2.2	4.3	2.8	-3.0	-0.4	-2.4	-5.4	2.8	1.7	n/a	n/a
Oil	27.9	31.6	1.0	-0.9	-7.5	-47.2	-15.7	28.9	-0.3	9.0	-3.9
Nonfuel	26.6	18.0	-10.1	-1.4	-3.9	-17.4	-1.9	8.5	-1.3	6.4	-0.4

Source: *World Economic Outlook, April 2017*

n/a - not available

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

(Percent)

ECONOMIC ACTIVITY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sector Share in GDP											
GDP at market prices	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Agriculture, forestry and fishing	**29.0**	**26.8**	**28.8**	**30.2**	**29.9**	**29.4**	**31.1**	**31.2**	**28.8**	**29.0**	**29.1**
Crops	16.7	13.5	15.3	16.0	16.6	16.5	18.0	17.5	16.1	15.6	15.5
Livestock	8.5	9.4	9.3	9.7	9.1	8.7	8.5	8.2	7.3	7.9	7.7
Forestry	2.1	2.4	2.3	2.3	2.2	2.2	2.5	3.1	3.1	3.5	3.9
Fishing	1.7	1.6	1.8	2.2	2.1	2.1	2.2	2.4	2.2	2.1	2.0
Industry and Construction	**20.7**	**20.2**	**20.4**	**18.6**	**20.3**	**22.8**	**21.8**	**22.7**	**23.2**	**24.3**	**25.2**
Mining and quarrying	4.0	3.5	3.0	2.8	4.1	5.1	4.9	4.2	3.7	4.0	4.8
Manufacturing	7.5	7.0	7.0	6.9	6.9	7.6	7.5	6.4	5.6	5.2	5.1
Electricity supply	0.9	0.9	0.9	0.9	0.9	0.6	0.9	0.8	1.1	1.0	0.9
Water supply; sewerage, waste management	0.9	0.9	0.8	0.7	0.6	0.5	0.4	0.5	0.5	0.4	0.4
Construction	7.4	7.9	8.8	7.2	7.8	9.0	8.1	10.8	12.4	13.6	14.0
Services	**45.4**	**47.4**	**45.0**	**45.5**	**44.2**	**42.7**	**41.9**	**41.0**	**40.9**	**40.0**	**39.1**
Wholesale and retail trade; repairs	9.7	9.9	9.7	9.9	10.1	10.6	10.4	10.2	10.5	10.7	10.7
Transport and storage	6.0	5.9	6.0	6.2	5.8	5.2	4.4	4.2	4.3	4.3	4.3
Accommodation and Food Services	1.6	1.8	1.7	1.8	1.6	1.4	1.4	1.3	1.1	1.1	1.0
Information and communication	2.3	2.3	2.2	2.4	2.6	2.4	2.4	2.3	2.1	2.0	2.0
Financial and insurance activities	2.5	2.8	2.9	3.1	3.2	3.4	3.4	3.3	3.4	3.6	3.6
Real estate	6.1	6.0	5.2	5.1	4.6	4.3	4.3	3.8	3.7	3.2	3.0
Professional, scientific and technical activities	1.0	1.2	1.4	1.5	1.7	1.5	1.3	1.3	1.3	1.2	1.2
Administrative and support service activities	2.9	3.0	2.6	2.4	2.2	2.1	2.3	2.4	2.5	2.4	2.2
Public administration and defence	7.2	8.1	7.0	6.7	6.1	6.3	6.5	7.0	6.6	6.4	6.3
Education	2.7	3.2	3.1	3.2	3.1	2.8	2.6	2.7	2.7	2.5	2.3
Human health and social work activities	1.9	1.6	1.6	1.8	1.7	1.6	1.5	1.4	1.4	1.4	1.4
