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LIST OF ACRONYMS

ATS	-	Automated Trading System
CMSA	-	Capital Markets and Securities Authority
CSD	-	Central Securities Depository
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
FSR	-	Financial Stability Report
GDP	-	Gross Domestic Product
GFC	-	Global Financial Crisis
IMF	-	International Monetary Fund
MFI	-	Micro Finance Institution
MFS	-	Mobile Financial Services
MNOs	-	Mobile Network Operators
NGO	-	Non-Governmental Organization
NHIF	-	National Health Insurance Fund
NPLs	-	Non- Performing Loans
SACCOS	-	Savings and Credit Co-Operative Societies
SADC	-	Southern African Development Community
SDC	-	Sovereign Debt Crisis
SSRA	-	Social Security Regulatory Authority
TBL	-	Tanzania Breweries Limited
TCC	-	Tanzania Cigarette Company
TFSF	-	Tanzania Financial Stability Forum
The Bank	-	Bank of Tanzania
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

Prospects for growth of Tanzania's economy in 2014 remained optimistic as reflected by performance during the first two quarters. The positive outlook is supported by prudent macroeconomic policies and stability of the financial system that fostered efficient intermediation and allocation of investment resources. The financial system was resilient to currency volatility that disrupted financial markets in many Emerging Market economies in 2013.

In contrast, the unfolding global macroeconomic developments showed a slowdown in economic performance in some advanced as well as emerging market economies. The slower than anticipated growth prospects necessitated a downward revision of global economic growth projections for 2014 in emerging market economies and the Euro area. The US and UK maintained strong prospects for recovery, and growth in sub-Saharan Africa, was robust.

The slower than anticipated growth rate in Emerging Market Economies and a faster than anticipated normalization of monetary policy in advanced economies may have adverse implications for sustaining the robust economic performance in Tanzania. The former will depress demand for export commodities leading to decline in prices. Should the situation be sustained, balance in the external sector may worsen and possibly drive exchange rate volatility. Decline in fuel prices will however, impact positively on Tanzania's import bill. Another positive contribution is from a faster recovery in the US and UK leading to increase in import demand from the rest of the world. On the other hand, a faster than anticipated normalization of monetary policy on account of stronger recovery in the US and UK may lead to tightening of global financial conditions. The resulting high interest rates would contribute positively to returns on investments while increasing the cost of funding. But the additional monetary accommodation elsewhere in advanced economies is expected to reduce this impact.

Tanzania stands a better chance of sustaining the growth momentum by continuing to strengthen resilience of the financial system to internal and external shocks. Tanzania's financial system has remained robust and capable of mobilizing resources for investment. More effort needs to be directed at deepening and broadening capital markets. Introducing new instruments to attract institutional investors and strengthening regulatory environment in order to encourage private participation are some of the measures needed. This is expected to support government effort in implementing infrastructure development which has been instrumental in driving economic growth in the country. Continued investment in infrastructure is also expected to foster diversification of the economy thereby enhancing its resilience to shocks. While fiscal risks to financial stability appear minimal, monetary policy will continue to focus on consolidating the gains achieved in recent years with a view to continued maintenance of macroeconomic stability.

The Bank of Tanzania is increasingly using macro-prudential indicators in monitoring the health of the financial system. In collaboration with other regulators in the financial sector under the Tanzania Financial Stability Forum (TFSF)[1], the Bank has broadened the scope and effectiveness of oversight of the financial system as a whole. The Forum has facilitated 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. Through collaborative effort, the Bank of Tanzania will continue to implement policies aimed at promoting the efficiency and safety of the financial system. Enhanced soundness of financial system will minimize build-up of systemic risks, ensure capacity to absorb shocks and maintain stability of the financial system.

Prof. Benno Ndulu
Governor
30th September 2014

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

EXECUTIVE SUMMARY

The global economy grew by 3.3 percent in 2013 and is projected to remain at 3.3 percent in 2014 before increasing to 3.8 percent in 2015. The performance is projected to be largely driven by advanced economies, notably the United States and the United Kingdom. In the Euro area growth remains weak on account of high unemployment, large debt stocks, and tight private sector borrowing conditions in some countries. GDP growth rate in emerging market and developing economies is projected to decelerate to 4.4 percent in 2014 from 4.7 percent in 2013 due to weakening of exports growth and slowing credit expansion.

In sub-Saharan Africa, growth has remained strong with optimistic outlook supported by prudent macroeconomic policies focusing on promoting a conducive business environment for private sector participation, and sustained investment environment. Growth is projected to reach 5.1 percent and 5.8 percent in 2014 and 2015, respectively, from 4.9 percent registered in 2013. The positive growth prospects in Southern African Development Community (SADC) and East African Community (EAC) have been supported by FDI inflows into extractive sectors and major infrastructure investments.

Economic and financial conditions in the EAC sub-region remain stable and supportive of sustained growth. However, decline in export commodity prices, may disrupt the region's optimistic outlook.

Tanzania's macroeconomic environment remained stable as broadly reflected by strong growth in output, sustained inflation at single digit, fairly stable exchange rate and interest rates. The economy is projected to grow at 7.2 percent in 2014 rising to 7.5 percent in 2015. In the medium term, the macroeconomic stability is expected to remain favorable, based on continued implementation of prudent fiscal and monetary policies. This will be supported by narrowing of the current account.

The Tanzania Shilling remained fairly stable in the year to June 2014 while the trend of Real Effective Exchange Rate (REER) was cyclic. A declining trend of REER was observed between May 2013 and May 2014, on account of depreciation of currencies of major trading partners leading to relative appreciation of the shilling. In the period from May to September 2014, the REER was on an upward trend as currencies of the major trading partners strengthened and the shilling depreciated in relative terms. This new development suggests a gain in export competitiveness if sustained.

In the interbank money market, interest rates increased during the first half of 2014 until July as liquidity conditions tightened. In the subsequent period to September 2014, interbank cash market rates came down as conditions eased. On the other hand, lending rates trended upwards during the quarter to September 2014, indicating increase in credit risk premium while deposit rates declined.

The financial sector remained stable, growing in terms of size and outreach, supported by the favorable macro-economic conditions. The banking sector expanded outreach through new branches, agent banking, and mobile money platform and bank-SACCOS linkage. During the year ending September 2014 assets grew by 20.8 percent to TZS 22,975.1 billion, while deposits increased by 12.2 percent to TZS 17,074.2 billion and loans by 20.3 percent to TZS 11,378.4 billion. The growth in bank lending suggests growth of confidence in the banking sector and macro-economic outlook.

In aggregate terms, the banking sector remained profitable, liquid and adequately capitalized. However, the ratio of Gross Non-Performing Loans (NPLs) to Gross Loans of 8.5 percent was above the set industry limit of 5.0 percent. Some improvements in NPLs were recorded in the trade, personal and manufacturing credit portfolios which contributed 39.7 percent of the total banking sector NPLs in September 2014 down from 46.1 percent in September 2013.

During the period under review, a new product, M-Pawa was introduced in the banking sector. This is a micro-saving and micro-credit service which is based on the mobile financial service platform. The product allows registered mobile phone users to open a digital account for accessing financial services from a bank linked to a Mobile Network Operator. This innovation has a potential to further accelerate bank outreach, particularly in the rural areas which are not covered by the conventional bank retail channels.

The insurance sector continued to grow in terms of Gross Premiums Written (GPW) and assets. The volume of GPW grew by 22.4 percent to TZS 283.0 billion while total assets grew by 13.7 percent to TZS 590.5 billion between December 2013 and June 2014. The performance of the sector measured by profitability, solvency, asset quality and investment mix indicators was considered satisfactory. However, the sector had high exposure to liquidity risk, which was contributed by the growing level of account receivables.

The social security sector recorded growth in terms of coverage and assets. The pension funds were compliant with the regulatory requirements on investment mix. During the year under review, the Social Security Schemes (Pension Benefits Harmonization) Rules, 2014 were issued to create equity in the benefit structure of pension schemes.

The capital and securities markets recorded strong performance as measured by share price indices and turnover. The All Share Index continued to grow on account of strong performance of listed companies and favorable macro-economic conditions and outlook. The total market capitalization increased by 52.1 percent to TZS 22,576.3 billion during the year ending September 2014. The growth was mainly attributed to share price appreciation and new listings. The lifting of capital account controls to EAC residents in May 2014 is expected to enhance trading activity in the market. The reforms were carried out through issuance of Foreign Exchange (Listed Securities) (Amendments) Regulations, 2014 and the Capital Markets and Securities (Foreign Investors) Regulations, 2014. Introduction of Automated Trading System (ATS) and Central Securities Depository (CSD) system are expected to enhance trading and vibrancy of the markets.

The payment systems, which act as a gateway for channeling financial transactions recorded satisfactory performance during the year under review and continued to expand in terms of outreach. The growth is led by mobile financial services, whose number of registered users increased by 32.1 percent during the year ending September 2014 to 13 million, while total balances held in the trust accounts was TZS 362.1 billion.

Tanzania’s macroeconomic outlook remains positive supported by strong growth in output, fairly stable exchange rate and continued implementation of prudent fiscal and monetary policies. Inflation is projected to remain at single digit in the next six to twelve months due to adequate food supply in 2014/15, lower input costs from declining oil prices and reliable electricity supply as gas to electricity projects come on stream.

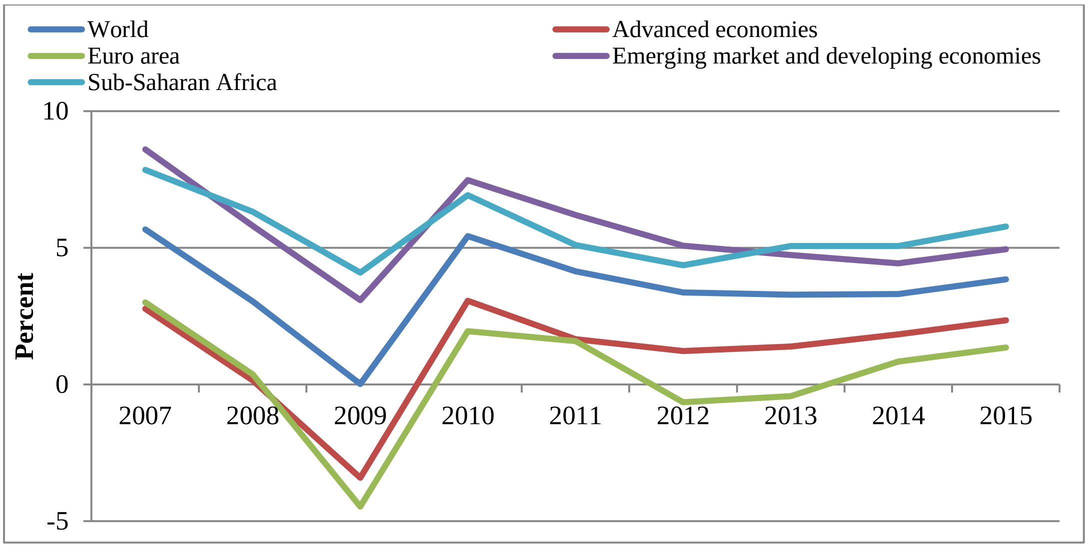
Tanzania’s financial system is projected to remain stable in the next six to twelve months in light of the positive macro-economic outlook in the domestic economy. However, the system is vulnerable to spillovers from the evolving global macroeconomic and financial developments. A larger than projected slowdown in emerging market economies or a faster than anticipated normalization of monetary policy in the US could increase risk premium and volatility in the global financial markets. In view of this, Tanzania needs to prepare for any eventuality by implementing measures to enhance soundness of the financial system and ensure resilience to internal and external shocks. A stable and robust financial system will enable the Government to sustain the country’s growth momentum through efficient mobilization and allocation of investable resources.

1.0 MACRO-ECONOMIC AND FINANCIAL ENVIRONMENT

1.1 Global Economic Developments

According to IMF, the global economy grew by 3.3 percent in 2013 and is projected to remain at 3.3 percent in 2014 before increasing to 3.8 percent in 2015[2]. Economic growth in advanced economies is projected to rise to 1.8 percent in 2014 and 2.3 percent in 2015, mainly driven by stronger growth forecasts in the US and UK (**Chart 1.1**). The US and UK are projected to grow by 2.2 percent and 3.2 percent respectively, in 2014, following improvement of households balance sheets, recovery of house market and favorable financial conditions.

Chart 1.1: World GDP Performance and Outlook



Source: IMF, World Economic Outlook, October, 2014

In the Euro area, economic activity was weak, attributable mainly to high unemployment and sovereign debt burden, low investment, persistent output gaps and tight credit conditions. These reflect continued financial fragmentation and impaired public and private balance sheets that have weighed down on the recovery momentum. However, moderating fiscal consolidation and highly accommodative monetary policy supported by a sharp compression in interest rate spread in some economies and record-low long-term interest rates in large economies is expected to gradually lift recovery prospects going forward.

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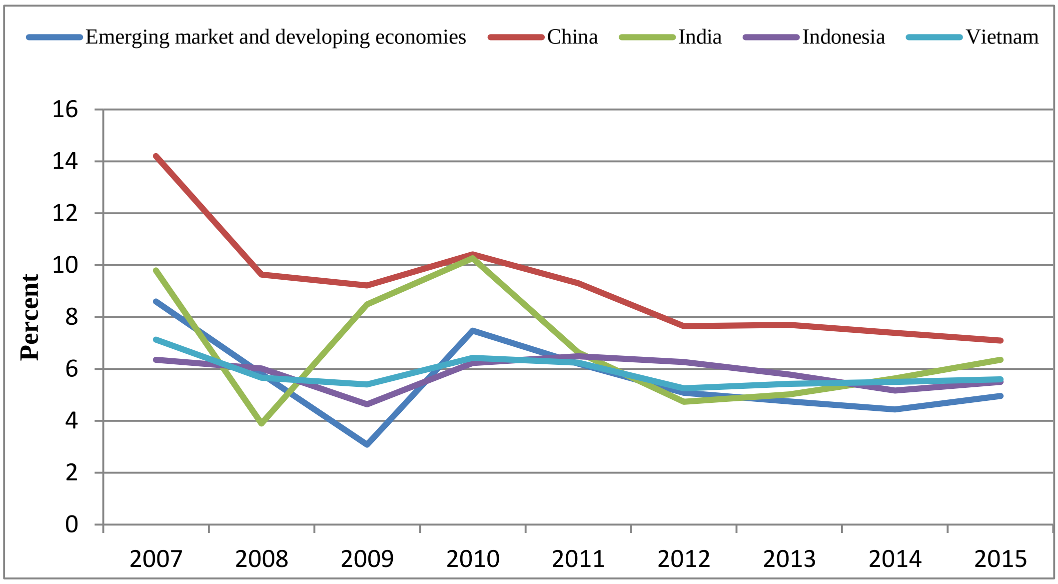
[2] IMF, WEO - October 2014.

Emerging market and developing economies are headed for a third consecutive year of growth below 5.0 percent in 2014. Nevertheless, the economies will continue to account for the largest share of global growth. The slow growth is associated with weaker domestic and external demand in advanced economies, weak investment growth, tighter financial conditions in some economies and higher cost of capital. Growth is projected to reach 5.0 percent in 2015 on account of accelerated fiscal and infrastructure spending, growing domestic consumption and use of macroeconomic policies to support growth (**Chart 1.2**).

