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TANZANIA FINANCIAL STABILITY FORUM

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September 2018

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

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LIST OF ACRONYMS

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

FOREWORD

Warranting integrity of the financial system is one of the Bank of Tanzania's broad mandates apart from the supervision of banks. In cognizant of this role the Bank endeavours to ensure that the overall financial system is safe and resilient to internal and external systemic risks. In this view, the Bank works in collaboration with other regulatory agencies under the umbrella of the Tanzania Financial Stability Forum (TFSF)[1] to identify and take prompt actions to mitigate and/or resolve instability in the financial system. The rationale of this collaboration is the complexity of interactions between financial system and real economy, which may pose systemic risks to the economy.

The Tanzania Financial Stability Report of September 2018 is being released at the time when global economy remains strong but vulnerable to unpredictable financial markets movements, uncertainty about US monetary policy stance and trade protectionism among major economies. Another downside risk is associated with United Kingdom's exit plan from European Union, which may in turn affect commodity export economies.

Domestic economy is expected to remain strong and the financial system is still resilient to shocks despite challenging external financial environment and trade tensions between US and China. However, the banking sector remains vulnerable to high non-performing loans, though decreasing.

On monetary policy stance, the Bank continues to implement accommodative monetary policy, which has contributed to an increase in liquidity to banks and credit to private sector aimed at stimulating investment and economic growth going forward. To mitigate potential foreign exchange risks, the Bank will continue to implement contingent action plans in order ensure ethical practices by market players and resolve disruptions that may impair operations of the market.

In understanding of detrimental implications of systemic risks emerging from global and domestic financial environment, the Bank of Tanzania will continue to implement policies aimed at promoting efficiency and safety of the financial system as a whole through collaborative efforts with other regulatory institutions at national, regional and international levels.

Prof. Florens D.A.M. Luoga
Governor and Chairman of Tanzania Financial Stability Forum
30th September 2018

[1] Members of the Forum are the Ministries of Finance of the United Republic of Tanzania and Revolutionary Government of Zanzibar, Capital Markets and Securities Authority, Social Security Regulatory Authority, Tanzania Insurance Regulatory Authority, Deposit Insurance Board and the Bank of Tanzania.

EXECUTIVE SUMMARY

The global economy remained strong, despite growing trade tensions. The global growth projections for 2018 and 2019 remain strong at 3.7 percent on account of improved investment conditions, which is supported by increase in productive investment and recovery in some commodity prices. According to October, 2018 IMF WEO, growth was revised downward to 3.7 percent projected in April, 2018 due to growing policy uncertainty in the US, unpredictable financial market movements and trade protectionism. Expectations of the rise in the interest rate has increased volatility in the global financial markets, triggering capital outflows from emerging market economies (EMEs), which in-turn has caused exchange rate depreciation and subsequent burden to entities that have borrowed in foreign currency. Further, trade tensions between US and China are likely to affect global economy and pose risk to global financial environment.

Growth projections in Sub-Saharan Africa remain vulnerable to volatility in global financial markets and trade tensions. The regional growth is projected at 3.1 percent in 2018 up from 2.7 percent in 2017 benefiting from higher commodity prices, improvement in agricultural production, households' consumption and investment in public infrastructure. However, the ongoing trade tensions and policy uncertainties in advanced economies poses significant risk on the growth prospects in the region. In particular, increased trade tensions may reduce demand for raw materials in China, while financial markets volatility may weaken local currencies, which will eventually increase public and private debt burden and rise debt- servicing pressure.

Domestic economy is expected to maintain steady growth, amid challenging external environment. Growth of the economy is expected to remain strong at 6.9 percent in 2018 compared with 6.8 percent in 2017. The projected growth is supported by good performance in construction, industries and service sector, particularly tourism. The government's commitment to continue investing in infrastructure, industrial development and construction activity are long-term investments that will support Government's efforts of attaining the middle-income economy. Inflation is projected to remain at single digit level, underpinned by favourable domestic food supply and prudent monetary policy. Nevertheless, trade tensions in advanced countries and increase in interest rate in the US may have spill-over effects on the economy by exerting expected pressure on exchange rate and debt services for dollar denominated debts.

Household indebtedness and debt servicing cost decreased as lending institutions eased terms and condition for personal loans. The 2018 Salary Earners Financial Condition survey revealed that debt to income ratio declined to 69.0 percent from 71.0 percent in 2017. Further, the findings attested that on average, salary earners' income and deposits increased. The results are consistent with expected results of the actions taken by lending institutions of revising their credit policies, which include: reduction of lending rate, increase loan maturity and reduction of loan insurance fees. These developments enhanced borrower's ability to service debts and improve credit worthiness, and therefore reducing debt burden as attested by the results of the survey.

The banking sector remained stable and sound as reflected by financial soundness indicators, but asset quality remained at risk. In aggregate terms, capital and liquidity ratios remained above prudential requirements, at 18.3 percent and 34.6 percent against 12.0 percent and 20.0 percent, respectively. However, asset quality remained at risk as depicted by high level of Non-Performing Loans (NPLs), which was 9.7 percent of total loans as at the end of September 2018. Overall capital buffer was sufficient to cover some potential risks. The loan to deposit ratio increased to 84.4 percent as at the end of September 2018 from 83.9 percent in March, 2018, an indication of a pickup of credit to the private sector, which will support investment the projected growth.

Equity market exhibited a relatively low performance compared to the previous period. Declining share prices, trading activity and market capitalization explains the reasons for underperformance in the Dar es Salaam Stock Exchange (DSE). Other reason for underperformance were restructuring of pension funds (the most active participant in the market) downturn in the world economy especially in the emerging market and developing economies and exchange rate pressure on currencies of some economies. However, foreign investors' continued to dominate both selling and buying sides of the market, indicating investors' confidence in the Tanzanian economy despite a risk of abrupt capital outflows.

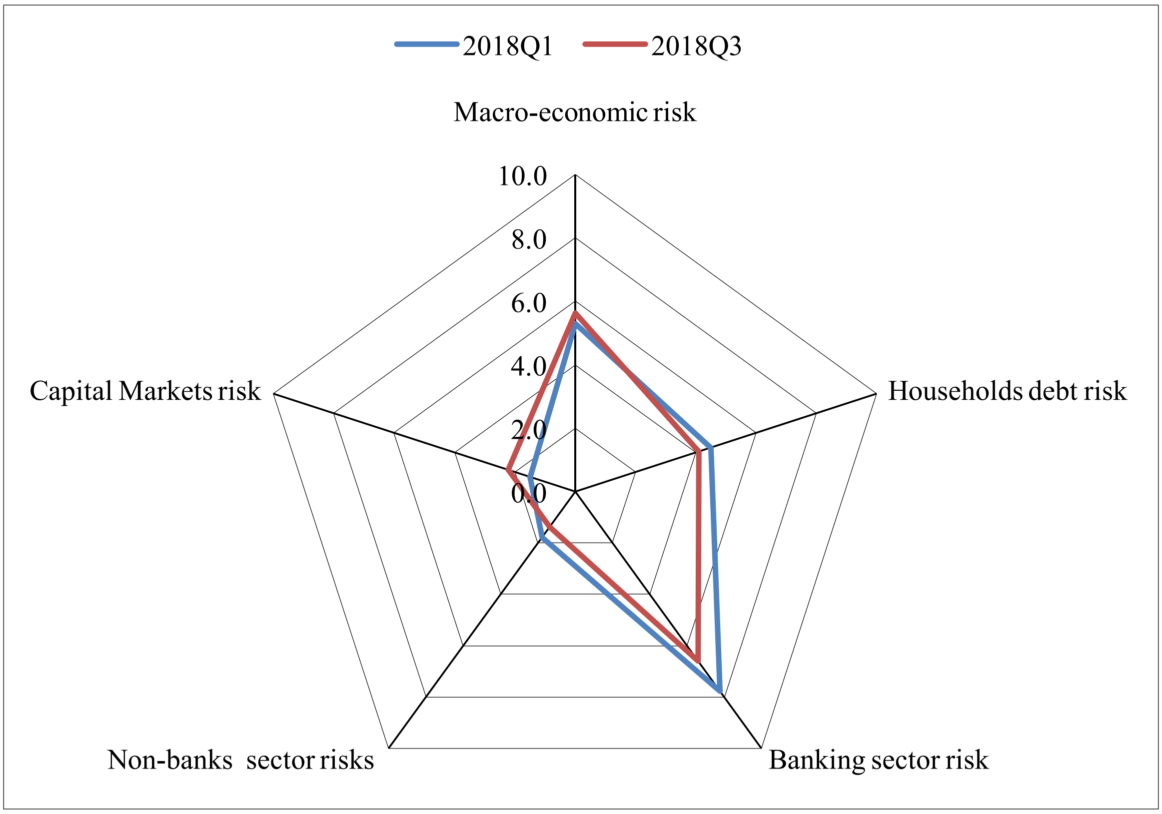
The Social Security Sector in Mainland Tanzania registered a slight decrease in terms of assets under management. Total assets of the sector decreased by 1.2 percent to TZS 12,042.0 billion as at September 2018. Government securities and investment in real estate accounted for more than 50.0 percent of total assets of the sector. The ratio of contribution income to benefits payment decreased from 1.8 percent to 1.3 percent during the period reflecting increased payment of benefits relative to contribution income. Administration expenses across the sector remained below the maximum limit of 10.0 percnet of total contributions as the sector continue to improve on operational efficiency.

The insurance sector recorded an increase in total gross premium written and total assets. The insurers' total net worth recorded an increase of 2.5 percent as at end of September 2018 compared to corresponding period in 2017 mainly on account of increase in assets, reflecting a continued strengthening of the sector in meeting its financial obligations. Total investment increased by 15.3 percent in September 2018 contributed by increased investmentw in government securities.

In conclusion, risk emanating from global environment increased during the six months to September 2018, while risks arising from domestic economy remained moderate. The global economy is exposed to uncertainties surrounding normalization of monetary policy in the US and trade tensions affecting global growth projections. As a result, global financial condition remains unpredictable, with volatile financial markets that are likely to elevate potential risks to domestic financial system through exchange rate volatility and rising debt services on external borrowing. The banking sector is well capitalized though exposed to high but decreasing non-performing loans. On the other hand, risks to household financial condition were moderated by easing credit standards.

The identified potential risks to domestic macro-financial environment are summarized and presented by the financial stability risk map and financial system stability index below:

Financial stability risk map



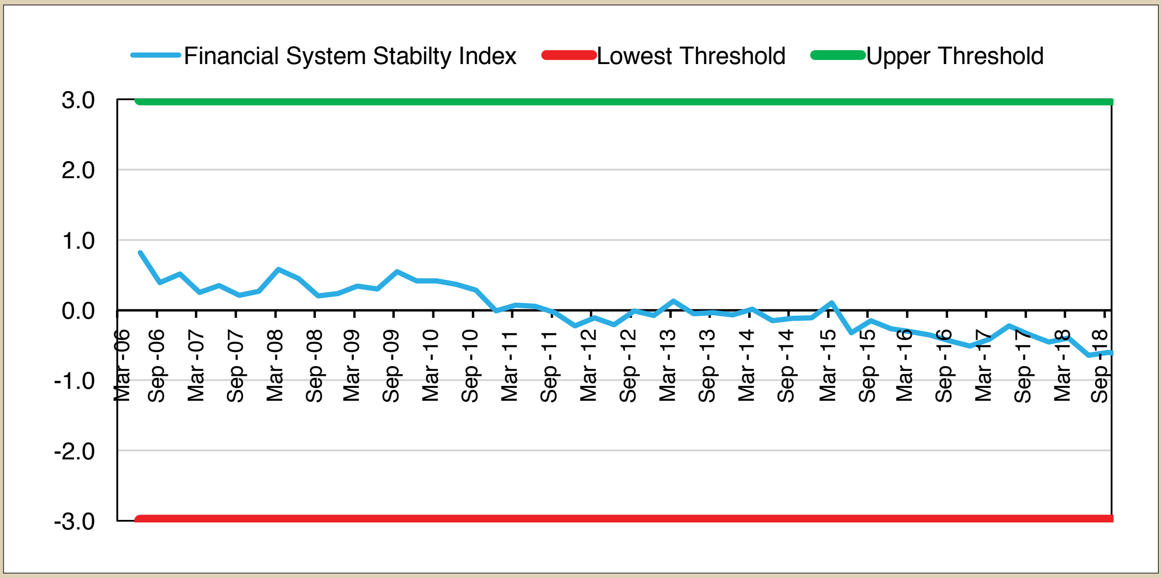
Source: *Bank of Tanzania*

Box 1: Financial system stability index

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

According to the assessment on vulnerability and financial soundness conducted during the review period, it was observed that the financial system remained resilient to short term vulnerabilities. The index stood at -0.6 in September 2018 compared to -0.4 in March 2018.

Financial System Stability Index



Source: *Bank of Tanzania*

The obtained result is attributed to a decline in profitability in the banking sector as well as the depreciation of Tanzanian Shilling against the US dollar. Similarly, Non- Performing Loan (NPLs) stood at 9.7 percent in September 2018, which was above the maximum level of not more than 5 percent. Also, Capital Adequacy Ratio for banking sector was 18.14 percent against the minimum target of 10.0 percent which supported the system to cushion against risks.

1.0 MACROECONOMIC AND FINANCIAL ENVIRONMENT

1.1 Global economic developments

The global economy remained strong, despite looming trade tensions. Global growth continued to stabilize in the first half of 2018, attributable to improved investment conditions, which supported increase in productive investment and recovery in some commodity prices. According to IMF, World Economic Outlook of October 2018, global growth is projected at 3.7 percent in 2018 and 2019 (**Table 1.1**). The projection is lower than that of April 2018 by 0.2 percentage points due to growing policy uncertainty in the US, unpredictable financial market movements and trade protectionism. In particular, the ongoing withdrawal of monetary policy accommodation in advanced economies led to tightening of global financial conditions, which resulted into volatility in exchange rate and disruptions in the financial markets (**Chart 1.1**). The increase in oil prices would leave highly indebted countries vulnerable to rising debt service costs, which will weaken investments and heighten financial stability risks. Further, trade measures undertaken by the US against China and retaliations by China are likely to slow down the growth momentum and pose significant risk in the future.

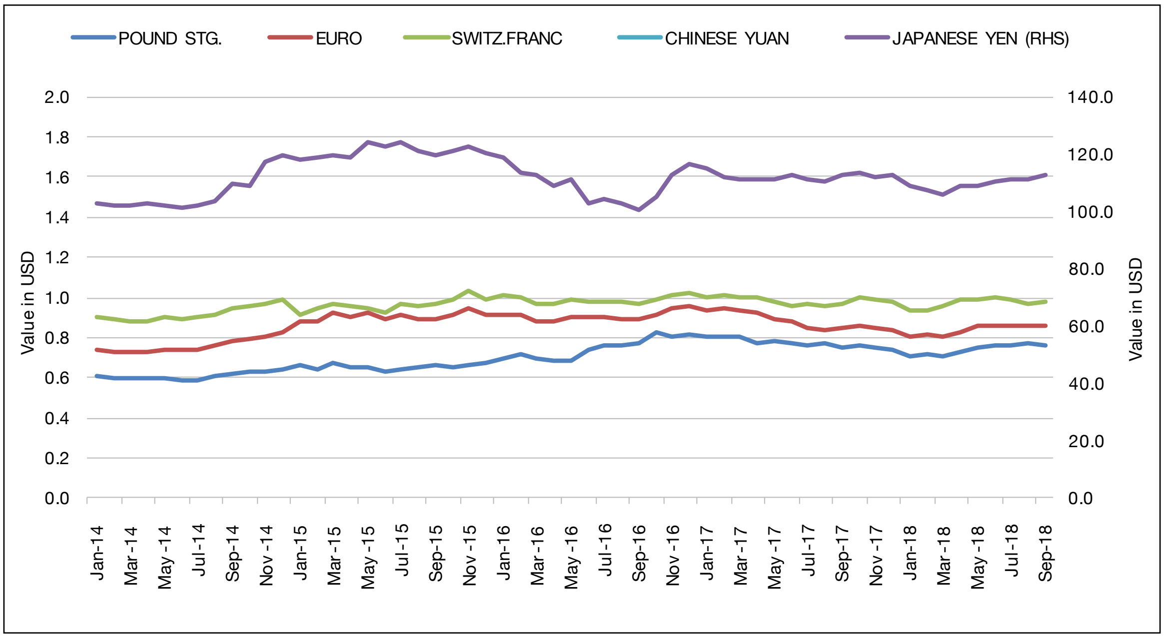
Table 1.1: Global real GDP growth and projections

Percent

	2011	2012	2013	2014	2015	2016	2017	Projections 2018	Projections 2019
World	**4.2**	**3.4**	**3.3**	**3.4**	**3.4**	**3.2**	**3.6**	**3.7**	**3.7**
Advanced Economies	**1.7**	**1.2**	**1.1**	**1.8**	**2.1**	**1.7**	**2.2**	**2.4**	**2.1**
United States	1.6	2.2	1.7	2.4	2.6	1.5	2.2	2.9	2.5
Euro Area	1.6	-0.8	0.3	0.9	2.0	1.8	2.1	2.0	1.9
Japan	-0.1	1.5	2.0	0.3	1.2	1.0	1.5	1.1	0.9
United Kingdom	1.5	1.3	1.9	3.1	2.2	1.5	1.6	1.4	1.5
Emerging Market & Developing Economies	**6.3**	**5.2**	**5.0**	**4.6**	**4.2**	**4.3**	**4.6**	**4.7**	**4.7**
China	9.5	7.9	7.8	7.3	6.9	6.7	6.8	6.6	6.2
Sub-Saharan Africa	**5.0**	**4.3**	**5.2**	**5.1**	**3.4**	**1.4**	**2.6**	**3.1**	**3.8**
South Africa	3.3	2.2	2.5	1.7	1.3	0.3	0.7	0.8	1.4

Source: *IMF, World Economic Outlook, October, 2018*

Chart 1.1: Exchange rate movements



Source: *Bank of Tanzania*

In advanced economies, growth is projected to remain solid with significant down side risks. In the US, growth momentum is still supported by major fiscal stimulus measures including reduction of income tax, decline in corporate tax rate and increase in government consumption. Further, growth in trade balance contributed positively to US economy, as exports remain stable while imports volume stagnated due to increase in import tariffs (**Table 1.2**). Growth in the Euro area and Japan is expected to remain stable in 2018, benefitting from growing investment, private consumption, export and supportive financial conditions as countries implement ease monetary policy,

Growth in advanced economies is projected at 2.4 percent in 2018 from 2.3 percent in 2017. However, growth projections for 2019 have been marked down to 2.1 percent owing to rise in trade tensions alongside monetary policy uncertainty. Trade protectionism among the major economies and transition phase for the UK to exit the EU, pose significant risks for export-reliant European economies and increasing risk of businesses diverting away from the UK.

Table 1.2: GDP growth for selected countries

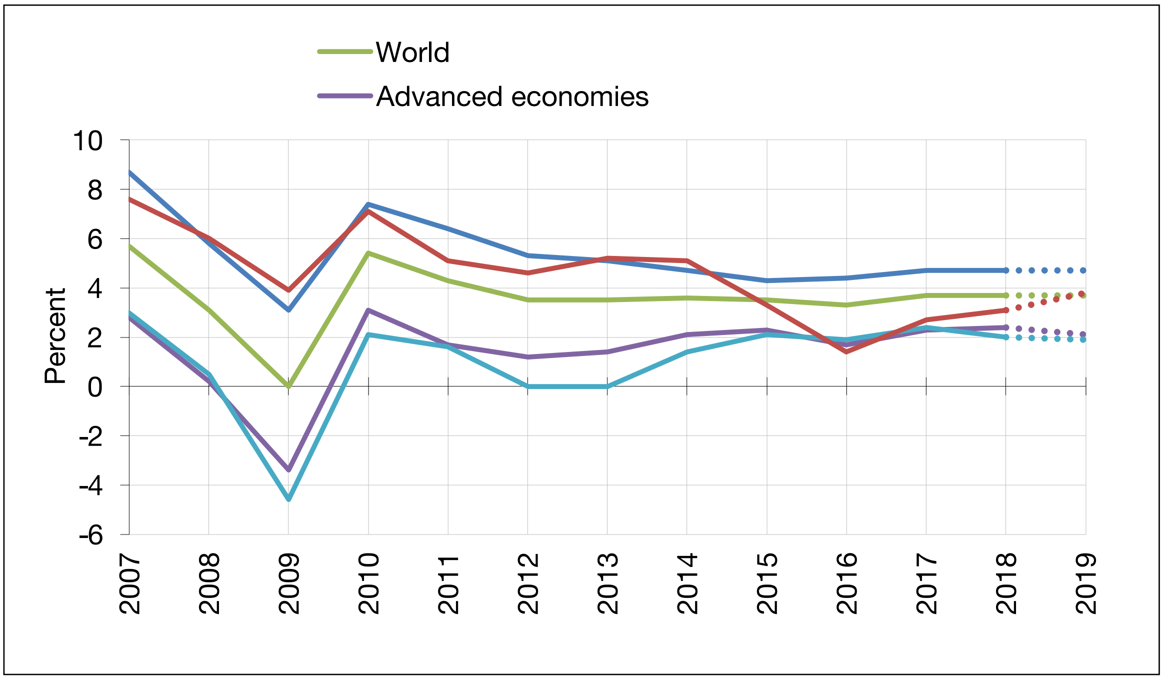
Percent

	2016				2017				2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Germany	1.8	1.9	1.9	1.9	2.1	2.3	2.7	2.9	2.3	0.5	-0.2
Japan	0.6	0.8	0.9	1.5	1.3	1.6	2.0	2.0	1.1	1.5	0.4
United Kingdom	1.9	1.8	2.0	2.0	2.1	1.9	1.8	1.4	1.2	1.2	1.5
United States	1.4	1.2	1.5	1.8	2.0	2.2	2.3	2.6	2.6	2.9	3.0
Brazil	-5.0	-3.8	-2.7	-2.4	-0.5	0.8	1.5	2.2	1.6	0.2	0.8
China	6.7	6.7	6.7	6.8	6.9	6.9	6.8	6.8	6.8	6.7	6.5
India	8.9	8.1	7.5	7.0	6.0	6.0	6.4	6.9	7.4	8.0	7.1
Indonesia	5.0	5.1	5.1	5.0	5.0	5.1	5.1	5.1	5.2	5.2	5.2
Russia	-1.3	-0.5	-0.6	0.3	1.2	2.5	2.7	1.5	0.5	0.5	0.3
South Africa	-0.6	0.8	1.0	1.0	1.1	0.9	1.3	1.9	1.5	0.5	0.6
Euro Area	1.7	1.7	1.7	2.0	2.1	2.5	2.8	2.8	2.5	2.1	1.7

Source: *OECD Database*

Growth in emerging markets and developing economies continued to improve, but remain vulnerable to volatility in global financial markets and trade tensions. Growth is expected to pick up to 4.7 percent in 2018 and 2019 from 4.6 percent in 2017 supported by domestic demand and positive export growth due to favourable commodity prices (**Chart 1.2**). India and China continued to drive growth in emerging market economies, which is projected, at 7.4 percent and 6.6 percent in 2018, respectively. The growth prospects are supported by higher commodity prices, increase in consumer spending and supportive fiscal policy, which aimed at increasing exports and private investment. Most energy exporters benefited from higher oil prices while geopolitical tensions and higher oil import bill-derailed growth in some countries. The ongoing trade tensions between US and China heightened financial market volatility, which may weigh on capital flows and eventually affect investment and projected growth.

Chart 1.2: World GDP growth rates



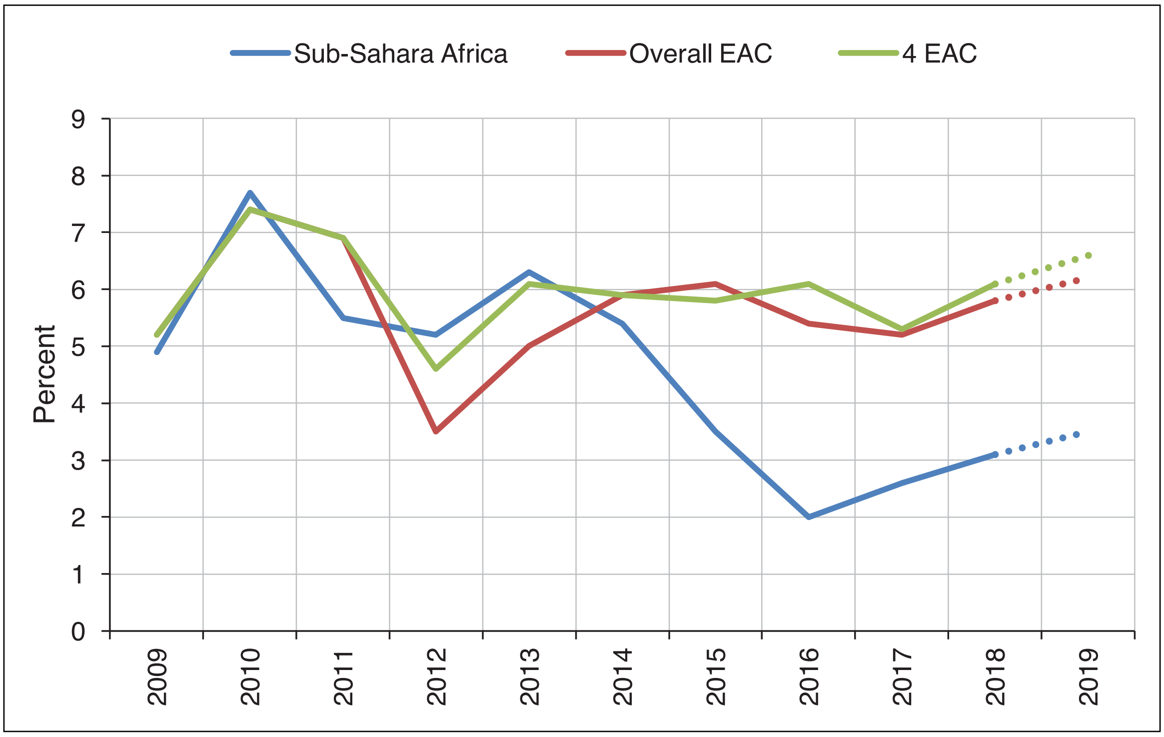
Source: *IMF, World Economic Outlook Database, October 2018*
Note*: Dotted lines denotes projections*

Growth outlook for Sub-Saharan Africa continues to strengthen, supported by stable macroeconomic environment and external financial conditions. Regional growth is projected at 3.1 percent in 2018 from 2.7 percent in 2017, driven by stable macroeconomic environment, higher commodity prices and global demand. Growth in the region's largest economies of Nigeria and Angola was supported by higher oil prices. On the other hand, growth in non-oil producing countries remained steady benefiting from higher commodity prices, improvement in agricultural production, household's consumption and investment in public infrastructure.

However, the regional growth projection was revised downward by 0.3 percentage points in October 2018, on account of increased trade tensions and financial market volatility. The recent unfavourable global trade tension and financial market movements pose potential risks to the region's growth, particularly the elevated policy uncertainty in the advanced countries. Public debt remained high and continued to rise in some countries, due to rising interest rates and exchange rate volatility that may put the region's public debt sustainability at risk. Other countries' specific risks include widened fiscal deficit, geopolitical conflicts and variant weather conditions. Sustained recovery and medium-term growth prospects would require some countries to reduce debt burden and improve on fiscal space by intensifying domestic revenue mobilization and enforce policies to achieve sustainable and inclusive growth.

Growth in the EAC region remained strong driven by investment in public infrastructure and improved commodity prices. The region's growth is projected at 5.8 percent in 2018 and further to 6.2 percent in 2019 from 5.2 percent in 2017 (**Chart 1.3**). The positive outlook is driven by increase of public investment in development projects, particularly infrastructure and transport services. Recovery in commodity prices, continuing flow of foreign investments in manufacturing and commercial services and the drive for industrialization will further support regional growth prospects. Oil discoveries in some countries and construction of pipeline will reduce oil import bill and create employment opportunities, respectively.

