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TANZANIA FINANCIAL STABILITY REPORT

March 2019

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TABLE OF CONTENTS

LIST OF CHARTS, TABLES AND BOXES

CHARTS

TABLES

BOXES

APPENDICES

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
GPW	-	Gross Premium Written
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
MIS	-	Management Information System
NAV	-	Net Asset Value
NICO	-	National Investment Company Limited
NPLs	-	Non- Performing Loans
NSSF	-	National Social Security Fund
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
TIPS	-	Tanzania Instant Payment System
TIRA	-	Tanzania Regulatory Authority
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

The Financial Stability Report of March 2019 is being released at the time the global economy is slightly slowing down. Risks to the global economy are expected to heighten owing increased trade tensions among strong economies, coupled with unrealised Brexit deal and expected tightening of financial conditions in some advanced economies. The projected global outlook if materializes, may potentially affect developing countries in various ways including exchange rate volatility, interest rates variations and unexpected capital flow movements.

On the domestic front, the economy is expected to maintain strong growth despite challenging global environment. The inflation rate has remained at low levels below the projected threshold, while the exchange rate movements have demonstrated stability overtime. The banking sector performance improved as attested by increased profitability and distribution of dividend to respective shareholders including the Government. The sector remained stable and sound despite some challenges arising from non-performing loans, which are under close monitoring by the Bank of Tanzania and lending institutions.

During the review period, the Bank continued to implement accommodative monetary policy stance with a view to support the Government's broader macroeconomic objectives of low and stable inflation and strong and balanced economic growth. In addition, the Bank developed Financial Consumer Protection (Regulations), 2019 in order to put in place redress mechanism, enhance consumer confidence and reduce adverse effects of information asymmetry. These efforts were targeted at creating a conducive environment for credit market in Tanzania. The Bank also launched the National Financial Inclusion Framework II of 2018-2022. The framework emphasizes access to and use of financial services and products within and across the country.

Further, the Bank is in the process of implementing the Tanzania Instant Payment System (TIPS), which aims at providing unified interoperability for all digital financial service providers, which will improve efficiency and lower transaction costs. At completion, the system will accommodate all users of digital financial services. Besides, the Bank is reviewing the National Payment Act 2015, and its' regulations to accommodate new developments.

It is against this backdrop that, the Bank and other financial sector regulators remain committed to monitor progress of the financial system and enhance regulatory oversight to accommodate new developments with an objective of ensuring stability of the financial system.

Florens D. A. M. Luoga
Feb 17 2020 7:54 AM

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DocuSign

Governor and Chairman of Tanzania Financial Stability Forum

March 2019

EXECUTIVE SUMMARY

Global growth is projected to slow down on account of continued trade tensions and tighter financial conditions. In 2019, growth is projected to slow down to 3.3 percent from 3.6 percent in 2018. The slowdown is likely to be driven by trade tensions between US and China, coupled with tightened financial conditions. The tension may affect business confidence and financial markets sentiments, hence posing risks to Emerging Markets and Developing Economies. Other risks are likely to emerge from capital flows volatility, foreign exchange rates volatility and increase in foreign currency denominated public and private debts. The expected increase in interest rates in some Advanced Economies and policy uncertainties in the Euro Area may pose significant risks to global financial stability. Likewise, the rising levels of corporate and sovereign debts may reduce fiscal space and ultimately impair projected growth. In addition, the uncertainty about Brexit if materializes may lead to higher trade barriers and cost of trading, which will affect the expected growth.

Growth outlook for Sub-Saharan Africa continued to strengthen, amid deteriorating external conditions. The regional growth is projected at 3.5 percent in 2019 from 3.0 percent in 2018, supported by stable macro-economic environment and investment in infrastructure. However, deteriorating external conditions may slower growth in the region due to trade tensions and tightening of global financial conditions. These developments may lead to strengthening of US dollar, lower commodity prices and affect capital outflows; a move which may reduce export earnings, rise sovereign and private debt burden and financial stability. Further, the region experienced economic and financial pressures from declining correspondence banking activities due to high cost, low profitability and the need for compliance with Anti-Money Laundering and Combating of Financial Terrorism (AML/CFT) legislations. The decline in number of correspondent banking led to high volumes of transactions by few banks, which increased cost of transaction and concentration risk. Going forward, the region is expected to strengthen legal and regulatory framework for AML/CFT in order to further address cyber risks in the region.