Chart 1.2: GDP Performance and Outlook for Emerging Markets and Developing Economies



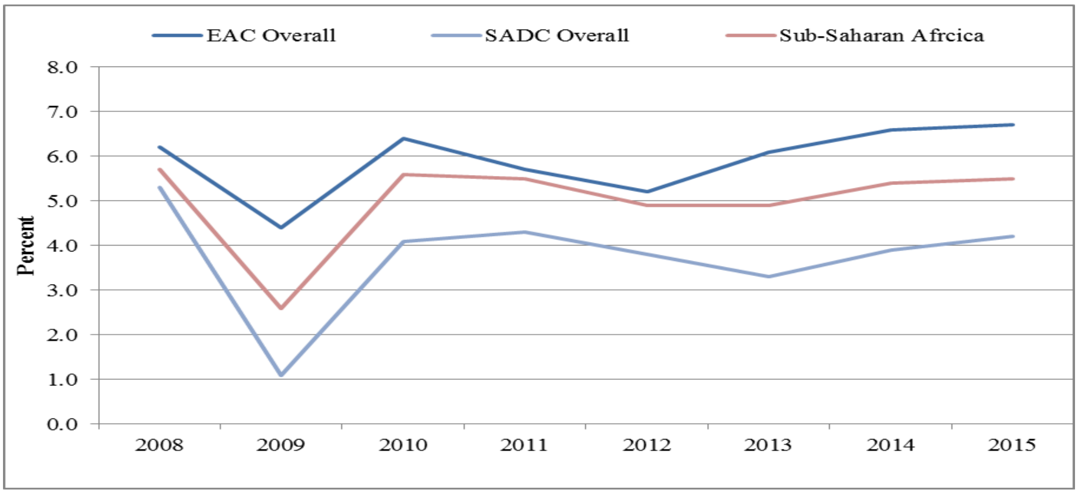
Source: IMF, World Economic Outlook database, October, 2014

Contrary to developments elsewhere, **growth in sub-Saharan Africa**, has been strong supported by implementation of good macroeconomic policies and strong investment demand. Growth is projected to increase from 4.9 percent in 2013 to reach 5.1 percent in 2014 and further to 5.8 percent in 2015. This will largely depend on continued investment in infrastructure, a robust private sector, buoyant services sector and increased productivity in agriculture.

Growth in the SADC sub-region trended below the SSA average. Projections for 2014 and 2015 were revised downward due to slow-down in South Africa attributable to tense labor relations, low investor confidence and unreliable power supply.

The EAC sub-region, on the other hand grew above SSA average, at 5.6 percent in 2013, and is projected to reach 6.4 percent in 2014 and further to 6.5 percent in 2015 driven by FDI flows into extractive sector, services sector and investment in infrastructure (**Chart 1.3**).

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



Source: IMF, WEO Database, October 2014

1.2 Global Financial Conditions

Assessment of the global economy at the end of September 2014 showed that, monetary and financial conditions continued to be accommodative on account of weak economic recovery and markets expectations of low interest rates. Credit risks in the global financial system declined during the year to September 2014, reflecting favorable funding conditions and improved asset quality. The decline in long term premium as suggested by decline in 10-year US treasury bond rate is a reflection of the improving financial conditions.

In Advanced Economies, the US is in the transition to traditional from non-traditional monetary policy, while maintaining policy rates at zero-bound until mid-2015. In the Euro area, monetary policy has remained accommodative to forestall intensification of deflationary pressures and stem deterioration in economic conditions.

Prolonged low policy rate in US and Euro area has fostered an increase in risk appetite, which has in turn extended the search for yield, thus elevating market liquidity risks during the year to September 2014. Financial markets have rallied, leading to increase in prices of financial assets while spreads compressed despite relatively dismal performance of the real economy. The increase in asset prices has contributed to higher valuation in stock markets. Direct credit intermediation activity in unregulated institutions (shadow banks)[3] has been on the increase and may amplify the

[3] Shadow banking is financial intermediaries or activities involved in credit intermediation outside the regulated banking system, and therefore lacking formal safety net.

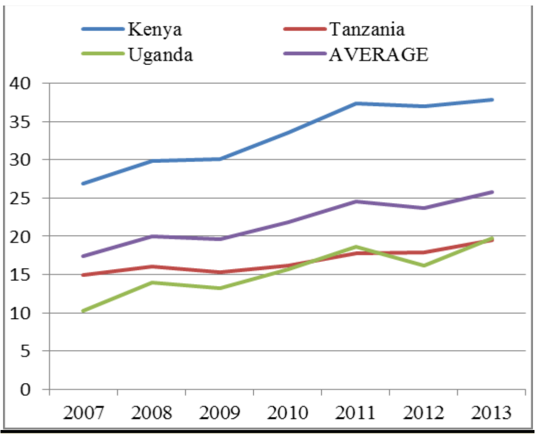
impact of liquidity shocks. In the US, shadow-banking system appeared to contribute most to domestic systemic risks, while in the Euro area and UK, its contribution is less pronounced.

In Emerging Markets, economic risk taking has been rising with signs of continued buildup of leverage and deteriorating credit quality. This may lead to imbalance between economic and financial risk taking. Overall, market risks remained unchanged because of favorable external financing conditions driven by search for yields. Recent improvement in inflation expectations for some Emerging Markets provides monetary policy space leading to easing of financial conditions. However, rising leverage may expose households, banks and non-financial firms to additional strains, especially, if rates rise and slowdown intensifies.

Foreign investors have been increasingly attracted to **sub-Saharan Africa**, on account of high returns from rapidly growing economies, and abundant global liquidity, thus increasing regional access to external funding largely FDI. In addition, funding was made available to the region by development partners on both concessional and non-concessional terms. These developments have contributed to easing financial conditions in SSA.

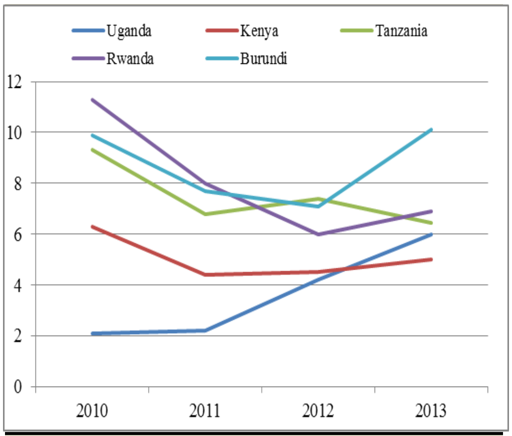
In EAC, financial conditions remained conducive for sustaining acceleration in economic growth. With subdued inflationary pressures, credit continued to expand in response to increasing economic activity and demand for investment (**Chart 1.4**). The EAC may be vulnerable to both internal and external shocks resulting from buildup of trade and fiscal deficits due to possible decline in commodity prices and increased borrowing by governments to finance infrastructure (**Chart 1.5**).

Chart 1.4: Domestic Credit to Private Sector (% GDP)



Source: World Bank and BOT

Chart 1.5: NPL's as Percentage of Total loans



Source: EAC Central Banks database.

Emerging Macroeconomic and Financial Risks

Since the last Financial Stability Report of March 2014, macroeconomic risks that may have adverse implications for global confidence and growth have intensified. In advanced economies, there is risk of stagnation in the medium term on account of a combination of wide output gap, high unemployment and persistent below target inflation.

In Emerging Market Economies, potential growth could be even lower if supply side constraints prove more protracted. The scope for macroeconomic policies to support growth varies across countries and regions, but space remains limited in several countries with external vulnerabilities.

Major risks to growth outlook for SSA stem from both internal and external factors. Widening fiscal deficits mainly emanating from financing infrastructure and other development expenditures to sustain growth may lead to macroeconomic instability. External factors including more than anticipated slowdown in the emerging market economies, decline in demand for export commodities and faster-than-expected tightening of financial conditions in the US may trigger high cost of funding and capital outflows in emerging market and developing economies.

1.3 Domestic Macroeconomic Environment

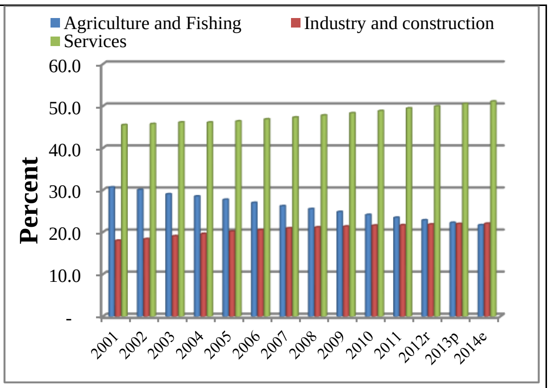
Tanzania's macroeconomic environment was stable as broadly reflected by strong growth in output, sustained inflation at single digit, fairly stable exchange and interest rates. The economy is projected to grow strongly at 7.2 percent in 2014 rising to 7.5 percent in 2015. In the medium term, the macroeconomic stability is expected to remain favorable, based on continued implementation of prudent fiscal and monetary policies. This will be supported by narrowing of the current account in absolute terms.

1.3.1 Economic Performance

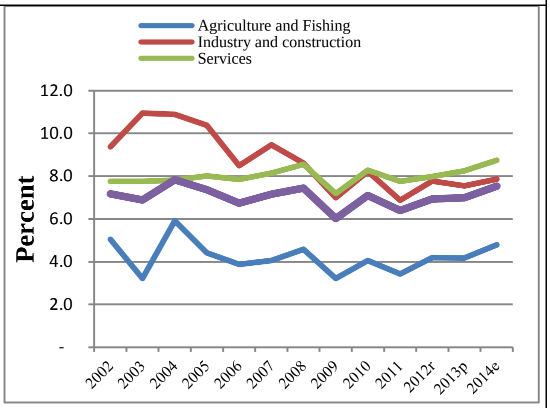
Performance of the economy has sustained its growth momentum driven by transport and communication, construction, manufacturing and trade and repairs sectors (**Table 1.1**). Meanwhile, trade and repairs registered the highest contribution to GDP growth rate, followed by transport and communication, crop production and manufacturing.

Table 1.1: Tanzania: GDP and Sectors Performance

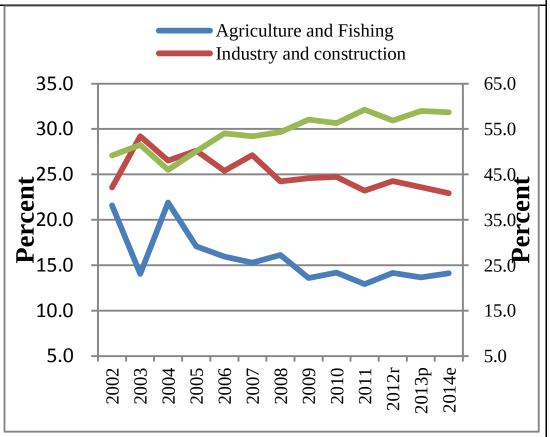
Share in GDP	2010	2011	2012r	2013p	2014e
Agriculture and Fishing	**24.1**	**23.4**	**22.8**	**22.2**	**21.7**
Crops	17.3	16.8	16.5	16.1	15.8
Industry and construction	**21.6**	**21.7**	**21.8**	**22.0**	**22.0**
Mining and quarrying	2.4	2.3	2.3	2.3	2.3
Manufacturing	9.6	9.7	9.9	9.9	10.0
Construction	7.0	7.2	7.3	7.4	7.5
Services	**48.8**	**49.5**	**49.9**	**50.5**	**51.1**
Trade and repairs	14.5	14.7	14.8	15.0	15.2
Transport & Communications	8.1	8.5	9.0	9.5	10.1
Real estate and business services	10.3	10.2	10.2	10.2	10.1
Public administration	7.8	7.8	7.7	7.6	7.4



GDP Growth rate in Percent	2010	2011	2012r	2013p	2014e
Real GDP	**7.1**	**6.4**	**6.9**	**7.0**	**7.2**
Agriculture and Fishing	4.1	3.5	4.7	4.5	5.3
Crops	4.2	3.9	3.1	3.8	3.8
Industry and construction	**8.2**	**6.9**	**7.8**	**7.5**	**7.9**
Mining and quarrying	2.7	2.2	7.8	6.9	6.9
Manufacturing	7.9	7.8	8.2	7.7	7.9
Construction	10.2	9.0	7.8	8.6	9.1
Services	**8.3**	**7.8**	**8.0**	**8.3**	**8.7**
Trade and repairs	8.2	8.1	7.7	8.3	9.2
Transport & Communications	12.2	11.3	12.5	13.4	14.2
Real estate and business services	7.6	5.9	6.7	6.4	6.4
Public administration	6.5	6.8	5.8	5.1	5.1



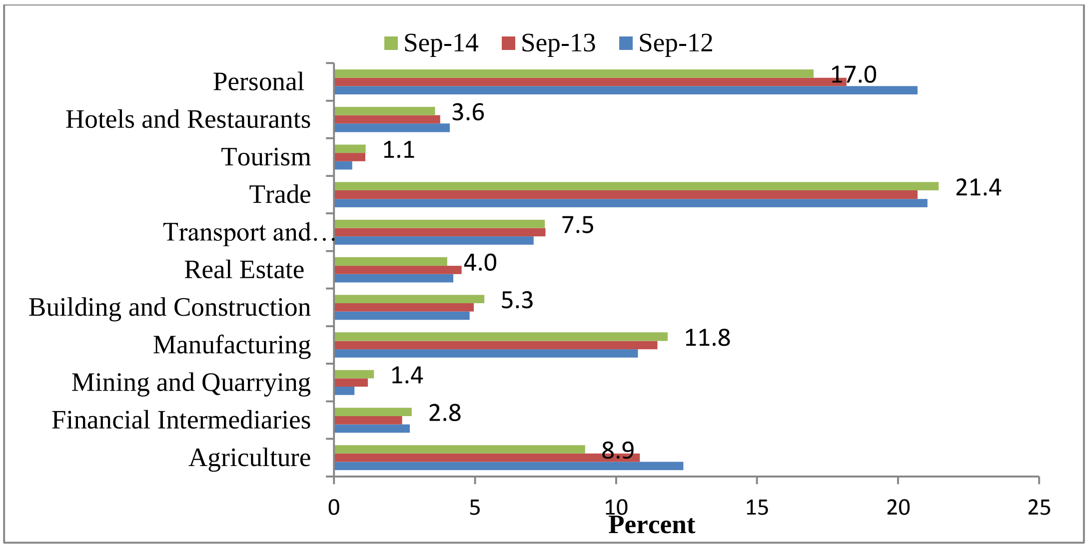
Contribution to GDP Growth rate in percent	2010	2011	2012r	2013p	2014e
Agriculture and Fishing	**14.2**	**12.9**	**14.1**	**13.7**	**14.1**
Crops	11.0	9.5	11.4	10.6	11.4
Industry and construction	**24.7**	**23.2**	**24.3**	**23.6**	**22.9**
Mining and quarrying	1.0	0.8	2.6	2.3	2.1
Manufacturing	10.6	11.7	11.5	10.8	10.5
Construction	9.8	9.9	8.1	8.9	8.9
Services (RHS)	**56.3**	**59.2**	**56.9**	**59.0**	**58.7**
Trade and repairs	16.6	18.4	16.4	17.6	18.3
Transport & Communications	13.4	14.4	15.4	17.1	17.9
Real estate and business services	10.9	9.6	9.9	9.4	8.6
Public administration	7.2	8.3	6.5	5.7	5.2



Source: NBS and BOT Calculations.