Arts, entertainment and recreation	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Other service activities	0.9	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.7
Activities of households as employers;	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
FISIM	-1.4	-1.2	-0.9	-0.9	-0.9	-1.1	-1.0	-1.2	-1.0	-1.1	-1.0
Taxes on products	6.2	6.8	6.6	6.6	6.4	6.2	6.3	6.3	8.1	7.8	7.8
GDP Growth Rate											
GDP at costant prices (2007=100)	**4.7**	**8.5**	**5.6**	**5.4**	**6.4**	**7.9**	**5.1**	**7.3**	**7.0**	**7.0**	**7.0**
Agriculture, forestry and fishing	**2.4**	**2.4**	**7.5**	**5.1**	**2.7**	**3.5**	**3.2**	**3.2**	**3.4**	**2.3**	**2.1**
Crops	-1.4	-1.5	7.8	5.5	3.7	4.8	4.2	3.5	4.0	2.2	1.4
Livestock	7.4	7.8	8.1	5.3	1.4	1.6	1.8	2.0	2.2	2.4	2.6
Forestry	7.4	6.0	3.8	5.1	3.4	3.3	3.5	4.7	5.1	2.6	3.4
Fishing	2.8	0.9	7.2	0.5	0.9	2.6	2.9	5.5	2.0	2.5	4.2
Industry and Construction	**6.2**	**11.0**	**6.5**	**3.3**	**9.1**	**12.0**	**4.0**	**9.5**	**10.3**	**11.3**	**10.7**
Mining and quarrying	-13.7	9.2	-9.8	18.7	7.3	6.3	6.7	3.9	9.4	9.1	11.5
Manufacturing	8.4	11.5	11.4	4.7	8.9	6.9	4.1	6.5	6.8	6.5	7.8
Electricity supply	-8.7	18.7	8.1	4.3	13.4	-4.3	3.3	13.0	9.3	5.8	8.5
Water supply; sewerage, waste management	2.2	-7.3	2.3	4.6	2.2	-1.2	2.8	2.7	3.7	0.1	4.3
Construction	19.2	13.1	9.7	-3.8	10.3	22.9	3.2	14.6	14.1	16.8	13.0
Services	**6.0**	**8.5**	**4.2**	**5.8**	**7.8**	**8.4**	**7.2**	**7.1**	**7.2**	**6.9**	**7.6**
Wholesale and retail trade; repairs	9.4	12.9	6.5	2.7	10.0	11.3	3.8	4.5	10.0	7.8	6.7
Transport and storage	9.1	2.0	1.8	6.9	10.7	4.4	4.2	12.2	12.5	7.9	11.8
Accommodation and Food Services	3.4	4.5	3.3	1.0	3.7	4.1	6.7	2.8	2.2	2.3	3.7
Information and communication	4.5	17.7	11.9	26.6	24.4	8.6	22.2	13.3	8.0	12.1	13.0
Financial and insurance activities	19.1	21.7	18.8	18.4	12.6	14.8	5.1	6.2	10.8	11.8	10.7
Real estate	1.5	1.6	1.7	1.8	1.8	1.9	2.0	2.1	2.2	2.2	2.4
Professional, scientific and technical activities	11.3	12.1	30.6	15.8	29.9	4.8	-5.8	5.4	0.5	6.8	6.3
Administrative and support service activities	5.3	2.1	-1.8	0.4	8.6	5.1	23.8	12.2	6.0	4.7	2.1
Public administration and defence	-0.3	9.1	-6.3	-0.7	-5.0	15.9	9.1	7.8	3.9	4.6	6.7
Education	7.7	13.2	9.5	9.2	6.4	5.6	7.4	4.3	4.8	6.3	8.1