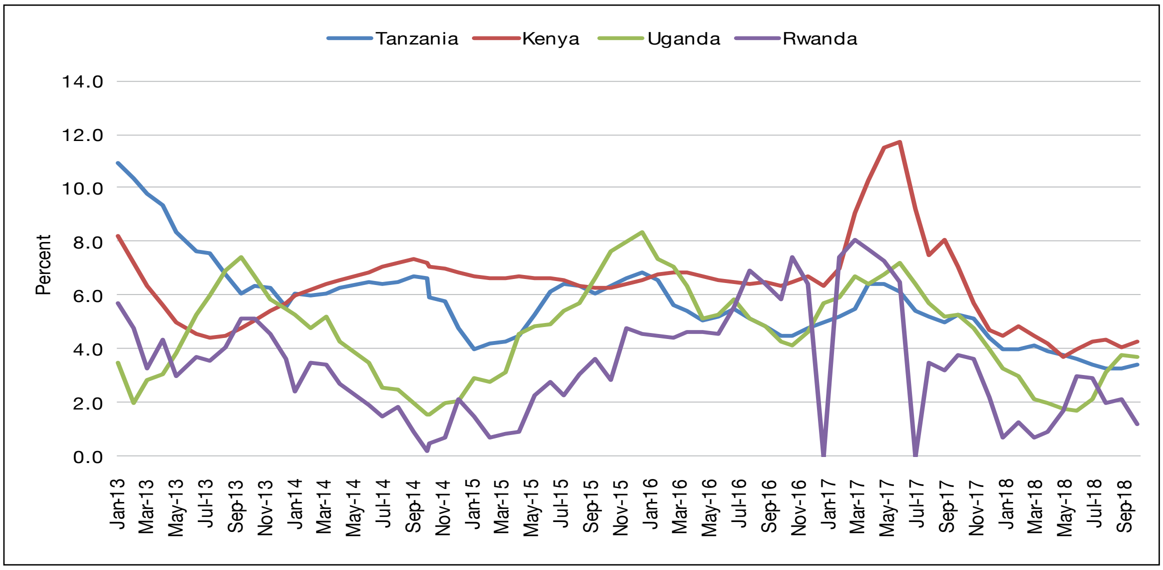
Chart 1.3: Economic growth in Sub-Saharan Africa and EAC



Source: *IMF, Regional Economic Outlook for Sub-Saharan Africa, October, 2018*

Inflation rates remained below the threshold of 8.0 percent in the East African Community (EAC) partner states. The low inflation was supported by improved food supply in the region coupled with low food prices, decrease in cost of clothing, housing utilities and transport cost. However, a slight rise of inflation in Uganda and Kenya was due to increased cost of non-food items, mainly communication, restaurants and hotels as well as different goods and services.

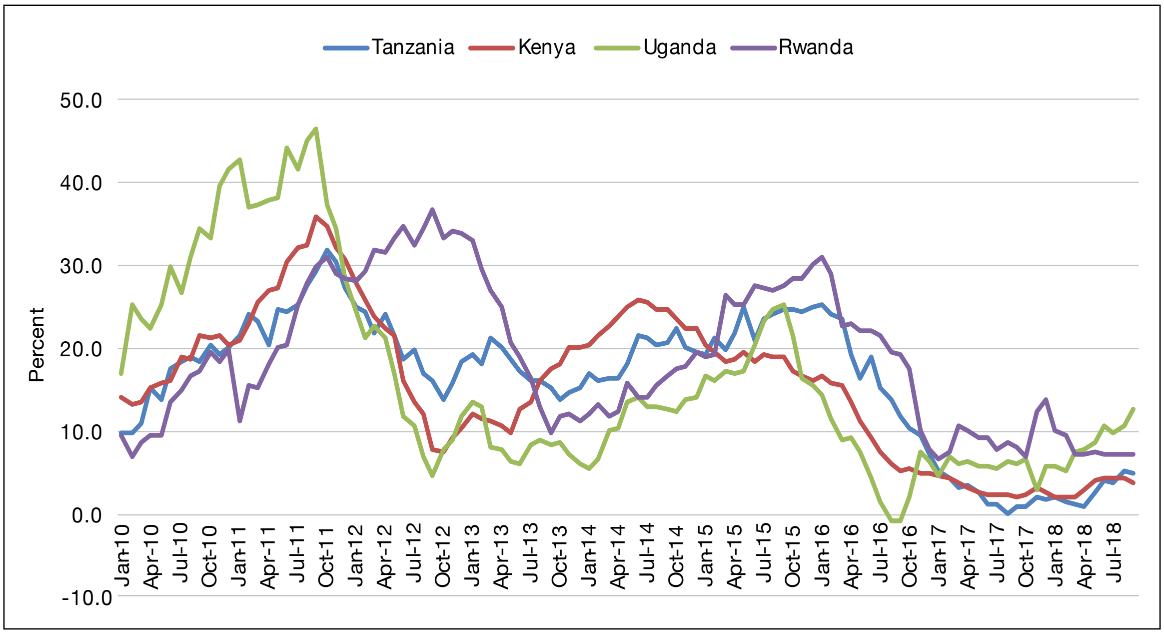
Chart 1.4: EAC countries inflation



Source: *Bank of Tanzania*

Notwithstanding, the region is vulnerable to expected tightening of global financial conditions that may lead to a shift in investors' sentiments and constrain financial flows. The ongoing trade tensions amongst the major global economies may adversely affect the regional trade balance due to reduced demand for commodity exports and increased oil import bill. Financial sector vulnerabilities remain elevated with high NPLs, though decreasing, weighing on banks' balance sheets and constraining credit to private sector thus compromise growth prospects (Chart 1.5).

Chart 1.5: EAC annual growth of credit to the private sector



Source: *Bank of Tanzania*

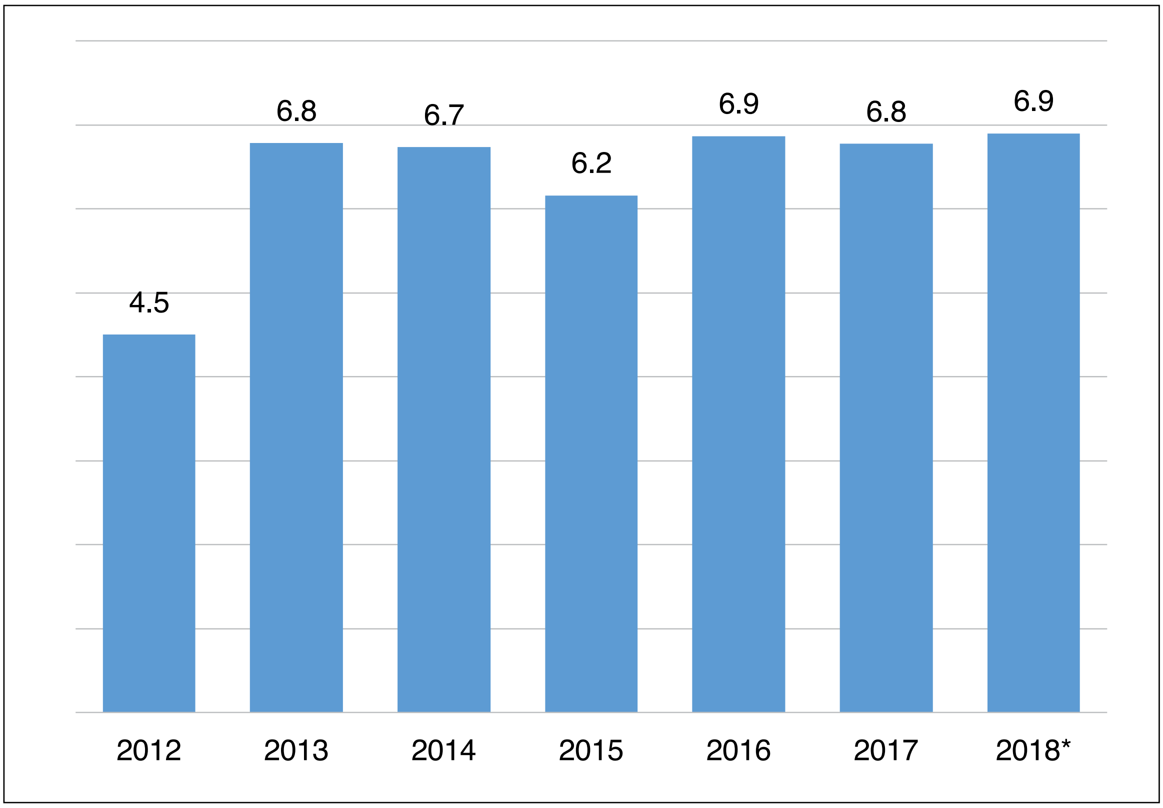
1.2 Domestic macroeconomic and financial environment

Domestic economy is expected to maintain steady growth, amid challenging external environment. In 2017, the economy grew 6.8 percent, mainly contributed by construction, information and communication and manufacturing activities. The economy is projected to grow at 6.9 percent in 2018 as a result of expansionary fiscal and monetary policies whereby the government increased expenditure on infrastructure development, manufacturing and service sectors (**Chart 1.6**). On monetary policy front, the central bank reduced discount rate, which partly contributed to an increase of liquidity to banks and credit to private sector.

Despite strong and stable domestic macroeconomic environment, tightening of global financial conditions, has resulted into exchange rate volatility and heightened debt-servicing cost. However, over the past three years the debt servicing costs increased due to expanded investment in infrastructure and volatility of exchange rate. Despite observed vulnerabilities, Debt Sustainability Analysis (DSA) conducted in 2018 using data as the at end of June 2018 confirmed that the present value of external debt to GDP ratio was 22.2 percent, which is below the international sustainability threshold of 55.0 percent, leaving the government with enough borrowing space for further investment and growth.

Chart 1.6: Annual GDP growth rates

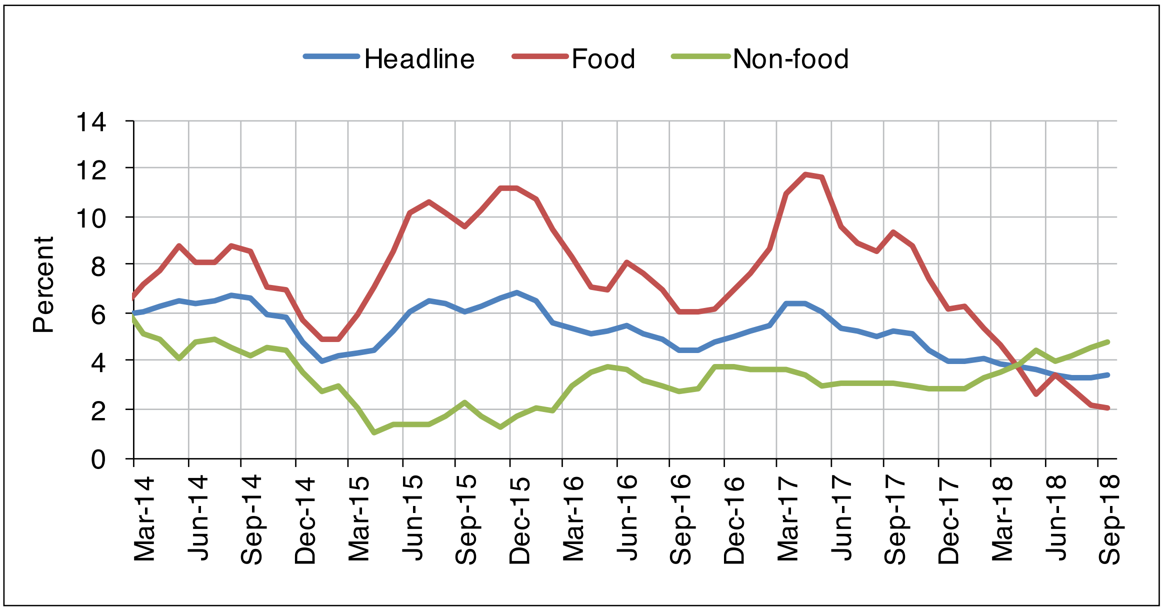
Percent



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

Inflation remained below the threshold of 5.0 percent whereby, in September 2018 it decreased to 3.4 percent from 3.9 percent in March 2018 mainly attributed to low food prices. (**Chart 1.7**). Inflation is expected to remain stable owing sufficient food supply and streamlined fiscal operations. However, domestic economy remains susceptible to downside risks due to unexpected weather conditions. Increase in oil prices may also exert pressure on domestic inflation and exchange rate. Nonetheless, use of gas in generating electricity may somewhat offset some impact of increased oil prices.

Chart 1.7: Domestic inflation developments

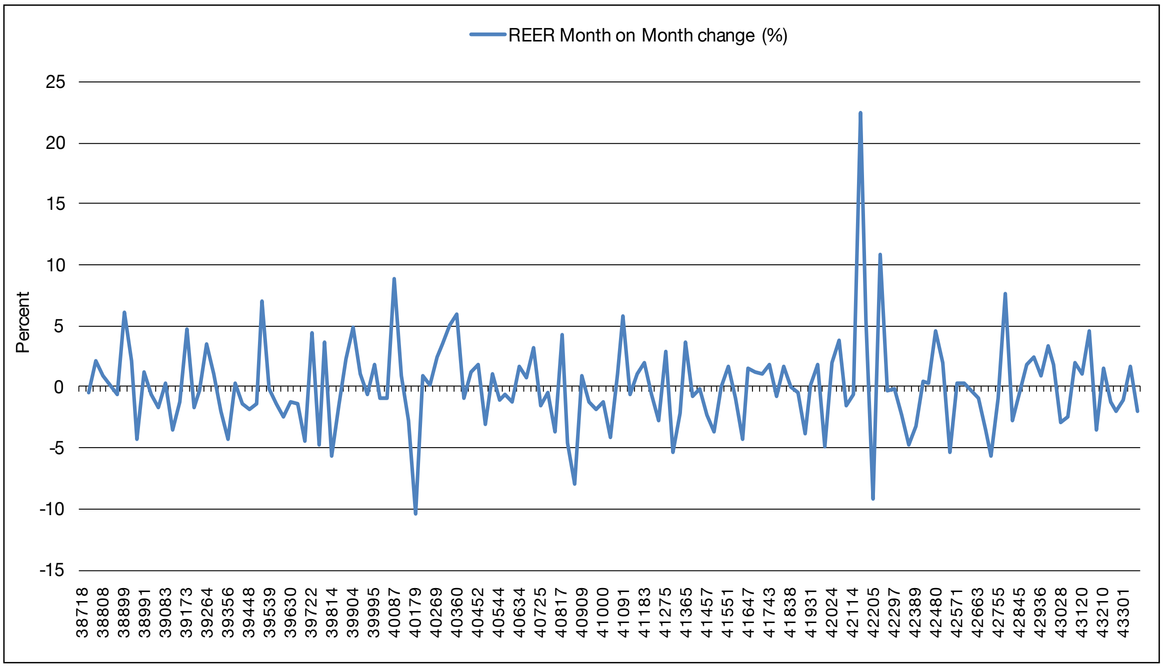


Source: *National Bureau of Statistics and Bank of Tanzania*

Real Effective Exchange Rate slightly depreciated reflecting an increase in values of imports relative to commodity exports to major trading partners (**Chart 1.8**).

The widening of current account to a deficit of USD 2,159.0 million in September 2018 from a deficit of USD 279.2 million in March 2018 was due to increase in oil price and demand for capital goods for investment in infrastructure. The effect of trade imbalance was transmitted into a slight depreciation of real effective exchange rate that may increase Tanzania's trade competitiveness that would narrow the current account deficit going forward.

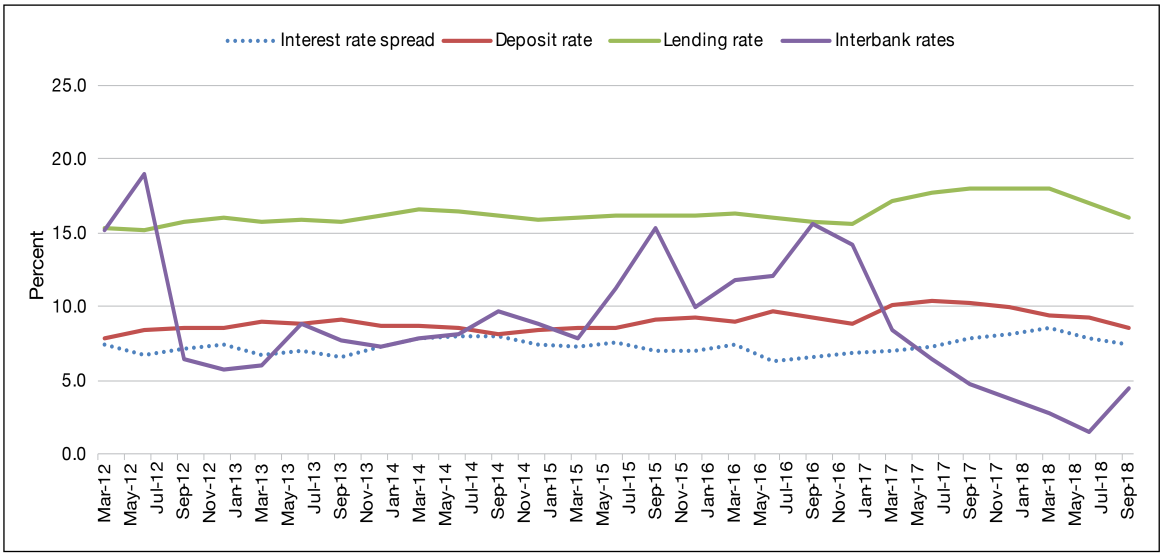
Chart 1.8: Real effective exchange rate



Source: *Bank of Tanzania*

The interbank cash market (IBCM) rate slightly increased by 55 basis points in September 2018 from March 2018 signalling liquidity squeeze in the money market. On the other hand, the spread between lending and deposits rates narrowed, as commercial banks lowered lending rates following the Bank of Tanzania's decision to reduce the discount rate. This policy action eased credit condition and resulted into a decrease in lending rate, which in turn increased lending, particularly personal loans. In addition, the Bank's decision to reduce statutory minimum reserve increased liquidity in commercial banks and lowered cost of fund, respectively. (**Chart 1.9**). Further, during the period under review treasury bills rates declined, suggesting reduced banks appetite to invest in short term government securities relative to private sector lending which would stimulate investment and economic growth.

Chart 1.9: Interest rates developments

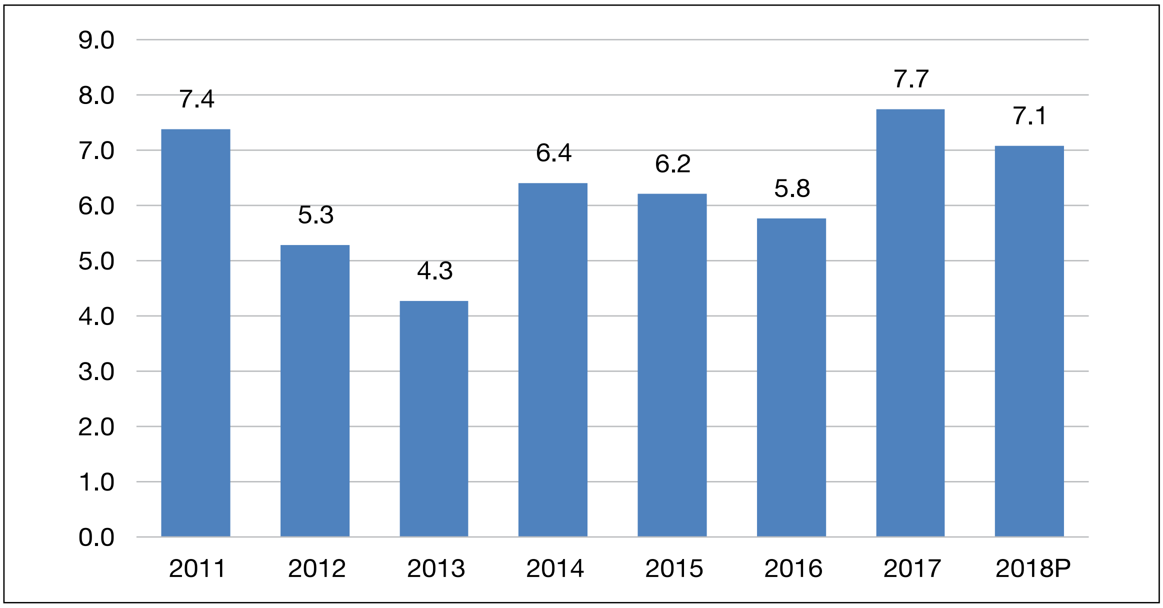


Source: *Bank of Tanzania*

Zanzibar's economy remained strong, driven by stable macroeconomic environment. The economy grew by 7.7 percent in 2017 compared to 5.8 percent in 2016 (**Chart 1.10**). Drivers of growth were agriculture, forestry and fishing (21.5 percent), followed by tourism, accommodation and food services (14.7 percent), real estate activity (8.5 percent), manufacturing (6.5 percent), construction (10.3 percent), trade, repairs and public administration, each contributing 6.2 percent to growth.

Chart 1.10: Zanzibar GDP growth rates

Percent

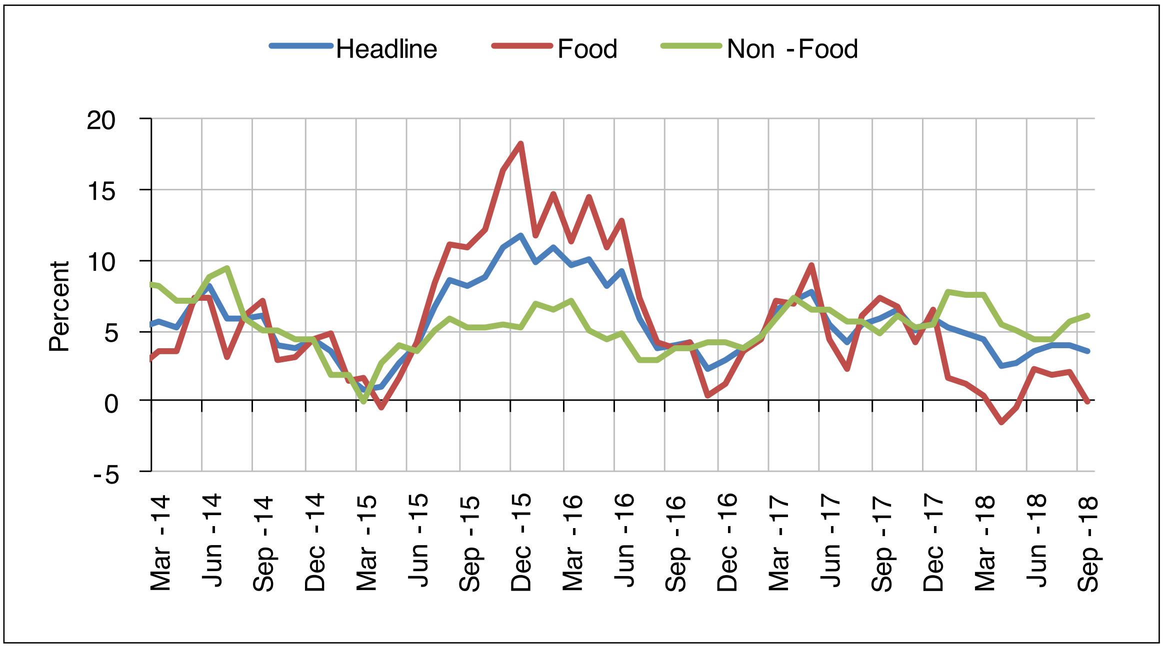


Source: *Office of Chief Government Statistician (OCGS)*

Growth is expected to remain strong in 2018, supported by ongoing implementation of infrastructure projects, expanded agricultural extension services, improvement in horticulture farming and tourism and related activities. Inflation is expected to remain at single digit mainly on account of decrease in food prices. However, main potential risk is possible fluctuations in oil price and fall in global commodity prices including seaweeds and cloves following trade tensions among trading partners.

Annual headline inflation remained at 3.5 percent in December 2018. Food inflation was 3.5 percent, while non-food inflation was 5.2 percent compared to 2.3 percent and 4.4 percent recorded in June 2018, respectively (**Chart 1.11**). The current account registered a deficit of USD 35.8 million compared with a surplus of USD 34.4 million recorded in the previous six months as at the end of December 2017, mainly driven by increase imports of oil and foodstuff.

Chart 1.11: Zanzibar inflation developments



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

2.0 HOUSEHOLD FINANCIAL CONDITION

Introduction

Household financial conditions survey is one of macro-prudential tool that the Bank of Tanzania uses to identify and monitor risks that may arise from household sector. To achieve this objective, the Bank conducted a survey in August 2018 covering a sample of household borrowing from 58 banks and other financial institutions.

Rationale

The financial condition and behaviour of households have a significant impact on the stability of the financial system because about 25.0 percent of bank loans are personal loans extended to households. In addition, about 70.0 percent of total bank deposits are household's savings[1]. Given the significant position of households on banks' balance sheets, it is important for the Bank of Tanzania to regularly monitor households' financial conditions including income, debt, debt servicing costs and capacity.

Methodology

A structured questionnaire was used for collecting qualitative and quantitative data. Interviews with senior credit officers were conducted to draw their perceptions about households' financial conditions. Quantitative data covered information on household disposable income using a proxy of salary earners' wages and other sources of earnings, borrowing[2] and savings. Both quantitative and qualitative data were analysed using Statistical Package for Social Science (SPSS).

Survey findings

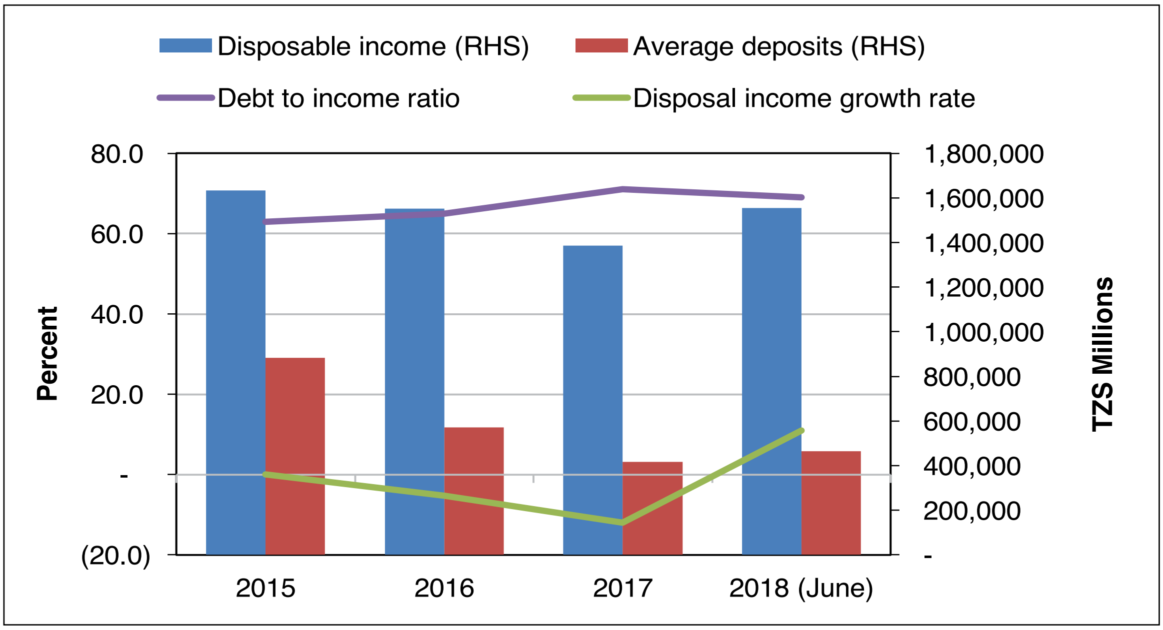
The response rate was 87.9 percent of 58 sampled banks and financial institutions, which was significant to represent salary earners borrowers.

Salary earners income and debt to income ratio

The information gathered from the survey revealed that, on average, salary earners' income and deposits increased during the last twelve months to June 2018. These results suggest the increase of borrower's ability to service debts and improve credit worthiness (**Chart 2.1**). Salary earners' debt to income ratio declined to 69.0 percent in 2018 from 71.0 percent in 2017, partly attributed to financial institution decision of extending loan repayment period. This action reduced borrowers' debt burden. Further, the survey results confirmed that, establishment of new projects by the government increase employment while payment of arrears to services providers to the government increase salary earners' incomes and ability to repay outstanding loans, which eventually reduce non-performing loans and improve banks' asset quality.

1 Bank of Tanzania data
2 Household borrowing is categorized as personal loans

Chart 2.1: Household income and debt income

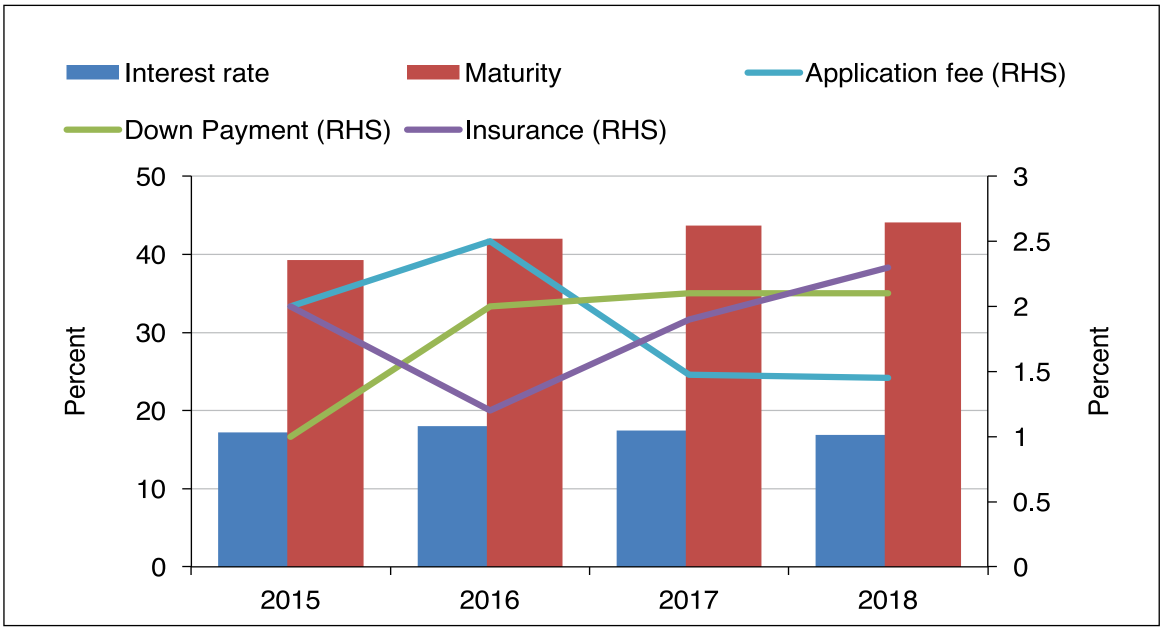


***Source: 2018** BoT Survey on Salary Earners financial condition*

Salary earners' indebtedness and debt servicing cost

The survey established that banks and other lending institutions revised their credit policy by reducing lending rate and increasing maturity aimed at reducing household's debt servicing cost, enhancing debt servicing capacity. Increasing of loan insurance fees aimed at minimizing credit risk in the event of default (**Chart 2.2**).