The sectors that drove economic growth were also the sectors that absorbed more credit from the banking system. During the year to September 2014, trade and repairs, transport and communication, building and construction, manufacturing and agriculture sectors absorbed 54.9 percent of credit from the banking system compared with 46.7 percent in the corresponding period in 2013 (**Chart 1.6**).

Chart 1.6: Shares of Commercial Banks' Lending by Selected Activities

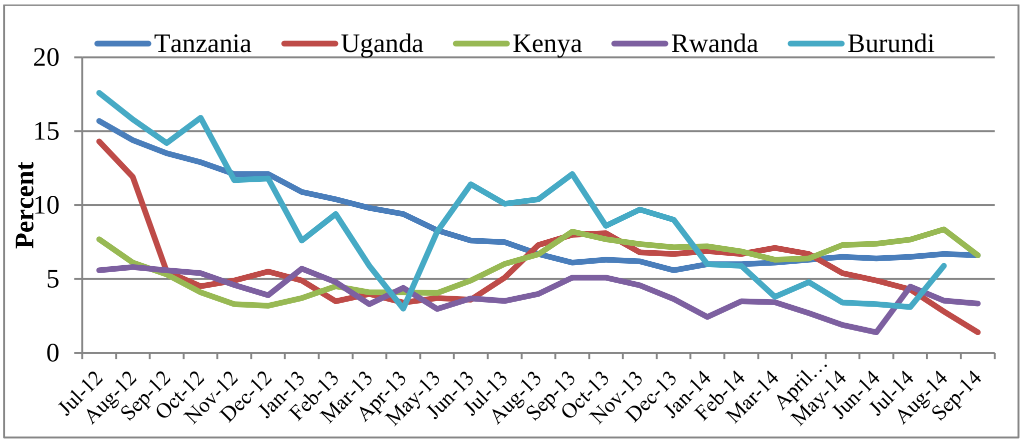


Source: Bank of Tanzania.

1.3.2 Domestic Inflation Developments

Inflation remained at single digit, recording an average of 6.3 percent during the year ending September, 2014[4] compared to an average of 9.5 percent recorded in the corresponding period in 2013. In the next six to twelve months it is expected to further moderate downwards on account of improved food supply conditions, easing of power driven pressures and decline in world oil prices. Inflation rates in the EAC are also converging downwards suggesting limited macroeconomic risks to stability of financial system (**Chart 1.7**).

Chart 1.7: Inflation Rate Developments in the EAC



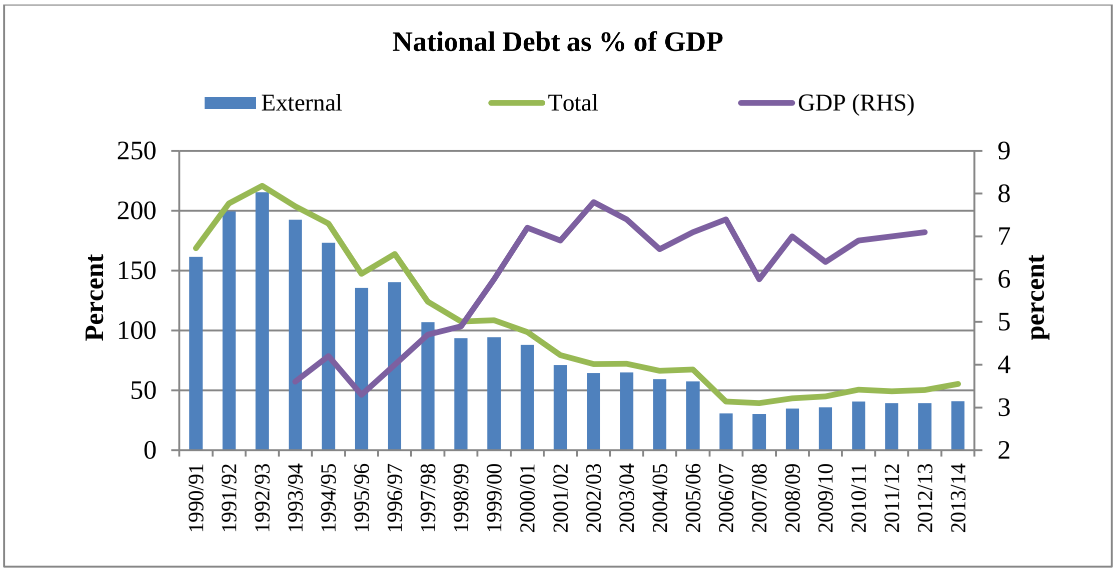
Source: National Bureau of Statistics.

[4] National Bureau of Statistics.

1.3.3 National Debt Developments

The ratio of national debt to GDP has remained fairly stable over the past eight years owing to sustained strong GDP growth rate. In nominal terms, the ratio of national external debt to GDP was on average 36.5 percent, while public debt to GDP was on average 35.3 percent during the period (**Chart 1.8**). Based on Debt Sustainability Analysis of September, 2013, the present value of external debt to GDP ratio was 19.5 percent, far below the 50 percent threshold. However, in light of the unfolding global macroeconomic environment, and the need to sustain growth momentum through investment in infrastructure, the government needs to place emphasis on strengthening revenue mobilization efforts and efficiency in spending.

Chart 1.8: National Debt Developments



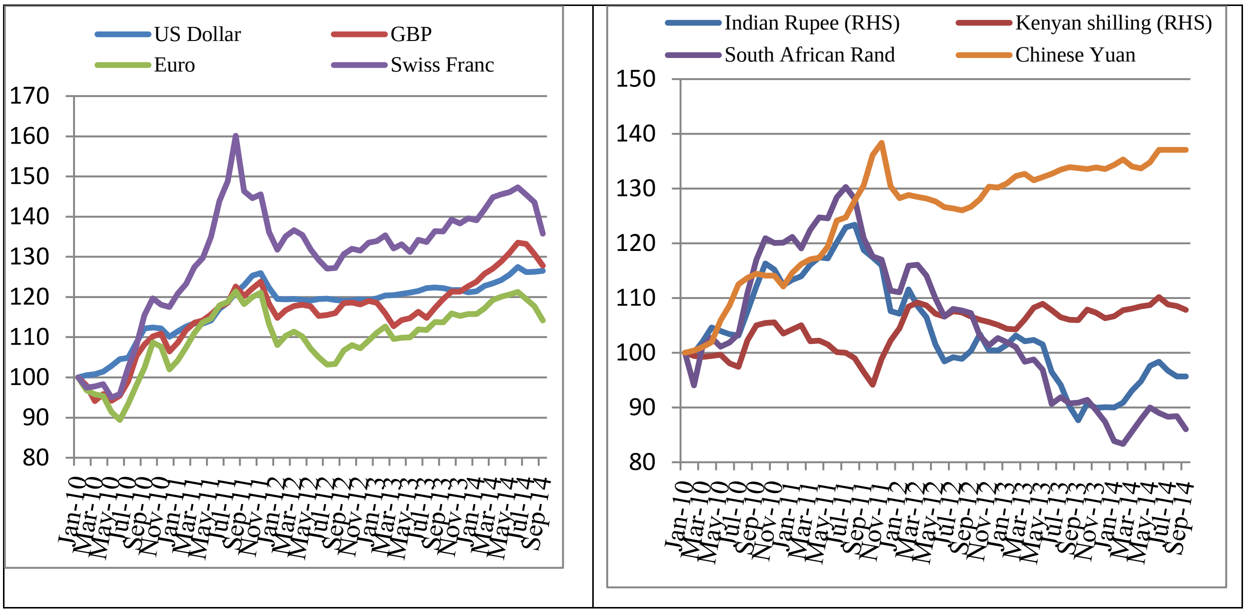
Source: Bank of Tanzania.

1.3.4 Foreign Exchange and Interest Rates

Foreign Exchange Developments

The Tanzania Shilling remained fairly stable though depreciating moderately against major currencies in the year to June 2014. However, in the quarter to September 2014, the trend was reversed (**Chart 1.9**). On the other hand, the Shilling appreciated against currencies of some emerging market economies notably, Indian Rupee and South African Rand but depreciated against the Chinese Yuan (**Chart 1.9**).

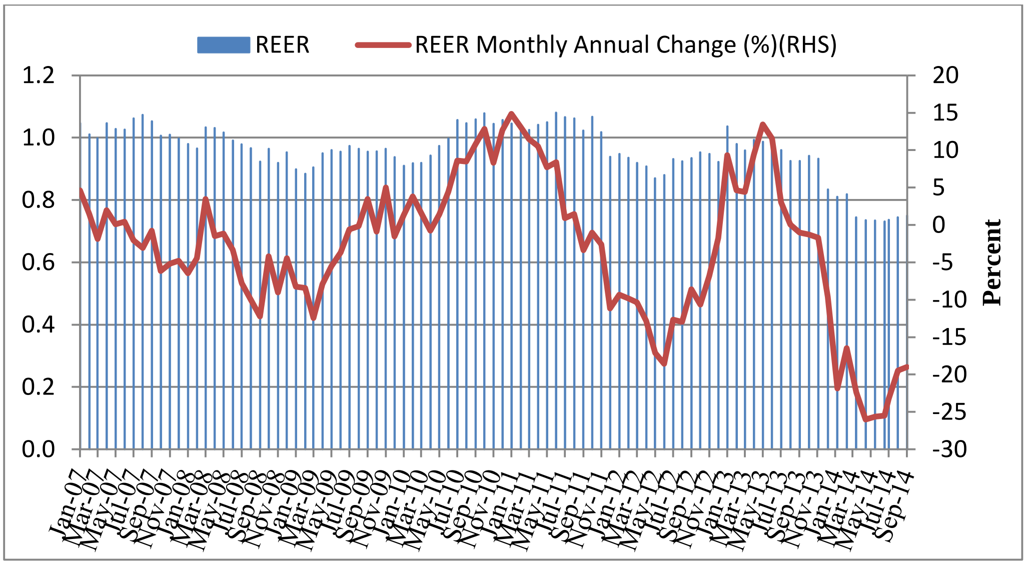
Chart 1.9: Exchange Rates Development of TZS against selected currencies (Jan 2010=100)



Source: Bank of Tanzania.

Meanwhile, the trend of Real Effective Exchange Rate (REER) was cyclic during the period. A declining trend was observed between May 2013 and May 2014, on account of depreciation of currencies of major trading partners, leading to relative appreciation of the shilling. In the period between May and September 2014, the REER was on an upward trend as currencies of major trading partners strengthened and the shilling depreciated in relative terms. This new development suggests a gain in export competitiveness if sustained (**Chart 1.10**).

Chart 1.10: Tanzania's Real Effective Exchange Rate

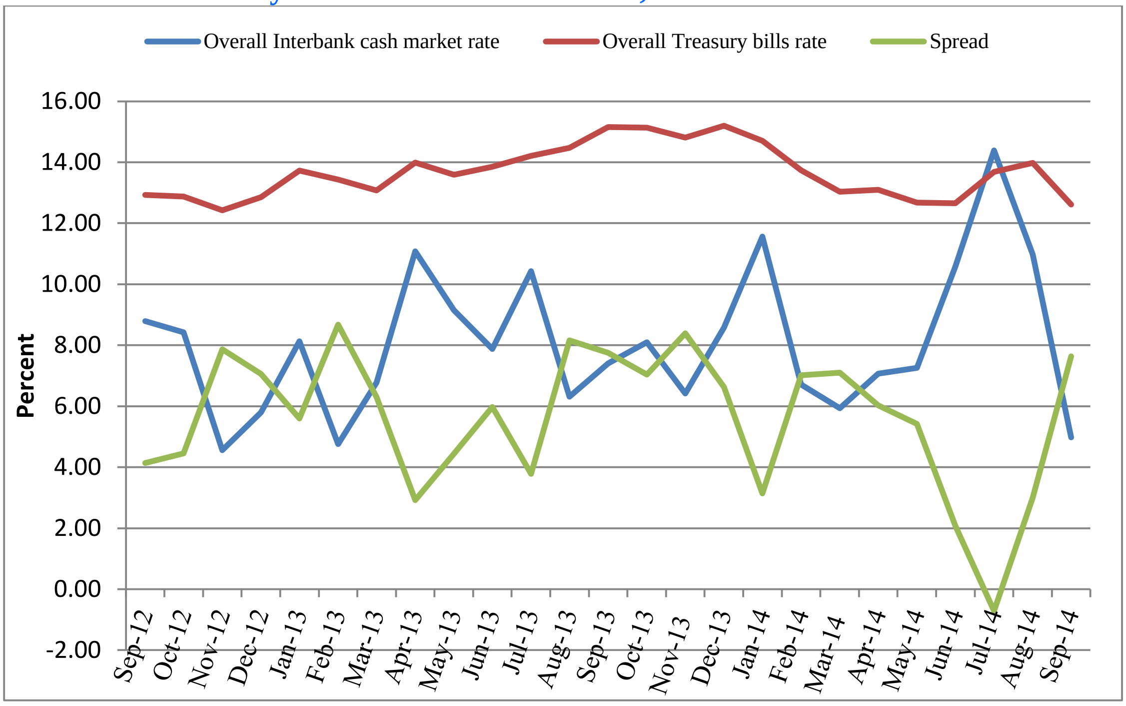


Source: Bank of Tanzania.

Interest Rates Development

The spread between overall treasury bills rate and overall interbank cash market rate narrowed between March and July 2014 as the overall interbank cash market rate increased to above 14.0 percent. The sharp increase suggested tightening of liquidity conditions in money markets before easing in the two months to September 2014 as the rate came down to 5.0 percent(**Chart 1.11**).