ECONOMIC ACTIVITY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Human health and social work activities	9.9	7.0	5.5	7.4	3.3	5.3	11.4	8.8	8.1	4.7	5.2
Arts, entertainment and recreation	5.3	7.5	6.4	3.0	7.3	7.7	11.0	5.7	5.7	6.2	8.8
Other service activities	5.6	5.7	5.8	5.9	6.0	6.2	6.4	6.5	6.7	6.9	7.2
Activities of households as employers;	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	3.0
FISIM	23.4	11.7	6.8	20.0	7.9	22.6	1.2	0.1	9.7	11.7	16.3
Taxes on products	3.5	31.0	4.8	12.8	3.8	12.1	0.4	14.2	7.7	9.6	7.8
Contribution to GDP growth rate											
GDP at market prices	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Agriculture, forestry and fishing	**31.0**	**12.0**	**37.6**	**39.8**	**27.9**	**26.6**	**41.6**	**31.9**	**9.6**	**30.3**	**29.6**
Crops	18.6	-8.5	23.5	20.6	20.4	15.7	27.1	14.5	5.0	12.0	14.8
Livestock	9.3	15.3	9.2	11.7	5.3	6.8	7.2	6.8	0.1	11.6	6.4
Forestry	2.3	4.0	1.9	2.6	1.2	2.1	4.2	6.9	3.7	5.9	6.9
Fishing	0.8	1.1	3.0	4.9	0.9	2.0	3.2	3.7	0.8	0.8	1.4
Industry and Construction	**25.1**	**16.7**	**21.6**	**6.4**	**30.8**	**35.0**	**15.8**	**28.5**	**27.5**	**32.1**	**31.1**
Mining and quarrying	7.8	0.0	0.9	1.7	11.6	10.2	3.6	-0.2	-0.7	6.6	10.2
Manufacturing	8.4	3.8	6.7	6.3	6.9	11.3	6.6	-0.3	-1.5	2.9	4.2
Electricity supply	0.0	0.8	1.2	1.0	0.8	-1.2	2.7	0.1	3.7	0.2	0.1
Water supply; sewerage, waste management	-0.6	0.9	0.1	0.3	-0.1	-0.2	0.3	0.5	0.5	0.2	0.2
Construction	9.4	11.2	12.6	-2.9	11.5	14.8	2.6	28.3	25.4	22.2	16.3
Services	**40.1**	**61.0**	**34.3**	**48.4**	**36.7**	**35.4**	**36.5**	**35.6**	**40.0**	**33.5**	**32.5**
Wholesale and retail trade; repairs	6.1	11.3	9.1	11.1	11.2	12.8	9.4	9.3	12.6	12.0	10.7
Transport and storage	4.0	5.4	6.6	7.1	3.5	2.1	0.1	2.7	5.2	3.8	4.7
Accommodation and Food Services	0.4	3.4	1.3	2.4	0.7	0.1	1.8	0.2	-0.3	0.8	0.7
Information and communication	1.4	2.5	1.8	3.8	3.9	1.0	2.4	1.8	0.9	1.0	1.7
Financial and insurance activities	2.9	5.2	3.4	4.4	3.8	4.1	3.4	2.5	4.4	5.0	3.7
Real estate	3.9	5.5	1.9	4.1	1.9	2.7	3.9	0.6	3.2	-0.2	1.0
Professional, scientific and technical activities	1.4	2.2	2.2	2.1	2.9	1.0	0.0	1.0	1.1	0.9	1.0
Administrative and support service activities	3.0	3.6	1.0	0.9	1.4	1.3	3.8	3.0	3.3	1.4	1.0
Public administration and defence	10.4	14.1	1.7	4.6	2.6	7.5	7.8	9.7	3.3	5.6	5.0
Education	2.9	6.4	2.6	3.7	3.1	0.9	1.7	3.0	3.2	1.2	0.9
Human health and social work activities	2.5	-0.3	1.6	2.6	1.2	1.0	1.1	1.1	1.5	1.1	1.2
Arts, entertainment and recreation	0.4	0.5	0.2	0.2	0.2	0.2	0.3	0.2	0.4	0.2	0.3
Other service activities	0.7	1.0	0.7	1.0	0.4	0.4	0.8	0.6	1.0	0.6	0.6
Activities of households as employers;	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.1
FISIM	-3.1	-0.4	0.7	-0.8	-0.8	-2.0	-0.9	-2.4	0.5	-1.9	-0.3
Taxes on products	6.9	10.7	5.9	6.2	5.5	5.0	7.0	6.4	22.5	6.0	7.2