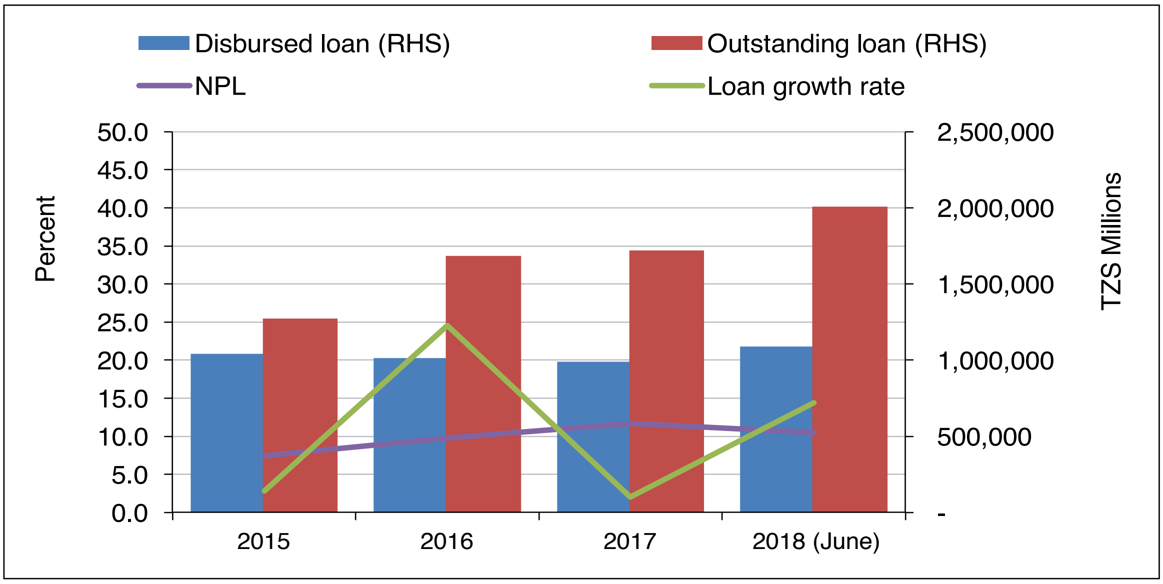
Chart 2.2: Change in interest rate, maturity, fees and insurance



***Source:** 2018 BoT Survey on Salary Earners financial condition*

The outcome of credit policy changes was the increase of outstanding loan by 14.4 percent in 2018 compared to 2.1 percent in 2017 and decrease of personal loans NPLs ratio to 10.5 percent in 2018 from 11.7 percent in 2017, respectively. These results suggest an increase of household's debt servicing capacity and reduced banks' risks exposure to households borrowing (**Chart 2.3**). However, growth of household credit and deposits warrant monitoring because in the event of unexpected decline in income and sudden withdrawals of deposits may expose banks to credit and liquidity risks.

Chart 2.3: Outstanding, disbursed debt and non-performing loans



Source: *2018 BoT Survey on Salary Earners financial condition*

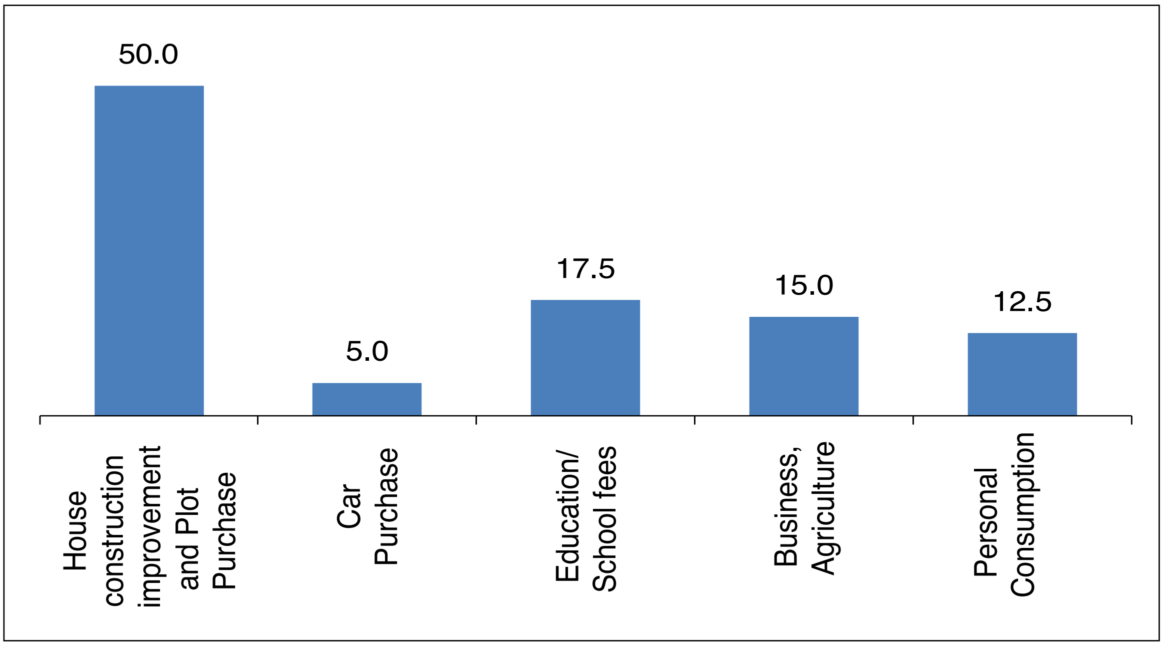
Household financial conditions is expected to improve going forward due to increased competition in the credit market, prompting lenders to further ease their lending terms and conditions. This is expected to further lower salary earners' debt burden and improve resilience of the banking sector.

In addition, implementation of industrialization strategy and other major projects including construction of oil pipeline and standard gauge railway will continue to generate employment opportunities, which in turn will increase households' income and stimulate demand in the credit market. As attested by the survey results, banks are optimistic to meet demand for the credit by extending more credit to households benefiting from these projects, which will ultimately improve households' financial conditions.

Salary earners loan purpose and other sources of income

Survey respondents indicated that about 50.0 percent of disbursed loans were used for home improvement, house construction and purchase of plots for house construction. Other uses include payment of school fees, business investments, purchase of motor vehicles and personal consumption (**Chart 2.4**). The survey results, further revealed that big proportion of personal loans to the households was for acquisition of real estate assets and investment in small and medium enterprises.

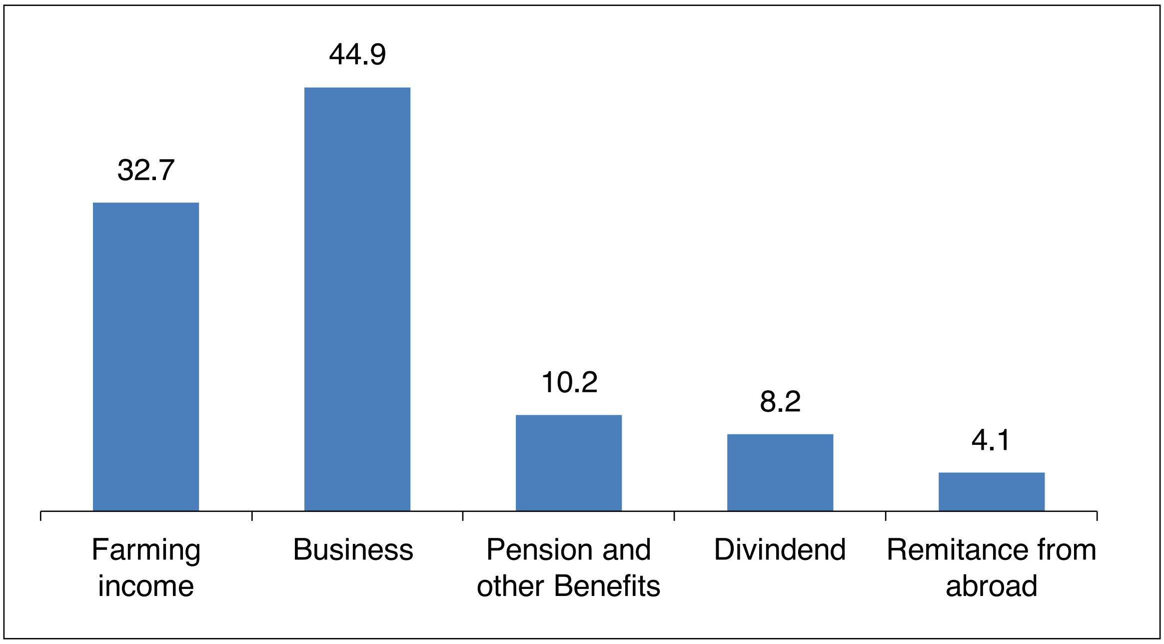
Chart 2.4: Main purpose of personal loan



Source: *2018 BoT Survey on Salary Earners financial condition*

Despite salary being the major source of income, the results confirmed that households have other sources of income to support their livelihood (**Chart 2.5**). Other sources of income complement salary income, thus reducing over-reliance on salaries and wages for loan repayments which reduces probability of default in the event of salary income shocks.

Chart 2.5: Other sources of income



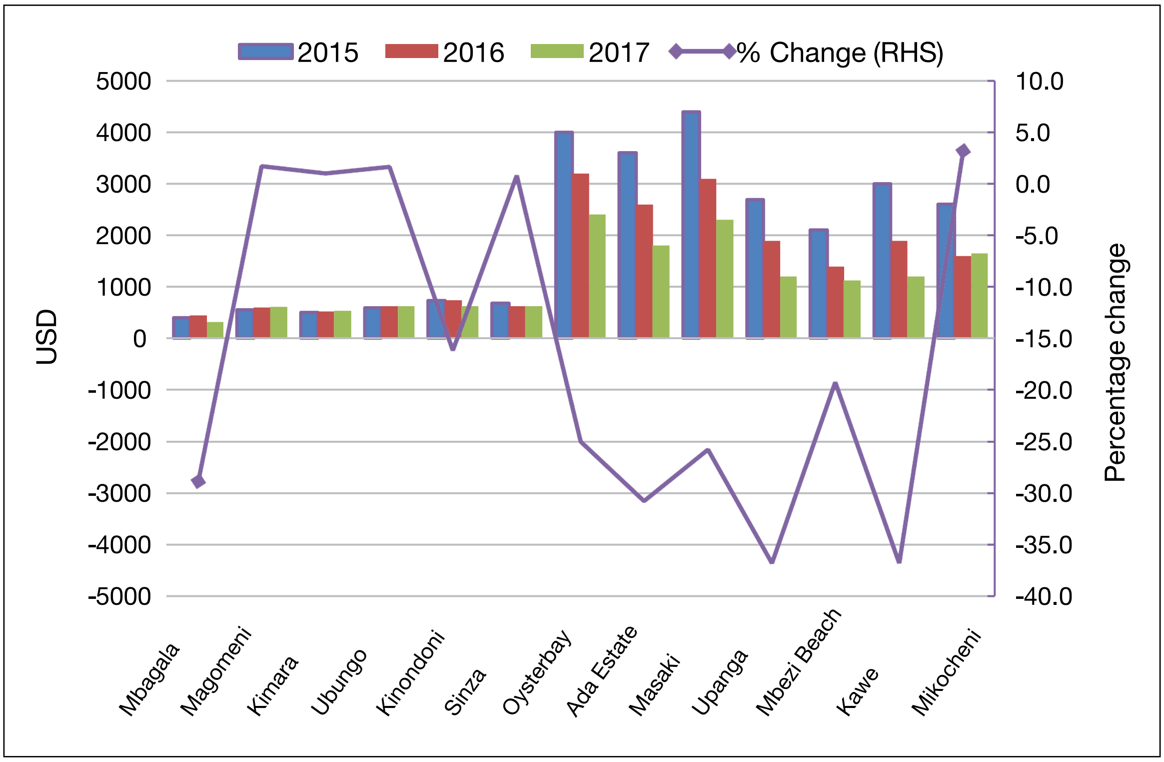
Source: *2018 BoT Survey on Salary Earners financial condition*

3.0 REAL ESTATE DEVELOPMENTS

The Bank of Tanzania collected secondary data from Real Estate Developers and Agents, with an objective to monitor and assess developments in property markets, focusing mainly on rental charges and occupancy rate. The survey was conducted in September 2018, covering selected areas in Dar es Salaam region. The Bank also assessed the growth of mortgage market using information from Tanzania Mortgage Refinancing Company (TMRC).

Residential rental prices declined in different locations of Dar es Salaam region. According to secondary data from Dar Property, one of the leading Real Estate Agent in Tanzania, revealed that rental prices for four bedroom residential houses continued to decline in 2017 (**Chart 3.1**). The major decline was observed in prime locations[3] as tenants shifted to sub-prime areas from prime areas. Rental prices in some sub-prime areas declined in 2017, attributed to increase in vacancy space partly reflecting movement of civil servants to Dodoma.

Chart 3.1: Four-bedroom rental price in selected areas of Dar es Salaam



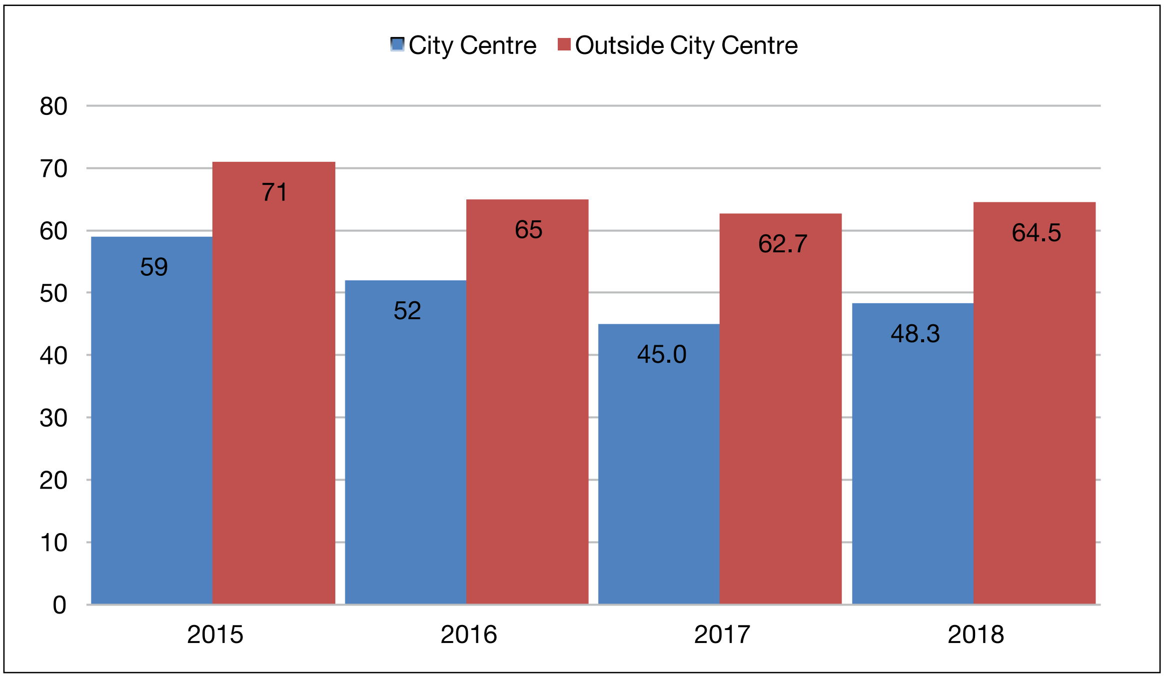
Source: *Dar Property 2018*

Commercial real estate occupancy rate remains low in the city centre. The information collected from real estate developers and agents revealed that the occupancy rate in Dar es Salaam city centre was below 50.0 percent since 2017 to date (**Chart 3.2**). The reasons provided by the real

3 Prime locations are Oyster bay, Masaki, Ada Estate, Mikocheni, Upanga and Mbezi Beach while sub-prime include Kawe, Magomeni, Kimara, Ubungo, Sinza, Kinondoni.

estate agents and developers included increased construction of commercial properties, decline in demand for office space and partly due to shifting of the Government operations to Dodoma.

Chart 3.2: Commercial space occupancy rate in Dar es Salaam

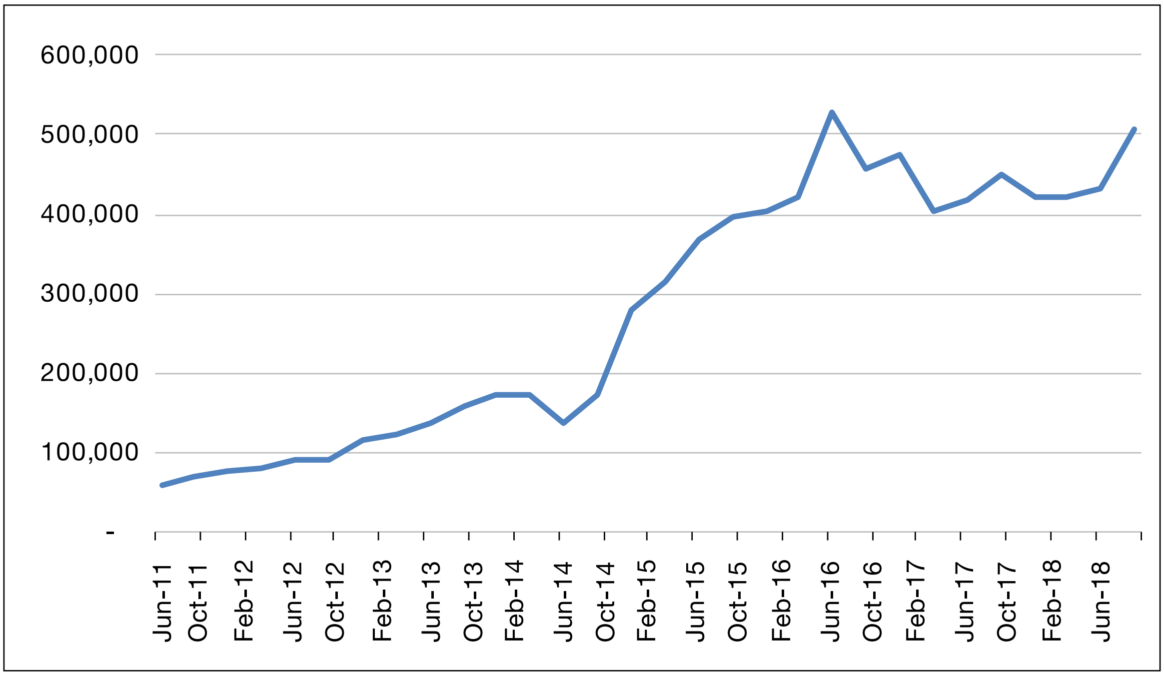


Source: *Real Estate Developers and Agents*

Changes in real estate prices has a significant linkage to the financial system including banking, pension and insurance sectors. A decline in real estate prices reduces the ability of real estate owners to service their debt. Since real estate, properties are used as collaterals for loans provided by banks, the decline in real estate prices may negatively affect the value of collateralized properties; hence increase the probability of default, which would reduce loan recovery rate.

Outstanding mortgage debt picked up, amid increase in lending to private sector and improved household income. The mortgage market in Tanzania registered an increase of 29.0 percent to TZS 428.65 billion during third quarter ending September 2018 (**Chart 3.3**). The increase in mortgage loans may pose moderate risk on account of increased lending to private sector if remain unchecked.

Chart 3.3: Outstanding mortgage loan



Source: *Tanzania Mortgage Refinancing Company*

4.0 NON- FINANCIAL CORPORATE SECTOR

Non-financial corporate sector is linked to the banking sector through credit, payments and deposits. In this regard, the Bank monitors the sector through annual surveys, in order to identify potential risks that can be transmitted to the banking sector.

Box 2: Non-financial corporate sector survey

Introduction

The Non-Financial Corporate (NFC) Sector Survey is one of macro-prudential tool for assessing building-up of systemic risk emanating from the NFC sector to the financial system. The survey provides information on NFCs' financial condition, including borrowings in domestic and foreign currency, leverage position, business performance and profitability. It also collects information on investors' perception on expected level of indebtedness, profitability, and debt servicing capacities. The information enables the Bank to establish vulnerabilities originating from the NFCs sector and take macro-prudential action to mitigate or reinstate stability of the financial system.

Rationale of the survey

Operations of NFCs are significantly linked with the banking sector in terms of savings, borrowing and transfers and settlements of domestic and international payments. Corporates also interact with capital markets, insurance as well as social security sectors in their day-to-day operations. Given strong interconnectedness among these sectors, there is a need for the Bank to continue monitoring the sector and identify potential systemic risks that may have a direct or indirect impact on the financial system. In this view, the Bank of Tanzania uses annual NFCs surveys as a tool for monitoring vulnerabilities arising from the sector that may have adverse impact on the financial system.

Survey objectives

i. The objective of the survey was to collect information on the Non-Financial Corporate Sector's performance, financial condition, perception regarding developments in the domestic and global environment and establish the extent to which these developments may affect corporates and ultimately the financial system and markets

ii. Assessing the NFCs demand for financial resources and changes in sources of financing sources;

iii. Evaluating potential risks emanating from NFCs sector, leveraging behavior and ability to make repayments by using internal sources of financing;

iv. Evaluating currency mismatch between firm's foreign liabilities and domestic operations; and

v. Monitoring the enterprise business cycle and business expectations.

Scope of the survey

The survey covered 420 sampled companies located in Tanzania Mainland and Zanzibar. The survey covered Non-financial corporates in Dar es Salaam, Northern Zone (Arusha, Kilimanjaro, Tanga and Manyara), Lake Zone (Mwanza, Bukoba and Shinyanga), Southern Highland (Mbeya, Iringa, Njombe and Ruvuma), Southern Zone (Lindi and Mtwara), Zanzibar and Central Zone (Morogoro and Dodoma). The survey focused on NFCs demand for financial resources and changes in sources of financing sources; risks emanating from NFCs, leveraging behavior and ability to repay loans using internal sources of financing. The survey also explored currency mismatch between NFCs' foreign liabilities and domestic incomes as well as changes in business cycles and expectations.

Methodology

Structured questionnaire was used to capture both qualitative and quantitative data. The questionnaire covers four broad categories: general characteristics of the firm, firm financial condition, which covers sources of financing, business performance and expectations. Interviews were conducted with executives including General Manager, Director of Finance and/or Chief Accountant who provided responses.

Sampling Procedure and Sample Size

Companies included in the sample were randomly selected from a list of non-financial corporates operating in Tanzania Mainland and Zanzibar basing on the size, sector, geographical location, and their degree of exposure to the financial system. Another selection criterion was based on a list of top borrowers in the banking sector and those firms listed in the Dar es Salaam Stock Exchange.

Corporates with investment capital of up to TZS 100 million were classified as small enterprises accounted for 17.5 percent; firms with investment capital of between TZS 100 million and TZS 1.0 billion were classified as medium scale which accounted for 22.9 percent; and those operating investment capital of more than TZS 1.0 billion were classified as large corporates which accounted for 59.5 percent of all the respondents. (**Table 4.1**).

Table 4.1: Number of survey enterprises by sector and annual turnover

Particulars	More than TZS10 million and up to TZS 100 million	More than TZS100 million and up to TZS 1 billion	More than TZS 1 billion
Agriculture	5	9	39
Building and Construction	0	6	13
Hotels and Tourism	40	41	37
Manufacturing	14	25	110
Mining (Minerals)	3	4	14
Oil and Gas	0	0	5
Wholesale or retail trade	8	11	17
Real estate	0	1	1
Transport and communication	4	2	14
Other	3	2	12
Total Companies	77	101	262

Source: *Bank of Tanzania Non-Financial Co-operate Sector Survey, 2019*

Data processing and reporting

Statistical Package for Social Sciences (SPSS) software was used in data entry, processing and analysis. Descriptive analysis was used to present data in tables and charts. Diffusion Index (DI) which is a measure of dispersion of a change was calculated by using the following formula:

$$DI = \sum_{i=1}^{3} Z_i W_i$$

Where;

DI is the diffusion index given in percentage;

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

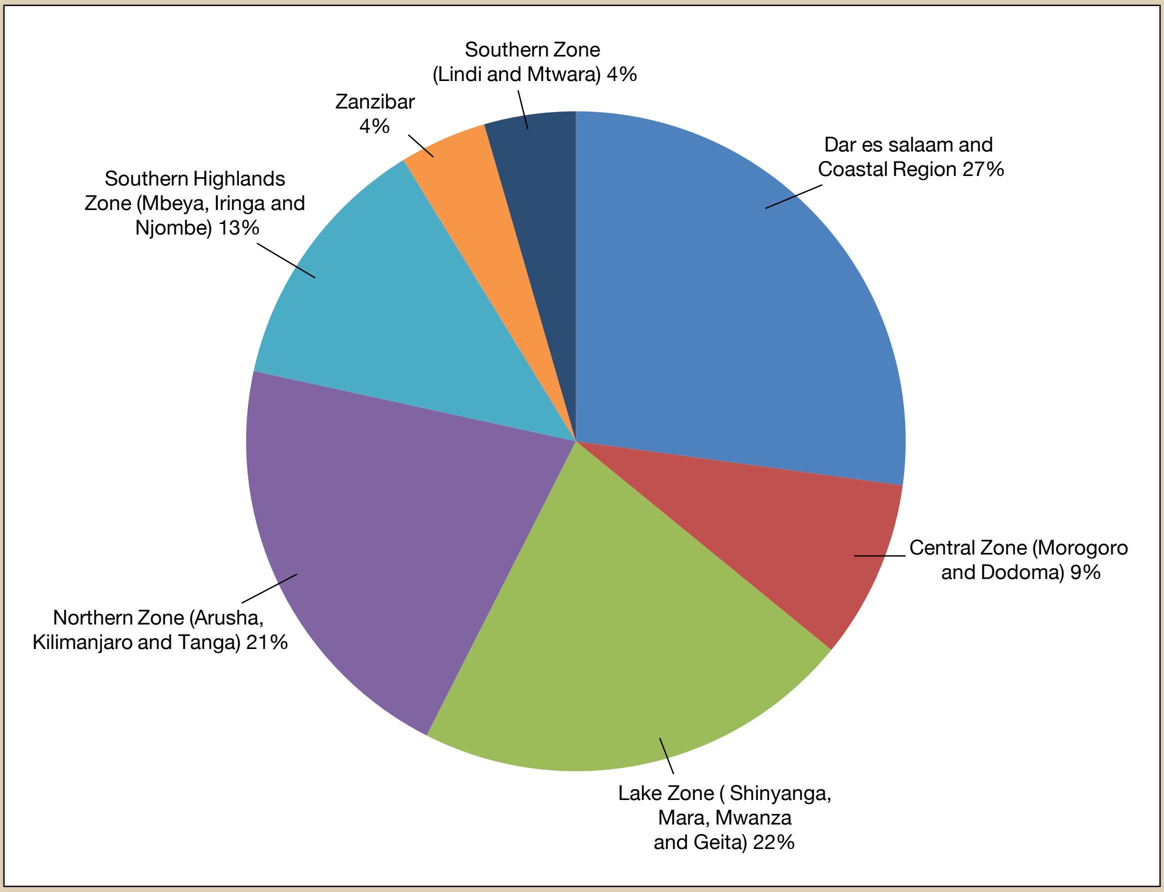
W_i is the weight assigned to the percentage of the given category, where by, 1 is for increase, 0.5 for remain unchanged and 0 is for decrease.

It measures the proportion of the component indicators that are improving or deteriorating. When DI is above the threshold, i.e. 50% the indicator implies is increasing and when the indicator is below the threshold, it implies a decrease.