Domestic economy performance remained stable, amid internal and external shocks. Real GDP grew at 6.9 percent in 2018 compared to 6.8 percent in 2017 mainly contributed to increased government expenditure on infrastructure development, manufacturing and construction. However, the growth outlook is threatened by weaker global commodity demand, which may widen current account balance and increase in debt servicing costs for foreign currency denominated debts. Further, trade tensions between US and China, and tightening of financial conditions may have spillover effects on the economy through exchange rate volatility and balance of payment positions, which may ultimately affect the projected growth.

The banking sector continued to be resilient and profitable, albeit elevated credit risk. Credit risk was elevated as depicted by the NPLs ratio, which stood at 10.9 percent as at the end of March 2019 from 9.7 percent in September 2018. The loan portfolio of the banking sector improved as revealed by increase of credit to private sector by 6.7 percent as at the end of March 2019. The sector was liquid and profitable as depicted by the ratio of liquidity ratio and Return on Asset of 34.1 percent and 1.8 percent, respectively. The increased usage of credit reference bureau services has partly resolved the problem of information asymmetry in the market which may reduce borrowing costs and NPLs.

Capital market depicted a mixed performance in terms of equity and bond markets. Trading activity in the equity market slightly increased partly attributed to increase in turnover and improvement in corporates performance. This development reflects increased participation by corporates in equity market with continued dominance of foreign investors, reflecting increased investors' confidence in the equity market. Despite a slight increase in trading activity at the stock exchange, there was no participation of social security schemes, a key player in providing liquidity in the market following the transition period in the merging process.

The ability of social security sector to cover obligations improved, with some delays in payments of benefits. The sector's contributions to benefit payment ratio increased to 1.2 percent in the period of one year to March 2019. This was mainly due to increase of members' contributions despite payments of benefit arrears. Specifically, for PSSSF the ability to meet obligations using contributions and generated income declined, thereby, exerting pressure on the Fund in the short to medium term. However, the sustainability of the Fund is optimistic as reflected by improving coverage ratio.