Source: *NBS and BOT Calculations*

Appendix 3: Annual GDP Performance by Economic Activity – Zanzibar

(Percent)

ECONOMIC ACTIVITY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Sector Share in GDP										
GDP at market prices	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Agriculture, forestry and fishing	**24.7**	**26.0**	**28.5**	**29.2**	**34.7**	**29.3**	**30.8**	**27.8**	**25.8**	**25.7**
Crops	13.5	15.2	16.7	16.4	22.0	15.5	18.5	15.9	14.2	15.1
Livestock	3.2	3.2	3.4	3.5	3.2	3.4	3.1	2.8	2.5	2.3
Forestry	2.9	2.8	2.9	2.9	2.8	3.0	2.8	2.8	2.8	2.6
Fishing	5.1	4.7	5.4	6.4	6.7	7.2	6.5	6.4	6.3	5.7
Industry and Construction	**16.8**	**18.7**	**18.4**	**17.3**	**16.6**	**18.6**	**17.9**	**16.8**	**18.1**	**18.6**
Mining and quarrying	1.1	1.4	1.6	1.6	1.5	1.7	1.5	1.6	1.7	1.9
Manufacturing	8.5	8.8	8.3	7.3	6.2	7.1	6.9	6.3	6.7	6.9
Electricity supply	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.4
Water supply; sewerage, waste management	0.4	0.5	0.4	0.4	0.4	0.4	0.6	0.8	0.7	0.7
Construction	6.4	7.7	7.8	7.7	8.2	9.0	8.5	7.9	8.5	8.7
Services	**48.5**	**45.0**	**42.0**	**42.8**	**38.9**	**41.5**	**41.1**	**44.7**	**46.1**	**45.0**
Wholesale and retail trade; repairs	11.6	10.1	9.7	9.4	8.6	8.0	7.3	7.3	7.3	7.2
Transport and storage	3.9	4.4	4.6	4.6	4.1	4.4	4.7	3.9	5.0	4.3
Accommodation and Food Services	8.8	8.5	8.5	8.3	8.4	8.6	8.5	8.4	9.1	9.7
Accommodation	7.2	6.8	6.6	6.7	6.3	6.0	5.6	5.8	6.5	7.0
Food and beverage services	1.6	1.7	1.9	1.6	2.1	2.6	2.8	2.5	2.6	2.7
Information and communication	2.4	1.2	-1.3	0.7	0.4	0.8	1.3	5.4	5.3	5.0
Financial and insurance activities	3.5	3.0	3.4	3.4	2.5	2.8	3.3	4.0	3.6	3.8
Real estate activities	5.6	6.1	6.1	5.8	5.0	5.5	6.1	6.9	7.1	7.2
Professional, scientific and technical	0.1	0.2	0.2	0.2	0.1	0.2	0.3	0.4	0.4	0.4
Administrative and support services	0.7	0.8	0.8	0.8	0.8	0.8	0.7	0.6	0.6	0.7
Public administration	7.7	6.7	6.3	6.1	5.5	7.0	6.4	5.1	4.8	4.2
Education	2.7	2.6	2.5	2.2	2.1	2.1	2.0	2.1	2.1	2.0