Survey findings

The response rate was 95.6 percent of which 440 corporates responded out of 460 sampled corporates distributed in different zones (**Chart 4.1**)

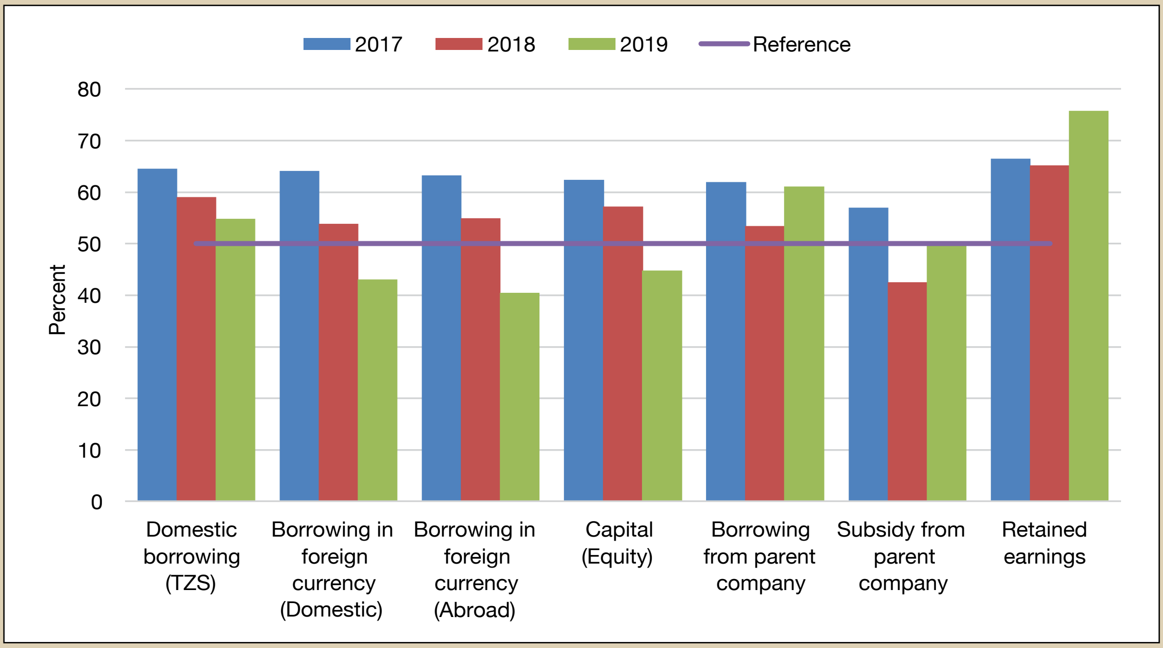
Chart 4.1: Sampe size by zonal distribution



Source: *Bank of Tanzania Non-Financial Co-operate Sector Survey, 2019*

Corporates reduced borrowing in 2018 as lenders tightened credit standards. The number of corporates reported to have increased borrowing declined to 59.0 percent in 2018 compared to 64.0 percent reported in 2017. The survey results confirmed that decline in borrowing was due to tightened lending practices, which were lending institutions' response to address increased non-performing loans. A decrease in corporates' ability to service debt was also reflected in growth of NPLs in the banking sector a factor, which led to weakening of business and profitability. Corporates have affirmed to further expect reduction of domestic and foreign currency denominated loans borrowing during the next twelve months of 2019 due to projected increase in equity and retained earnings (**Chart 4.2**).

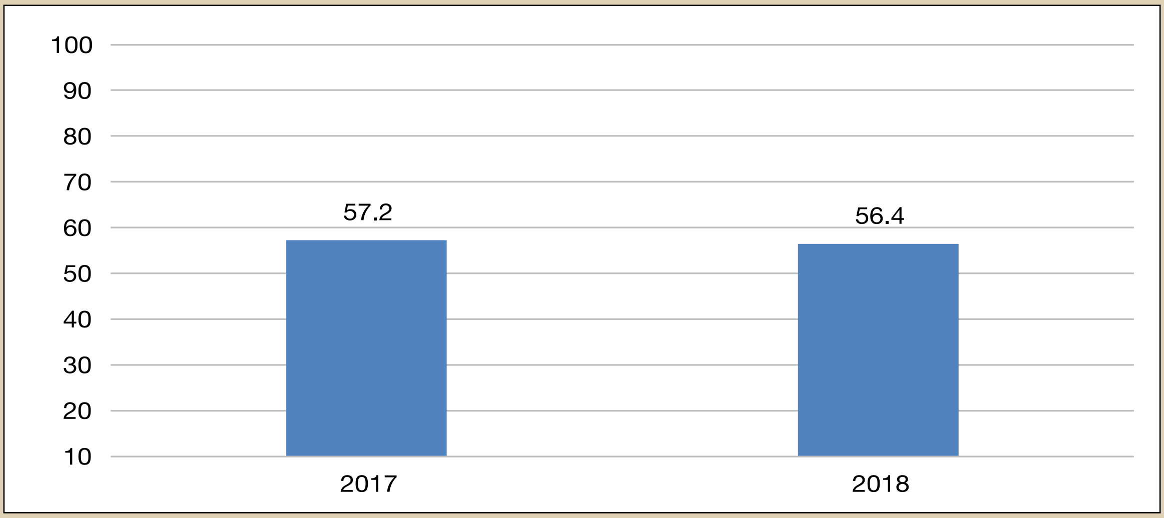
Chart 4.2: Corporates source of financing for the past twelve months



Source: *Bank of Tanzania Non-Financial Co-operate Sector Survey, 2019*

More than 50 percent of the corporates with foreign currency denominated debts exported in 2018. About 56.4 percent of firms, which borrows in foreign currency, produce products and services for exports while 43.6 percent produce for domestic markets. The corporates whose revenue is not in foreign currency are exposed to the risk of volatility in exchange rate. On the other hand, corporates which produce for domestic markets but import raw materials and capital goods in foreign currency reported an increase in cost of production and exchange rate losses due to depreciation of the Tanzania Shilling against USD during the third quarter of 2018 (**Chart 4.3**).

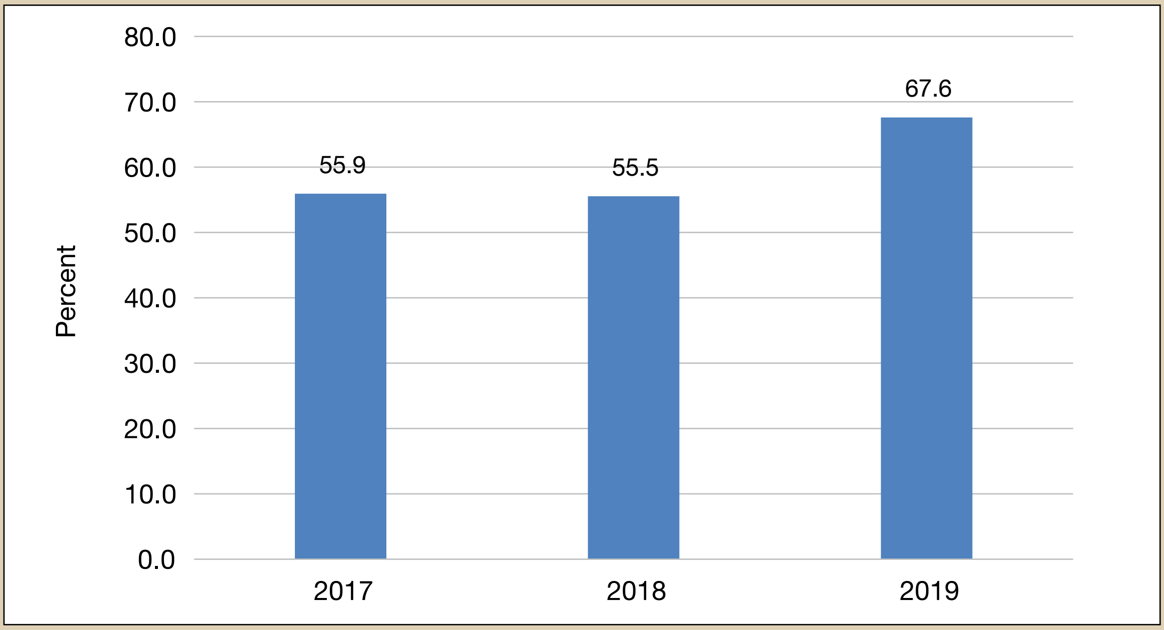
Chart 4.3: NFC borrow in foreign currency and export



Source: *Bank of Tanzania Non-Financial Co-operate Sector Survey, 2019*

Corporates' sentiment on exports for 2018 was slightly lower compared to 2017 mainly due to increase in cost of production. About 55.5 percent of corporates reported to have increased exports in 2018 compared to 55.9 percent in 2017 (**Chart 4.4**). The slight decline was explained by decrease in exports and increase in cost of production especially fuel prices, scale down in production, particularly in the mining sector following changes in legal and regulatory environment. The decrease in exports had consequently affected employment, foreign currency flows, profitability and debt servicing capacity of the corporates with foreign currency denominated debts.

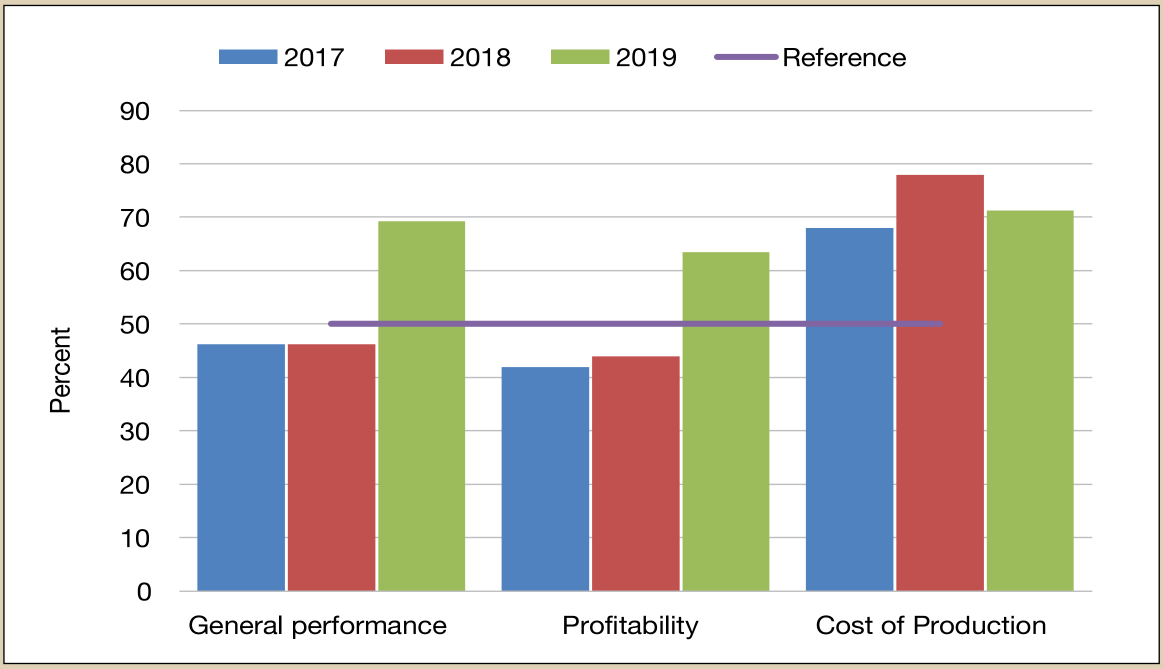
Chart 4.4: NFC export performance and expectations



Source: *Bank of Tanzania Non-Financial Co-operate Sector Survey, 2019*

Non-Financial Corporates expected improvement in general business performance and profitability in 2019 as reflected by sentiment index of above 65 percent. The reasons provided for projected improvement include expected increase in demand of goods and services and government's payment of arrears to services providers. However, in 2017 and 2018 general business performance and corporates' profitability declined as shown a sentiment index of below 50 percent (**Chart 4.5**). The reasons for underperformance were increase in cost of production, decline in demand for goods and services, multiple taxes and streamlined government's recurrent expenditure. Further, survey results revealed that poor performance in 2018 was caused by increase in corporates' debt burden as their debt service capacity declined, subsequently leading to higher NPLs. However, the basis for corporates' sentiments about good performance and profitability in 2019 is reduction of over reliance on external borrowing by using retained earnings as main source of financing.

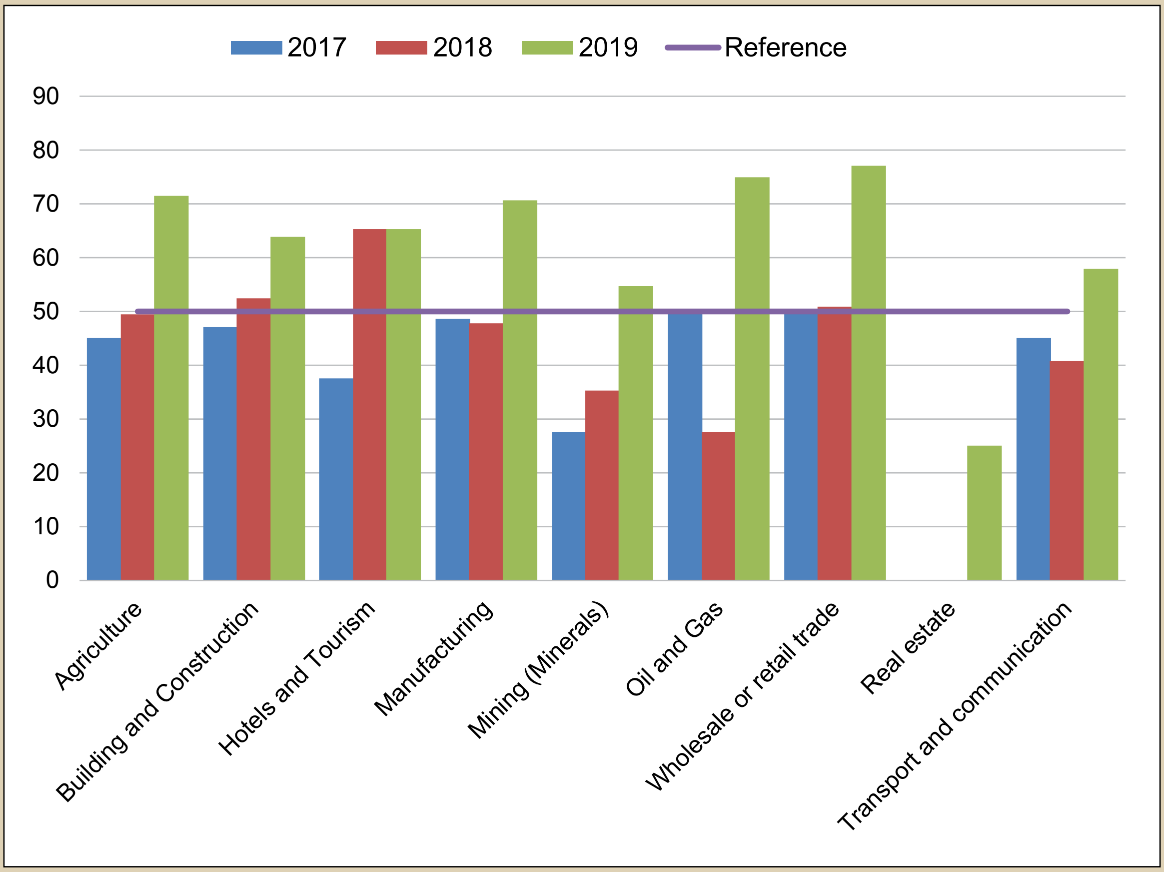
Chart 4.5: Firms business performance and expectations



Source: *Bank of Tanzania Non-Financial Co-operate Sector Survey, 2019*

The findings showed a decline of profitability across all sectors in 2018 as confirmed by a sentiment index of below 50 percent (**Chart 4.6**). Sectors, which were adversely affected were real estate, transport and communication, mining, oil and gas, agriculture and manufacturing. The decline in profitability were on account of decrease in rental prices, scale down in mining operations, multiple taxes and levies, increase in cost of production and depreciation of local currency. However, corporates dealing with building and construction, hotels and tourism reported a slight improvement in 2017 compared to 2018 due to increased contracts in construction and inflow of tourists in the country. Corporates whose businesses are in agriculture, manufacturing, mining, oil and gas, building and construction and transport and communication are optimistic about improved performance and profitability in 2019. The positive outlook is based on expected increase in commodity prices, efforts to streamline taxes and levies, completion of revision of mining laws and growing construction sector.

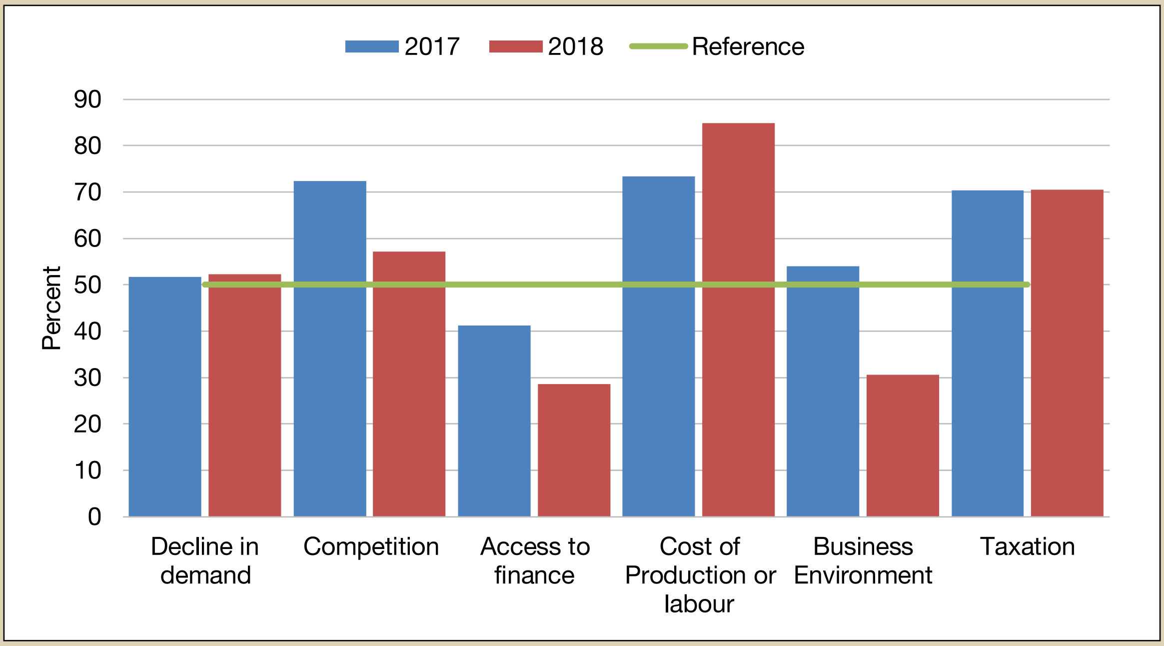
Chart 4.6: Corporates profitability by sector



Source: *Bank of Tanzania Non-Financial Co-operate Sector Survey, 2019*

Business environment improved albeit higher cost of production. The sentiment index of above 60 percent for both 2017 and 2018 as established by the survey findings suggests that cost of production and tax burden were main predicaments to Non-Financial Corporates' business performance. Improved business environment and access to finance in 2018 were because of increase in number lending institution and ongoing construction of infrastructure (road, power plants etc.). On the other hand the increase in cost of production sentiment from 73.3 percent in 2017 to 84.4 percent in 2018 asserted observed increase in fuel prices and depreciation of local currency during the second half of 2018 which affected corporates' financial condition (**Chart 4.7**).

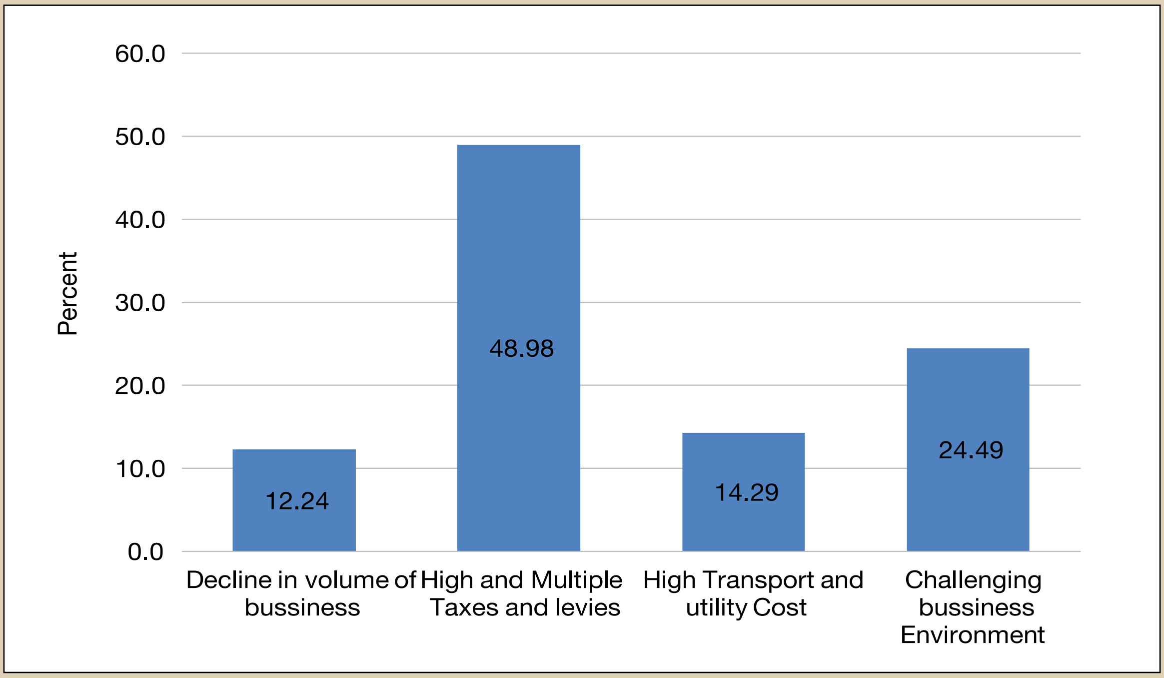
Chart 4.7: Corporates business constraints



Source: *Bank of Tanzania Non-Financial Co-operate Sector Survey, 2019*

Further, the corporates revealed that accumulation of unpaid VAT refunds, bureaucracy, multiple regulations and unreliable power supply were challenging business environment in 2018 (**Chart 4.8**).

Chart 4.8: Reasons for business constraints



Source: *Bank of Tanzania Non-Financial Co-operate Sector Survey, 2019*

Conclusion

In sum, the NFCs survey provides a tool for monitoring the current and future credit risks in order to identify potential risks from demand side of credit market that may have negative impact on banks' balance sheets. The survey results revealed that NFCs are optimistic about improvement in business performance and profitability in 2019. Positive prospects are on account of increase in exports proceeds due to increase in commodity prices, efforts to streamline taxes and levies, completion of revision of mining laws and growing construction sector. The ongoing efforts by the government to improve infrastructure will improve business environment by reducing cost of transport. Increase in profitability and retained earnings will ease debt burden to corporates and minimize credit risk from the demand side, which reduce NPL thus improve asset quality.

Despite risks exposure in foreign currency denominated debts NFCs do not foresee prominent challenges ahead because many corporates have foreign currency revenue sources. However, corporates whose borrowings are denominated in foreign currency and does not have a foreign currency revenue have faced challenges because of depreciation of the Tanzanian Shilling against the US Dollar including increasing cost of imported raw materials affecting their profitability and their financial condition.

5.0 PERFORMANCE OF THE FINANCIAL SECTOR

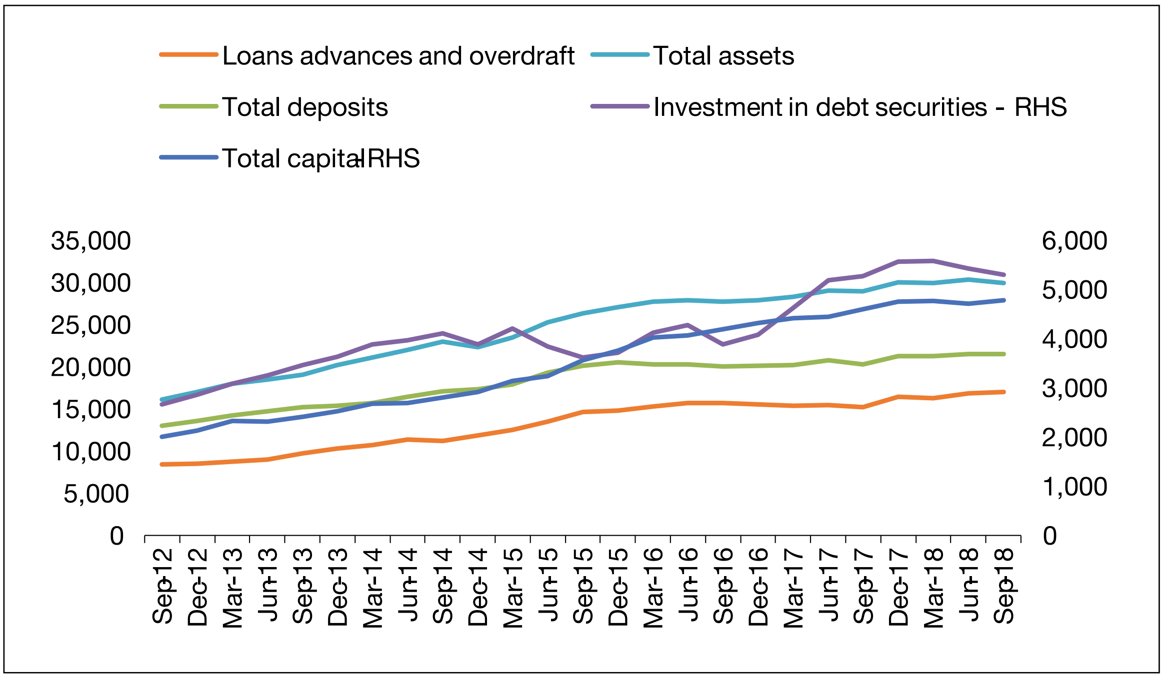
The financial sector's total assets increased by 4.1 percent to TZS 43,894.8 billion as at the end of September 2018 from September 2017 position, with banks contributing 68.2 percent, social security schemes, insurance and collective investment schemes contributed 29.1 percent, 2.1 percent and 0.6 percent, respectively.

5.1 Banking sector

The sector[4] assets increased slightly as at the end of September 2018 financed mainly by deposits, which accounted for 71.7 percent of total funding. The banking sector's assets continued to be dominated by commercial banks, despite a slight decrease. The share of Financial institutions assets' remained at the same level despite the merging of Twiga Bancorp Limited and Tanzania Postal Bank Limited in May 2018, which formed TPB Bank Plc. Thereafter, in August 2018, TPB Bank Plc merged with Tanzania Women Bank Plc and maintained the same corporate name. The share of community banks' assets to total assets increased to 2.0 percent in September 2018 due to injection of capital to Tandahimba Community Bank by CRDB Bank Plc. The objective of the merger and capital injection was to address capital inadequacy and limit contagion effects in the banking sector (**Chart 5.1** and **Table 5.1**).

Chart 5.1: Selected bank assets composition

TZS billion



Source: *Bank of Tanzania*

4 Banking sector is comprised of commercial banks (which includes financial institutions), community banks, development financial institutions and microfinance institutions.

Table 5.1: Composition of banking sector assets

Percent

Type of Banking Institutions	Sep-17	Dec-17	Mar-18	Sep-18
Commercial banks	94.0	93.8	94.3	92.5
Community banks	0.3	0.4	0.3	2.0
Microfinance Institutions	0.6	0.6	0.6	0.6
Development Financial Institutions	3.0	3.3	3.0	3.0
Financial Insitutions	2.1	1.9	1.9	1.9
Total Assets (TZS Billion)	28,920.3	28,605.3	29,894.7	29,921.1

Source: *Bank of Tanzania*

The ratio of core deposits to total funding increased by 0.5 percentage points, suggesting that banks continued to rely on low cost and stable source of funding, which minimizes cost of funding and liquidity risks. The use of agency banking platform has provided an infrastructure for deposit mobilization for intermediation (**Table 5.2**).