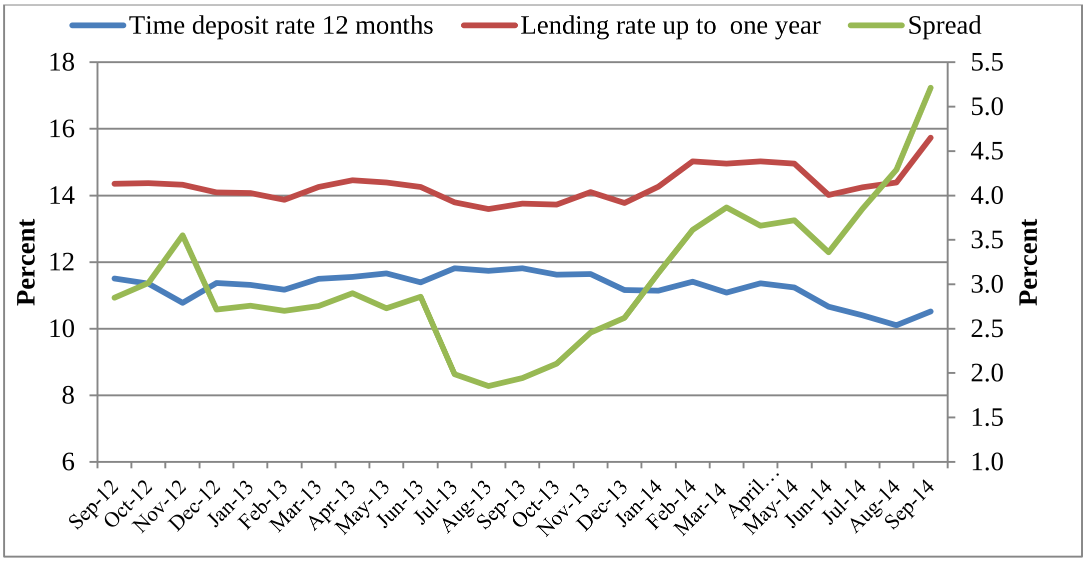
Chart 1.11: Monthly Interest Rate Movements; 2012-2014



Source: Bank of Tanzania.

In the credit market, on the other hand, the spread between twelve months bank lending and deposit rates increased on account of increase in lending rates and decrease in deposit rates. In September 2014, the spread was 5.2 percentage points compared to 1.9 percentage points during the corresponding period in 2013 (**Chart 1.12**). The increase in bank lending rates in an environment of declining deposit rate indicate increasing credit risk premium.

Chart 1.12: Monthly Interest Rate Movements in the Credit Market; 2012-2014



Source: Bank of Tanzania.

Implications of the Global, Regional and Domestic Macroeconomic Developments

The global economic recovery is expected to proceed slowly supported by ongoing monetary accommodation in advanced economies and easing fiscal constraints. But the extended period of monetary accommodation and the accompanying search for yield are leading to credit mispricing and asset price pressures, thus increasing the possibility that financial stability risks could derail the recovery.

However, a more rapid than expected normalization of monetary policy in advanced economies could trigger significant disruption in global markets by reducing the risk appetite which is driving the search for yield and increase volatility in the credit market. In view of this, advanced economies that have stronger recovery such as the US and UK, will continue to implement accommodative monetary policy in order to support the recovery while limiting financial excesses and encouraging economic risk taking. Another reason for the cautious exit is to minimize spillover effects of such normalization. Stronger growth in some advanced economies on the other hand, will increase demand for imports from the rest of the world.

Emerging market economies are more vulnerable to shocks from advanced economies especially if asset markets come under stress. This in turn may trigger capital outflows and exchange rate volatility. A reversal in risk appetite for yield and increase in volatility in credit markets could cause sudden shocks to large, systemically important emerging market economies. Slowdown in emerging market economies will impact negatively on demand for and price of commodities globally.

In sub-Saharan Africa, and EAC sub-region in particular, growth is projected to remain strong in 2014 and 2015, although prospects vary across countries. In some countries the main challenges are to finance infrastructure gaps, particularly electricity. In addition, fiscal constraints and the prevailing large macroeconomic imbalances may exacerbate exchange rate and inflationary pressures.

The downside risks to Tanzania are possible tightening of global financial conditions with potential implication to the cost of funding. The impact may partially be offset by anticipated prolonged accommodative monetary policy in advanced economies. Meanwhile, a larger than anticipated slowdown in emerging market economies may weaken demand thus further eroding commodity prices. However, the impact on current account may be offset by lower import bill emanating from expected decline in oil prices.

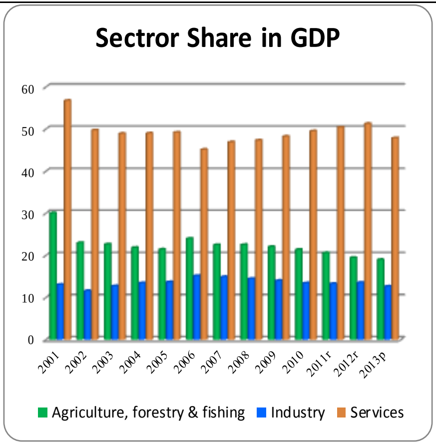
1.4 Zanzibar Macroeconomic Environment

Zanzibar's macroeconomic environment was stable on account of strong economic growth and low inflation. Economic growth reached 7.4 percent in 2013 up from 7.2 percent recorded in 2012. The growth was driven by strong performance in services sector which contributed 59.4 percent of the growth rate in 2013, followed by industry and construction at 15.2 percent and agriculture and fishing sectors at 9.6 percent. The economy is diversifying as reflected by increasing contribution of industry and construction to GDP growth (**Table 1.2**).

Table 1.2: Zanzibar GDP and Sector Performance

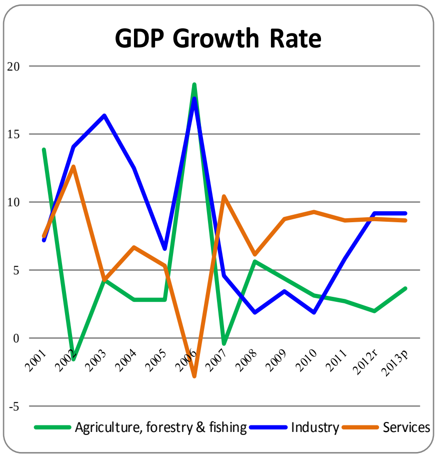
Share in GDP in percent

	2009	2010	2011r	2012r	2013p
Agriculture and Fishing	**22.1**	**21.4**	**20.6**	**19.5**	**19.0**
Crops	14.8	16.8	16.5	16.1	15.7
Industry and construction	**14.0**	**13.5**	**13.3**	**13.6**	**12.7**
Mining and quarrying	1.0	1.0	1.0	1.1	1.4
Manufacturing	4.2	9.7	9.9	9.9	10.0
Construction	7.4	7.2	7.3	7.4	7.5
Services	**48.3**	**49.5**	**49.9**	**50.5**	**51.1**
Trade and repairs	8.7	8.7	9.9	10.2	10.2
Hotels & restaurants	7.2	7.0	7.2	6.8	6.7
Transport & Communications	13.5	15.1	15.5	17.3	18.4
Real estate and business services	0.9	0.9	0.9	0.9	0.8
Public administration	9.6	9.2	8.7	8.1	7.8



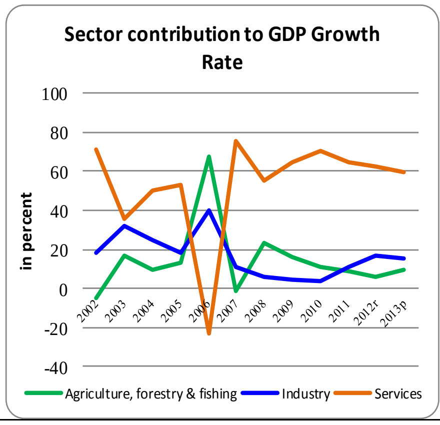
GDP Growth rate in Percent

	2009	2010	2011	2012r	2013p
Real GDP	**6.3**	**6.3**	**6.6**	**7.2**	**7.4**
Agriculture and Fishing	4.4	3.1	2.7	2.0	3.6
Crops	5.1	3.6	0.5	1.7	3.6
Industry and construction	**3.4**	**1.9**	**5.8**	**9.2**	**9.2**
Mining and quarrying	10.5	5.2	12.0	16.5	15.7
Manufacturing	2.4	3.1	2.5	0.1	3.2
Construction	-3.4	0.5	3.9	14.2	10.5
Services	**8.7**	**9.3**	**8.6**	**8.7**	**8.6**
Trade and repairs	3.9	7.0	21.5	10.2	7.7
Hotels & restaurants	5.0	3.0	10.2	0.2	6.5
Transport & Communications	22.1	19.6	9.6	19.2	14.4
Real estate and business services	4.8	4.9	4.9	4.9	4.9
Public administration	4.0	2.8	0.2	0.3	3.4



Contribution to GDP Growth rate in percent

	2009	2010	2011	2012r	2013p
Agriculture and Fishing	**15.8**	**11.0**	**9.1**	**5.8**	**9.6**
Crops	12.1	8.3	1.2	3.4	6.2
Industry and construction	**4.2**	**3.5**	**10.7**	**16.6**	**15.2**
Mining and quarrying	3.7	0.9	2.0	2.7	2.8
Manufacturing	1.4	2.2	1.6	-	1.9
Construction	-1.4	0.4	4.0	12.9	9.9
Services	**64.7**	**70.2**	**64.4**	**62.4**	**59.4**
Trade and repairs	5.1	9.2	28.5	14.2	10.5
Hotels & restaurants	5.6	3.5	10.7	0.3	5.9
Transport & Communications	40.9	41.7	21.7	41.7	33.7
Real estate and business services	0.9	0.4	0.8	0.7	0.6
Public administration	6.5	3.9	0.4	0.3	3.7

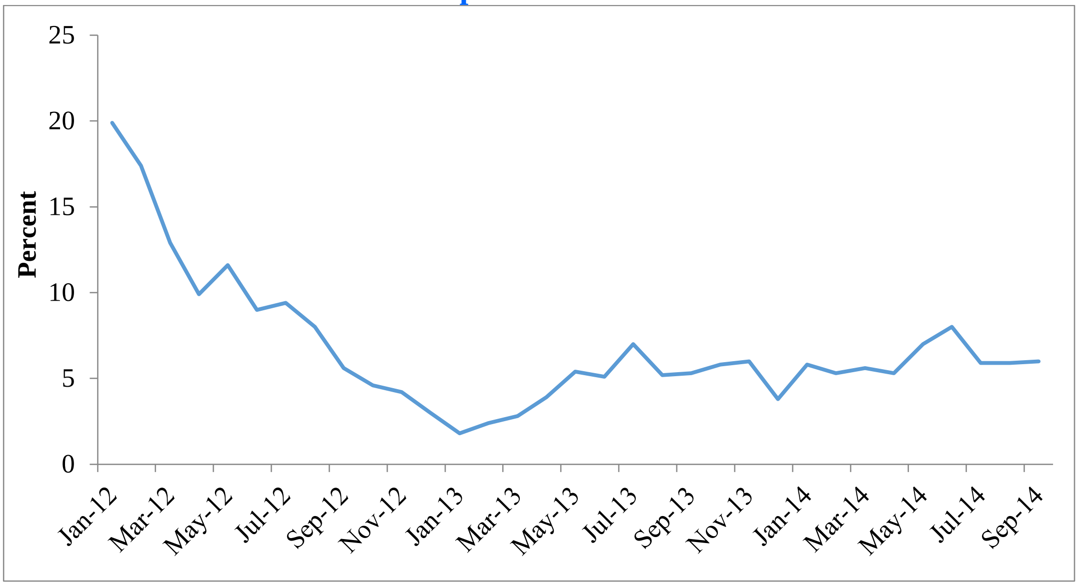


Source: Office of Chief Government Statistician and BOT Calculations.

Inflation Development in Zanzibar

Headline inflation remained at single digit recording an average of 5.8 percent during the year to September 2014, compared to 5.4 percent in the corresponding period in 2013 (**Chart 1.13**). However, inflation is expected to moderate downwards due to improved food supply coupled with declining fuel prices.

Chart 1.13: Inflation Rate Developments in Zanzibar



Source: Office of Chief Government Statistician.

External Sector Developments

Zanzibar's current account recorded a deficit of USD 24.2 million during the year ending September, 2014, compared with a surplus of USD 22.0 million recorded in the corresponding period in 2013. The widening of current account balance was due to a 68.3 percent increase in import bill coupled with a 42.7 percent decline in current transfer inflows. A sharp decline in value of oil imports during the quarter to September 2014 eased pressure on the trade account. However, the decline in world commodity prices including the price of cloves which account for 67.3 percent of exports partly offset the gains.

2.0 FINANCIAL SECTOR DEVELOPMENTS

2.1 Banking Sector

The banking sector which accounts for about 70 percent of total assets of the financial system, continued to grow attributable to favourable macroeconomic environment. The growth was also driven by the establishment of new banks and expansion of branch network, growing banks' linkage with SACCOS and innovative retail channels.

Total assets of the banking sector grew by 20.8 percent to TZS 22,975.1 billion in the year ending September 2014 from TZS 19,023.8 billion, while deposits grew by 12.2 percent from TZS. 15,223.7 billion to TZS 17,074.2 billion. Meanwhile, loans, advances and overdrafts which account for about 50 percent of the banking sector assets, grew by 20.3 percent during the same period compared with 15.9 percent growth recorded in corresponding period in 2013.

The share of investment in government securities increased from 18.2 percent of banks' assets in 2013 to 18.8 percent at end September 2014. The increase in the share of investment in securities reflects perceived growing credit risk.

During the year ending September 2014, the banking system remained profitable, adequately capitalized and liquid as reflected by selected financial soundness indicators. However, the level of non-performing loans remained above the threshold of 5 percent (**Table 2.1**).

Table 2.1: Selected Financial Soundness Indicators for the Banking System

Indicator	2012		2013				2014		
	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep
1. CAPITAL ADEQUACY									
Core Capital/TRWA	17.0	17.4	18.9	17.6	17.7	17.6	18.5	16.7	16.8
Total capital/TRWA	17.6	18.0	19.4	18.1	18.4	18.2	19.4	17.8	18.0
2. LIQUIDITY									
Liquid Assets/Demand Liabilities	39.1	38.1	40.0	38.4	37.0	36.5	37.1	35.6	37.8
Total Loans/Customer Deposits	68.3	67.6	68.8	67.9	67.7	71.4	71.2	73.3	72.7
3. EARNINGS AND PROFITABILITY									
Net Interest Margin (NIM)	65.1	71.8	66.6	66.2	66.1	67.0	69.1	67.4	67.4
Non-Interest Expenses/Gross Income	67.0	54.6	63.0	65.3	66.0	66.9	63.2	65.6	66.0
Return on Assets (PBT/Average Total Assets)	2.7	2.5	2.9	2.7	2.6	2.6	3.4	3.0	2.9
4. ASSET COMPOSITION AND QUALITY									
Foreign Exchange Loans to Total Loans	33.6	34.0	34.0	34.8	35.6	35.6	33.6	35.9	35.7
Gross Non-Performing Loans to Gross Loans	7.5	7.4	7.9	8.1	7.1	6.5	8.4	8.1	8.5
Large Exposures to Total Capital	113.8	136.6	132.7	139.3	135.8	137.5	105.3	133.7	100.3
Net Loans and advances to Total assets	50.0	50.0	48.7	49.0	49.1	50.8	51.0	51.8	51.4
5. SENSITIVITY TO MARKET RISK									
FX Currency Denominated Assets/Total Assets	30.4	31.2	30.9	30.5	30.9	30.6	28.2	29.4	29.6
FX Currency Denominated Liabilities/Total Liabilities	33.9	34.5	35.1	35.2	35.3	35.1	32.6	34.4	34.5
Net Open Positions in FX/Total Capital	2.0	1.6	-0.2	1.8	2.5	1.5	2.9	1.8	-2.2

Source: Bank of Tanzania.