Human health and social work	1.2	1.2	1.1	1.0	1.0	1.2	1.0	1.0	1.0	0.9
Arts, entertainment and recreation	0.4	0.3	0.3	0.3	0.4	0.5	0.4	0.4	0.4	0.4
Other service activities	0.7	0.5	0.5	0.5	0.4	0.4	0.4	0.3	0.4	0.4
Activities of households as employers;	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
FISIM	-0.9	-0.7	-0.8	-0.7	-0.7	-0.7	-1.1	-1.2	-1.2	-1.2
Taxes on products	10.0	10.3	11.1	10.7	9.8	10.7	10.1	10.6	10.0	10.7
GDP Growth Rate										
GDP at constant prices (2007=100)	**6.5**	**4.3**	**6.1**	**4.3**	**9.3**	**4.8**	**7.2**	**7.0**	**6.5**	**6.7**
Agriculture, forestry and fishing	**0.2**	**6.0**	**3.2**	**3.3**	**4.7**	**-8.3**	**13.2**	**-0.4**	**2.5**	**5.7**
Crops	-2.1	6.6	5.1	4.3	1.7	-18.4	22.9	-7.2	-2.5	7.3
Livestock	3.5	2.7	1.3	1.8	4.0	6.7	5.1	7.5	7.7	7.1
Forestry	3.7	3.5	3.3	3.5	3.8	3.9	3.5	3.9	4.0	4.2
Fishing	2.4	8.0	-0.5	1.5	13.9	2.5	3.6	8.9	9.1	2.8
Industry and Construction	**3.5**	**11.6**	**5.4**	**4.6**	**18.4**	**7.5**	**3.5**	**6.4**	**10.6**	**9.7**
Mining and quarrying	9.1	19.8	12.6	6.6	18.4	12.7	-3.6	8.4	10.9	18.8
Manufacturing	0.5	-0.4	4.7	3.5	7.0	3.6	6.9	9.9	8.8	6.3
Electricity supply	7.5	-0.7	0.9	-4.7	35.5	9.5	3.1	4.7	6.7	8.2
Water supply; sewerage, waste management	7.5	0.4	3.0	2.8	8.2	3.4	6.0	4.8	5.6	5.3
Construction	6.3	27.6	5.2	5.7	29.8	9.9	1.9	3.3	12.5	11.3
Services	**9.4**	**3.3**	**7.1**	**4.8**	**8.3**	**4.7**	**4.6**	**10.1**	**7.9**	**7.8**
Wholesale and retail trade; repairs	9.9	-8.9	-3.1	-1.1	7.7	-10.4	2.9	13.0	0.9	5.1
Transport and storage	37.4	-1.0	13.8	16.4	14.9	14.9	9.4	7.0	5.2	6.8
Accommodation and Food Services	4.5	-6.5	1.1	1.8	18.1	1.5	9.5	6.9	10.3	9.5
Accommodation	4.5	-7.2	-1.3	5.2	12.6	-3.4	2.6	8.7	14.5	12.9
Food and beverage services	4.5	-3.3	11.0	10.5	41.9	18.5	29.1	2.9	0.3	0.1
Information and communication	37.4	40.3	-9.2	23.3	13.3	11.9	-13.4	24.7	7.6	9.1
Financial and insurance activities	21.0	1.0	25.0	14.5	5.9	7.6	5.1	10.6	11.2	9.0
Real estate activities	4.8	6.2	6.3	6.4	6.5	6.6	6.7	6.8	6.8	6.9