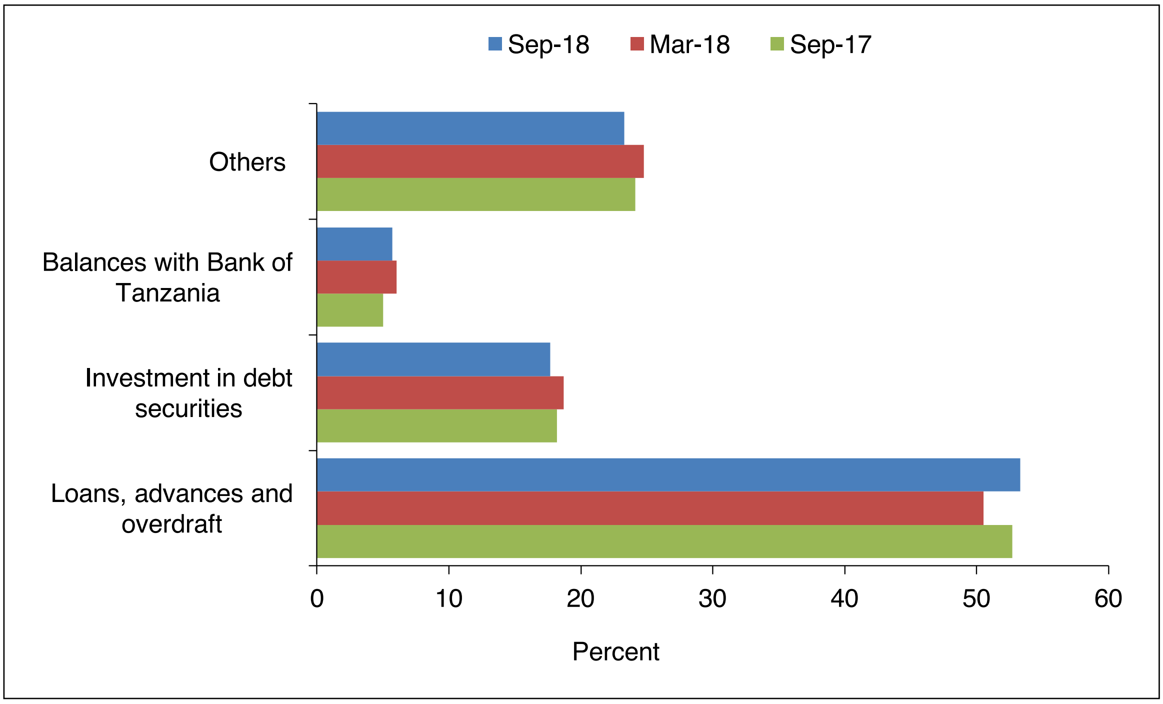
Table 5.2: Core deposits and total funding

Particulars	Sep-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Total core deposits (TZS Billion)	18,882.5	20,217.6	20,796.6	20,230.3	20,357.0	21,271.5	21,498.5	21,466.0
Total funding (TZS Billion)	25,644.1	28,322.3	28,995.5	28,920.3	28,605.3	29,894.7	30,305.6	29,919.3
Core deposits to Total funding (%)	73.6	71.4	71.7	70.0	71.2	71.2	70.9	71.7
Core deposits to Gross Loans (%)	115.4	124.1	127.5	125.0	129.6	130.8	126.9	127.3

Source: *Bank of Tanzania*

The composition of banking sector's assets remained relatively the same with loans, advances and overdraft constituting the largest share of 53.3 percent. Loans, advances and overdraft grew by 5.6 percent supported by accommodative monetary policy whereby the effects of the discount rate reduction, regular intervention through reverse repos and rediscounting of securities implemented by the Bank increased liquidity in the market. In addition, improvement in business environment, risks management and slowdown in banks' appetite to invest in Government securities due to reduced yields have contributed to increase in quality and quantity of credit (**Chart 5.2**).

Chart 5.2: Bank sector assets composition



Source: *Bank of Tanzania*

Interest rate risk subdued as at the end of September 2018 as depicted by the increase in the ratio of interest bearing liabilities to interest bearing assets (**Table 5.3**).

Table 5.3: Interest bearing liabilities and assets

TZS Billion

Particulars	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Demand Deposits	4,470.0	4,693.3	3,636.0	6,513.9	7,141.0
Savings Deposits	3,008.3	3,154.8	1,818.4	3,695.9	3,424.5
Time Deposits	3,536.3	3,587.2	2,694.3	3,596.0	3,562.7
Borrowings	932.5	841.6	813.6	1,134.3	1,031.5
Other Interest Bearing Liabities	102.0	115.7	99.7	294.1	315.0
Total Interest Bearing Liabilities	12,049.1	12,392.6	9,062.0	15,221.0	15,419.2
Loans and Advances	8,326.8	8,722.6	6,406.4	11,111.5	9,442.5
Overdraft	1,924.3	1,827.8	1,556.7	2,009.4	1,579.5
Treasury Bills	2,910.0	2,929.8	2,367.6	2,552.1	2,088.7
Government Bonds	2,100.3	2,304.3	1,935.7	3,624.4	3,215.9
Interbank Loans Receivable	240.3	243.4	257.0	208.0	146.9
Other Interest Bearing Assets	401.2	355.1	406.1	417.2	210.4
Total Interest Bearing Assets	15,902.9	16,383.0	12,929.6	19,675.6	16,437.4
Ratio of I.B Liabilities to I.B Assets	75.8	75.6	70.1	77.4	93.8

Source: *Bank of Tanzania*

Overall, vulnerability in the banking sector moderated as depicted by the trend of key financial stability indicators (**Table 5.4**). Asset quality recorded some improvement and the level of watch loans are declining, reducing credit risk. The Bank's intervention had a positive impact as the commercial banks adopted different strategies to reduce growing NPLs and support credit growth such as loan write-off and restructuring. The usage of credit reference bureau services reduced the problem of information asymmetry in the market, borrowing costs and eventually NPLs.

Table 5.4: Selected financial soundness indicators for the banking system

Percent

Indicators	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Capital adequacy					
Core capital/TRWA	18.9	18.4	18.7	18.2	16.3
Total capital/TRWA	20.9	20.4	20.7	20.2	18.3
Liquidity					
Liquid assets/demand liabilities	37.9	40.2	39.5	37.6	34.6
Total loans/customer deposits	84.9	81.1	80.9	83.9	84.4
Earnings and profitability					
Net interest margin	52.3	52.0	53.3	53.6	54.6
Non-interest expenses to gross income	51.9	52.4	53.8	54.6	55.3
Personnel expenses to non-interest expenses	45.2	44.6	46.1	45.7	45.3
Return on Assets	2.0	1.6	1.7	1.6	1.6
Return on Equity	8.7	4.6	7.1	6.7	6.6
Asset composition and quality					
Foreign exchange loans to total loans	35.1	35.8	35.8	36.0	34.9
Gross non-performing loans to gross loans	12.5	11.9	11.5	11.3	9.7
NPLs net of provisions to total capital	28.5	23.3	25.2	42.8	36.9
Large exposures to total capital	125.3	118.6	123.1	122.4	105.5
Net loans and advances to total assets	52.7	50.9	50.4	51.8	53.3
Sensitivity to market risk					
FX currency denominated assets to total assets	29.2	29.9	29.1	30.5	31.0
FX currency denominated liabilities to total liabilities	36.4	35.4	34.3	34.8	34.6
Net open positions in FX to total capital	2.1	2.1	0.8	3.3	5.0

Source: *Bank of Tanzania*
Note: *OBSE is off-balance sheet exposure and TRWA is Total Risk Weighted Assets.*

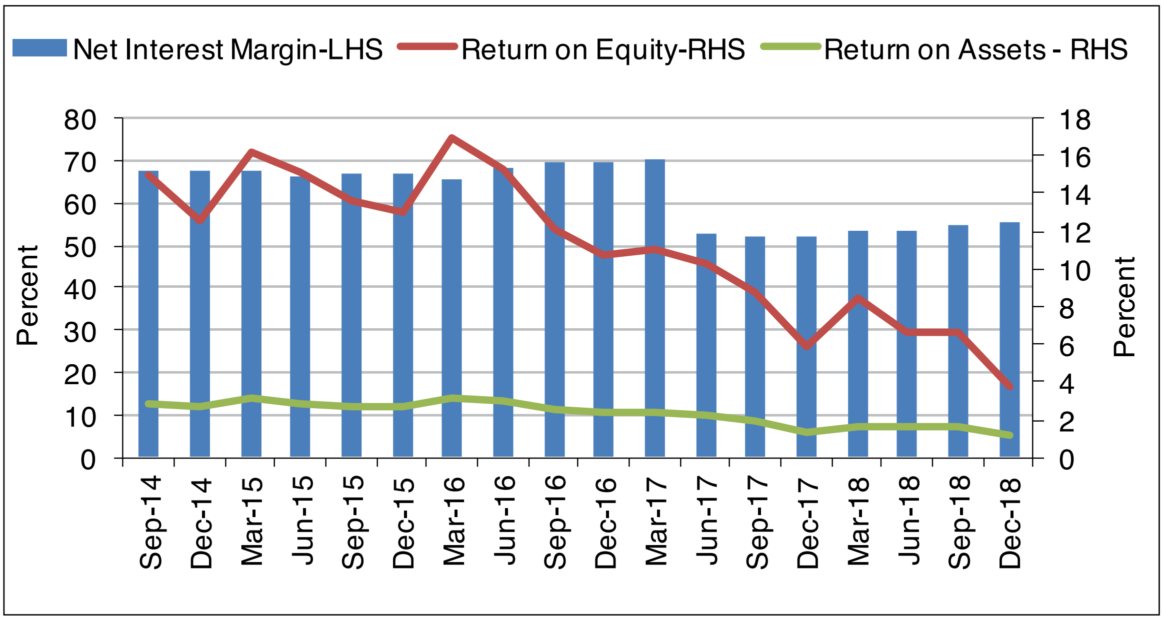
The banking sector remained adequately capitalized, albeit declining profitability. Core and total capital ratios were above regulatory requirement of 10.0 percent and 12.0 percent as at the end of September 2018, respectively. However, the ratios were below the March 2018 position attributable to a decline in profitability, loan loss provisioning and write-offs of bad debts.

At individual level, nine banks did not meet minimum regulatory capital requirements. Three commercial banks, one Microfinance Institution and two community banks were undercapitalised as measured against capital adequacy ratio.

Three banking institutions were undercapitalized when measured against total required core capital in Tanzanian Shillings. Undercapitalized banks, may threaten stability of the banking sector notwithstanding the current efforts of addressing the problem of NPLs and merging of banks facing capital and liquidity challenges, thus calls for close monitoring of undercapitalized banks and take prompt macro-prudential policy actions as necessary.

Profitability declined slightly following the implementation of International Financial Reporting Standard[5] (IFRS 9), which requires increased provisioning, and write-offs of bad loans (**Chart 5.3**). The number of banks that incurred losses increased to 21 in September 2018 from 19 in March 2018.

Chart 5.3: Banks' profitability



Source: *Bank of Tanzania*

5 IFRS 9 uses an expected credit loss model which requires the forward-looking recognition of credit impairments as opposed to the model used previously.

Table 5.5: Capital adequacy analysis

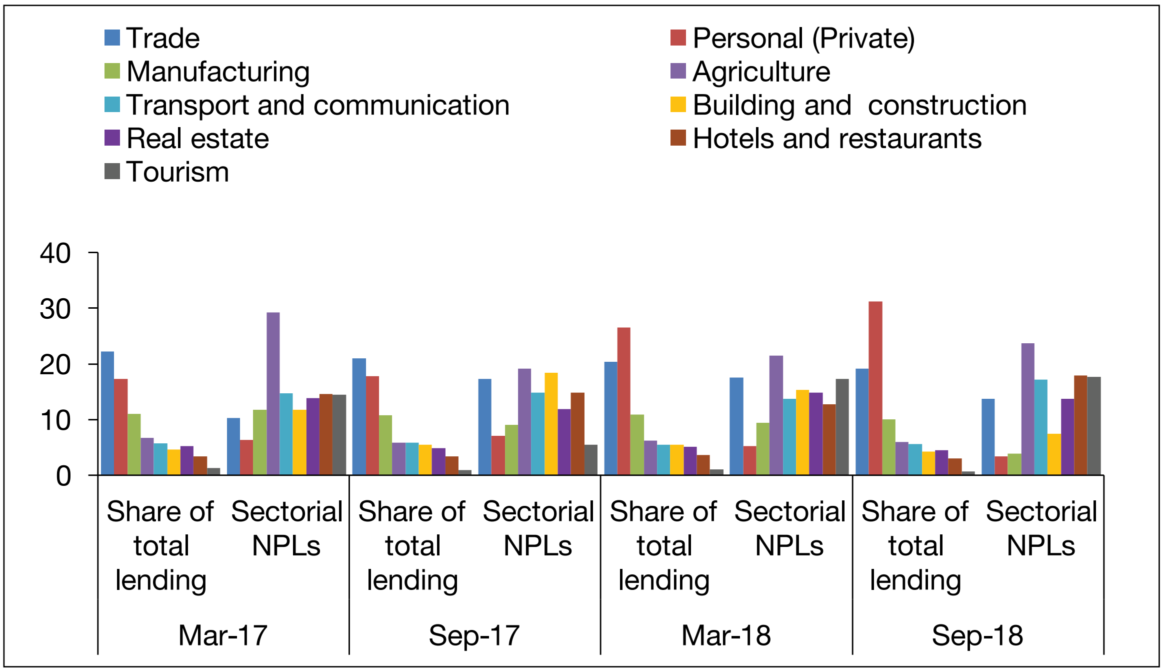
Particulars	Sep-17		Dec-17		Mar-18		Jun-18		Sep-18	
	Core Capital	Total Capital	Core Capital	Total Capital	Core Capital	Total Capital	Core Capital	Total Capital	Core Capital	Total Capital
All Banks										
<8	10	10	6	6	6	6	3	3	5	3
8-Oct	2	0	0	0	0	1	2	1	0	2
10-Dec	1	3	3	0	2	1	2	2	3	1
1-Dec	1	0	3	3	2	1	5	5	6	5
>14	45	46	42	45	45	46	41	42	38	41
TOTAL	59	59	54	54	55	55	53	53	52	52
Commercial Banks										
<8	2	2	2	2	2	3	1	1	2	2
8-Oct	2	0	0	0	0	0	2	1	0	1
10-Dec	1	3	2	0	2	1	1	1	3	1
1-Dec	1	0	3	2	2	1	3	4	5	4
>14	37	38	34	37	37	38	35	36	30	33
TOTAL	43	43	41	41	43	43	42	42	40	40
Development Financial Institutions										
<8	1	1	0	0	0	0	0	0	0	0
8-Oct	0	0	0	0	0	0	0	0	0	0
10-Dec	0	0	0	0	0	0	0	0	0	0
1-Dec	0	0	0	0	0	0	0	0	0	0
>14	1	1	2	2	2	2	2	2	2	2
TOTAL	2	2	2	2	2	2	2	2	2	2
Microfinance Institutions										
<8	0	0	0	0	1	0	1	1	1	1
8-Oct	0	0	0	0	0	1	0	0	0	0
10-Dec	0	0	1	0	0	0	0	0	0	0
1-Dec	0	0	0	1	0	0	0	0	1	1
>14	5	5	4	4	4	4	4	4	3	3
TOTAL	5	5	5	5	5	5	5	5	5	5
Community Banks										
<8	7	7	4	4	3	3	1	1	2	2
8-Oct	0	0	0	0	0	0	0	0	0	0
10-Dec	0	0	0	0	0	0	1	1	0	0
1-Dec	0	0	0	0	0	0	0	0	0	0
>14	2	2	1	1	2	2	3	3	4	4
TOTAL	9	9	5	5	5	5	5	5	6	6

Source: *Bank of Tanzania*

The banking sector's exposure to liquidity risk remained low. The ratio of liquid assets to demand liabilities hovered around 40.0 percent, but declined to 34.6 percent as at the end of September 2018, which is above the regulatory requirement of 20.0 percent. Loans and advances increased as banks' risk appetite shifted from investments in debt securities to private sector lending attributed to a decline in yields and improvement in credit conditions, which may further stimulate economic growth. In addition, loan-to-deposit-ratio increased to 84.4 percent from 80.9 percent in March 2018, partly explained by increase in lending relative to deposits.

Credit risk remained high albeit gradual improvement in asset quality. The NPL ratio declined to 9.7 percent in September 2018 from 11.5 percent in March 2018. Banks credit risk exposure to trade, transport and communication activities decreased due to increase in commodity prices and payment of Government arrears. Credit risks emanating from personal loans eased partly reflecting accommodative credit conditions. Banks' downside risks from real estate, manufacturing, building and construction, hotels and restaurant activities remained a challenge. However, NPLs are expected to decrease further following government's investment in public sector particularly infrastructure and services. To address the challenge of NPLs, the Bank of Tanzania issued a circular, which requires banks to institute measures to increase credit to private sector and contain NPLs (Circular FA.178/461/01/02). Going forward, NPLs levels are expected to decline as banks continues to put efforts of mobilizing deposits and expanding credit to private sector (**Chart 5.4**).

Chart 5.4: Credit and non-performing loans for selected economic activities



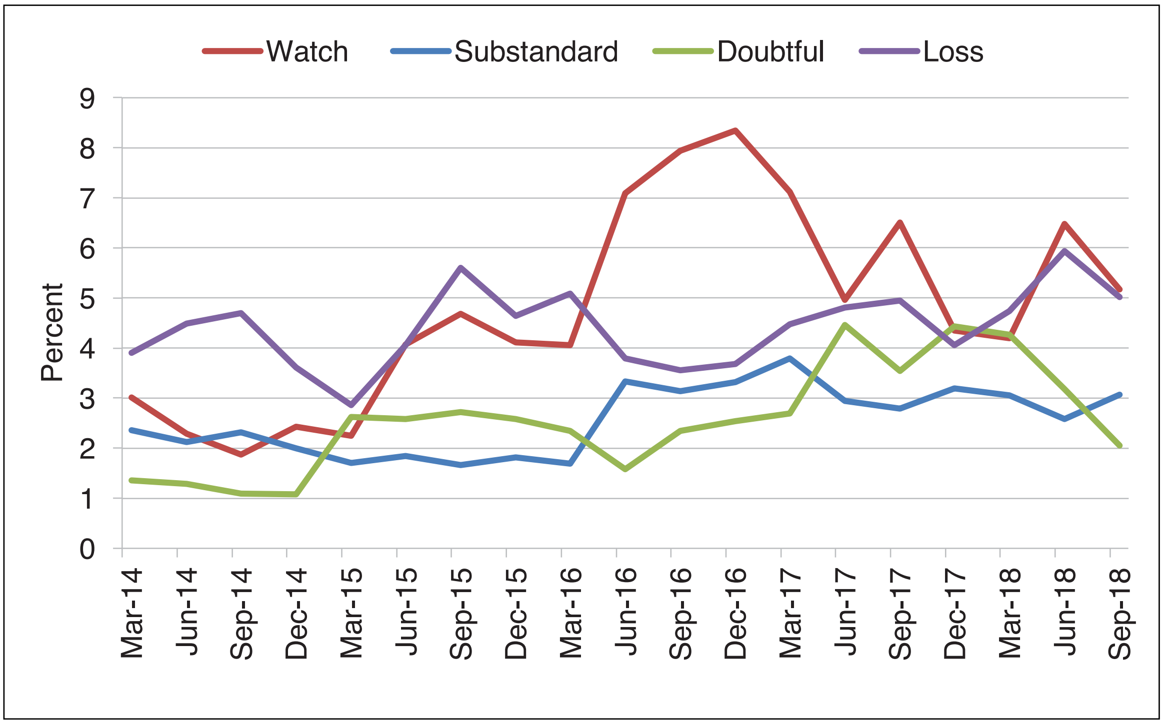
Source: *Bank of Tanzania*

During six months to September 2018, banks asset quality exhibited a mixed trend whereby during the quarter ending June 2018 the bank assets deteriorated as depicted an increase in loan loss category after the implementation of the Bank's directive to write-off loans and advances, which remained in loss category for four consecutive quarters. During the quarter ending September 2018, the quality of banks' asset improved as watch loans continued to decline. The level of watch loans[6], an indicator of future possible losses declined during the quarter ending September 2018, signalling potential improvement in asset quality (**Chart 5.5**). The migration from performing to non-performing loans reduced as a result of implementation of the Bank's directive to write-off

6 Especially, mentioned loans are classified as superior in quality to those classified as substandard, such loan category are potentially weak thus calls for a closer supervision as per requirement of the Banking and Financial Institutions (Management of Risk Assets), 2014.

loans and advances that have remained in loss category for four consecutive quarters and cautious approaches taken by banks in lending practices.

Chart 5.5: Development of different categories of non-performing loans



Source: *Bank of Tanzania*

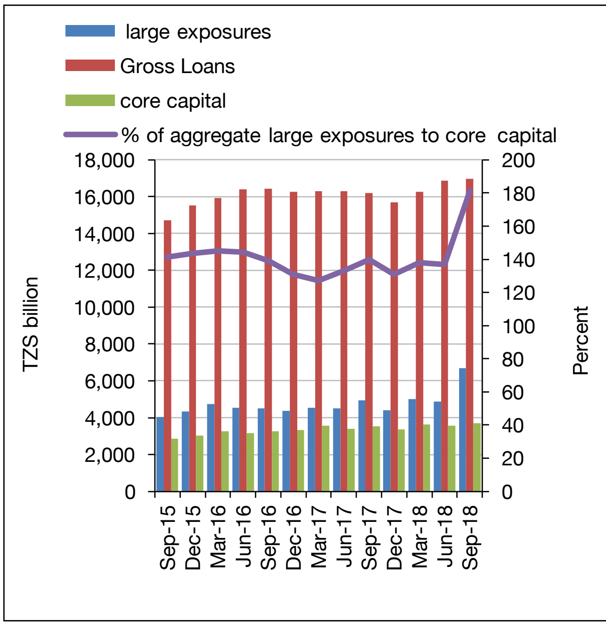
Credit concentration

The aggregate large exposures to core capital was 181.2 percent as at the end of September 2018, which was within the regulatory limit of 800.0 percent. However, at individual level, one Community Bank had the ratio above the limit implying that, generally, there is no large exposure concentration in the banking sector (**Chart 5.6a**). The diversification in terms of deposits, loans and assets for the banking sector as measured by the Herfindahl Hirschman Index (HHI), was 894, 928 and 965, respectively as at the end of September 2018, which were within the limit[7] of no market share concentration (**Chart 5.6b**).

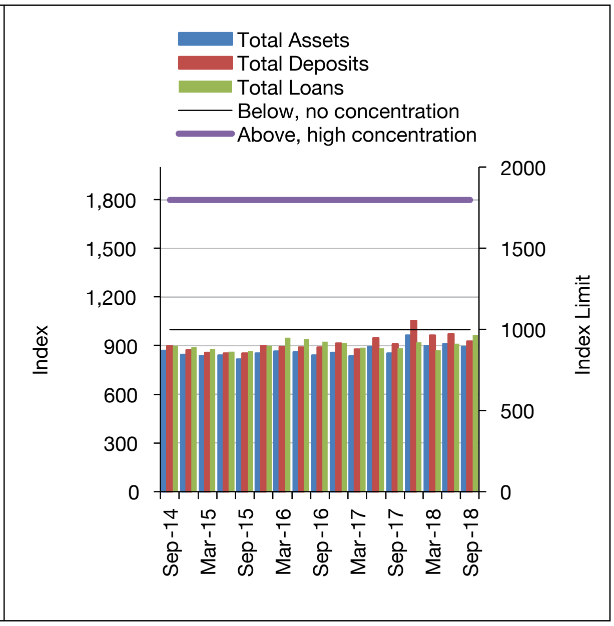
7 A limit of no concentration ranges from 100 to 1000.

Chart 5.6: Measures of risk diversification

(a): Credit concentration risk



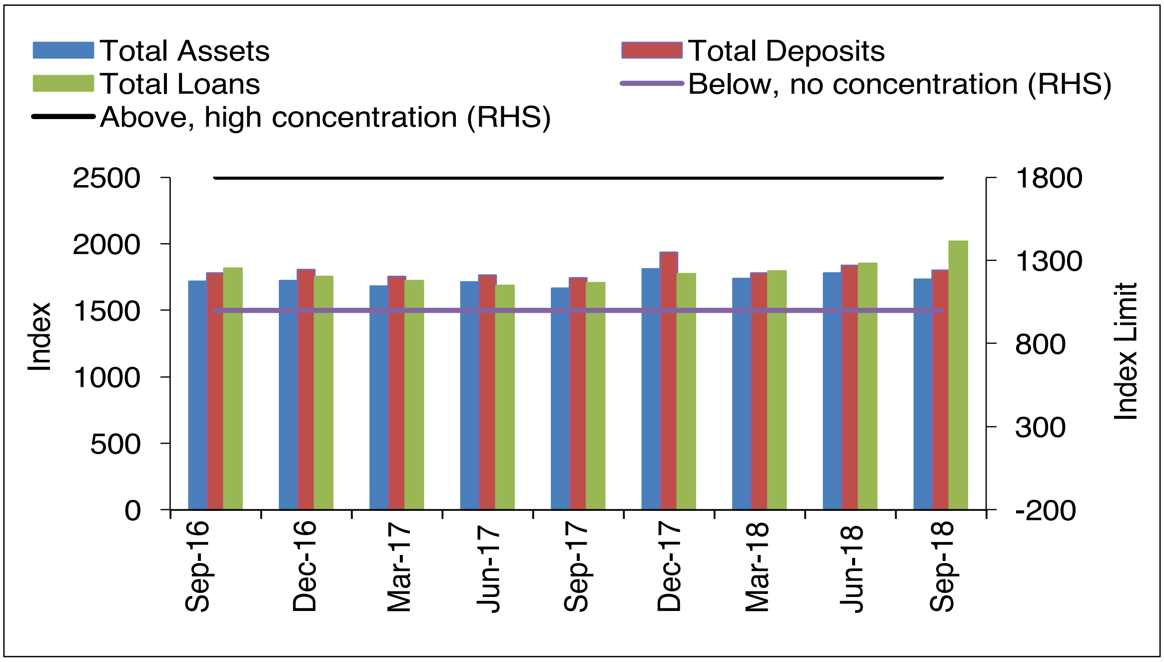
(b): HHI for all banks



Source: *Bank of Tanzania*

Herfindahl Hirschman Index (HHI) for top 10 large banks, which hold 68.0 percent of total banking sector assets indicates that loan, asset and deposits were above no concentration limit. However, the HHI for loan market increased significantly to 2020 while the index for deposit market was 1800 in September 2018. The indices suggest that there was high concentration of loan to a few corporate customers and over dependence of banks' liquidity on few depositors. This implies that in the event of default or abrupt withdrawal of deposits may pose credit and liquidity risk to the banking sector (**Chart 5.7**).

Chart 5.7: HHI for top ten banks



Source: *Bank of Tanzania calculations*

Overall exposure to exchange rate risks remained low. The share of foreign denominated deposits to total deposits increased to 32.1 percent as at the end of September 2018 compared to September 2017. The share of foreign currency denominated loans to total loans declined to 34.9 percent implying a decrease in deposit mobilisation and issuance of foreign currency denominated loans (**Table 5.6**).

Table 5.6: Foreign currency denominated loans and deposits

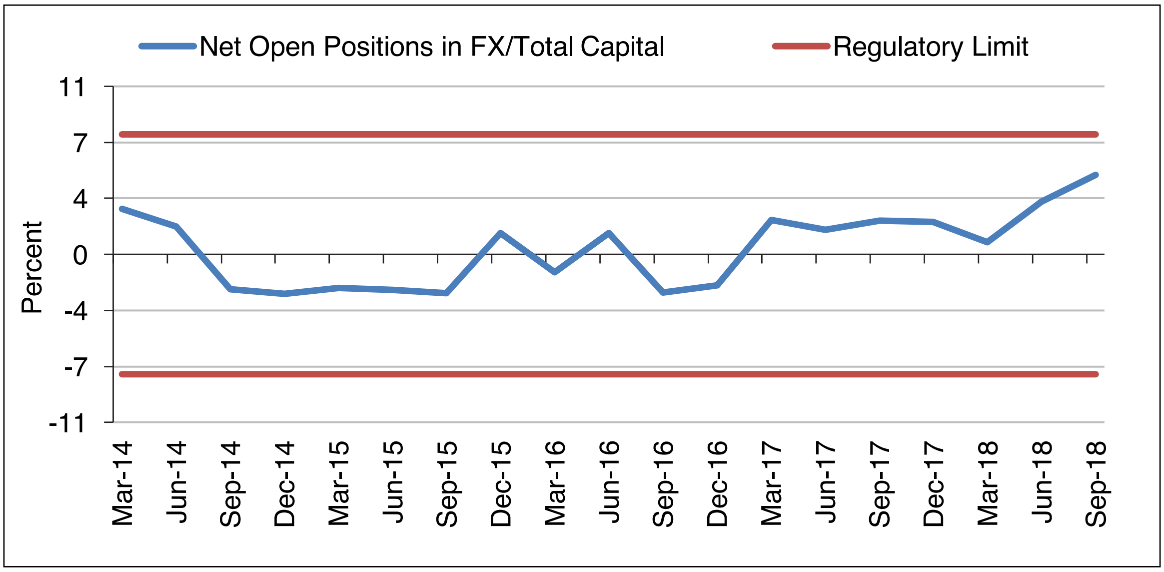
TZS billion

Particulars	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Foreign currency denominated loans	5,674.4	5,816.7	5,794.3	5,951.1	5,920.8
Foreign currency denominated deposits	6,455.7	6,192.5	6,625.6	6,667.7	6,888.4
Total loans	16,190.6	16,336.7	16,252.8	16,854.4	16,966.8
Total deposits	20,230.3	20,357.0	21,271.5	21,498.5	21,466.0
Foreign currency denominated deposits/total deposits (Percent)	31.9	30.4	31.1	31.0	32.1
Foreign currency denominated loans/total loans (Percent)	35.0	35.6	35.7	35.3	34.9
Foreign loans/foreign deposits (Percent)	87.9	93.9	87.5	78.4	79.0

Source: *Bank of Tanzania*

Net Open Position for foreign exchange exposure stood at 5.0 percent as at the end September 2018, which is within the regulatory limit of +/-7.5 percent. The indicators exhibited low currency mismatch, which moderated banks' potential losses in the event of exchange rate volatility (**Chart 5.8**).