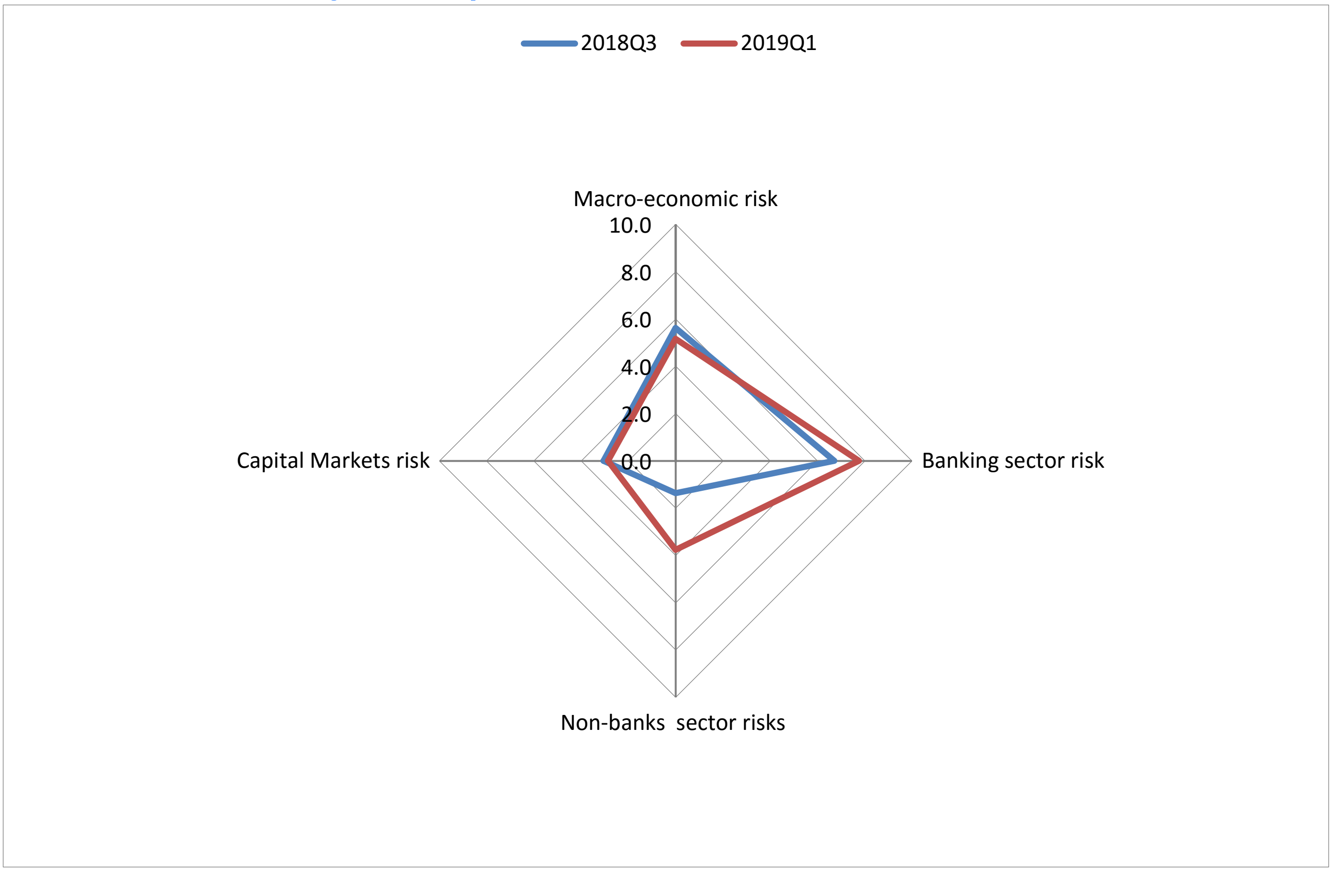
The insurance sector's assets grew, amid decline in net worth. Total assets increased, mainly driven by investment in Government securities and deposits. The increase in investment in securities was partly due to regulatory requirement of maintaining at least 50.0 percent of the minimum capital in government securities. However, the sector's net worth slightly decreased mainly due to increase in unearned premiums.

Payment and settlement systems continued to operate smoothly without disruptions. During six months to March 2019, payments, clearing and settlement systems operated smoothly and efficiently with growing utilization of digital channels in financial services delivery. The Bank is progressing well with the development of TIPS whereas phase one of the project was completed as at the end of March 2019.

In summary, risk emanating from global environment increased during the six months to March 2019, while risks arising from domestic economy slightly declined on account of improved macroeconomic environment and steady growth. The increase in global risks are likely to affect growth of Emerging Markets and Developing Economies. In addition, the banking sector remained resilient to shocks as depicted by increase in capital adequacy ratio and profitability.

The identified potential risks to domestic macro-financial environment are summarized and presented by the financial stability risk map.

Financial stability risk map



Source: *Bank of Tanzania*

Box 1: Financial system stability index

Financial System Stability Index (FSSI) is an early warning indicator, which 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 of (+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 slightly deteriorated to -0.7 as at the end of March 2019 compared to -0.6 in September 2018.