ECONOMIC ACTIVITY	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Professional, scientific and technical	4.8	30.3	-4.1	9.3	-3.5	21.4	47.9	43.4	9.2	9.6
Administrative and support services	4.8	7.2	5.0	-0.5	9.7	5.0	6.2	2.0	12.9	6.7
Public administration	1.3	22.3	25.7	-0.1	1.7	12.0	5.2	10.8	13.3	9.0
Education	1.3	4.2	2.1	2.5	5.5	2.8	2.5	7.9	2.9	7.4
Human health and social work	6.6	1.0	2.4	2.4	1.3	2.4	3.0	7.4	0.2	3.8
Arts, entertainment and recreation	4.3	-0.2	4.9	3.4	9.3	-0.7	7.5	5.9	17.2	9.8
Other service activities	4.3	0.3	4.5	3.3	8.1	-0.1	6.6	5.3	14.7	8.7
Activities of households as employers;	4.3	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.1
FISIM	21.0	5.2	28.1	8.6	15.7	4.8	10.8	11.4	13.7	11.3
Taxes on products	6.5	-7.3	10.2	3.4	9.6	33.4	14.1	8.6	0.8	-1.4
Contribution to GDP growth rate										
GDP at market prices	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Agriculture, forestry and fishing	**34.4**	**51.9**	**35.5**	**52.0**	**16.5**	**38.6**	**8.3**	**1.3**	**24.5**	**25.7**
Crops	25.8	30.8	13.4	39.7	38.4	33.5	-1.2	-6.0	21.6	15.1
Livestock	3.5	5.5	4.4	2.2	5.3	1.1	1.1	-1.1	0.4	2.3
Forestry	2.6	3.6	3.1	2.4	5.0	1.5	2.6	2.8	1.3	2.6
Fishing	2.5	12.1	14.6	7.6	11.6	2.5	5.8	5.5	1.2	5.7
Industry and Construction	**30.3**	**16.2**	**7.9**	**14.3**	**35.1**	**14.6**	**9.7**	**33.0**	**22.8**	**18.6**
Mining and quarrying	2.8	3.3	1.5	1.3	3.5	0.6	1.7	3.4	3.2	1.9
Manufacturing	10.8	3.0	-1.2	2.7	15.2	6.0	2.0	12.0	8.4	6.9
Electricity supply	0.3	1.2	0.0	0.3	0.5	0.3	0.1	1.0	0.8	0.4
Water supply; sewerage, waste management	0.5	0.2	0.0	0.2	0.7	1.6	2.0	0.5	0.2	0.7
Construction	15.9	8.5	7.5	9.7	15.3	6.2	3.8	16.0	10.3	8.7
Services	**22.8**	**13.8**	**49.2**	**26.6**	**63.2**	**39.4**	**68.4**	**63.2**	**36.9**	**45.0**
Wholesale and retail trade; repairs	0.7	6.4	6.5	6.3	2.3	3.6	7.9	7.3	5.9	7.2
Transport and storage	7.0	6.6	5.0	2.5	6.3	6.2	-0.8	17.8	-0.5	4.3
Accommodation and Food Services	6.6	8.9	6.8	8.7	9.9	7.9	7.7	18.3	13.5	9.7
Accommodation	4.6	5.0	7.4	5.2	3.6	3.5	7.1	14.9	10.2	7.0
Food and beverage services	2.0	4.0	-0.6	3.5	6.3	4.4	0.5	3.4	3.4	2.7
Information and communication	-6.3	25.1	18.0	-0.9	4.2	4.1	32.3	4.7	2.4	5.0
Financial and insurance activities	0.0	6.8	3.1	-0.2	5.2	5.7	9.3	-2.1	5.6	3.8
Real estate activities	9.2	6.5	3.0	2.7	9.4	9.0	12.0	10.2	7.6	7.2
Professional, scientific and technical	0.4	0.0	0.3	0.0	0.5	0.7	1.1	0.7	0.6	0.4
Administrative and support services	1.6	0.8	0.6	0.8	0.8	0.3	0.1	0.1	1.7	0.7
Public administration	0.3	2.6	4.4	3.8	19.6	3.0	-3.3	1.6	-0.5	4.2
Education	1.8	1.5	0.2	1.6	2.2	1.4	3.1	1.4	1.3	2.0
Human health and social work	1.1	0.9	0.1	0.8	2.6	0.4	0.4	1.6	0.4	0.9
Arts, entertainment and recreation	0.0	0.1	0.7	0.7	1.2	0.1	0.1	0.7	0.2	0.4
Other service activities	-0.2	0.0	0.2	0.3	0.0	0.2	0.3	0.8	0.4	0.4
Activities of households as employers;	0.0	0.0	0.0	0.0	0.2	0.0	0.2	0.3	0.0	0.1
FISIM	0.5	-2.4	0.3	-0.5	-1.3	-3.2	-1.9	-0.1	-1.6	-1.2
Taxes on products	12.5	18.1	7.3	7.1	18.2	7.3	13.6	2.6	15.8	10.7