Chart 5.8: Net open position to total capital

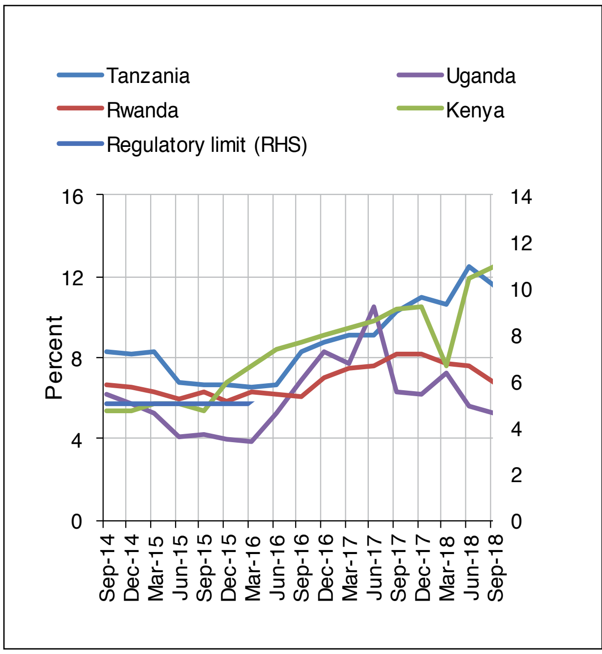


Source: *Bank of Tanzania*

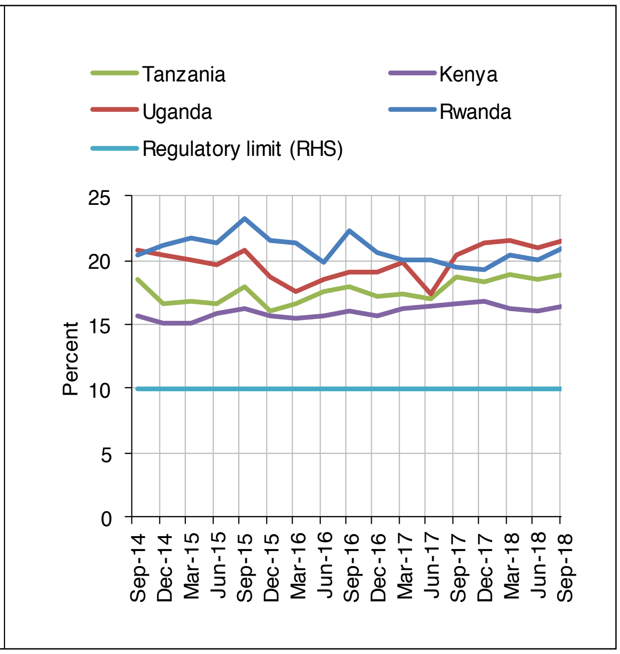
The Banking sector in the EAC region continued to be adequately capitalised albeit high NPLs except Uganda. The EAC banking sector recorded Capital Adequacy Ratios above regulatory limit of 10.0 percent. NPLs ratios were above the acceptable limit of utmost 5.0 percent with the exception of Uganda, which contained its NPL level to 4.7 percent in September 2018 (**Chart 5.9**).

Chart 5.9: Selected EAC-4 financial soundness indicators

(a) NPLs to Gross Loans



(b) Core Capital/TRWA+OBSE



Source: *EAC Dashboard June 2018*

Box 3: Loan Officers' Opinion Survey

Introduction

The Loan Officers' Opinion survey is one of macro-prudential tools that the Bank of Tanzania uses to monitor and assess credit market conditions on annual basis in order to identify potential systemic risks to the financial system and recommend mitigation measures. In August 2018, the survey was conducted, covering 256 selected credit providers of which, 38 were commercial banks, 5 community banks, 22 Micro-finance Institutions (MFIs), and 191 Savings and Credit Co-operative Societies (SACCOs) in Tanzania Mainland and Zanzibar.

Rationale

The credit service providers' perception and behaviour have significant influence on the performance of credit market. In this regard, collecting and analysing qualitative information is important for the Bank to identify early warning signals from the credit market, which may disrupt intermediation process and economic growth. Therefore, annual surveys are used for monitoring credit market developments and inform macro-prudential policy actions as may be necessary.

Methodology

A structured questionnaire was used for gathering qualitative data. Interviews with senior credit officers and Chief Executive Officers were conducted to draw their sentiments and opinions about current and future credit market conditions. The qualitative data were analysed using Statistical Package for Social Sciences (SPSS).

Findings

The response rate was 85.0 percent of 256 selected sample of credit providers, whereby the findings of the survey were categorized into; terms and conditions of loans, direction of NPLs, credit recovery efforts and the outlook.

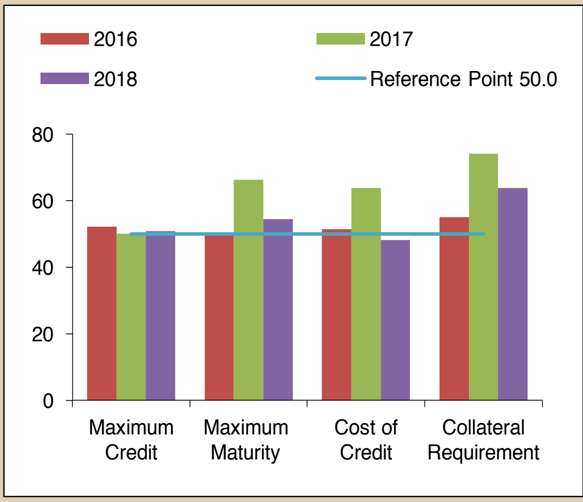
Terms and conditions of loan

The survey results showed that terms of loan in the banks and MFIs eased. The maximum loan size increased, consistent with the observed growth of credit in the economy. In addition, the survey attested that cost of credit declined, which is consistent with the Bank's policy of reducing the discount rate and statutory minimum reserve requirement. Further, banks revised downwards their collateral requirements in personal loans, because such loans are collateralized against employees' salary. Majority of banks increased loan maturity in order to reduce borrowers' debt burden and probability of default a move that will increase asset quality in the banking sector going forward (**Chart 5.10**).

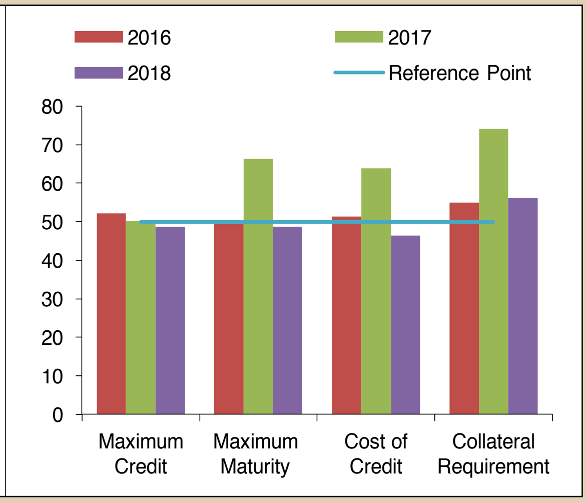
Box 3: Loan Officers' Opinion Survey continued

Chart 5.10: Changes in terms and conditions of loan

a) Banking institutions



b) Microfinance institutions



Source: *BOT survey on bank lending practices, August 2018*

Direction of non-performing loans

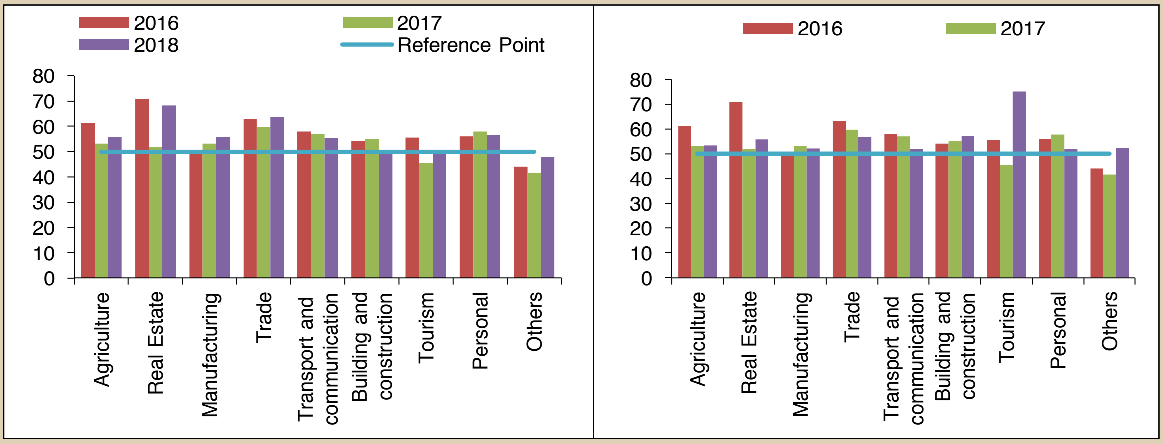
The survey results revealed a continued increase in credit risk in agriculture, real estate, trade and manufacturing activities as reflected by increased NPLs due to decline in rental prices, collection of tax arrears and unfair competition. However, the results exhibited a decline in credit risk in transport and communication, building and construction and personal loan. The decline was on account of payment of Government arrears to contractors, reduced lending to transport sector and easing of lending terms to personal loan category.

The results further attested that, credit recovery efforts were intensified as well as adopting cautious approach to lending in order to minimize the growing levels of NPLs. Therefore, some banks decreased lending in some sectors such as real estate, tourism, transport and communication (**Chart 5.11**).

Box 3: Loan Officers' Opinion Survey continued

Chart 5.11: Direction in non-performing loans

(a) Banking Institutions **b) Microfinance institutions**



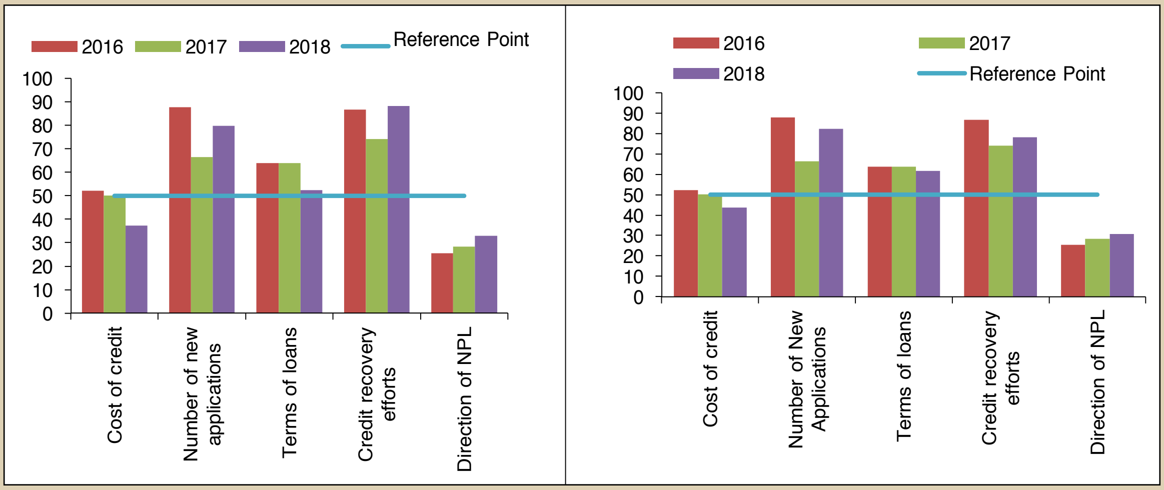
Source: *BOT survey on bank lending practices, August 2018*

Future Expectations

Findings from the survey revealed that banks and MFIs are expecting to ease lending terms and conditions, including increasing loan size and lengthening loan maturity, a move that will enhance borrowers' debt servicing capacity. Loan applications are expected to increase, due to positive macroeconomic outlook, support to industrialization policy, agricultural development programmes and major projects such as standard gauge railway, oil pipeline and Stigler's George will increase employment opportunities and stimulate demand for credit. Furthermore, banks and MFIs continue to intensify credit recovery efforts through enhancement of recovery units and usage of auctioneers to counteract the existing higher levels of NPLs. However, some financial institutions reported to continue reducing their exposure to transport and real estate activities due to growing levels of NPLs and declining rental prices (**Chart 5.12**).

Chart 5.12: Expected changes for the next twelve months

a) Banking institutions **b) Microfinance institutions**



Source: *BOT survey on bank lending practices, August 2018*

5.2 Non-banking financial sector

5.2.1 Capital markets

Trading participation in the Dar es Salaam stock exchange for both equity and bonds decreased by 71.7 percent and 7.9 percent, respectively in six months to September 2018, signalling increased liquidity squeeze in the market. The trend is partly explained by a decrease in foreign investors' participation in equity market and less participation of pension funds and banks in bond market. These developments may further exert liquidity pressure in the capital markets (**Chart 5.13**)

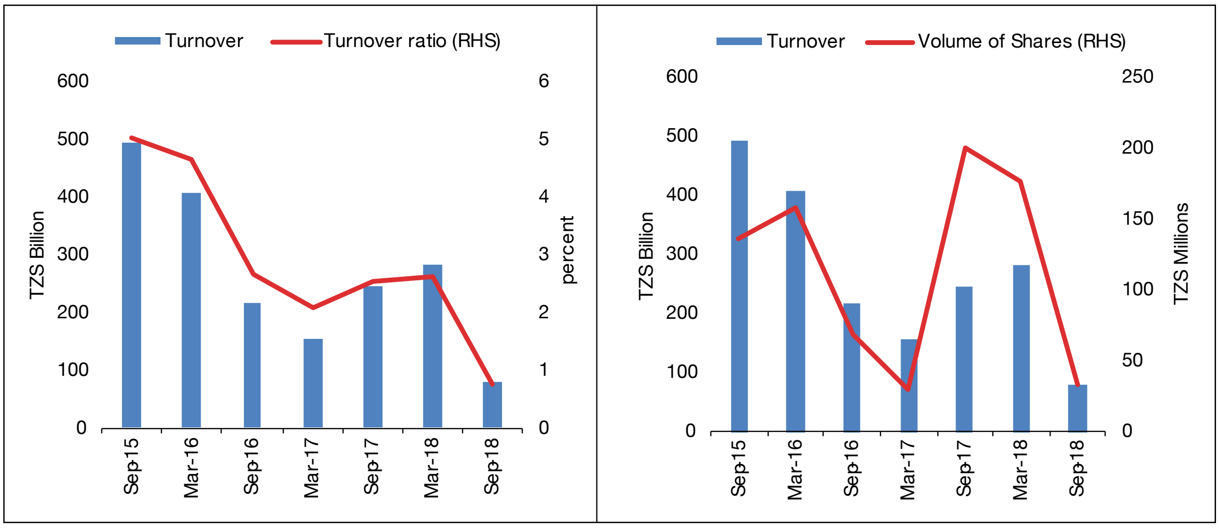
Equity market

Trading activity at the Dar es Salaam Stock Exchange slowed down as indicated by decrease in turnover, partly explained by restructuring of pension funds, the most active participants in the market. During the six months to the end of September 2018 turnover decreased to TZS 79.6 billion from TZS 281.2 billion largely driven by the low investors' participation in manufacturing companies namely TBL, TCC, TPCC and TOL. TBL continued to dominate market share, which accounted for 79.9 percent of total trading (**Table 5.7**).

TCCL counter on the other hand, experienced an increase in turnover by 290.8 percent on account of investors' positive sentiment about increase in demand for cement due to on-going construction of Government projects[8]. CRDB continued to be the most active counter, accounting for 53.4 percent of total volume traded, followed by VODA (21.4 percent) and TBL (12.2 percent). High demand for CRDB shares was due to low price, which attracts small investors who mainly hold shares for precautionary and dividend payouts purposes. For VODA and TBL, trading was driven by improved performance, active participation of foreign investors coupled with dividend pay-outs (**Chart 5.14**).

8 Hoima Pipeline Project, Standard Gauge Railway (SGR), expansion of the Tanga port and road construction.

Chart 5.13: Dar es Salaam Stock Exchange equity trading



Source: *Dar es Salaam Stock Exchange*

Table 5.7: Individual companies' total turnover for the six months

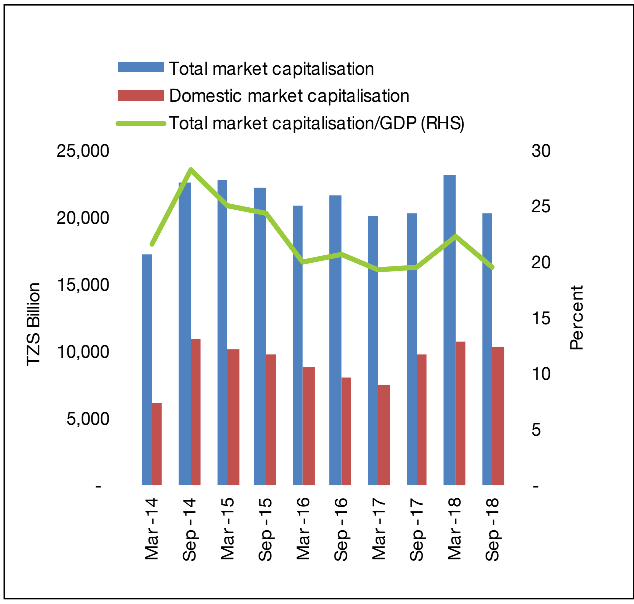
COMPANIES	April'17 -Sept'17 TZS Million	% of Total Turnover	Oct'17 -Mar'18 TZS Million	% of Total Turnover	April'18 -Sept'18 TZS Million	% of Total Turnover
TBL	195,145.8	79.4	239,873.6	85.3	63,595.8	79.9
CRDB	36,394.7	14.8	10,140.6	3.6	2,894.7	3.6
TCC	8,938.6	3.6	9,349.3	3.3	3,143.4	3.9
DSE	1,452.7	0.6	909.2	0.3	944.9	1.2
VODA	969.0	0.4	4,965.7	1.8	5,620.1	7.1
TPCC	1,025.3	0.4	5,895.0	2.1	1,319.6	1.7
SWISS	751.2	0.3	9,376.0	3.3	1,010.7	1.3
NMB	478.9	0.2	61.1	0.0	60.4	0.1
TCCL	83.9	0.0	26.9	0.0	105.3	0.1
DCB	50.2	0.0	28.9	0.0	204.2	0.3
MKCB	66.2	0.0	8.6	0.0	17.3	0.0
TOL	507.6	0.2	469.2	0.2	333.1	0.4
NICO				-	265.2	0.3
MUCOBA	12.1	0.0	2.1	0.0	7.8	0.0
YETU	5.9	0.0	10.2	0.0	0.8	0.0
TICL	-	-	-	-	3.4	0.0
PAL	4.7	0.0	5.9	0.0		-
SWALA	5.2	0.0	1.4	0.0	24.8	0.0
MCB	34.3	0.0	0.2	0.0	0.2	0.0
MBP	1.1	0.0	15.2	0.0	62.9	0.1
TTP	0.1	0.0	12.8	0.0	12.7	0.0
TOTAL	245,927.4	100.0	281,151.7	100.0	79,627.3	100.0

Source: *Dar es Salaam Stock Exchange*

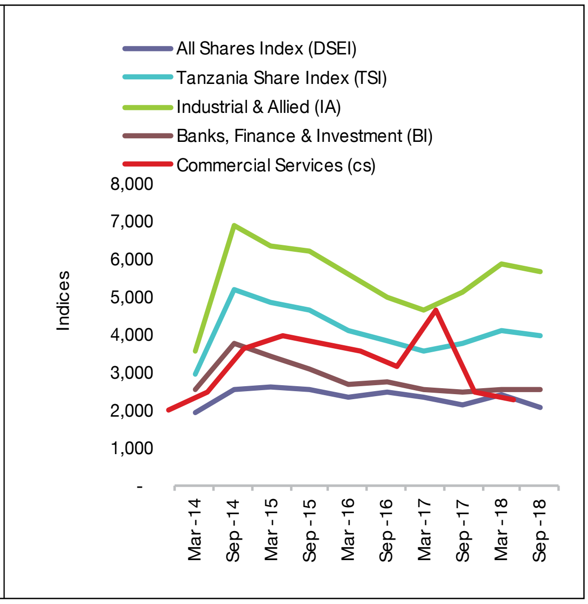
Domestic market capitalization decreased by 3.3 percent to TZS 10,375.9 billion, largely driven by share depreciation of Industrial & Allied (IA) and Commercial Services Indices (**Chart 5.14**). At individual company level, the decrease in IA index was caused by a decrease in TCCL, TOL, TBL and TTP share prices whereas share prices for TCC and TPCC picked up, reducing the negative effect of a decrease in IA index. On the other hand, a slight decrease of BI index was mainly, contributed by a decline in share prices of CRDB, DCB, MBP and MKCB, relative to NMB sticky price levels.

Chart 5.14: Performance of the Dar es Salaam Stock Exchange

a) **Market capitalization**



b) Share indices



Source: *Dar es Salaam Stock Exchange*

Market concentration risk

Cross-listed companies' market share decreased to 48.9 percent in September 2018 from 53.8 percent in March 2018. The decrease was caused by a fall in share prices of cross-listed companies except JHL and KA. During the period under review, shares of domestic listed companies increased to 50.0 percent from 45.4 percent on account of increase in share price of all domestic listed companies except for TBL and TCCL. Overall, market concentration risk eased with a slight balance in holdings between domestic and cross-listed companies, attributed to relisting of NICO, appreciation of TCC, DSE and TPCC share prices and price depreciation of cross-listed companies (**Table 5.8**).

Table 5.8: Total market capitalization of individual companies

Percent

No:	Cross Listed Companies	Mar-16	Sep-16	Mar-17	Sep-17	Mar-18	Sep-18
1	ACA	17.7	26.8	26.2	10.0	7.9	7.7
2	EABL	22.6	21.5	18.7	21.1	19.9	16.7
3	JHL	3.1	3.1	3.7	3.7	3.7	3.8
4	KA	0.7	0.6	1.0	0.7	5.6	5.9
5	KCB	12.5	8.0	11.1	14.3	14.6	13.3
6	NMG	3.3	2.3	2.0	2.2	2.0	1.5
7	USL	0.2	0.1	0.1	0.1	0.1	0.0
	Cross Listed Companies Market share as percent of Total Market Capitalization	**60.2**	**62.5**	**62.7**	**52.1**	**53.8**	**48.9**
No:	**Domestic Listed Companies**						
8	CRDB	4.8	3.1	2.4	2.2	1.9	2.1
9	DCB	0.2	0.1	0.1	0.1	0.1	0.1
10	DSE	-	0.1	0.1	0.1	0.1	0.2
11	MBP	-	-	-	-	-	0.1
12	MCB	0.2	0.2	0.2	0.2	0.1	0.2
13	MKCB	0.1	0.1	0.1	0.1	0.1	0.1
14	MUCOBA	-	-	-	-	-	0.0
15	NICO						0.1
16	NMB	4.7	6.4	6.8	6.8	5.9	6.8
17	PAL	0.4	0.3	0.4	0.4	0.3	0.4
18	SWALA	0.2	0.2	0.2	0.2	0.2	0.3
19	SWIS	1.2	1.1	1.0	0.7	0.5	0.5
20	TBL	19.2	17.8	17.6	19.3	19.7	20.8
21	TCC	5.7	5.4	5.7	7.2	7.0	8.4
22	TCCL	0.6	0.5	0.5	0.4	0.3	0.2
23	TCIL					0.1	0.2
24	TOL	0.2	0.2	0.2	0.2	0.2	0.2
25	TPCC	2.2	1.9	1.8	1.3	1.1	1.8
26	TTP	0.1	0.1	0.1	0.1	-	0.0
27	VODA		-	-	8.5	8.2	8.8
28	YETU	-	-	-	-	-	0.0
	Domestic Listed Companies Market share as percent of Total Market Capitalization	**39.8**	**37.6**	**37.3**	**47.9**	**46.2**	**51.1**

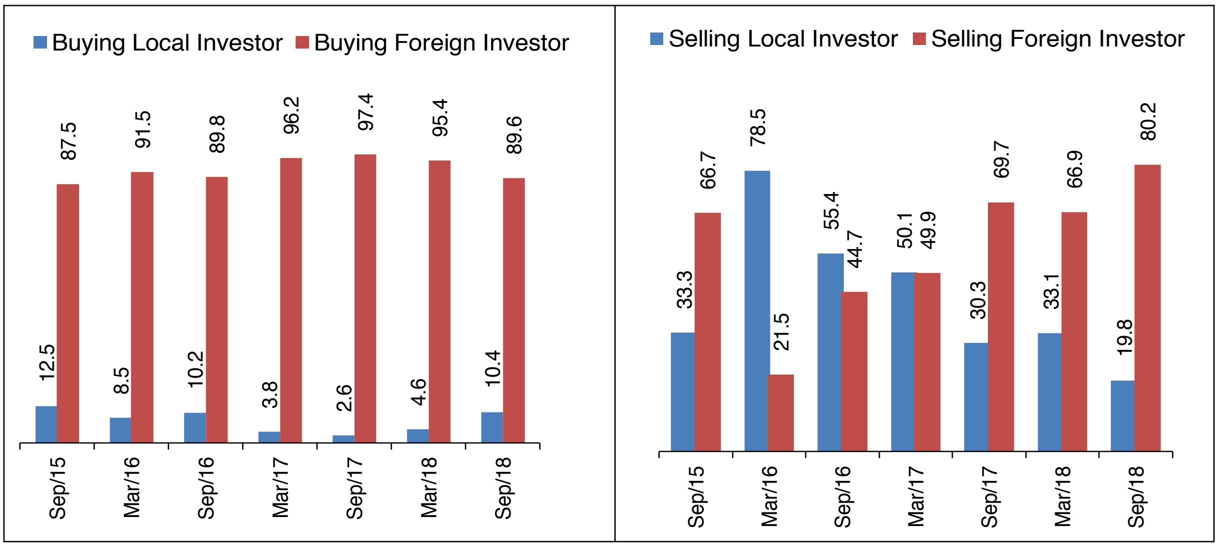
Source: *Dar es Salaam Stock Exchange*

Participation of foreign investors continues to dominate on the buying side. Foreign investors' participation in stock trading accounted for 84.4 percent and 79.6 percent of the total turnover on the buying and selling side, respectively. Comparatively there has been an increase of domestic participation on buying side while foreigners dominate the selling side. This implies reversed positive perception about performance of domestic market in light of improvement of global financial market (**Chart 5.15**). This may pose liquidity risk in the market as reflected by sharp decline in market turnover and widened spread between bid and ask prices.

Chart 5.15: Investors' participation in the DSE

Percent

(a): Buying-side **(b): Selling-side**



Source: *Dar es Salaam Stock Exchange*

Despite slowdown of activity in the market, foreign participants continued to dominate the market with preferred investment in VODA, TBL, DSE and NICO. Individuals, corporations, pension funds and insurance companies continued to be net sellers as foreigners acquired more holdings in the market hence increasing the domestic market reliance on foreign participation. In this view, the ongoing global financial developments may trigger capital outflows in the event of increased yield in the global financial markets (**Table 5.9**).

Table 5.9: Equity trading participation in the Dar es Salaam Stock Exchange by investors' category

TZS million

	Apr 17 to Sept 17			Oct 17 to Mar 18			Apr 18 to Sept 18		
Category	Purchase	Sale	Net Flows	Purchase	Sale	Net Flows	Purchase	Sale	Net Flows
Individuals	4,155	13,636	(9,481)	4,118	16,106	(11,988)	5,019	13,634	(8,615)
Corporation	2,217	13,352	(11,135)	2,829	87,784	(84,956)	1,708	4,301	(2,593)
Pension Funds	0	40,778	(40,778)	0	14,606	(14,606)	1	2,245	(2,244)
Insurance	0	4,502	(4,502)	6	2,159	(2,153)	2,112	2,481	(370)
Banks	0	0	0	0	0	0	0	0	0
Foreigners	239,555	173,660	65,896	274,199	160,496	113,703	70,788	56,965	13,823
Total	245,927	245,927	0	281,152	281,152	0	79,627	79,627	0

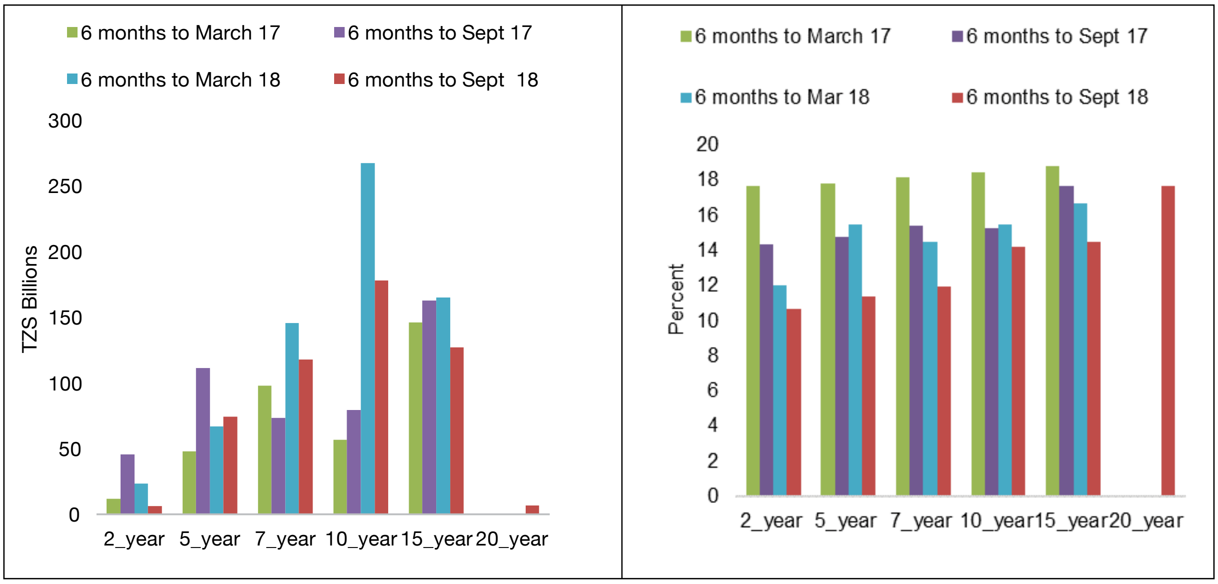
Source: *Dar es Salaam Stock Exchange*

Bond market

Trading of government bonds decreased by 7.9 percent to TZS 511.7 billion, with the 15-year and 10-year bonds being the most traded in the market due to favourable yields of 14.2 percent and 13.6 percent to maturity, respectively (**Chart 5.16a & b**).