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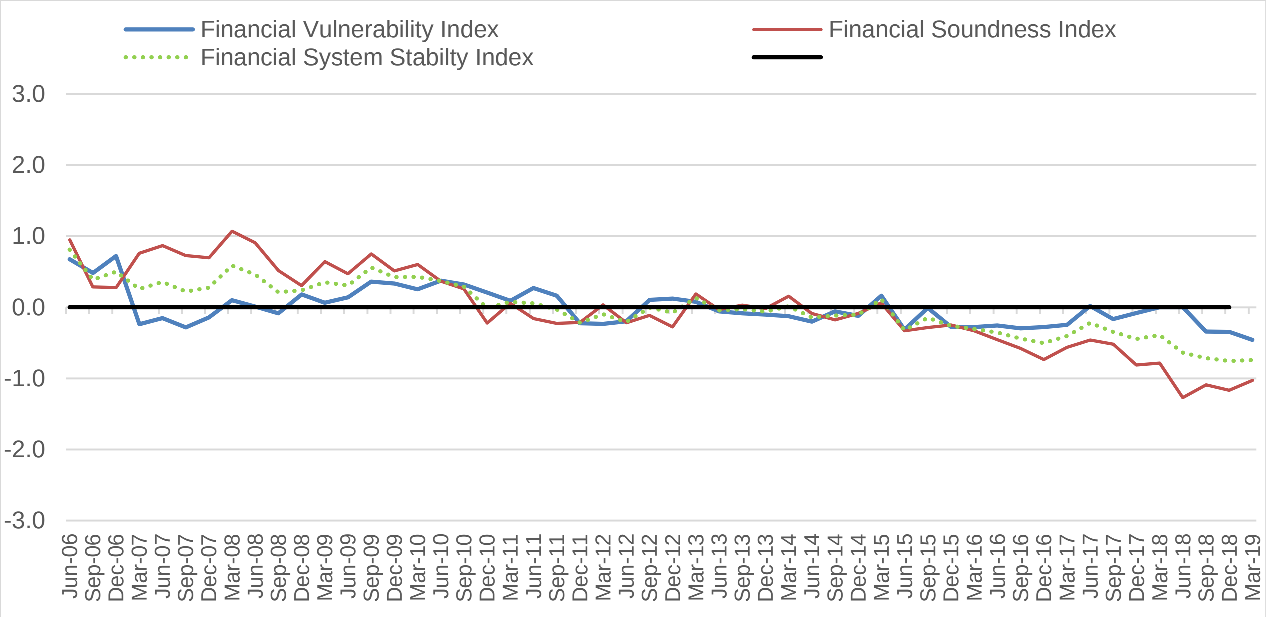
Financial System Stability Index



Source: *Bank of Tanzania*

Deterioration of the index was attributed to increase in interbank cash market rates from 1.8 percent in September, 2018 to 5.5 percent in March 2019 and increase in non-performing Loans (NPLs) in the banking sector to 10.9 percent in March, 2019 from 9.7 percent in September 2018, which was above the maximum acceptable level of 5.0 percent. However, Capital Adequacy Ratio for banking sector was 18.4 in March 2019 an improvement of 30 basis points from 18.1 percent in September 2018 well above minimum regulatory threshold of 10.0 percent, which supported the system to cushion against risks as well as slight depreciation of Tanzanian Shilling against the US dollar.

1.0 MACROECONOMIC AND FINANCIAL ENVIRONMENT

1.1 Global economic developments

Global growth is projected to decelerate, owing to increased trade tensions, decline in business confidence and tightened financial conditions. Global economy growth slowed particularly in the second half of 2018 driven by slowdown in global trade, concerns over trade tensions and weakened business confidence. In 2019, growth is projected to further slowdown to 3.3 percent from 3.6 percent in 2018 (IMF WEO, April 2019), before recovery to 3.6 percent in 2020. The slowdown is likely to be driven by increased trade tensions between US and China, in particular. For example, the introduction of trade-restrictive measures coupled with tightened financial conditions may affect business confidence and financial markets sentiments, hence posing risks to Emerging Markets and Developing Economies through volatility in capital inflows, exchange rates and increase in foreign currency denominated public and private debts.

The expected increase in interest rates in some Advanced Economies and policy uncertainties as well as a sudden rise in global financial cost may pose significant risk to debts and financial stability. High levels of corporate debts may amplify an economic down turn. On the other hand, high sovereign debt may reduce fiscal policy space and ultimately hinder policy response and delay the projected growth.

In addressing the problem of high and rising financial vulnerabilities globally, policy makers across nations are expected to deploy prudential tools and macro-prudential toolkits where needed. Likewise, efforts to repair public and private sector institutions' balance sheets are expected to be executed to avoid over indebtedness and increase in non-performing loans.