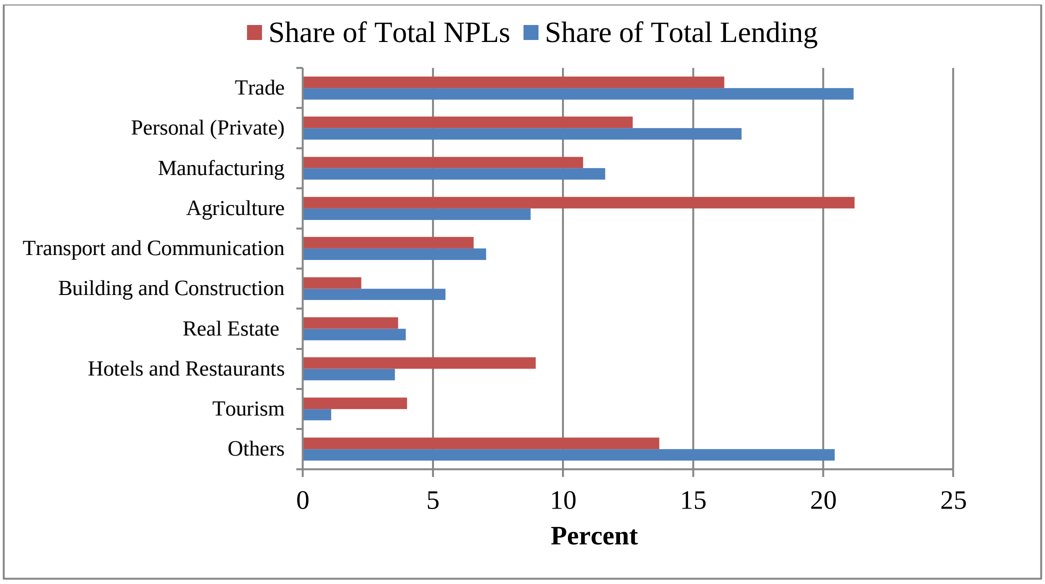
Capital Adequacy

During the year ending September 2014, the banking industry was adequately capitalized with aggregate Core and Total Capital Adequacy Ratios of 16.8 percent and 18.0 percent both being above the regulatory threshold of 10.0 and 12.0 percent, respectively. Sustainability of this capital level will depend on the capacity of the banking system to improve asset quality.

Asset Quality and Credit Concentration

Asset performance is a key indicator of Tanzanian banks' soundness and therefore a focus of financial stability analysis. The ratio of Gross Non-Performing Loans (NPLs) to Gross Loans of 8.5 percent at end September 2014 was above the industry target of 5.0 percent. Some improvements in NPLs were recorded in the trade, personal and manufacturing credit portfolios (**Chart 2.1**) which contributed 39.7 percent of the total banking sector NPLs in September 2014 down from 46.1 percent in September 2013. Credit risk management measures together with macro-economic performance contributed to the noted improvements in these sectors.

Chart 2.1: Sectoral Distribution of Total Credit and Non-Performing Loans at Sep 2014



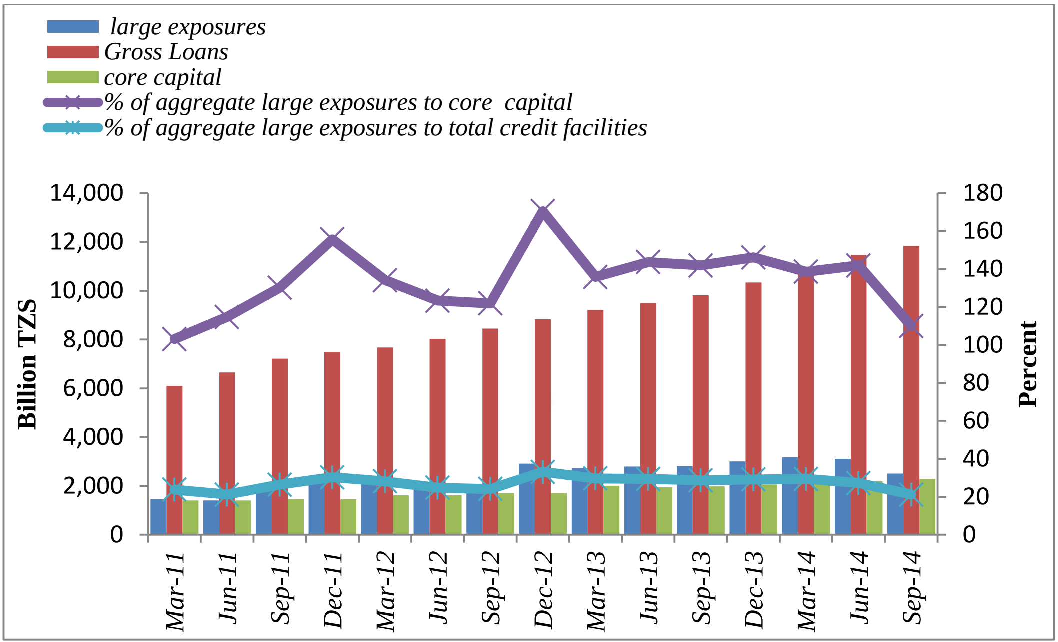
Source: Bank of Tanzania.

Credit concentration measured by the ratio of aggregate large exposures to core capital stood at 110.0 percent at end September 2014 (**Chart 2.2**), which is within the regulatory limit of 800.0 percent. Additionally, the level of banking sector concentration in terms of assets, deposits and loans markets measured by the Herfindahl Hirschman Index[5] (HH Index) were 871, 900 and 900, respectively. These are within the HHI range of no concentration of between 100 and 1,000 (**Chart 2.3**). In this regard the banking sector was well diversified in the three markets.

The Net Open Position for foreign exchange exposure remained low at -2.2 percent, which was within the regulatory limit of 7.5 percent; implying that the industry had limited exposure to foreign exchange risk. This is due to matching of foreign exchange liabilities with assets.

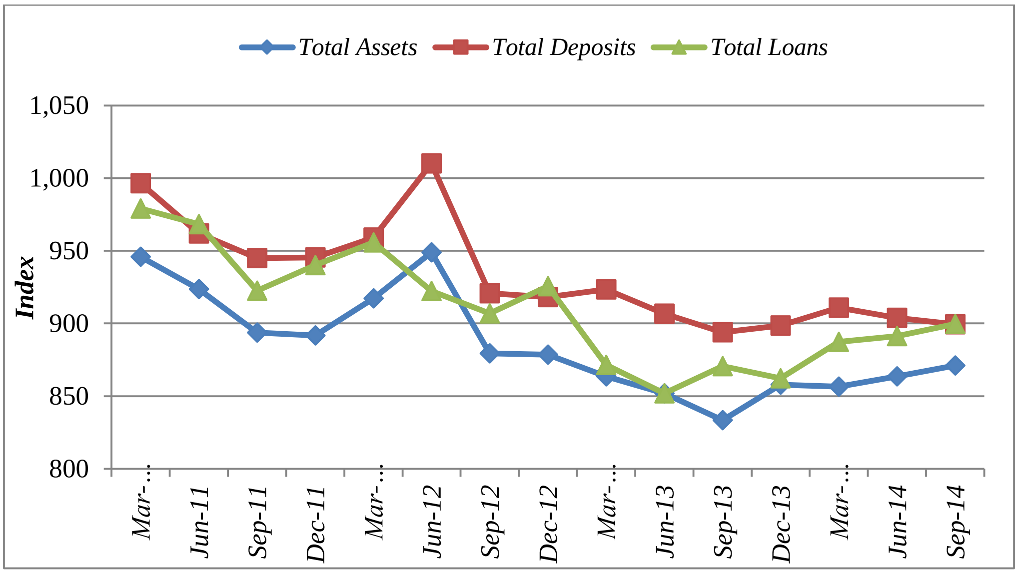
5. The Herfindahl Hirschman Index (HHI) is a measure used to determine the level of competition in a market or industry. It provides a measure of market share distribution across the banking system. When the HHI value is less than 100, the market is highly competitive. When it is between 100 and 1000, 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 2.2: Credit Concentration Risk



Source: Bank of Tanzania.

Chart 2.3: Herfindahl Hirschman Index



Source: Bank of Tanzania.

Earnings and Profitability

The banking sector continued to be profitable in aggregate terms with Return on Assets (ROA) at 2.9 percent at end September 2014 compared to 2.6 percent in the same period in 2013. ROA is a measure of efficiency in using assets of the banking institutions. Additionally, the sector maintained administrative efficiency as reflected by stable Non-Interest Expenses ratio. The ongoing innovations in the banking sector, particularly automation and branchless banking contributed to that effect.

Liquidity

The banking sector remained liquid in aggregate terms. The level of liquidity measured by ratio of Liquid Assets to Demand Liabilities was 37.7 percent in September 2014 which was above the regulatory requirement of 20.0 percent. This development is mainly attributable to the investment structure of the banking system where 18.8 percent and 6.9 percent of total assets were investment in government securities and placement with other banks respectively.

2.2 Microfinance Sector

Micro-lending[6] in the banking system was directed to different activities including services, trade, and small scale agriculture and manufacturing (**Table 2.2**). Total outstanding loans increased by 17.8 percent during the year ending September 2014. The proportion of micro-lending to total bank lending declined by 60 basis points during the year ending September 2014, when compared to the corresponding period in 2013.

Table 2.2: Micro-lending in the Banking System

Item	Sep-12	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Borrowers	539,433	629,564	680,730	672,185	670,706	702,857
Outstanding Micro-Loans by Sectors (TZS Million)						
Manufacturing	32,247	49,263	55,318	57,761	54,108	84,738
Services	1,339,439	1,520,131	1,670,457	1,724,197	1,792,084	1,744,838
Small Scale Agriculture	55,463	61,045	88,435	125,478	85,176	88,946
Trade	291,685	400,033	387,388	249,359	292,977	473,438
Total Micro-Loans	**1,718,834**	**2,030,472**	**2,201,597**	**2,156,794**	**2,224,345**	**2,391,960**
Total Banks' Lending	**8,454,491**	**9,818,693**	**10,403,746**	**10,788,344**	**11,462,764**	**11,884,735**
Proportion of micro-lending to total banking lending	20.3%	20.7%	21.2%	20.0%	19.4%	20.1%

Source: Bank of Tanzania.

6 Micro-lending is provision of small size loans to low income households with or without physical collateral.

2.3 Insurance Sector

2.3.1 Performance of Insurance Sector

During the year ending June 2014, the Tanzania insurance sector performed satisfactorily in terms of market growth, profitability, assets portfolio and investment mix. Nevertheless, the industry recorded high exposure to liquidity risk emanating from account receivables.

The sector grew by 22.4 percent in terms of Gross Premiums Written (GPW) during the year ending June 2014. Total assets increased by 13.8 percent between December 2013 and June 2014 while total investment increased by 3.9 percent (**Table 2.3**). The investment portfolio was fairly diversified in line with prudential regulatory requirements. Insurers' investment assets comprised of Bank Deposits (47 percent), shares (19 percent), Real estate Investments (17 percent), Government Securities (12 percent), Investments in Related Parties (4.7 percent), and Other Financial Investments (0.3 percent).

Table 2.3: Insurance Sector Performance

(Billion TZS)

Particular	**Dec-12**	**Dec-13**	**Jun-14**	**% Change Dec 13 - Jun 14**
Total Assets	450.5	519.0	590.5	13.8
Total Liabilities	317.0	343.7	373.0	8.5
Total Net Worth	133.7	175.3	217.5	24.1
Total Investments	299.5	348.6	362.1	3.9
Gross Premium Written				
Particular	**Dec-13**	**Jun-13**	**Jun-14**	**% Change Jun 13 - Jun 14**
General Insurance	417.6	204.4	250.0	22.3
Life Assurance	56.4	26.7	33.0	23.6
Total	**474**	**231.1**	**283**	**45.9**

Source: Tanzania Insurance Regulatory Authority.

The sector was moderately capitalized in aggregate terms as at 30th June 2014 mainly on account of additional injection of share capital by shareholders to comply with applicable requirements under the Insurance Act, 2009. General and Life Insurance Investment placements during the period under review were within the prudential limit provided in the Insurance Regulations. Choice of investment securities was mainly driven by investment returns and the need to comply with statutory investment requirements.

The general Insurers' retention rates as at December 2013 and June 2014 were 50.0 percent and 56.0 percent of total Gross Premium Written (GPW) respectively. The retention rates were consistent with the prudential retention ratio of between 30.0 percent and 70.0 percent of GPW. The insurance sector performance is assessed using the CARAMELS framework[7] (**Table 2.4**).

Table 2.4: Financial Soundness Indicators of the Insurance Sector (General and Life)

Indicator	Statutory Requirement	Dec-2013		Jun-14	
		General	Life	General	Life
1. Capital Ratios					
Solvency Ratio	General ≥ 25; Life ≥ 8	65	24	59	36
Change in Capital and Reserves		28	58	9	44
2. Asset Quality Ratios					
Rate of Return on Investment		9	13	4	2.6
Investment Mix:					
Investment in government securities		17	5	16	12.5
Investment in bank deposits	Min 30	57	33	57	47.7
Investment in real estate		12	34	10	17.8
3. Reinsurance Ratios					
Retention Ratio	General 30<RR<70; Life 50<RR<90	50	85	56	85
4. Actuarial Liabilities (General)					
Actuarial Provisions to Capital Ratio	Max 250	98	344	115	248
5. Earnings Ratios (General)					
Return on Equity		10	67	10	31
6. Liquidity Ratios					
Liquidity Ratio	General ≥ 95; Life ≥ 50	74	39	64	40
Total Receivables as % of Capital & Reserves (life & nonlife)	Max 100	70	11	90	26

Source: Tanzania Insurance Regulatory Authority (TIRA).

Capital Ratios

The Insurance sector was moderately capitalized in aggregate terms in the year ending June 2014. General insurers' capital position increased by 9.0 percent to TZS 161 billion during the six months to June 2014 up from TZS 147.0 billion at end December 2013. The improvement was on account of injection of additional capital by the companies' shareholders. The Life Assurance capital position increased to TZS 40.7 billion at end June 2014 from TZS 28.0 billion at end December 2013.

CARAMELS—Capital, Asset Quality, Reinsurance, Actuarial Liabilities, Management and Corporate Governance, Earnings, Liquidity, Subsidiaries and related parties.

Solvency ratios of both general insurance and life assurance sub-sectors indicated availability of sufficient capital to support their respective insurance liabilities. The General Insurers ratio of 59.0 percent at end June 2014 was above the minimum prudential requirement of 25.0 percent. Likewise, Life Insurers' solvency ratio was 36.0 percent during the same period, compared to the minimum requirement of 8.0 percent.

Asset Quality

The quality of assets as assessed by the Rate of Return on Investment was 4.0 percent for general insurers and 2.6 percent for life insurers in June 2014. Proportion of investment portfolio in bank deposits for both general and life insurers in the year ending June 2014 were within the regulatory requirements.