Chart 5.16: Market performance for government bonds

(a): Turnover for government bonds **(b):Weighted average yields**



Source: *Dar es salaam Stock Exchange*

Banks remained the main participants in the market, though their participation declined for six months to September 2018. The decline was partly attributed to reduced Government securities yields. On the other hand, participation of pension funds declined resulting into reduction of liquidity in the market. The reduced participation in the market was a result of Government's initiative to restructure and consolidate the four pension funds into one, namely Public Sector Social Security Fund (PSSSF) (**Table 5.10**).

Table 5.10: Government bonds secondary market trading participation by investor categories

TZS billion

Particulars	Apr 17 to Sept 17			Oct 17 to Mar 18			April 18 to Sept 18		
	Buy	Sell	Net Flow	Buy	Sell	Net Flow	Buy	Sell	Net Flow
Banks	228.3	414.4	(186.1)	237.8	368.1	(130.3)	221.5	358.6	(137.1)
Corporation	81.8	54.6	27.2	159.6	127.8	31.8	28.4	9.6	18.9
Individual	5.3	3.2	2.1	8.1	6.6	1.6	138.6	142.7	(4.2)
Pension Funds	46.2	0.0	46.2	69.4	52.7	16.8	107.1	0.8	106.3
Insurance	18.7	0.0	18.7	21.4	0.0	21.4	12.2	0.0	12.2
Foreigners	91.9	0.0	91.9	59.5	0.6	58.9	3.9	0.0	3.9
Total	472.2	472.2	0.0	555.8	555.8	0.0	511.7	511.7	0.0

Source: *Dar es Salaam Stock Exchange*

Collective Investment Schemes

Collective investment schemes managed by UTT Asset Management and Investment Services (UTT AMIS) posted an increase in Net Asset Value (NAV) by 12.6 percent to TZS 281,558.3 million as at the end of September 2018, contributed by the Liquid Fund unit price appreciation and interest earnings from government securities (**Table 5.11**).

Risk exposures to schemes arises from return on funds' investments portfolios. Decrease of Wekeza Fund's NAV was caused by a decline in returns from equity investments, repurchases and switches outs by investors who joined the scheme at least ten years earlier due to maturity of funds. In addition, risks exposures to Jikimu Fund arises from poor performance of DCB, TBL, TCCL and SWIS shares during the quarter to September 2018. However, the Funds have adequate assets that can meet short-term financial obligations. Threats to the Funds may arise from deterioration of NAV should abrupt liquidation (redemptions) of units happen.

Table 5.11: Open ended collective investment schemes

Scheme	Outstanding units (Millions)			Net Asset Value (NAV)			NAV Growth	
	Sep-17	Mar-18	Sep-18	Sep-17	Mar-18	Sep-18	Sept 17 - Sept 18	Mar 18- Sept 18
Umoja Fund	399.0	392.7	389.4	207,175.2	223,101.5	224,073.0	8.2	0.5
Wekeza Maisha	5.3	4.0	3.3	1,745.6	1,400.0	1,220.6	-30.1	-10.3
Watoto Fund	11.7	9.8	10.0	3,484.4	3,164.0	3,289.9	-5.6	3.6
Jikimu Fund	173.4	168.3	158.8	21,910.6	21,764.9	20,557.6	-6.2	-5.5
Liquid Fund	83.1	138.8	165.9	14,373.1	25,634.9	32,417.3	125.5	47.2
Total	672.4	713.7	727.4	248,688.8	275,065.3	281,558.3	13.2	2.6

Source: *Capital Markets and Securities Authority*

Other fund management companies

Apart from the funds managed by UTT-AMIS, the total assets under management for the Fund Managers category amounted to TZS 144.3 billion as at the end of September 2018, a 1.4 percent decrease as compared to the position as at the end of March 2018. The funds that were placed under Fund Managers by private clients were 47.4 percent whereas the funds placed under institutional investors were 52.6 percent of the total funds under management. Watumishi Housing Company- Real Estate Investment Trust had the largest portfolio, managing 40.1 percent of the total value of fund under management followed by TSL Investment Management Limited with 39.2 percent. The funds were diversified into several asset classes whereby TZS. 71.8 billion was placed in cash, deposits and money market instruments; TZS. 48.3 billion was allocated in real estate; TZS. 18.2 billion in Treasury bonds and the remainder in equities and other financial instruments. Collective investment schemes managed by UTT Asset Management and Investment Services (UTT- AMIS) posted an increase in Net Asset Value (NAV) by 12.6 percent to TZS. 281,558.3 million as at the end of September 2018, contributed by the Liquid Fund unit price appreciation and interest earnings from government securities (**Table 5.11**).

Insurance sector

Insurance sector recorded an increase in assets and gross premium written. Total assets increased by 3.7 percent to TZS 908.9 billion as at the end of September 2018, compared to the corresponding period in 2017 mainly attributed to increase in investments in bank deposits and government securities (**Table 5.16**, **Table 5.11** and **Table 5.15**). The insurance sector recorded an increase in total gross premium written by 7.4 percent to TZS 525.7 billion for a one-year period between end of September 2017 and 2018.

The insurers' total net worth recorded an increase of 2.5 percent to TZS 292.5 billion as at the end of September 2018 mainly on account of increase in assets by 3.7 percent, reflecting a continued strengthening of the sector in meeting its potential obligations. Total investments increased by 15.3 percent to TZS 633.7 contributed by increased investments in government securities by 44.8 percent.

Table 5.12: Insurance sector performance

	TZS Billion				Percentage Change	
Particulars	**Dec 2016**	**Dec 2017**	**Sep 2017**	**Sep 2018**	**Dec 2016 -Dec 2017**	**Sep 2017 -Sep 2018**
Total Assets	835.3	862.6	876.5	908.9	3.3	3.7
Total Liabilities	567.2	586.5	591.1	616.4	3.4	4.3
Total Net Worth	268.1	276.1	285.4	292.5	3.0	2.5
Total Investments	518.6	577.6	549.7	633.7	11.4	15.3
Gross Premiums Written						
General Insurance	585.8	556.3	430.5	449.3	-5.0	4.4
Life Assurance	74.2	80.8	59.0	76.3	8.9	29.4
Total	660.1	637.1	489.5	525.7	-3.5	7.4

Source: *Tanzania Insurance Regulatory Authority*

The sector remained adequately capitalized to cushion potential risks. General insurance and life assurance solvency ratios were 56.3 percent and 26.5 percent, being above the minimum prudential requirement of 25.0 percent and 8.0 percent, respectively. Meanwhile, general insurers' ratio of actuarial provisions to capital was 116.0 percent in September 2018 and 106.8 percent in September 2017.

The level was within the prudential maximum limit of 250.0 percent, implying adequate capital that can withstand adverse deviations in actuarial liabilities. However, on individual basis, eight out of 31 insurance companies were required to submit recapitalization plans to comply with the required capital requirement levels by December 2018. However, the companies still have solvency margin shortfall, which calls for a close follow up on implementation of their plans to ensure that the required solvency margin level is attained.

The asset quality for the sector improved slightly as reflected by the increase in general insurance Return on Investments (ROI). The ROI increased to 6.3 percent in September 2018 from 5.5 percent in September 2017. General insurance invested 82.8 percent in deposits and Government securities (Category I Investment Assets) which is consistent with regulatory requirement of at least 40.0 percent (**Table 5.13**).

Table 5.13: Financial soundness indicators of the insurance sector (general and life)

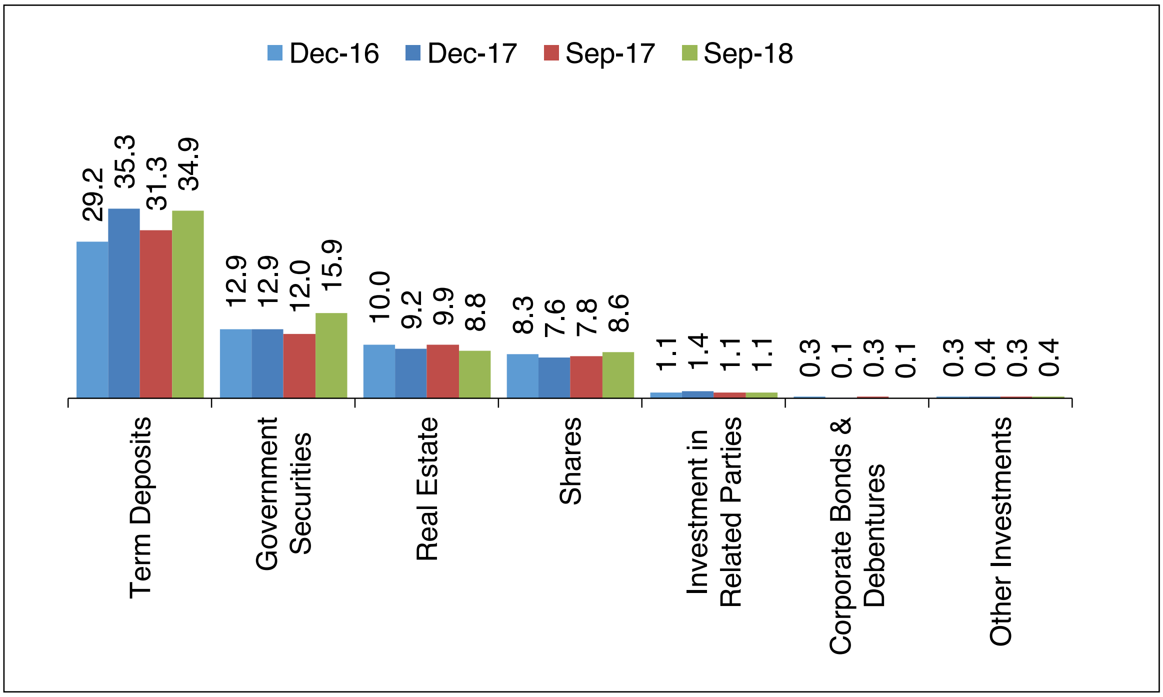
Indicator	Statutory Requirement	30 Sep 2017		30 Sep 2018	
		General	Life	General	Life
Capital Ratios					
Solvency Ratio	General ≥ 25; Life ≥ 8	56.8	28.4	56.3	26.5
Change in Capital and Reserves		19.1	16.6	7.1	3.3
Asset Quality Ratios					
Rate of Return on Investment		5.5	3.9	6.3	3.9
Category I Investment Assets (see Note 1 below)	Min 40	60.0	46.6	82.8	50.1
Reinsurance Ratios					
Retention Ratio	General 30<RR<70; Life 50<RR<90	56.6	83.5	55.5	84.8
Actuarial Liabilities (General)					
Actuarial Provisions to Capital Ratio	Max 250	106.8		116.0	
Earnings Ratios (General)					
Return on Equity		9.8		8.1	
Liquidity Ratios					
Liquidity Ratio	General ≥ 95; Life ≥ 50	120.8	63..3	121.7	65.3
Total Receivables as % of Capital & Reserves	Max 100	80.9	52.9	55.7	52.2
7. Loss Ratio		54.7	43.6	51.8	49.9

Source: *Tanzania Insurance Regulatory Authority*

Liquidity ratio for general insurance improved driven by improvement in collections of receivables following amendments of the Insurance Act 2009, which requires policyholders to make direct payment of premiums to insurers and prohibit use of foreign insurance services on imports. The liquidity ratio for general insurance improved to 121.7 percent in September 2018 from 120.8 percent in September 2017, above the minimum prudential limit of 95.0 percent. Liquidity ratio for life assurance was 65.3 percent as at end of September 2018 having slightly increased to 63.3 percent as at the end of September 2017. The ratios were above the minimum prudential threshold of 50.0 percent.

Return on Equity for general insurers decreased to 8.1 percent in September 2018 from 9.8 percent in September 2017. This is due to a decrease in net income for the industry and a slight improvement in capital position for the industry (**Chart 3.17**).

Chart 5.17: Investment mix



Source: *Tanzania Insurance Regulatory Authority*

5.2.3 Social Security sector

Tanzania Mainland

Total Assets of the sector decreased by 1.2 percent for the period ending 30th September 2018. Assets under management amounted to TZS 12,042.0 billion compared to TZS 12,187.8 billion recorded in September 2017. The slight decrease in assets is attributed to increased payment of benefits that were outstanding in the former funds prior to merging. The Annualized Return on Investment (RoI) improved to 6.8 percent compared to 6.7 percent in September 2017, with major contributors being interest from government securities, fixed deposits and loans.

The ratio of contribution income to benefits payment decreased from 1.8 percent in September 2017 to 1.3 percent for the period ended September 2018 reflecting increased benefit payments relative to contributions. Dependency ratio measured as the number of active members supporting one pensioner decreased from 12.3 percent to 8.8 percent. The decrease is mainly attributed to decrease in the number of active members due to premature withdrawals. The sector continued to maintain administration expenses within the regulatory limit of 10.0 percent as provided by the Social Security Schemes (Administrative Expenses) Guidelines, 2018 (**Table 5.14**).

Table 5.14: Tanzania mainland: social security selected financial indicators

FSI Social securities

Particular	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Contribution Income/benefits payment Ratio	1.8	1.8	1.1	1.3	1.3
Return on investment (invested return/invested assets) Percent	6.7	6.9	7.0	6.6	6.8
Administrative cost/Contributions Percent	9.3	10.6	9.9	9.4	9.4
Dependency ratio (active members/pensioners) Ratio	12.4	9.8	10.0	8.2	8.8

Source: *Social Security Regulatory Authority*

Overall, investment portfolio of the sector remained broadly unchanged. Government Securities continued to represent the biggest share of the investment allocation at 33.8 percent followed by real estate investments which accounted for 19.8 percent of total assets. Bank deposits decreased from 9.4 percent to 6.1 as a result of payment of backlog of outstanding benefits following completion of merging (**Table 5.15**).

Table 5.15 : Tanzania mainland: social security portfolio investment mix

Particular	Prudential Limit as percentage (%) of Total Assets	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Bank deposits	35	9.4	9.4	9.8	9.4	6.1
Government debt	20-70	28.2	28.6	29.6	32.3	33.8
Commercial paper, promissory notes and corporate bonds	20	0.2	0.3	0.3	0.3	0.4
Loans to Government	10	18.3	17.5	14.1	14.3	11.4
Ordinary and preference shares	20	6.7	7.0	7.2	7.1	7.9
Investment in licenced collective investment Scheme	30	1.5	1.5	1.5	1.6	1.7
Real estate	30	18.6	18.9	19.3	18.8	19.8
Loans to corporate and cooperative societies	10	3.9	3.6	3.4	3.3	3.7
Infrastructure investment	25	2.7	2.9	2.9	2.9	3.5
Other assets		10.5	10.3	11.0	10.0	9.7
Total assets (TZS billion)		12,187.8	12,232.1	12,367.8	12,796.4	12,042.1

Source: *Social Security Regulatory Authority*

In August 2018, four public Social Security Funds namely; PPF Pension Fund, LAPF Pensions Fund, GEPF Retirement Benefits Fund and Public Service Pension Fund (PSPF) were merged to form one Fund, namely Public Sector Social Security Fund (PSSSF). The Fund accounts for 56.0 percent of total assets and 72.0 percent of membership who are mainly public servants. National Social Security Fund (NSSF) is designated to serve members from private sector.

Zanzibar Social Security Fund performance review

During 2017/18, the Zanzibar Social Security Funds (ZSSF) assets grew by 21.3 percent to TZS.401.6 billion in line with growth in total contributions received. The growth in asset was mainly attributable to increase in contribution from existing and entry of new members into the Fund. The Fund increased its ability to meet short-term obligations as depicted by the contributions against benefit payment ratio of 3.6 times from 2.6 times in the previous financial year 2016/17. However, the Fund exhibited cost inefficiency as depicted by high ratio of administrative cost to investment income, which was 19.8 percent in 2017/18 from 8.9 percent observed in the previous financial year. This ratio was above the Social Security Regulatory Authority's (SSRA) regulatory limit of 10.0 percent. ZSSF continued to pay pension benefits, which increased from 33.1 percent to 36.7 percent of the total benefit payments disbursed during the period under review (**Table 5.16**).

Table 5.16: ZSSF selected indicators

Particulars	2014/15	2015/16	2016/17	2017/18
Government Stock	22.4	22.9	25.9	28.3
Treasury Bonds	65.8	68.4	70.4	131.3
Bank Fixed Deposits	49.8	71.0	98.5	73.1
Equity Investments	8.3	7.4	8.3	12.2
Call Account	0.0	0.0	0.0	0.0
Loans	10.9	7.6	4.3	8.9
Investment Property	4.8	50.3	53.4	53.5
Investment in Land	4.5	4.5	43.3	47.4
Hifadhi Hotel	0.3	0.2	0.0	0.0
Mapinduzi Memorial Museaum Items	0.0	0.0	0.0	0.0
PBZ Bond	5.4	5.3	5.3	5.9
WIP	34.9	8.6	17.4	31.0
Total Investment Assets	207.0	246.3	326.7	391.5
Assets	**214.4**	**253.6**	**331.0**	**401.6**

Source: *Zanzibar Social Security Fund*

The ZSSF investment portfolio grew by 19.8 percent mainly in treasury bonds, bank fixed deposits, investment in property and land. However, during the period, investment income from assets decreased by 30.4 percent due to loss in net appreciation of face value to TZS. 4.4 billion from TZS 25.2 billion realized in the financial year 2016/17 (**Table 5.17**).

Table 5.17: ZSSF investment portfolio

TZS Billion

Particulars	2015/16	2016/17	2017/18
Compulsory contributions (TZS billion)	34.9	39.1	67.5
Voluntary contributions (TZS billion)	0.8	0.3	0.3
Total contributions (TZS billion)	35.6	39.3	67.8
Benefit payments (TZS billion)	12.4	15.4	18.8
Contibution income/benefit payments (times)	2.9	2.6	3.6
Investment income (TZS billion)	28.0	52.0	36.0
Administrative cost (TZS billion)	4.3	4.7	7.1
Administrative cost/investment income (percent)	15.3	8.9	19.8
Pension payments (TZS billion)	3.8	5.1	6.9
Pension payments/benefit payments (percent)	30.4	33.1	36.7

Source: *Zanzibar Social Security Fund*

5.2.4 Cross-sector linkages in the financial system

Pension Funds and Mobile Network Operators (MNOs) deposits increased by 28.1 percent and 12.3 percent, respectively in September 2018, which increased liquidity to the top ten banks. However, this increase was somewhat offset by a decrease in deposits from insurance sector by 21.3 percent during the same period. The increase of liquidity is consistent with a decrease in interbank borrowing of 82.2 percent. Placements of top ten banks with banks operating in Tanzania decreased by 52.3 percent to TZS 147.8 billion compared with placements with banks abroad of TZS 1,211.7 billion as at the end of September 2018 from TZS 400.5 billion (**Table 5.18**).

Table 5.18: Financial interconnectedness (top ten banks)

Items	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Percentage Change (Sept 17 to Sept 18)
Placements with Banks Abroad	562.4	351.7	400.5	739.9	683.7	823.2	1211.7	202.6
Placements with Domestic Banks	467.3	342.1	309.6	201.2	730.1	566.4	147.8	-52.3
Deposits from Pension Funds	426.8	456.7	402.9	334.8	526.0	602.6	515.9	28.1
Deposits from Insurance Companies	168.6	376.6	274.2	222.4	158.3	139.5	215.7	-21.3
Borrowings from Domestic Banks	755.3	542.3	629.4	382.3	449.5	582.4	112.0	-82.2
Deposits from Foreign Banks	672.2	723.5	831.0	877.9	668.1	728.3	253.1	-69.5
Inter-bank Contingent Claims to Foreign Banks	260.6	34.9	25.2	81.6	128.1	317.4	56.9	125.9
Deposits from Mobile Network Operators	649.7	655.5	686.4	720.0	701.1	772.0	771.0	12.3

Source: *Bank of Tanzania*

Box 4: Deposit insurance system

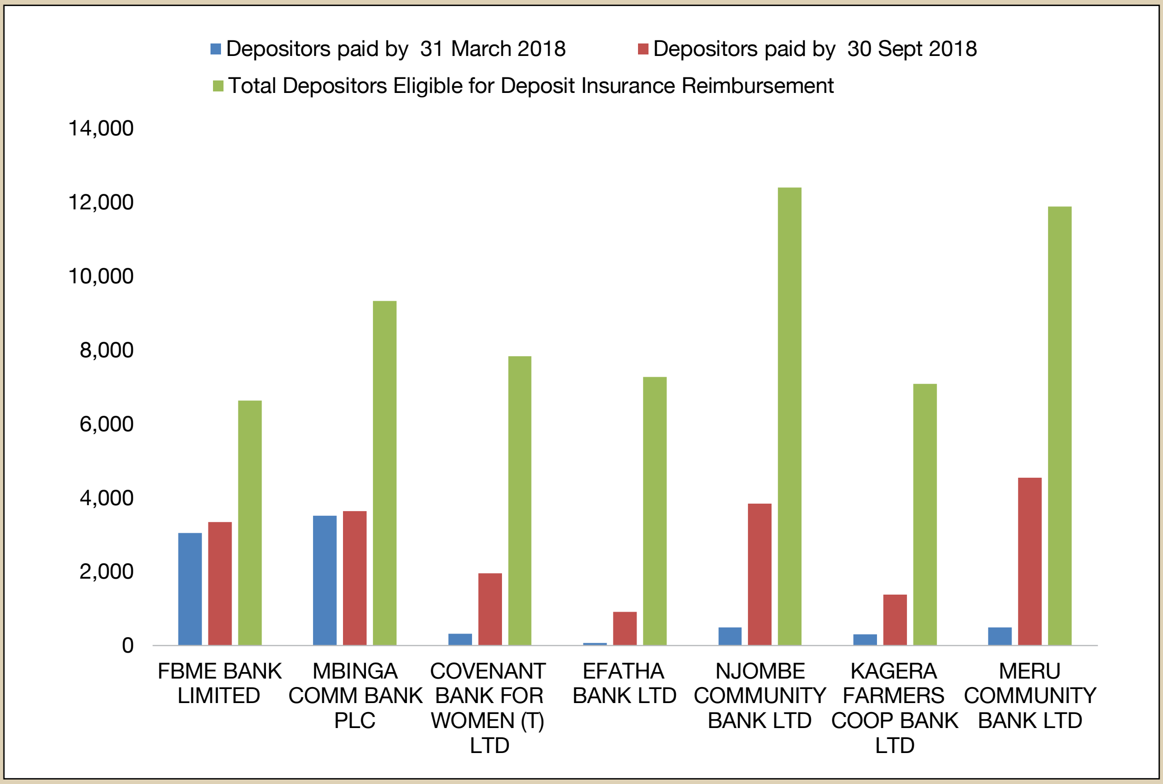
The Banking and Financial Institution Act, 2006 requires Deposit Insurance Board (DIB) to make compensation of insured deposits to depositors of a bank, of which banking license has been revoked by the Bank of Tanzania. As at the end of September 2018, the DIB had paid deposit insurance compensation to 19,614 out of 62,446 eligible depositors of 7 closed banks, namely (FBME Bank Limited, Mbinga Community Bank Plc, and Covenant Bank for Women (T) Limited, Efatha Bank Limited, Njombe Community Bank Limited, Kagera Farmers' Cooperative Bank Limited and Meru Community Bank Limited, all under liquidation) representing 31.4 percent of total number of depositors of the 7 closed banks eligible for reimbursement.

Reimbursement of insured deposits to depositors of FBME Bank Limited, which was placed under liquidation on 8th May 2017, commenced in November 2017 and by end of September 2018, a total of 3,342 depositors, representing 50.42 percent of 6,628 eligible depositors of FBME Bank Limited were paid. The total amount paid as at end of September 2018, was TZS 2.36 billion, representing 55.13 percent of the total deposit insurance payable.

Payment of insured deposits to depositors of Mbinga Community Bank Plc, which was closed on 12th May 2017, commenced on 24th July 2017 and by end of September 2018, a total of 3,644 depositors out of 9,329 eligible depositors (39.06 percent) were paid. The total amount paid as at the end of September 2018, was TZS 0.71 billion, representing 83.87 percent of the total deposit insurance payable (**Chart 5.18**).

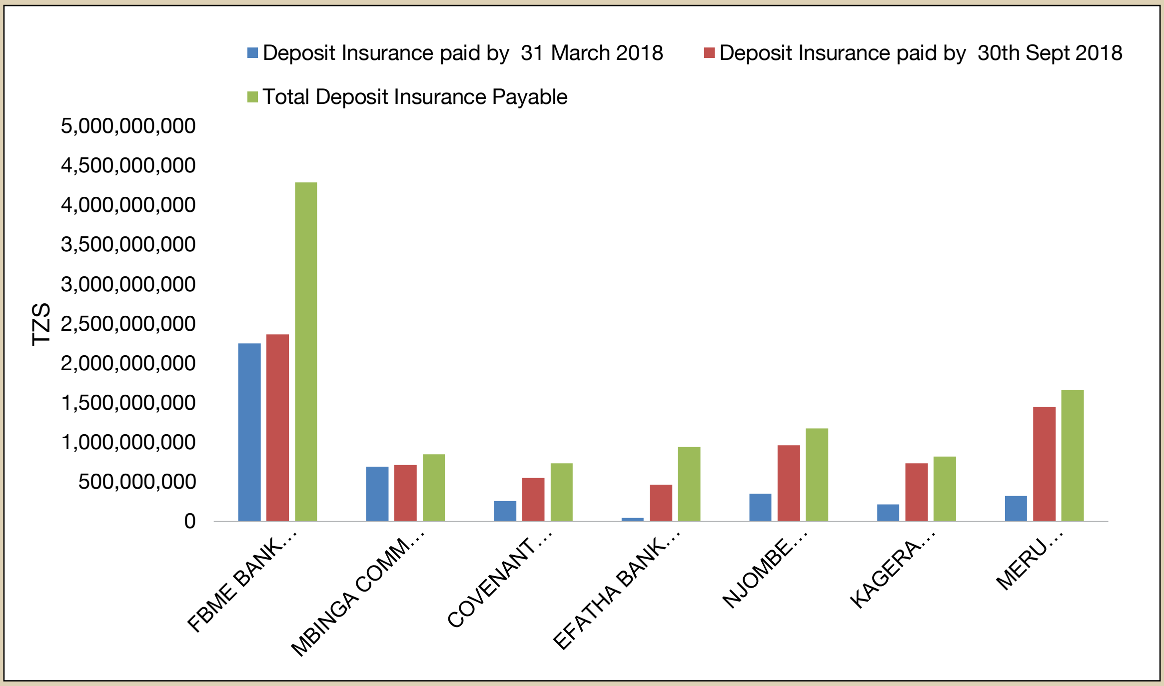
On 4th January 2018, the Bank of Tanzania revoked banking license of five community banks and placed them under liquidation with DIB appointed as the liquidator. Payout of insured deposits to 46,489 eligible depositors of the closed banks started from 28th March 2018. As at the end of September 2018, a total of 12,628 depositors representing 27.16 percent of eligible depositors were paid. The total amount paid was TZS 4.15 billion, representing 77.87 percent of the total deposit insurance payable of TZS 5.33 billion. DIB continued with reimbursement of deposit insurance and liquidation of all closed banks.