Table 1.1: Global real GDP growth and projections

Percent

						Projections	
	2014	2015	2016	2017	2018	2019	2020
World	**3.6**	**3.4**	**3.4**	**3.8**	**3.6**	**3.3**	**3.6**
Advanced economies	**2.1**	**2.3**	**1.7**	**2.4**	**2.2**	**1.8**	**1.7**
United States	2.5	2.9	1.6	2.2	2.9	2.3	1.9
Euro area	**1.4**	**2.1**	**2.0**	**2.4**	**1.8**	**1.3**	**1.5**
United Kingdom	2.9	2.3	1.8	1.8	1.4	1.2	1.4
Japan	0.4	1.2	0.6	1.9	0.8	1.0	0.5
Emerging Market and developing Economies	**4.7**	**4.3**	**4.6**	**4.8**	**4.5**	**4.4**	**4.8**
China	7.3	6.9	6.7	6.8	6.6	6.3	6.1
Sub-Saharan Africa	**5.1**	**3.2**	**1.4**	**2.9**	**3.0**	**3.5**	**3.7**
South Africa	1.8	1.2	0.4	1.4	0.8	1.2	1.5

Source: *IMF, World Economic Outlook, April ,2019*

Volatility in financial conditions and declining business sentiments remains major risks to growth in Advanced Economies. Growth in advanced economies is projected to slow to 1.8 percent in 2019 from 2.2 percent in 2018. Growth in the Euro area declined to 1.3 percent in 2019 from 1.8 percent in 2018 due to weak domestic demand in the Euro-zone. Introduction of new emission standards and decline in industrial production in Germany have slowed growth during the period. In addition, decline in intra-exports trade flows and unrealized Brexit deal may continue to weaken, consequently increase borrowing costs as sovereign yields remain elevated. US growth for 2019 is projected to decline to 2.3 percent from 2.9 percent attained in 2018 due to escalated trade tensions with China (**Table 1.2**). The vulnerabilities for the advanced economies are susceptible to further growth of sovereign and corporate debts leading to an increase in leverage ratio and fall in equity prices. Monetary policy uncertainties may impair investors' sentiments thus increase public and private debt burdens, which would reduce private investment and projected growth.

Table 1.2: GDP growth for selected countries ***Percent***

3.03

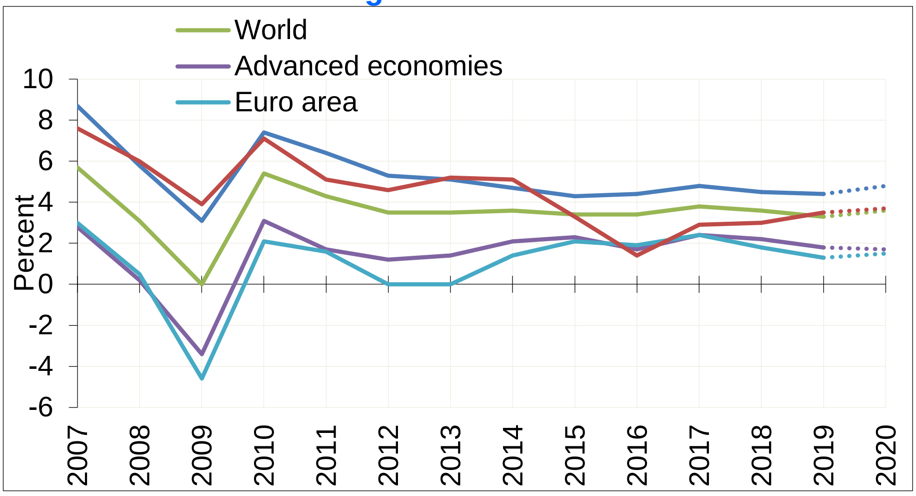
	2012	2013	2014	2015	2016	2017	2018	2019	2020
Germany	0.5	0.5	2.2	1.7	2.2	2.5	1.5	0.8	1.4
Japan	1.5	2.0	0.4	1.2	0.6	1.9	0.8	1.0	0.5
United Kingdom	1.4	2.0	2.9	2.3	1.8	1.8	1.4	1.2	1.4
United States	2.2	1.8	2.5	2.9	1.6	2.2	2.9	2.3	1.9
Brazil	1.9	3.0	0.5	-3.5	1.1	1.1	1.1	2.1	2.5
China	7.9	7.8	7.3	6.9	6.7	6.8	6.6	6.3	6.1
India	5.5	6.4	7.4	8.2	7.1	7.2	7.1	7.3	7.5
Russia	3.7	1.8	0.7	-2.8	-0.2	1.6	2.3	1.6	1.7
South Africa	2.2	2.5	1.8	1.2	0.4	1.4	0.8	1.2	1.5