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

Appendix 4: Quarterly Performance of Dar es Salaam Stock Exchange

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Total Market Capitalization (TZS Billions)	17,300.7	18,902.2	22,576.3	22,090.4	22,743.3	23,721.5	22,166.4	20,494.7	21,308.2	21,728.6	21,579.6	19,124.3	20,138.8
Domestic Market Capitalization (TZS Billions)	6,175.8	7,490.0	11,021.8	9,925.5	10,235.9	9,927.1	9,809.9	9,527.9	8,470.4	7,912.1	8,103.0	7,728.9	7,507.9
Cross listed Market Capitalization (TZS Billions)	11,124.8	11,412.2	11,554.5	12,164.9	12,507.4	13,794.4	12,356.5	10,966.8	12,837.8	13,816.5	13,476.6	11,395.5	12,630.9
GDP (TZS Billions)	79,442.5	79,442.5	79,442.5	79,442.5	89,775.9	89,775.9	89,775.9	89,775.9	94,981.4	94,981.4	94,981.4	94,981.4	94,981.4
Total Market Capitalization/GDP (Percent)	21.8	23.8	28.4	27.8	28.6	26.4	24.7	22.8	22.4	22.9	22.7	20.1	21.2
% of domestic listed Companies	35.7	39.6	48.8	44.9	45.0	41.8	44.3	46.5	39.8	36.4	37.5	40.4	37.3
% of cross listed Companies.	64.3	60.4	51.2	55.1	55.0	58.2	55.7	53.5	60.2	63.6	62.5	59.6	62.7
Market Turn-over (TZS Millions)	22,622.5	42,691.5	173,284.2	143,636.2	277,316.9	283,684.0	222,248.6	286,856.9	122,816.3	101,532.2	113,936.3	82,508.0	73,653.0
Share Indices													
All Share Index	1,958.1	2,172.7	2,172.7	2,519.6	2,596.3	2,726.8	2,531.1	2,333.8	2,432.0	2,482.0	2,477.2	2,198.4	2,315.1
Tanzania Share Index	2,936.7	3,561.6	5,190.9	4,672.6	4,830.0	4,684.1	4,631.9	4,478.1	3,972.1	3,706.2	3,855.9	3,677.8	3,572.7
Banks, Finance & Investment Index	3,541.1	3,502.8	3,790.1	3,452.3	3,444.0	3,409.8	6,194.5	5,964.1	2,643.2	2,117.6	2,774.1	2,761.3	2,546.6
Industrial & Allied (IA)	3,541.1	4,071.1	6,869.3	6,101.0	6,350.0	6,072.4	3,096.4	3,017.2	5,280.2	5,175.6	4,959.1	4,665.1	4,618.9
Commercial Services (CS)	2,007.0	1,721.5	2,509.2	2,973.8	3,635.2	4,016.1	3,974.2	3,953.3	3,932.3	3,559.8	3,538.8	3,158.0	3,137.0

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

Appendix 5: Tanzania Mainland: Trend of Social Security Investment Portfolio

Particulars	Prudential Limit as Percentage of Total Assets	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Bank Deposits	35	9.6	10.0	10.9	8.0	8.4	8.8	7.6	8.7	9.0
Government Debt	20-70	20.1	18.9	18.2	18.2	20.3	23.0	24.6	25.4	25.6
Commercial Paper, Promissory notes and Corporate bonds	20	0.2	0.4	0.5	0.3	0.3	0.3	0.3	0.2	0.2
Loans to Government	10	19.3	21.7	21.8	21.7	21.0	20.6	19.7	19.1	20.0
Ordinary and Preference Share	20	10.8	9.5	9.4	9.1	8.8	7.6	6.9	6.4	5.9
Investments in Licensed Collective Investment Schemes	30	1.5	1.4	1.4	1.5	1.5	1.5	1.6	1.5	1.5
Real Estate	30	21.1	17.7	19.0	20.1	19.8	19.5	19.6	21.2	20.7
Loans to Corporates and Cooperative Societies	10	3.3	4.6	3.9	4.0	4.0	4.4	4.4	4.1	3.9
Infrastructure Investment	25	2.6	2.7	1.8	2.4	2.5	2.6	2.7	2.8	2.9
Other Assets		11.4	13.9	13.6	14.6	13.9	11.9	12.9	10.8	8.8
Total Assets		8727.0	9436.7	9874.9	9610.7	10058.8	10284.5	10658.5	11020.8	11323.7

***Source**: Bank of Tanzania*

Appendix 6: Agent Banking Transactions

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

Source: *Bank of Tanzania*

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