Chart 5.18:Status of deposit insurance paid



Source: *Bank of Tanzania*

Chart 5.19:Status of depositors reimbursed



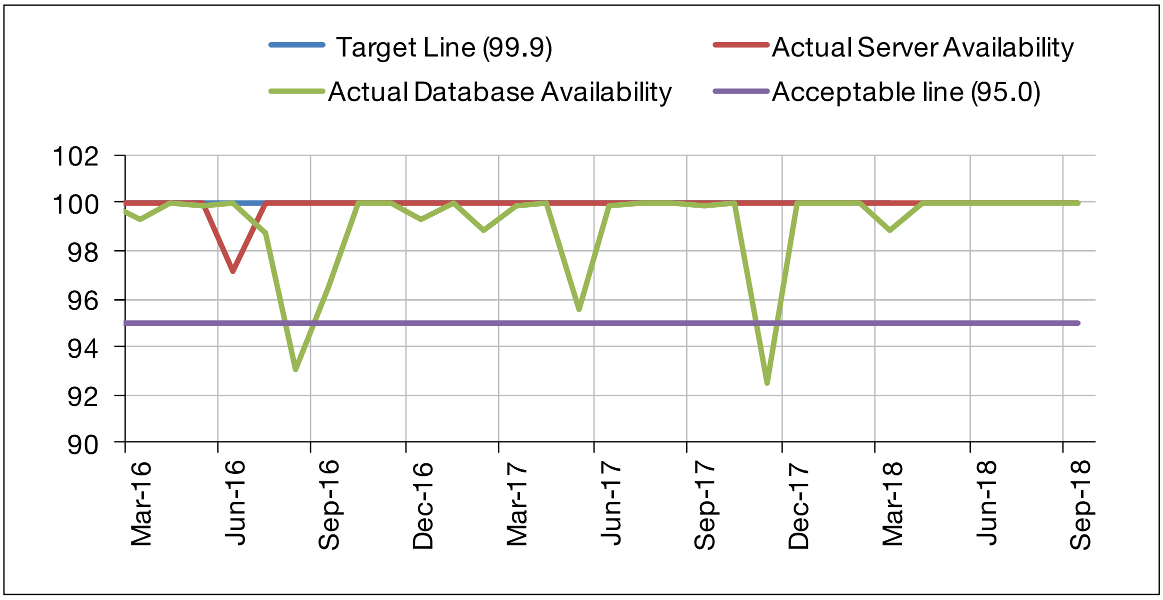
Source: *Bank of Tanzania*

6.0 FINANCIAL SYSTEM INFRASTRUCTURE AND REGULATORY DEVELOPMENTS

6.1 Payment system infrastructure

During six months to the end of September 2018, payments, clearing and settlement systems continued to operate smoothly and efficiently with growing utilization of digital channels in financial services delivery. Large value payments and retail payments systems functioned without disruptions. The large value system, Tanzania Interbank Settlement System (TISS), on average, recorded 100.0 percent efficiency in terms of server and database uptime availability (**Chart 6.1**).

Chart 6.1: TISS availability

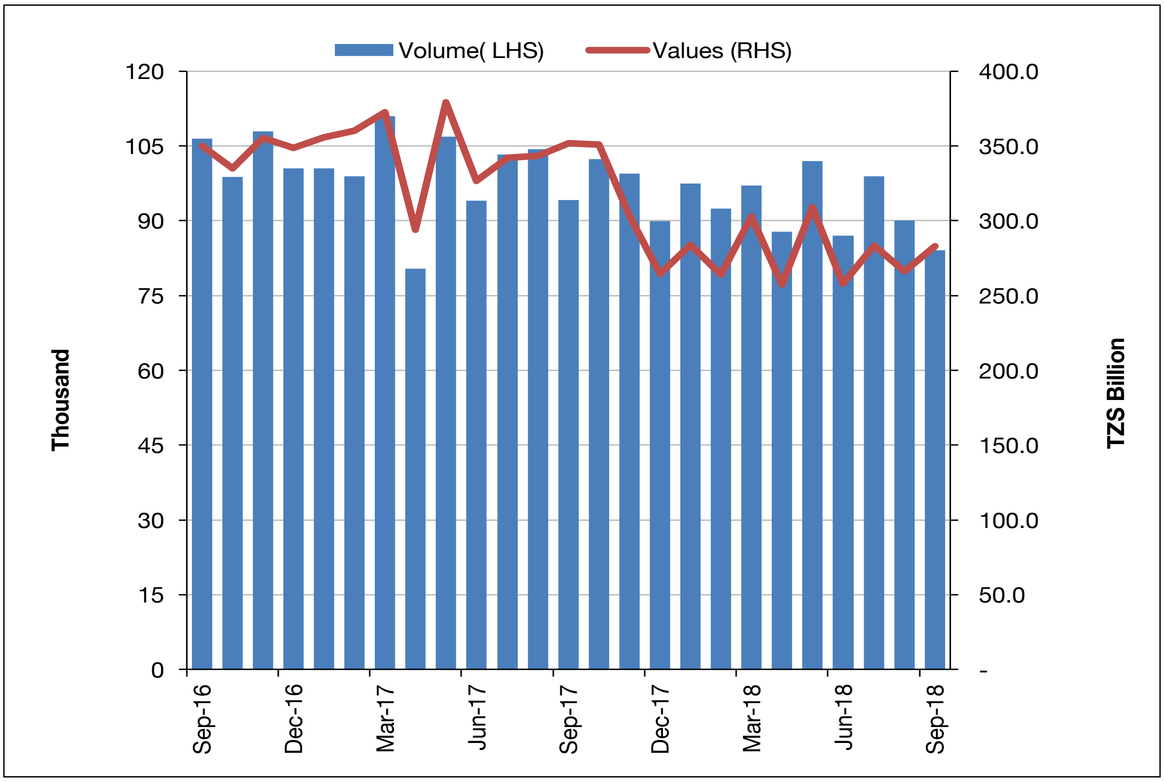


***Source**: Bank of Tanzania*

All Government payments were made through Treasury Single Account (TSA) and processed through Tanzania Automated Clearing House (TACH) and Tanzania Interbank Settlement System (TISS) (for amounts above TZS 10 million) from July 2018. The Revolutionary Government of Zanzibar still processes its payments directly through TISS.

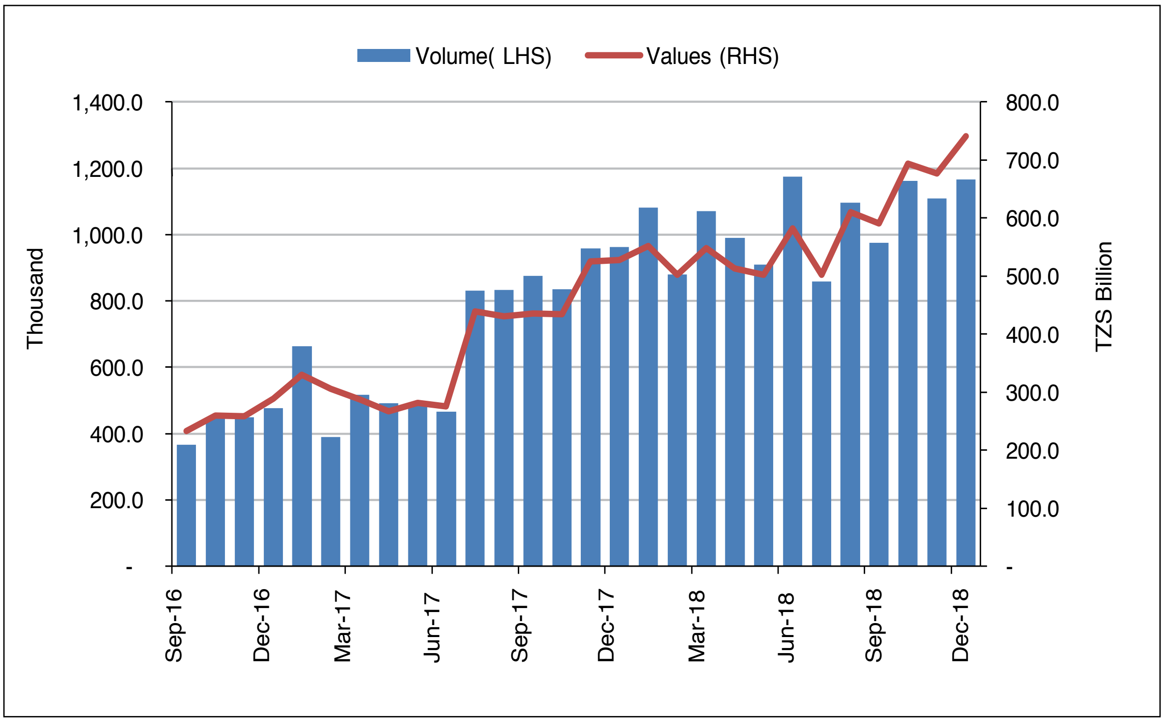
The Electronic Fund Transfers (EFT) through TACH continued to run smoothly, with growing number of transactions, following increased use of the system by the Government in making payments of salaries to its employees. During April to September 2018, the volume of EFT transactions grew by 50.8 percent, while the value increased by 55.1 percent when compared to the corresponding period of 2017 (**Chart 6.2**). The increased use of EFT by the Government has improved efficiency, while minimizing costs associated with the use of cheques. The effect was reflected in the decline in usage of Tanzanian shilling denominated cheques in TACH, both in terms of volume and value by 5.5 percent and 20.9 percent, respectively (**Chart 6.3**).

Chart 6.2: Electronic fund transfers



Source: *Bank of Tanzania*

Chart 6.3: Tanzanian Shilling cheques: volumes and values



Source: *Bank of Tanzania*

The Bank finalized development of the business case and initial preparatory activities for development of Tanzania Instant Payment System (TIPS). Development of the system is planned to commence in January 2019. TIPS will be a single, national, retail, real-time payment system. It is designed to address limitations of current service offerings, particularly with respect to interoperability by enabling every person, business, and government agency to be able to transact with each other, regardless of service provider or sector (bank or non-bank payment service provider). It will explore availability of modern technology, which can facilitate country-wide instant payments, easy connections by multiple participating institutions and ultra-low-cost payments. It will also provide a single national switch, which will support supervision. This important move will increase liquidity going forward. Further, all government securities constitute eligible collateral when accessing the Bank's standby facilities, a move that may increase trading activity (**Table 6.1**).

Table 6.1: Payment systems' values and volume of transactions processed

Payment systems	Values transacted (TZS billions)			Percentage change S2 2018 vs S1 2018	Percentage change S2 2018 vs S2 2017
	S2 2017	S1 2018	S2 2018		
TISS	82,398.1	89,316.6	91,656.9	2.6	11.2
TACH (Cheques)	2,037.9	1,769.4	1,612.1	-8.9	-20.9
TACH (EFT)	3,982.2	5,788.0	6,004.9	3.7	50.8
ATM and POS	5,795.9	5,421.0	4,822.3	-11.0	-16.8
Mobile Banking	1,413.0	1,417.7	1,526.6	7.7	8.0
Internet Banking	26,040.5	26,782.2	28,114.5	5.0	8.0
M-Payments	33,819.9	37,727.9	40,242.2	6.7	19.0
Payment systems	Volumes transacted (Thousands)			Percentage change S2 2018 vs S1 2018	Percentage change S2 2018 vs S2 2017
	S2 2017	S1 2018	S2 2018		
TISS	825.0	955.7	991.1	3.7	20.1
TACH (Cheques)	583.2	578.6	551.0	-4.8	-5.5
TACH (EFT)	2128.7	3089.3	3301.9	6.9	55.1
ATM and POS	35793.0	37681.9	39825.2	5.7	11.3
Mobile Banking	25292.4	24710.2	22817.6	-7.7	-9.8
Internet Banking	1959.4	1475.6	2149.3	45.6	9.7
M-Payments	984955.3	1249118.4	1335184.7	6.9	35.6

Source: *Bank of Tanzania*

Note: *S2 2017 denotes six months to September 2017, S1 2018 denotes six months to March 2018, S2 2018 denotes six months to September 2018*

6.2 Financial system regulatory developments

Payment systems

The Bank has been enforcing the Payment Systems Act, 2015 and its regulations; Payment Systems Licensing and Approval Regulations, 2015 and Electronic Money Regulations since enactment in 2015. Various challenges were experienced from regulators' and payment system providers' perspectives. The Bank has now embarked on the process of reviewing the Act and its regulations by gathering issues noted during implementation and recommend amendment(s) or enhancement of the legal and regulatory framework. The process is important because the NPS Act 2015 and its regulations provide compliance and standards for the payment system operators to ensure security and efficiency of the National Payment System.

Capital market and securities

The Tanzania Mercantile Exchange (TMX) is expected to start trading sesame crop in the coming season in 2019. Trading will be conducted through an open-outcry to be followed by Automated Trading System (ATS). All preparations for trading sesame have been completed during the last season 2017/201 including awareness creation, preparation of contracts and warehouses for storage. In addition, TMX received guidelines for trading of sesame from the Warehouse Receipt Regulatory Board (WRRB), which makes it mandatory for sesame to be traded through the commodities exchange. Towards the end of 2018, WRRB submitted a copy to all regions, which produce sesame for the implementation of Sesame Trading Guidelines.

A review of CMS Act 1994 is expected to be finalized during the year 2019. The review aims at creating enabling environment that will promote innovations and creation of new services and products, which in turn will improve the liquidity and capitalization in the capital markets.

7.0 FINANCIAL SECTOR RESILIENCE

7.1 Banking sector resilience

The Bank of Tanzania conducted stress testing for the quarter ending September 2018 using Cihak model to assess resilience of the banking sector. The stress testing was based on four main risk exposures including credit, liquidity, exchange rate and interest rate. The Bank applied shocks derived from adverse scenarios by considering historical volatility and expert value judgment. The assumptions for stress testing were developed based on non-performing loan ratios, sectorial distribution for selected activities, deposit rates, exchange rate volatility for major currencies, commodity prices of major export crops, fuel prices and interbank cash market rates (**Table 7.1**).

Table 7.1: Shock calibration

Risk-type	Type of Shock	Shock Size	Description
Credit	Sectoral shocks to NPLs:		Applies a different shock to the existing level of performing loans of the selected sectors, so that a proportion of them became NPLs
	Agriculture	6.3	
	Trade	8.3	
	Manufacturing	7.8	
	Personal	4.6	
			Applies a uniform shock to the existing level of performing outstanding loans so that a proportion of them became NPLs
	Proportional increase in NPLs	8.3	
Interest Rate	Nominal deposits rate		Assess the effect of interest rate change on banks' interest sensitive assets and liabilities.
	< 3 months	2.2	
	3-6 months	2.0	
	6-12 months	1.6	
	1-2yrs	2.0	
	2-3yrs	1.4	
	>3yrs	4.5	
Exchange Rate	Assumed depreciation of selected currencies		Assess the effect of depreciation on banks' existing foreign currency denominated assets and liabilities
	USD	2.6	
	EUR	2.4	
	GBP	2.7	

Source: *Bank of Tanzania*

During the quarter ending September 2018, the Bank of Tanzania assessed the resilience of the banking sector against minimum regulatory capital ratio of 10.0 percent. The stress testing focussed on three categories of banking sector namely; all banks, top 10 banks[9] and other banks. Pre-stress testing results showed that seven banks (7) were undercapitalised. However, under adverse but plausible scenarios, the banks were more vulnerable to credit risk relative to other risks. The top ten banks were more exposed to sectorial credit risks while other banks were more exposed to proportional increase in NPLs. Post stress-testing results revealed that the seven banks remained undercapitalised after applying all three risk factors (**Table 7.2**).

Table 7.2: 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	13.8	13.3	12.1	12.9	12.8
Top Ten Banks	16.9	15.3	16.3	16.0	15.6
Other Banks	12.3	11.9	11.9	11.4	11.4
Regulatory CAR (Core Capital)	10.0	10.0	10.0	10.0	10.0
No. of undercapitalized Major banks	1	1	1	1	1
No. of undercapitalized Other banks	6	6	6	6	6

Source: *Bank of Tanzania*

The pre- stress testing results for liquidity showed that one bank failed to pass minimum regulatory liquidity ratio. After applying liquidity shock of abrupt withdrawal 10.0 percent of deposits the results showed that, one-day withdrawal led to one more bank into a liquidity drain. After a 5 day of consecutive withdrawals of 10.0 percent of deposits, twelve banks fall short of liquidity below the regulatory limit. However, it is worth noting that its only 34.3 percent of all banks will experience liquidity problem after abrupt withdrawal of deposits implying that 65.7 percent of the all banks are resilient to liquidity risk under such adverse scenarios

Table 7.3: Summary of liquidity stress testing results

Liquidity test	Number of liquid banks
Pre shock result	1
Post shock results	
Day 1	2
Day 2	4
Day 3	7
Day 4	10
Day 5	13

Source: *Bank of Tanzania*

[9] Top 10 banks account for 69.0 percent of total assets of the banking sector.

8.0 FINANCIAL STABILITY OUTLOOK

Global growth projections were revised downwards in October, 2018 by 0.2 percentage points compared to April, 2018. The growth is expected to remain at 3.7 percent in 2019 due to rising trade tensions among major economies, financial market pressure in emerging market economies, political and policy uncertainties and expected tightening of monetary policy in major advanced economies.

Domestic economy is expected to remain strong and projected to grow at 7.1 percent in 2019. The projected growth will be supported by a continued investment in infrastructure and conducive macroeconomic environment, anchored on prudent fiscal and monetary policies.

The banking sector is expected to remain safe and sound though exposed to credit risk due to high NPLs. However, the NPLs ratio is expected to decline given the strategies that banks and lending institutions are implementing in addressing the problems of high NPLs. Further, favourable macro-economic environment and capital adequacy level are expected to increase resilience of the financial system against unexpected shocks. The easing of credit condition and improvement in banking sector's asset quality will sustain the projected growth.

The projected good performance in non-financial corporates and household sectors are likely to increase debt-servicing capacity of the borrowers. This will in turn improve asset quality of the banking sector by reducing NPLs. Positive projections will also support improvements in equity market by raising turnover, though increasing selling activities by foreign investor may impose liquidity pressure in the market thus warrant monitoring.

Insurance and social security sectors are expected to remain safe and sound as asset and liquidity continue to be at a sustainable growing path. The insurance sector will remain adequately and able to absorb shocks arising from actuarial liabilities going forward. The social security sector is projected to remain strong after the merging of four funds into one. The merging is expected to increase efficiency by reducing administrative costs, increasing liquidity, which will ultimately increase ability to fulfil financial obligations. Generally, the domestic macroeconomic environment is projected to remain strong to support the growth prospects and stability of the financial system.

9.0 APPENDICES

Appendix 1: Annual GDP performance by economic activity Tanzania Mainland

(Percent)

ECONOMIC ACTIVITY	2011	2012	2013	2014	2015	2016	2017
Agriculture, forestry and fishing	***3.0***	***0.6***	***2.8***	***6.9***	***5.4***	***4.8***	***6.0***
Crops	5.0	0.3	4.4	9.4	7.6	5.4	6.4
Livestock	4.8	4.8	4.8	4.9	4.9	4.9	4.9
Forestry	3.7	3.8	4.5	4.8	3.4	3.9	4.8
Fishing	-9.3	-11.2	13.3	1.8	-4.5	1.2	8.3
Agriculture support services	3.4	1.0	2.5	6.1	4.5	4.0	5.5
Industry and Construction	***5.6***	***2.9***	***10.5***	***6.0***	***9.7***	***11.7***	***10.7***
Mining and quarrying	-2.4	8.0	4.5	6.4	10.0	7.4	5.3
Manufacturing	6.2	-0.2	3.7	10.0	7.1	10.8	8.2
Electricity supply	-2.6	3.8	8.2	12.7	-2.0	8.8	1.0
Water supply; sewerage, waste management	-1.4	2.8	2.7	3.8	2.4	6.9	8.5
Construction	10.1	3.1	19.1	2.5	12.9	14.5	15.1
Services	***13.4***	***5.6***	***5.1***	***9.3***	***6.4***	***6.3***	***5.3***
Wholesale and retail trade; repairs	11.2	-0.2	4.2	9.9	3.6	5.9	6.1
Transport and storage	18.6	8.0	6.0	8.7	5.4	5.7	6.7
Accommodation and Food Services	4.2	5.5	0.9	3.1	1.7	4.1	3.2
Information and communication	12.8	22.7	11.6	10.3	7.8	2.2	6.2
Financial and insurance activities	9.4	5.9	1.1	10.5	11.3	1.1	-2.8
Real estate	4.1	4.1	4.2	4.2	4.3	4.3	4.4
Professional, scientific and technical activities	32.0	24.2	19.5	16.3	15.7	17.0	14.5
Administrative and support service activities	16.3	10.0	17.2	19.0	10.5	19.6	10.8
Public administration and defence	15.4	7.5	9.7	6.7	7.2	5.4	2.4
Education	27.6	5.4	0.3	13.4	10.4	10.4	7.3
Human health and social work activities	20.3	1.2	3.1	8.4	5.1	5.6	7.6
Arts, entertainment and recreation	9.6	14.5	7.1	8.5	7.7	12.7	9.9
Other service activities	14.0	12.5	11.3	12.0	4.7	13.5	12.0
Activities of households as employers;	3.2	3.2	3.2	3.2	3.2	3.2	3.2
All economic activities	**7.9**	**3.3**	**5.7**	**7.7**	**6.9**	**7.3**	**7.0**
Taxes on products	14.1	-3.6	17.5	-2.2	-1.7	2.0	4.6
GDP at market prices	**8.5**	**2.7**	**6.8**	**6.7**	**6.2**	**6.9**	**6.8**

Source: *National Bureau of Statistics and BOT Calculations*

Appendix 2: Quarterly performance of Dar es Salaam Stock Exchange

Particulars	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Total Market Capitalisation (TZS billion)	20,835.3	24,003.4	21,579.6	19,124.3	20,138.8	19,286.5	20,354.9	23,076.0	23,199.3	22,252.9	20,292.4
Domestic Market Capitalisation (TZS billion)	8,788.1	8,327.5	8,103.1	7,728.9	7,507.9	7,758.7	9,743.4	10,275.3	10,728.5	10,949.2	10,375.9
Cross listed market capitalization (TZS billion)	12,047.3	15,675.8	13,476.5	11,395.5	12,630.9	11,527.8	10,611.6	12,800.8	12,470.7	11,303.8	9,916.5
GDP (TZS billion)	103,744.6	103,744.6	103,744.6	103,744.6	116,101.9	116,101.9	116,101.9	116,101.9	116,101.9	116,101.9	116,101.9
Total Market Capitalisation/GDP (percent)	20.1	23.1	20.8	18.4	17.3	16.6	17.5	19.9	20.0	19.2	17.5
Market Turn-over (TZS million)	122,816.3	101,532.2	113,936.3	82,507.8	75,297.1	116,638.7	129,288.6	195,334.2	85,976.8	51,470.0	28,157.3
Cross listed companies (percent)	57.8	65.3	62.5	59.6	62.7	59.8	52.1	55.5	53.8	50.8	48.9
Domestic listed companies (percent)	42.2	34.7	37.5	40.4	37.3	40.2	47.9	44.5	46.2	49.2	51.1
Share Indices											
All Shares Index (DSEI)	2,348.3	2,483.8	2,394.7	2,329.3	3,130.0	2,458.7	2,116.3	2,238.6	2,375.5	2,310.8	2,105.2
Tanzania Share Index (TSI)	4,172.2	3,942.6	3,905.2	3,817.7	3,549.2	3,533.8	3,751.9	3,863.8	3,982.6	4,176.3	3,950.1
Industrial & Allied (IA)	5,606.7	5,265.0	5,063.2	4,911.4	4,553.8	4,569.9	4,996.4	5,366.9	5,572.6	6,160.7	5,656.8
Banks, Finance & Investment (BI)	2,729.3	2,616.4	2,777.1	2,768.3	2,577.4	2,543.2	2,585.1	2,473.3	2,569.0	2,519.9	2,522.9
Commercial Services (cs)	3,764.9	3,656.1	3,545.8	3,283.5	3,137.0	2,858.0	4,146.1	2,462.2	2,468.1	2,331.3	2,295.9

Source: *Capital Market and Securities Authority*

Appendix 3: DSE market capitalization of individual companies

Percent

No:	Cross Listed Companies	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
1	ACA	17.7	25.2	26.8	21.0	26.2	18.3	10.0	10.2	7.9	6.9	7.7
2	EABL	22.6	21.8	21.5	21.6	18.7	21.4	21.1	18.2	19.9	17.4	16.7
3	JHL	3.1	3.0	3.1	3.5	3.7	3.3	3.7	3.2	3.7	3.7	3.8
4	KA	0.7	0.6	0.6	1.0	1.0	1.2	0.7	9.6	5.6	6.1	5.9
5	KCB	12.5	10.0	8.0	10.4	11.1	13.2	14.3	12.0	14.6	14.0	13.3
6	NMG	3.3	2.9	2.3	1.8	2.0	2.2	2.2	2.1	2.0	1.7	1.5
7	USL	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0
	Cross Listed Companies Market share as percent of Total Market Capitalization	60.2	63.6	62.5	59.6	62.7	59.8	52.1	55.5	53.8	50.0	48.9
No:	Domestic Listed Companies											
8	CRDB	4.8	3.7	3.1	3.4	2.4	2.4	2.2	1.8	1.9	1.9	2.1
9	DCB	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
10	DSE	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
11	MBP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
12	MCB	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.2
13	MKCB	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
14	MUCOBA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15	NICOL										0.1	0.1
16	NMB	4.7	3.7	6.4	7.2	6.8	7.1	6.8	6.0	5.9	6.3	6.8
17	PAL	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.4
18	SWALA	0.2	0.2	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.3
19	SWIS	1.2	1.1	1.1	1.0	1.0	0.7	0.7	0.5	0.5	0.6	0.5
20	TBL	19.2	18.6	17.8	18.5	17.6	20.5	19.3	17.9	19.7	22.1	20.8
21	TCC	5.7	5.5	5.4	6.0	5.7	5.7	7.2	7.3	7.0	7.7	8.4
22	TCCL	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.3	0.3	0.2
23	TICL									0.1	0.1	0.2
24	TOL	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.2	0.2	0.2
25	TPCC	2.2	2.0	1.9	2.2	1.8	1.7	1.3	0.2	1.1	1.3	1.8
26	TTP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.1	0.0	0.0	0.0
27	VODA		0.0	0.0	0.0	0.0	0.0	8.5	0.0	8.2	8.2	8.8
28	YETU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.3	0.0	0.0	0.0
	Domestic Listed Companies Market share as percent of Total Market Capitalization	39.8	36.4	37.6	40.4	37.3	40.2	47.9	44.5	46.2	50.0	51.1

Source: *Dar es Salaam Stock Exchange*

Appendix 4: Tanzania Mainland: trend of social security investment portfolio

Percent

Particular	Prudential Limit as Percentage of Total Assets	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Bank Deposits	35	8.4	8.8	7.7	8.7	9.0	11.5	9.4	9.4	9.8	9.4	6.5
Government Debt	20-70	20.3	23.0	24.6	25.4	25.6	26.0	28.2	28.6	29.6	32.3	33.2
Commercial Paper, Promissory notes and Corporate bonds	20	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.4
Loans to Government	10	21.0	20.6	19.7	19.1	20.0	19.1	18.3	17.5	14.1	14.3	14.0
Ordinary and Preference Share	20	8.8	7.6	6.9	6.4	5.9	6.8	6.7	7.0	7.2	7.1	7.9
Investments in Licensed Collective Investment Schemes	30	1.5	1.5	1.6	1.5	1.5	1.5	1.5	1.5	1.5	1.6	1.6
Real Estate	30	19.8	19.5	19.6	21.2	20.7	19.8	18.6	18.9	19.3	18.8	19.5
Loans to Corporates and Cooperative Societies	10	4.0	4.4	4.4	4.1	3.9	4.0	3.9	3.6	3.4	3.3	3.4
Infrastructure Investment	25	2.5	2.6	2.7	2.8	2.9	2.9	2.7	2.9	2.9	2.9	2.9
Other Assets		13.9	11.9	12.9	10.8	8.8	8.3	10.5	10.3	11.0	10.0	10.6
Total Assets		10,058.8	10,284.5	10,635.4	11,020.8	11,323.7	11,960.0	12,187.8	12,232.1	12,367.8	12,796.4	12,776.2

Source: *Bank of Tanzania*

Appendix 5: Agent banking transactions

Date	Cummulative no. of Agents	Cash Deposit		Cash Withdrawals		Collection of Accounts Opening Forms	Net Positions (Deposit less Withdrawals)
		No of Transactions	Value in MillionTZS	No of Transactions	Value in MillionTZS	No of Transactions	Value in MillionTZS
Sep-13	304	10,035	6,260.1	3,069	880	3,822	5,380
Dec-13	591	38,024	22,111.8	17,545	3,258	5,848	18,854
Mar-14	840	59,929	38,429.7	19,203	5,188	3,503	33,241
Jun-14	1,012	83,901	56,846.2	33,869	9,400	6,062	47,446
Sep-14	1,317	136,286	83,101.0	41,718	12,663	6,729	70,438
Dec-14	1,652	167,617	99,443.4	54,244	14,831	6,948	84,613
Mar-15	1,857	281,898	140,217.0	70,283	19,887	6,802	120,330
Jun-15	2,333	353,352	193,650.3	126,400	34,928	7,834	158,722
Sep-15	2,936	533,243	264,065.9	202,665	57,500	9,305	206,566
Dec-15	3,298	589,605	276,315.4	276,303	72,919	28,070	203,396
Mar-16	3,485	876,518	329,550.2	307,400	80,530	23,348	249,021
Jun-16	4,573	1,055,454	377,065.2	384,350	100,235	32,209	276,830
Sep-16	4,798	1,321,734	520,549.1	402,625	108,809	48,338	411,740
Dec-16	5,676	1,616,136	656,125.1	562,717	137,560	61,900	518,565
Mar-17	6,865	1,927,509	862,130.9	719,893	171,259	53,076	690,872
Jun-17	8,008	2,110,176	961,958.5	869,651	216,498	69,598	745,460
Sep-17	9,266	2,913,513	1,311,157	1,053,338	277,968	11,814	1,033,189
Dec-17	10,689	2,960,497	1,503,298.9	1,432,313	440,645	14,583	1,062,654
Mar-18	12,075	3,329,640	1,726,983.5	1,787,388	538,849	8,624	1,188,135
Jun-18	13,679	4,002,384	2,218,310.8	2,241,739	658,124	8,789	1,560,187
Sep-18	17,432	5,269,454	2,930,320.9	2,495,731	822,376	13,466	2,107,945

Source: *Bank of Tanzania*

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