Source: *OECD Database*

Growth in emerging markets and developing economies is susceptible to tight global financial condition and trade volatilities. Growth is expected to moderate to 4.4 percent in 2019 from 4.5 percent in 2018 driven by challenging external environment including slowdown in advanced economies, trade tensions, expected tightening of financial conditions and subdued outlook in commodity prices. The region's growth forecast reflects differences across the countries (**Chart 1.1**).

In China, growth is projected to decline to 6.3 percent in 2019 from 6.6 percent in 2018 due to increased trade tensions with the USA, and weakening import demand in advanced countries, which have affected exports among trading partners' in Europe and Asia. Further, disrupted global financial markets sentiments may moderate economic growth in emerging markets and developing economies. Other country specific factors such as geopolitical tension, slowdown in commodity prices for oil exporters and exchange rate volatility may adversely affect growth prospects for the region. Expected further tightening of global financial condition is expected to cause capital outflows leading to higher borrowing costs, currency depreciation and decline in equity prices. These developments may affect banking and corporate sectors' balance sheets which may further constrain real economic growth.

Chart 1.1: World GDP growth rates

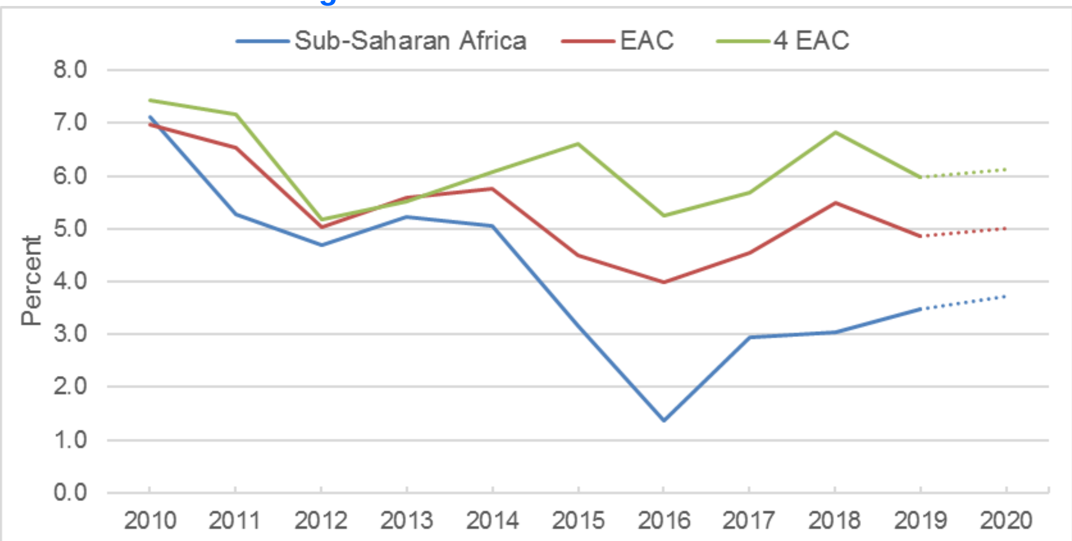


Source: *Bank of Tanzania*

Growth outlook for Sub-Saharan Africa continues to recover, amid deteriorating external conditions. The regional growth is expected to pick up to 3.5 percent in 2019 from 3.0 percent in 2018, driven by stable macro-economic environment and investment in infrastructure (SSA, REO April 2019). The projection is 0.3 percentage point lower than in the October 2018 WEO, reflecting downward revisions for South Africa, Angola and Nigeria due to policy uncertainty and declining oil prices. Most of non-resource-intensive countries are expected to grow at 5.0 percent or more supported by stable macro-economic environment, public spending in infrastructure and improved domestic demand. Deteriorating external conditions may slow growth in the region due to escalation and broadening