Re-insurance

General Insurers' retention rates were 50.0 percent and 56.0 percent of total GPW in December 2013 and June 2014 respectively. The retention rates were consistent with the prudential retention ratio of between 30.0 percent and 70.0 percent of GPW. Likewise, Life Insurance retention ratio was 85.0 percent in both December, 2013 and June 2014 which was within the prudential retention ration of between 50.0 percent and 90.0 percent.

Actuarial Liabilities

Actuarial liabilities to capital and reserves ratio measures the sector's ability to withstand adverse deviations of actuarial liabilities. During the year ending June 2014, technical provisions for general insurers' actuarial liabilities increased by 28.7 percent. This is consistent with growth observed in both premium volume and claims. For General Insurers' actuarial liabilities to capital and reserves ratio in the year ending December 2013 and the year ending June 2014 stood at 98 percent and 115 percent, respectively. Compared to the early warning test of a maximum prudent standard of 250 percent the out-turn was well within the prudential limit.

Earnings

The General insurers maintained a return on equity of 10.0 percent during the year ending June 2014. The General insurers' recorded an underwriting profit of TZS 9.6 billion during the period under review compared to a loss of TZS 3.5 billion in the year ending December 2013. Meanwhile, Life Insurers' return on equity decreased from 67.0 percent to 31.0 percent during the same period. The recent opening of capital account to EAC markets is expected to expand investment opportunities for the insurers.

Liquidity

During the year ending June 2014, the liquidity ratio for General insurers' was 64.0 percent compared to 74.0 percent in the year ending December 2013, way below the minimum prudential ratio of 95.0 percent. On the other hand, life insurers' liquidity ratio was 40.0 percent compared to 39.0 percent recorded in the year to December 2013 which was below the minimum prudential ratio of 50.0 percent. This implies that the insurers have maintained holdings of liquid assets which were not sufficient to meet financial obligations. Delays in submission of underwriting proceeds by brokers have contributed to the liquidity constraints.

2.4 Social Security Sector

2.4.1 Tanzania Mainland

The Social Security Sector membership and pensioners was 1,265,182 and 81,022 respectively at end June 2014, reflecting a 4.1 percent and 8.4 percent decline on the number recorded at end June 2013. This development is mainly attributable to data clean up carried out during the first half of 2014. During the period, the growth rates of net assets and investment portfolio slowed from 22.9 percent and 17.3 percent to 0.7 percent and 1.8 percent respectively. Meanwhile benefit payments remained unchanged (**Table 2.5**). On aggregate terms, the schemes complied with the investment guidelines issued by the Bank of Tanzania.

Table 2.5: Tanzania Mainland: Social Security Fund Performance

Item	Unit	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Percentage Change			
							2010-11	2011-12	2012-13	2013-14
Membership		1,059,624	1,130,597	1,201,955	1,319,416	1,265,182	6.7	6.3	9.8	-4.1
Pensioners		48,581	59,416	72,751	88,427	81,022.0	22.3	22.4	21.5	-8.4
Net Assets	TZS Billion	3,355.8	4,140.2	5,357.9	6,587.4	6,630.9	23.4	29.4	22.9	0.7
Investments Portfolio	TZS Billion	3,147.0	3,757.3	4,827.3	5,663.9	5,765.9	19.4	28.5	17.3	1.8
Benefit Payments	TZS Billion	454.7	575.0	738.6	1,067.6	1,068.0	26.5	28.5	44.5	0.0

Source: Social Security Regulatory Authority.
Note: Membership excludes NHIF.
June 2014 figures are provisional.

2.4.2 Zanzibar Social Security (ZSSF)

The Zanzibar Social Security Fund was established under the Zanzibar Security Fund Act No.2 of 1998 as amended by the Zanzibar Social Security Fund Act No.9 of 2002 and re-enacted by Act No. 2 of 2005.

The Zanzibar Social Security Fund has witnessed a significant growth in its activities attributed to increase in membership base, collection of contributions and growth in the size of the fund. During the year to June 2014, the compulsory and voluntary schemes' membership increased by 6.8 percent and 146.0 percent respectively to 72,210 and 4,970 members as compared to 67, 584 and 2,316 recorded in the corresponding period in 2013. During the period, the size of the fund grew by 25.1 percent from 141.6 billion to 177.2 billion while total investment portfolio increased by 28.1 percent to 161.8 billion. Social security benefit payments to members increased by 61.3 percent to 7.9 billion (**Table 2.6**). This performance is expected to enhance improvement in customer services despite facing limited investment avenues.

Table 2.6: Zanzibar: Social Security Fund Performance

Item	Unit	Jun-12	Jun-13	Jun-14	Percentage change	
					2012-13	2013-14
Membership(Compulsory)	Thousands	64.7	67.6	72.2	4.5	6.8
Membership(Voluntary)	Thousands	0.0	2.3	5.0	-	146.0
Net Assets	TZS Billion	110.7	141.6	177.2	27.9	25.1
Investments Portfolio	TZS Billion	101.2	126.3	161.8	24.7	28.1
Benefit Payments	TZS Billion	3.9	4.9	7.9	25.9	61.3

Source: Ministry Of Finance (MOF)/ Zanzibar Social Security Fund (ZSSF).

During the year to June 2014, the fund diversified its investment portfolio to obtain returns at minimum possible risk, preserve the real value of assets and maintain liquidity levels necessary to meet their liabilities. The different investment portfolios include government securities, corporate bonds, fixed deposits, loans, equity and real estate (**Table 2.7**).

Table 2.7: Zanzibar: Social Security Fund Investment Portfolio

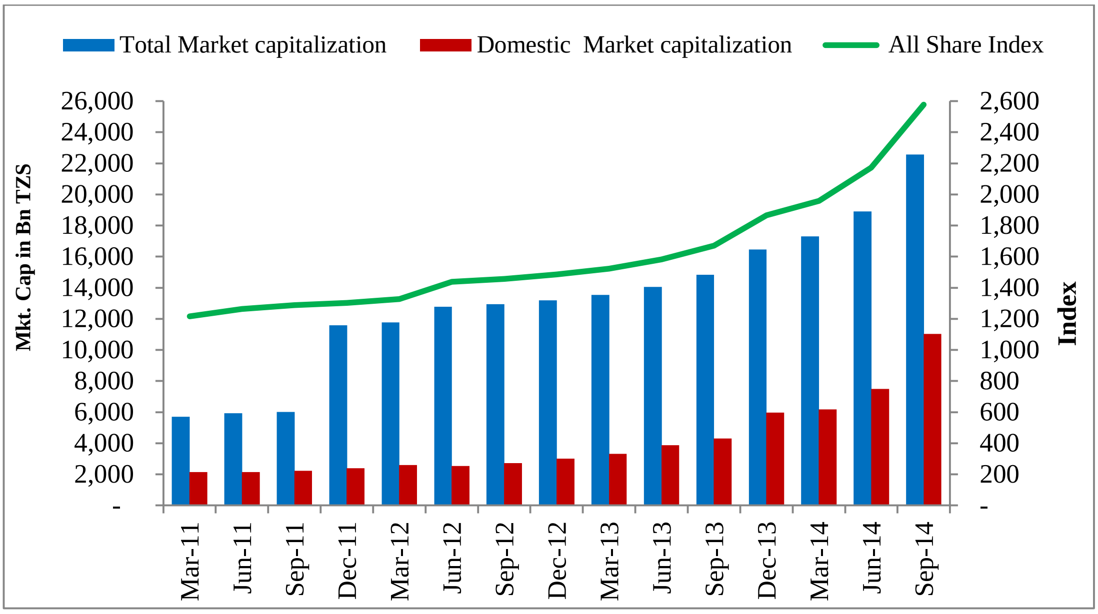
Investment	Value (billions)	Share of Total (Percent)
Fixed deposit	66.0	38.2
Treasury Bond	33.3	19.3
Equity Investment	11.5	6.7
Government stock	20.6	11.9
Loan	20.6	11.9
Real Estate	20.9	12.1
Total	172.9	100.0

Source: Ministry Of Finance (MOF)/ Zanzibar Social Security Fund (ZSSF).

2.5 Capital Markets

The capital and securities markets recorded strong performance during the year ending September 2014 in terms of share price indices, market capitalization and turnover. Total market capitalization increased by 52.1 percent to TZS 22,576.3 billion compared to TZS 14,842.0 billion recorded in September 2013 mainly due to appreciation of share prices and new listings (**Chart 2.4**).

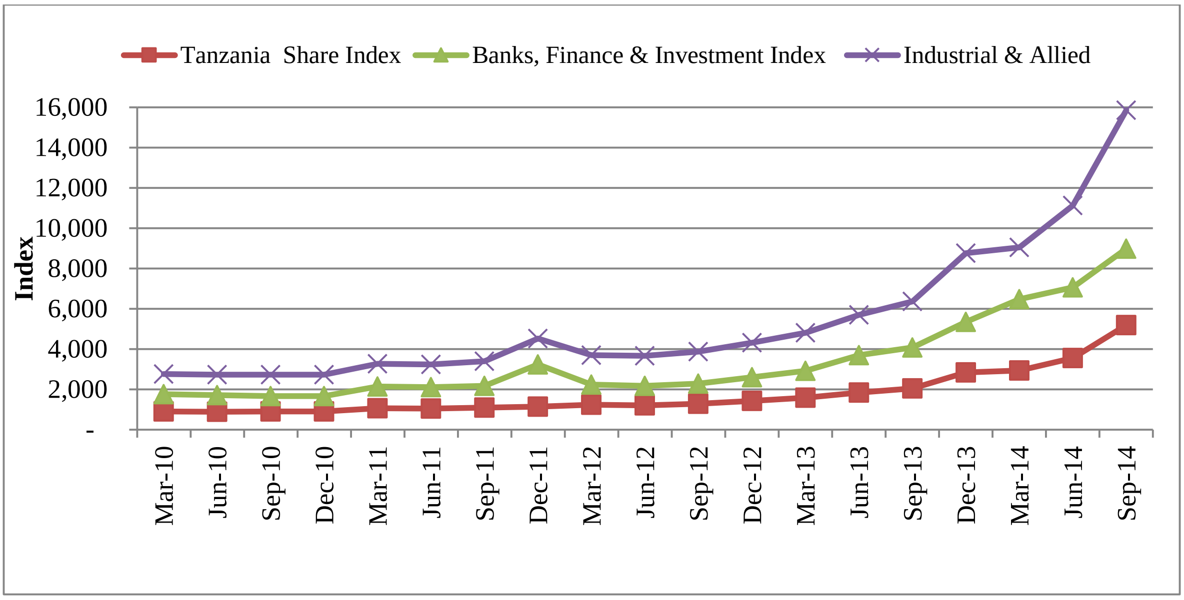
Chart 2.4: All Share Index and Market Capitalization of the DSE



Source: Capital Markets and Securities Authority.

During the year ending September 2014, Industrial and Allied Share Index (IA) was the main driver of the DSE All-share Price Index. The IA increased by 200.8 percent to 6,869, followed by the Tanzania Share Index (TSI) which increased by 153.1 percent to 5,191. The Banking and Financial Share Index (BI) recorded an increase of 86.4 percent to 3,790 (**Chart 2.5**).

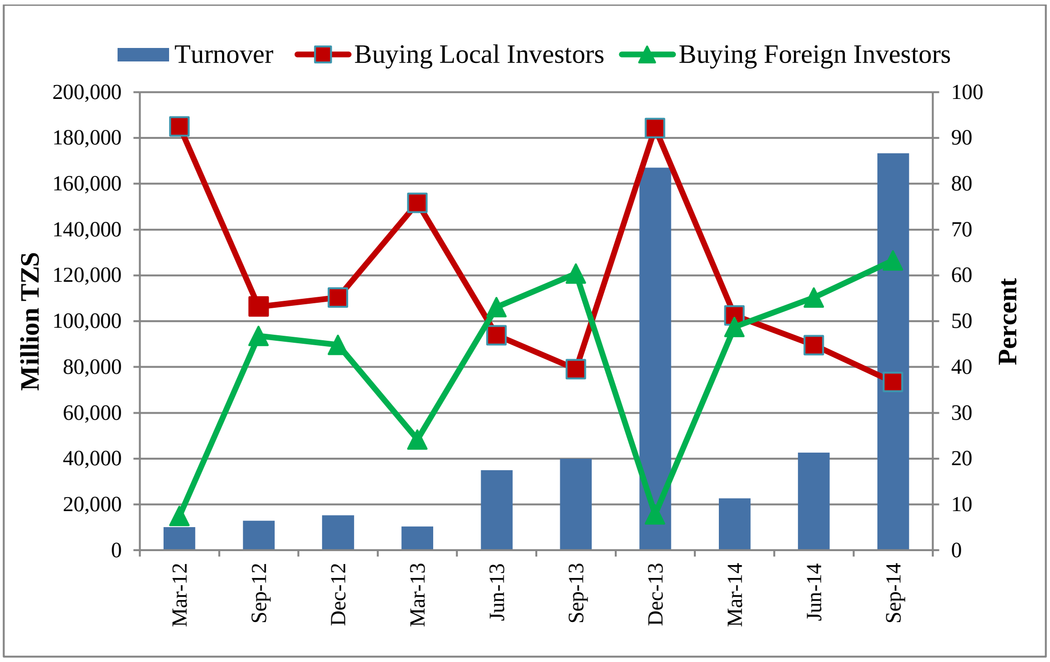
Chart 2.5: Trend of Indices



Source: Capital Markets and Securities Authority.

Total Market Turnover increased to TZS 173.3 billion during the quarter ending September 2014 from TZS 40.1 billion in the corresponding quarter in 2013. The sharp increase in turnover was attributed to new listing and share price appreciation. Foreign investor participation continued to grow, increasing to 63.3 percent of the trading during the quarter ending September 2014 (**Chart 2.6**). The lifting of capital account controls to EAC residents in May 2014 is expected to enhance trading activity in the market.

Chart 2.6: DSE Turnover and Participant Rate



Source: Dar es Salaam Stock Exchange (DSE).

Bond Market

Treasury bonds worth TZS 556.8 billion were traded in the secondary market during the year ending September 2014 compared to Treasury bonds worth TZS 446.6 billion traded during the corresponding period in 2013. During the period total outstanding Treasury bonds reached TZS 3,810.0 billion compared to TZS 3,079.3 billion. Meanwhile treasury bonds with different maturities worth TZS 1,037.3 billion were listed representing an increase of 9.5 percent from TZS 938.7 billion.

Corporate Bonds

Four listed corporate bonds worth TZS 42.6 billion remained outstanding at end September 2014. No corporate bond traded during the period under review. One unlisted corporate bond worth TZS 30 billion remained outstanding at end September 2014.

2.6 Collective Investment Schemes

Open ended Collective Investment Schemes recorded an increase in Net Asset Value (NAV) per unit during the period ending September 2014. The increase was mainly due to appreciation of listed equities which form a large part of the Schemes' investment portfolios (**Table 2.8**).

Table 2.8: Open Ended Collective Investment Schemes

(Millions of TZS)

Scheme	Scheme Size		Net Asset Value		NAV Growth for the Quarter
	Sep-13	Sep-14	Sep-13	Sep-14	
Umoja Fund	115,233.8	208,080.3	257.7	449.2	74.3
Wekeza Maisha	2,369.7	3,373.8	200.2	284.1	41.9
Jikimu Fund	8,498.1	14,771.9	106.3	134.7	26.7
Watoto Fund	1,390.6	2,385.3	172.7	265.9	54.0
Ukwasi Fund	680.9	598.3	105.7	117.7	11.4

Source: Capital Markets & Securities Authority (CMSA).