in trade tensions, tightening of global financial conditions and policy uncertainty. Tighter global financial conditions, strengthening of US dollar and lower commodity prices may constrain financing of development projects and growth for many SSA countries. Capital reversals due expected rise in interest rates may reduce regional's export earnings and raise public and private debt burden. In addition, the region's over dependence on agriculture makes it vulnerable to extreme weather conditions. Furthermore, the region experienced pressure on decline of correspondence banking activities emanating from high cost, low profitability and compliance with Anti-Money Laundering and Combating of Financial Terrorism (AML/CFT) requirements. The decline in number of correspondent banking led to high volumes of transactions by few banks, which increased cost of transaction and concentration risk. Going forward, the region is expected to strengthen legal and regulatory frameworks for AML/CFT as well as address cyber risks management.

Economic growth in the East African region remained stable, despite ongoing global trade tensions and policy uncertainties. In 2018, the region growth was strong and is projected to remain steady going forward, driven by increased public investment in infrastructure and transport services. Recovery in commodity prices and increased investments in manufacturing and commercial services will further support regional growth prospects. However, the region remains vulnerable to tightened global financial conditions that may lead to a shift in investors' sentiments and constrain financial inflows. The ongoing trade tensions amongst the major global economies may adversely affect regional trade position due to reduced demand for commodity exports and increased import bill. Tight financial condition and reduced export demand may affect corporate sector's profitability and ability to service their debt, which in turn will affect the banking sector asset quality. Financial sector vulnerabilities such as higher NPLs may weigh on banks' balance sheets and constrain credit to private sector thus compromise regional growth prospects.

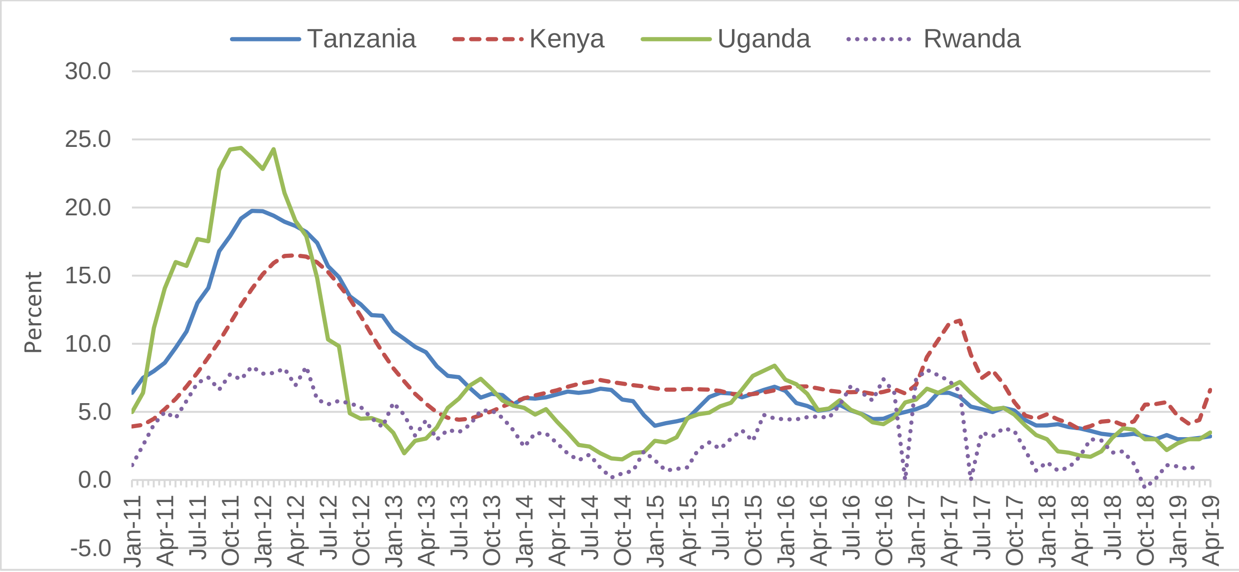
Chart 1.2: Economic growth in Sub-Saharan Africa and EAC