2.7 Cross-Sector Linkages in the Financial System

Financial sector linkages continue to expand at national, regional and global levels. This is driven by technological advancements and economic integration. **Table 2.9** depicts the extent of interconnectedness among top ten banks, pension funds, insurance companies and Mobile Network Operators. While financial interconnectedness improves efficiency of the financial system, it increases risks transmission across sectors and economies.

Table 2.9: Financial System Interconnectedness with Top Ten Banks

(Billions of TZS)

Items	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14
Placements with Banks Abroad	579.0	690.2	743.7	737.4	715.1	657.9
Placements with Domestic Banks	549.4	462.3	345.8	437.9	350.9	381.8
Deposits from Pension Funds	392.6	377.5	240.5	265.8	290.7	288.0
Deposits from Insurance Companies	119.1	117.6	106.8	186.0	159.3	188.6
Borrowings from Domestic Banks	376.0	269.7	299.7	369.5	277.8	341.1
Deposits from Foreign Banks	148.7	79.5	182.5	144.7	218.4	214.9
Inter-bank Contingent Claims to Foreign Banks	247.5	258.4	224.8	339.8	333.3	305.2
Deposits from Mobile Network Operators	245.9	301.8	293.5	297.9	332.9	362.1

Source: Bank of Tanzania.

2.7.1 Linkages among Banks

During the year ending September 2014, placements with resident and non-resident banks by the top-10 banks decreased by 17.4 percent and 4.7 percent respectively. The main risks arising from placements with non-resident banks are foreign exchange and country risks. However, the Banking and Financial Institution Regulations require banking institutions to diversify their placements abroad and comply with foreign exchange limits.

2.7.2 Banking, Insurance and Social Security Sectors

Deposits of social security schemes with top-ten banks at end September 2014 amounted to TZS 288.0 billion, representing a decrease of 23.7 percent compared to the corresponding period in 2013. In contrast, insurance companies deposits increased by 60.4 percent to TZS 188.6 billion, in the same period. Both sectors were compliant with the prudential requirements.

2.7.3 Banking and Telecommunication Sectors

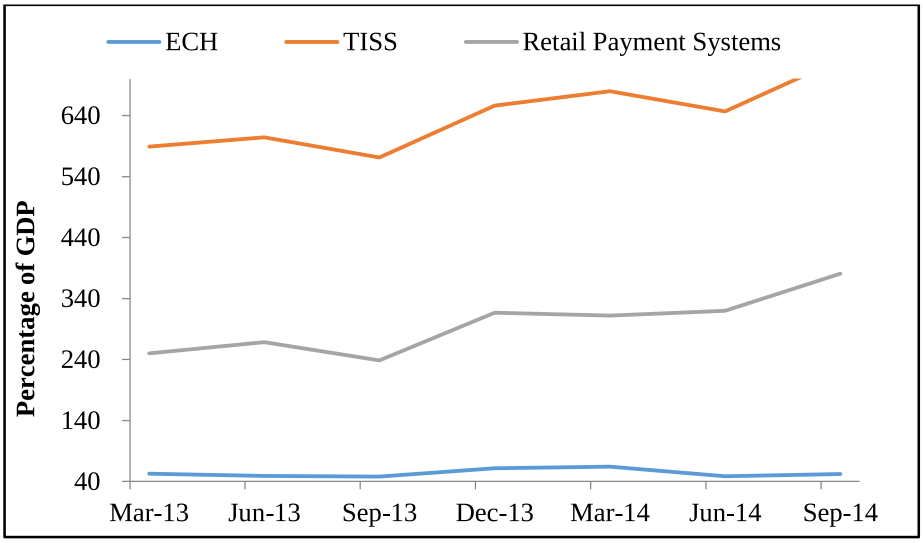
The number of registered active mobile money service users continued to increase. During the year ending September 2014, MNOs balances in trust accounts held with banks increased by 20.0 percent to TZS 362.1 billion. The Bank in collaboration with Tanzania Communication Regulatory Authority (TCRA) continues to monitor mobile financial services. To that effect the National Payment Systems Act is in the process of enactment by parliament. The Act will enhance regulatory environment for mobile financial services. In the meantime the sector is regulated through powers conferred to the Bank under Section 6 of the Bank of Tanzania Act, 2006. Regulatory tools used by the Bank include circulars, directives and guidelines.

3.0 FINANCIAL SYSTEM INFRASTRUCTURE AND REGULATORY DEVELOPMENTS

3.1 Payment Infrastructure

During the year ending September 2014, the payment systems operated smoothly without major disruptions. Credit, liquidity and operation risks in the payment systems were mitigated using both prudential banking regulations and payment systems guidelines. The Bank has short term liquidity support mechanisms (Lombard and Intra-day) to mitigate liquidity risk. Regarding operation risks the Bank requires operators to comply with the rules and regulations governing payment systems.

Chart 3.1: Payments through National Payment Systems



Source: Bank of Tanzania, National Bureau of Statistics.

Tanzania Interbank Settlement Systems (TISS) continued to lead followed by retail payment systems, which include mobile payment, internet and mobile banking, ATMs and POS. The Electronic Clearing House (ECH) which process cheques and Electronic Funds Transfer payments of low value had least transactions. During the year ending September 2014, the Government sub-treasuries were connected to TISS, to allow for payments on real time basis and minimize float and fraud in government payments.

Mobile financial services is the fastest growing payment system, with the number of registered active mobile money service users increasing by 32.1 percent to 13.0 million during the period ending September 2014, while total balances held in trust accounts stood at TZS 362.1 billion in September 2014 compared to TZS 301.8 billion recorded in September 2013.

3.2 Financial Regulatory Developments

Appropriate legal and regulatory environment is essential for a sound and efficient financial system. During the year ending September 2014, 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 National Payment Systems

The Bank issued a Circular on the Utilization of Interest from Trust Accounts pursuant to provisions of section 6 (1) (b) read together with section 70 (3) and (4) of the Bank of Tanzania Act No. 5, of 2006. The circular requires MNOs to ensure that interest accruing from funds held in Trust Accounts benefit the Mobile Financial Services customers.

3.2.2 Social Security Sector

The SSRA continued to make regulatory amendments to accommodate changes in the social security sector. During the year ending September, 2014, the Authority issued the Social Security Schemes (Pension Benefit Harmonization) Rules, 2014 with objective of providing equity in the benefit structure of the schemes. The Regulator, in partnership with other regulators in the EAC, established the East African Pension Supervisors Association (EAPSA) in order to:

(i) Provide forum for a policy dialogue and exchange of information and ideas on pension regulation and supervision;

(ii) Promote regional cooperation on pension supervision and facilitate contact between pension supervisors and pension stakeholders;

(iii) Serve as a framework in standard-setting of pension regulatory and supervisory matters relating to pension supervision in the EAC;

(iv) Promote use of best standards and practices in the development and administration of Pension Schemes/ Funds in the EAC; and undertake any other relevant activity to the above objectives.

3.2.3 Capital and Securities Markets

Capital account controls relating to government securities were removed in April 2014 for all EAC residents through issuance of the Foreign Exchange (Listed Securities) Amendments, 2014. This allows residents to buy, sell and transfer securities in any of the EAC partner states and vice versa. The removal of capital account controls in Tanzania was extended to equity markets through issuance of the Capital Markets and Securities (Foreign Investors) Regulation, 2014. These changes may contribute to improved vibrancy in the capital and securities markets. However, the changes expose the markets to cross border shocks, which call for collaborative oversight.

4.0 FINANCIAL SYSTEM RESILIENCE AND STABILITY OUTLOOK

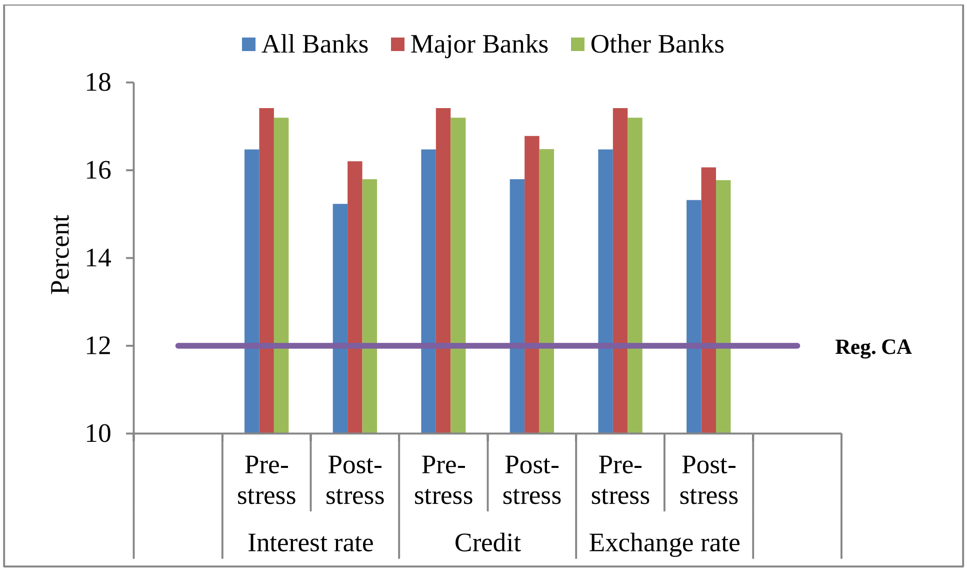
4.1 Financial System Resilience

Stress tests are used to analyze the possible effects of extreme events that lie outside normal market conditions. The simulations assess the extent to which the capital buffers of respective institutions are able to withstand losses generated from imposed shocks.

4.1.1 Banking Sector

The banking system was subjected to stress testing covering credit, interest and foreign exchange risks for the quarter ending September 2014**.** Results revealed that the banking system was resilient to shocks stemming from the three risks, recording capital adequacy ratios above the minimum requirement. However, the system was susceptible to interest rate risk than credit and exchange rate risks (**Chart 4.1**).

Chart 4.1: Stress Testing Results of the Banking System



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

4.1.2 Non-bank Financial Sector

Currently, the non-bank financial sector is not subjected to stress testing due to lack of data and framework. Meanwhile, plans are underway to develop a stress testing framework for the insurance sector.

4.2 Financial Stability Outlook

Tanzania's macroeconomic outlook remains positive on account of continued implementation of prudent fiscal and monetary policies. The Government continues to promote investment in infrastructure and other measures to diversify the economy. Inflation is expected to remain at single digit coupled with fairly stable exchange and interest rates. The balance of payments is expected to improve on account of FDI flows, particularly in the extractive sector.

In the backdrop of this macroeconomic environment the financial stability outlook is projected to remain positive in the next six to twelve months. However, the financial system is vulnerable to spillover effects emanating from the evolving global macroeconomic and financial developments. In view of this, Tanzania needs to prepare for any eventuality by implementing measures to enhance soundness of the financial system and resilience to internal and external shocks. A stable and robust financial system will enable the Government to sustain the country's growth momentum through efficient mobilization and allocation of investable resources.

The banking sector is expected to continue to expand on account of the projected macro-economic conditions and growing outreach driven by establishment of new branches, agent banking, mobile money platform and bank-SACCOS linkage.

Performance of the insurance sector is expected to improve on account of investment growth and on-going innovations. However, liquidity risks emanating from prevalent accounts receivables remain a major challenge.

The social security sector is expected to continue expanding in terms of coverage resulting from outreach expansion initiatives by social security schemes, projected growth in the economy and more avenues for investments following lifting of capital account controls.

The capital markets and securities are expected to grow on account of new listings and favorable macro-economic conditions. Liberalization of the capital account and the introduction of Automated Trading System (ATS) and Central Securities Depository (CSD) systems are expected to enhance trading and vibrancy of the markets.

The payment systems are expected to continue expanding, supported by the ongoing innovations in the mobile money technology. The new generation of mobile financial services are expanding the role of the platform from funds transfer to financial services delivery channel; including savings, credit and insurance. The stability of the Payment Systems will depend on measures to safeguard the reliability and safety of the systems.

In view of the financial stability outlook described above, the Bank of Tanzania in collaboration with other regulators under the Tanzania Financial Stability Forum (TFSF)[8] will continue to conduct macro-prudential surveillance. This would facilitate prompt identification of, and responses to, developments that pose threats to stability of the financial system. Enhanced soundness of the financial system will minimize build-up of systemic risks, ensure capacity to absorb shocks and maintain stability of the financial system as a whole.

4.3 Policy Recommendations

In order to maintain financial system stability, a range of policy measures are recommended.

- Sustained monitoring of the global and regional macro-economic and financial developments that may impact the domestic economy;
- Intensify efforts to diversify export products and markets;
- Continue to implement measures directed at broadening and deepening of capital markets;
- Maintain implementation of prudent monetary and fiscal policy focusing on financial stability;
- Promote private sector participation in infrastructure development; and
- Put in place capital account management framework to mitigate potential risks emanating from open capital account.

8 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

ANNEXES AND APPENDICES

Annex 1: World GDP Growth Rates

	Actual				October 2014 Projections		Difference from April 2014 WEO projections	
	2010	2011	2012	2013	2014	2015	2014	2015
World output	**5.1**	**3.9**	**3.2**	**3.3**	**3.3**	**3.8**	**-0.3**	**-0.1**
Advanced economies	**3.0**	**1.7**	**1.2**	**1.4**	**1.8**	**2.3**	**-0.3**	**0.0**
USA	2.4	1.8	2.8	1.9	**2.2**	**3.1**	**-0.6**	**0.1**
Euro area	2.0	1.5	-0.7	-0.5	0.8	1.3	-0.4	-0.2
Japan	4.7	-0.6	1.4	1.5	0.9	0.8	-0.5	-0.2
United Kingdom	1.8	1.1	0.3	1.8	3.2	2.7	0.3	0.2
Emerging and Developing economies	**7.4**	**6.2**	**4.9**	**4.7**	**4.4**	**5.0**	**-0.5**	**-0.3**
Sub-Saharan	5.3	5.5	4.9	4.9	5.1	5.8	-0.3	0.3
SADC	4.0	4.1	4.1	4.6	4.9	5.0	0.0	0.0
EAC	6.3	5.9	5.3	5.6	6.4	6.7	0.0	0.0
Tanzania	7.0	6.4	6.9	7.0	7.2	7.5	0.0	0.0
Developing Asia	**9.5**	**7.8**	**6.4**	**6.5**	**6.5**	**6.6**	**-0.2**	**-0.2**
China	10.4	9.3	7.7	7.7	7.4	7.1	-0.1	-0.2
India	10.1	6.3	3.2	4.4	5.6	6.4	0.2	0.0

Source: IMF, World Economic Outlook, October, 2014.

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

	2008	2009	2010	2011	2012	2013	Projections 2014	Projections 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	7	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**	**4.6**	**5.1**	**5.2**
Sub-Saharan Africa	**5.7**	**2.6**	**5.6**	**5.5**	**4.9**	**4.9**	**5.1**	**5.8**

Source: IMF, World Economic Outlook, October, 2014.

Annex 3: Non-Performing Loans by Sectors

	Sep 11	Dec 11	Mar 12	Jun 12	Sep 12	Dec 12	Mar 13	Jun 13	Sep 13	Dec 13	Mar 14	Jun 14	Sep 14
Agriculture	195.4	163.9	199.8	214.9	136.2	113.9	138.5	157.7	164	122.5	164.8	197.3	213.3
Financial Intermediaries	2	16.2	17.4	16.8	14.5	16.1	18.5	18.2	18.8	15.2	38.5	41.4	45.9
Mining and quarrying	12.6	12.5	17.1	23	10.6	9.5	11.7	2.9	3.5	0.7	8.1	7.8	7.5
Manufacturing	186.3	156.8	157	157.6	92.4	84.2	96.3	85.4	75.8	72.9	92.5	94.1	108.3
Building & construction	29.6	21.9	67.2	27.1	17.6	26.5	28.6	16.1	20.8	15.6	22.5	22.2	22.6
Real Estate	80.1	82.7	91.8	113.1	19.4	23	32.6	40	24.1	26.5	32.5	33.8	36.9
Leasing	2.5	4.9	4.6	6.2	3.5	4.6	0	0	0.3	0.3	0.3	0.7	0.4
Transport and communication	76.6	56.8	55.5	41.9	32.6	49.7	33.6	55	39.7	42.8	63.3	70.1	66.0
Trade	159.4	145.8	154.5	163.8	103.5	163.2	132.9	135	124.8	113.3	140	142	163.0
Tourism	14	12.7	18	19.8	14	15.1	20.9	18.4	25.2	36.6	41.3	38.5	40.3
Hotels and Restaurants	64	56.7	56.9	64.2	36.3	54.9	38	68	39.4	51.3	62.4	67.4	90.1
Warehousing and Storage	0	0.1	0.1	0.1	0	0.1	0	0	0	0	0.4	1	0.1
Electricity	1.6	9.1	8.2	7.8	0.8	-0.1	0.8	0.2	0.3	0.3	0.1	2.3	2.2
Gas	4	2.3	2	4.6	-0.2	7.5	7.2	13	8.9	6.1	5.3	6.2	9.3
Water	0.1	0.1	0.7	1	0.5	0.9	0.6	1.1	1	0.7	0	0.1	0.1
Education	10.3	13	15.8	17.5	16.5	20.5	15.2	8.6	6.2	6.7	8.2	13.6	10.3
Health	0.6	0.5	0.7	0.9	1.1	1.3	1.7	1.9	1.3	1.7	3	11.2	12.0
Other Services	30.1	27.1	32.9	43.9	4.3	20.7	24.2	19	21.9	18.9	30.5	51.6	49.9
Personal (Private)	144.4	148.1	139.6	162.6	130.9	86.7	108.9	122.5	121.5	110.4	111.1	131.9	127.6

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	Real Estate	Transport and Communication	Trade	Tourism	Hotels and Restaurants	Electricity	Personal
12-Jan	21.2	27.8	-25.7	17.4	77.6	61.5	21	26.7	21.5	32.6	12.4	25.4
12-Feb	20	54.6	-13.2	9.1	76.3	37.2	13.9	43.1	6.9	22.1	11.6	12.9
12-Mar	18.4	69.4	26.9	11.4	61.6	27.1	4.2	34.3	9.5	20	14.7	26.9
12-Apr	15.1	74.4	217	12.4	79.8	21	16.5	42	37.7	21.7	17	16.3
12-May	17.8	65.3	24.4	17.7	42.9	41.8	7	27.6	-9.5	23.5	32.2	16.9
12-Jun	4.7	45.7	22.9	4.2	51.6	42.9	3	33.3	-12.1	23	54.2	14.6
12-Jul	3.9	50	-9	16.4	59.5	30.9	20.5	34.7	-4.8	17.3	1.4	11
12-Aug	31.7	53.1	43.5	23.9	34	28.5	15.8	36.1	-11.3	10.2	8.6	30.4
12-Sep	8.4	56.9	46.3	-1.7	46.8	26	6.3	22.8	-11.2	2	9.5	7.8
12-Oct	-9.9	45.8	74.6	-0.9	33.3	29.1	18	34.4	-5.1	-2.4	0.7	4.7
12-Nov	-0.6	41.9	79.2	3.7	22.7	12.3	13.6	19.5	-0.3	1	104.2	11.6
12-Dec	2.9	30.2	40.8	6.8	28	29.6	11.9	21	21	0.6	102.8	14.2
13-Jan	13	15.5	18.2	5.3	29.9	14	4.6	25.1	32.8	1.9	56	13.9
13-Feb	7.7	13.4	68.1	16.5	34.2	18.6	4.7	24.6	34.6	2.1	58.2	11.2
13-Mar	12.9	10.5	44.1	18.7	36	17.4	11.6	30.6	27	3.7	46.1	6.9
13-Apr	25.1	-6.9	-5.3	17.4	24.8	26.3	4.3	27.1	-11.3	8.2	51.8	9.2
13-May	24.9	-6.3	92.3	14.9	50.2	19	13.5	22.9	38.1	12.1	63.2	5.3
13-Jun	17	-4.7	94.6	18.5	38.1	-4.4	15.1	12.8	59.8	-10.9	59	3.4
13-Jul	7.5	15.6	135.7	14.1	42	11.6	7.2	15.8	94.4	-8.6	58.2	1.1
13-Aug	4.6	18.9	85.2	18.3	41.8	10.5	18.2	16.7	92.7	-3	60.9	-2.5
13-Sep	1.3	4	91.2	23.3	19.5	23.9	22.6	13.8	97.8	6.2	80.1	1.6
13-Oct	-3.3	10	64.1	18	22.3	26	12.4	7.4	75.3	4.7	81.7	0.1
13-Nov	-0.9	8	68.8	10.4	29.3	26.4	19.1	17.5	87.1	1.5	-10.8	0
13-Dec	2.8	8.6	75.4	17	25.2	28	19.3	17.3	88.5	2.2	19.2	-1.9
14-Jan	10.6	13.5	139.1	19.1	22.3	30	21.2	16.2	68.4	4.3	46.4	-2.7
14-Feb	11.2	16.8	58	9.8	14.3	29.2	12.6	14.1	77	3.4	52	2.4
14-Mar	7.1	16.1	62.1	8.5	17.1	28.9	12.9	7.2	74	5.9	85.4	1.1
14-Apr	5.9	20.7	37.6	11	19	26.3	19.2	5.8	87.3	4.2	77.1	3.1
14-May	4.9	38.9	63.9	16.4	23.7	12.5	24	14	83.1	1	18.6	6.5
14-Jun	11.2	31.6	77.6	27.2	26	36.9	29.3	18.9	65	23.6	-11.7	9.8
14-Jul	12.4	17.6	58.8	26.4	30.2	17.7	36.3	21	30.3	30.9	-2.3	7.4
14-Aug	2	23.9	47.4	22.4	26.6	17.8	27.2	28.8	26.1	10.4	57.3	9.7
14-Sep	-0.7	38.2	42.1	24.6	30	7.4	20.5	25.3	22.7	15	65.1	13.2

Source: Bank of Tanzania.

Appendix 1: Tanzania REER Developments

Period	REER	REER Monthly Annual Change (%)
Jun-11	1.08	8.37
Jul-11	1.07	0.92
Aug-11	1.06	1.48
Sep-11	1.02	-3.39
Oct-11	1.07	-1.04
Nov-11	1.02	-2.59
Dec-11	0.94	-11.17
Jan-12	0.95	-9.35
Feb-12	0.94	-9.85
Mar-12	0.92	-10.35
Apr-12	0.91	-12.82
May-12	0.87	-17.11
Jun-12	0.88	-18.55
Jul-12	0.93	-12.67
Aug-12	0.92	-12.95
Sep-12	0.93	-8.59
Oct-12	0.95	-10.67
Nov-12	0.95	-6.82
Dec-12	0.92	-1.76
Jan-13	1.04	9.34
Feb-13	0.98	4.64
Mar-13	0.96	4.39
Apr-13	0.99	9.37
May-13	0.99	13.44
Jun-13	0.98	11.57
Jul-13	0.96	3.05
Aug-13	0.93	0.04
Sep-13	0.93	-1.02
Oct-13	0.94	-1.27
Nov-13	0.93	-1.70
Dec-13	0.83	-9.63
Jan-14	0.81	-21.85
Feb-14	0.82	-16.48
Mar-14	0.74	-22.38
Apr-14	0.74	-26.00
May-14	0.73	-25.62
Jun-14	0.73	-25.49
Jul-14	0.74	-23.27
Aug-14	0.74	-19.49
Sep-14	0.75	-18.99

Source: Bank of Tanzania.

Appendix 2: GDP Growth Rates and Sectoral Contributions (Mainland)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012r	2013p	2014e
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**	**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**	**22.2**	**21.7**
Agriculture	27.4	26.9	26.1	25.4	24.6	24.0	23.3	22.7	22.1	21.6	21.0	20.5
Crops	20.4	20.1	19.6	19.1	18.6	18.2	17.8	17.3	16.8	16.5	16.1	15.7
Livestock	4.6	4.5	4.4	4.2	4.0	3.8	3.7	3.5	3.5	3.3	3.2	3.1
Forestry and hunting	2.4	2.2	2.2	2.1	2.0	2.0	1.9	1.9	1.8	1.7	1.7	1.6
Fishing	1.7	1.7	1.6	1.6	1.6	1.5	1.5	1.4	1.3	1.3	1.2	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**	**22.0**	**22.1**
Mining and quarrying	2.1	2.3	2.4	2.6	2.7	2.6	2.5	2.4	2.3	2.3	2.3	2.3
Manufacturing	8.6	8.7	8.9	9.0	9.2	9.4	9.5	9.6	9.7	9.9	9.9	10.0
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	2.3
Electricity, gas	2.1	2.1	2.2	2.0	2.1	2.0	2.1	2.1	2.0	2.0	2.0	1.9
Water supply	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Construction	5.8	6.1	6.2	6.4	6.5	6.7	6.8	7.0	7.2	7.3	7.4	7.5
Services	**46.1**	**46.1**	**46.4**	**46.9**	**47.3**	**47.8**	**48.3**	**48.8**	**49.5**	**49.9**	**50.5**	**51.1**
Trade and repairs	13.5	13.2	13.1	13.5	13.8	14.1	14.3	14.5	14.7	14.8	15.0	15.2
Hotels and restaurants	2.6	2.5	2.5	2.4	2.4	2.3	2.3	2.3	2.2	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	9.5	10.1
Transport	5.2	5.2	5.2	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.0
Communications	1.4	1.5	1.7	1.9	2.1	2.3	2.7	3.1	3.4	3.9	4.4	5.1
Financial intermediation	1.6	1.6	1.7	1.8	1.8	1.9	1.9	2.0	2.1	2.2	2.3	2.5
Real estate and business services	10.3	10.2	10.2	10.2	10.2	10.2	10.2	10.3	10.2	10.2	10.2	10.1
Public administration	7.4	7.8	8.0	8.0	8.0	8.0	7.8	7.8	7.8	7.7	7.6	7.4
Education	2.0	1.9	1.9	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Health	1.3	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
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	0.6
Gross value added excluding adjustm	**94.2**	**94.2**	**94.3**	**94.3**	**94.4**	**94.4**	**94.5**	**94.5**	**94.6**	**94.6**	**94.7**	**94.8**
less FISIM	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2	-1.2	-1.2	-1.3	-1.4	-1.4	-1.5
Gross value added at basic prices	**93.3**	**93.3**	**93.3**	**93.3**	**93.3**	**93.3**	**93.3**	**93.3**	**93.3**	**93.3**	**93.3**	**93.3**
Taxes on products	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7

Source: National Bureau of Statistics.

Appendix 3: GDP Growth Rates and Sectoral Contributions (Zanzibar)

Economic Activity	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012[r]	2013[p]
Agriculture, forestry & fishing	**-4.6**	**16.4**	**9.7**	**12.8**	**67.1**	**-1.6**	**23.1**	**15.8**	**11.0**	**9.1**	**5.8**	**9.6**
Crops	-5.9	12.2	4.4	4.6	65.2	-5.3	17.5	12.1	8.3	1.2	3.4	6.2
Livestock	1.7	2.4	2.1	2.8	2.3	2.1	2.3	1.9	1.8	1.6	1.4	1.2
Forestry & hunting	0.1	0.1	0.2	0.3	0.1	0.5	0.0	0.5	0.0	0.4	0.0	0.3
Fishing	-0.5	1.8	3.0	5.1	-0.5	1.1	3.4	1.4	0.9	5.9	1.0	1.9
Industry	**18.2**	**32.1**	**24.6**	**18.3**	**40.3**	**11.1**	**6.2**	**4.2**	**3.5**	**10.7**	**16.6**	**15.2**
Mining & quarrying	1.6	3.6	0.5	2.4	0.3	1.1	3.4	3.7	0.9	2.0	2.7	2.8
Manufacturing	9.2	11.6	-4.5	2.5	2.7	0.5	1.1	1.4	2.2	1.6	0.0	1.9
Electricity, gas & water supply	0.8	1.2	1.4	2.4	1.5	1.6	0.6	0.5	0.0	3.2	1.0	0.6
Construction	6.6	15.7	27.2	11.0	35.7	7.9	1.1	-1.4	0.4	4.0	12.9	9.9
Services	**70.8**	**35.9**	**50.3**	**53.3**	**-23.2**	**75.1**	**54.9**	**64.7**	**70.2**	**64.4**	**62.4**	**59.4**
Trade & repairs	2.1	0.6	3.2	27.6	1.2	12.2	-4.5	5.1	9.2	28.5	14.2	10.5
Hotels & restaurants	10.3	-8.6	9.7	47.2	11.8	5.8	-0.6	5.6	3.5	10.7	0.3	5.9
Transport & communications	13.1	23.9	8.2	15.7	0.6	46.1	44.0	40.9	41.7	21.7	41.7	33.7
Financial intermediation	3.2	2.2	4.4	4.7	-3.0	5.3	1.1	0.5	6.6	1.2	2.7	2.2
Real estate & business services	0.6	0.8	0.7	0.9	0.5	1.1	0.6	0.9	0.4	0.8	0.7	0.6
Public administration	33.4	9.6	17.3	-45.6	-41.2	2.1	6.8	6.5	3.9	0.4	0.3	3.7
Education	6.3	3.4	5.6	1.2	5.1	1.1	5.6	4.7	3.9	2.0	1.0	2.2
Health	1.7	3.8	1.0	1.3	1.4	1.5	1.2	0.5	0.4	-0.8	1.0	0.6
Other social & personal services	0.2	0.3	0.2	0.3	0.4	0.0	0.6	0.0	0.4	0.0	0.3	0.0
Total 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**	**100.0**
Memo												
Taxes on products	**15.6**	**15.6**	**15.4**	**15.6**	**15.9**	**15.4**	**15.8**	**15.3**	**15.4**	**15.8**	**15.3**	**15.8**

Source: Office of Chief Government Statistician –Zanzibar .