Source: *IMF, Regional Economic Outlook for Sub-Saharan Africa, April, 2019*

Inflation remained low and stable across the EAC countries, supported by improved food supply in the region coupled with low food prices, decrease in cost of clothing, housing utilities and transport cost.

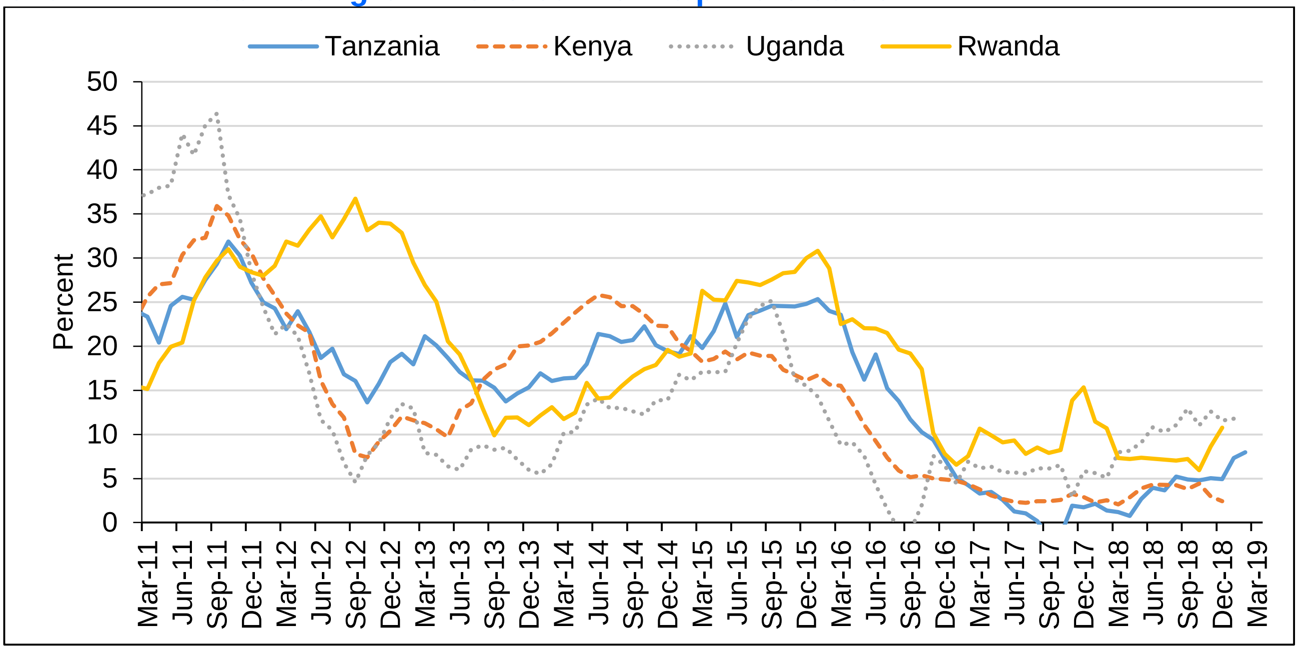
Chart 1.3: EAC countries inflation



Source: *Bank of Tanzania*

Credit growth in the EAC improved, mainly due to eased loan terms and condition and improved macro-economic environment. The outlook for credit growth in the region is positive and supported by improved macroeconomic environment, particularly increased public investment and employment (**Chart 1.4**). However, downside risks to this outlook include higher NPLs weighing on banks' balance sheets and financial condition.

Chart 1.4: EAC annual growth of credit to the private sector



Source: *Bank of Tanzania*

1.2 Domestic macroeconomic and financial environment

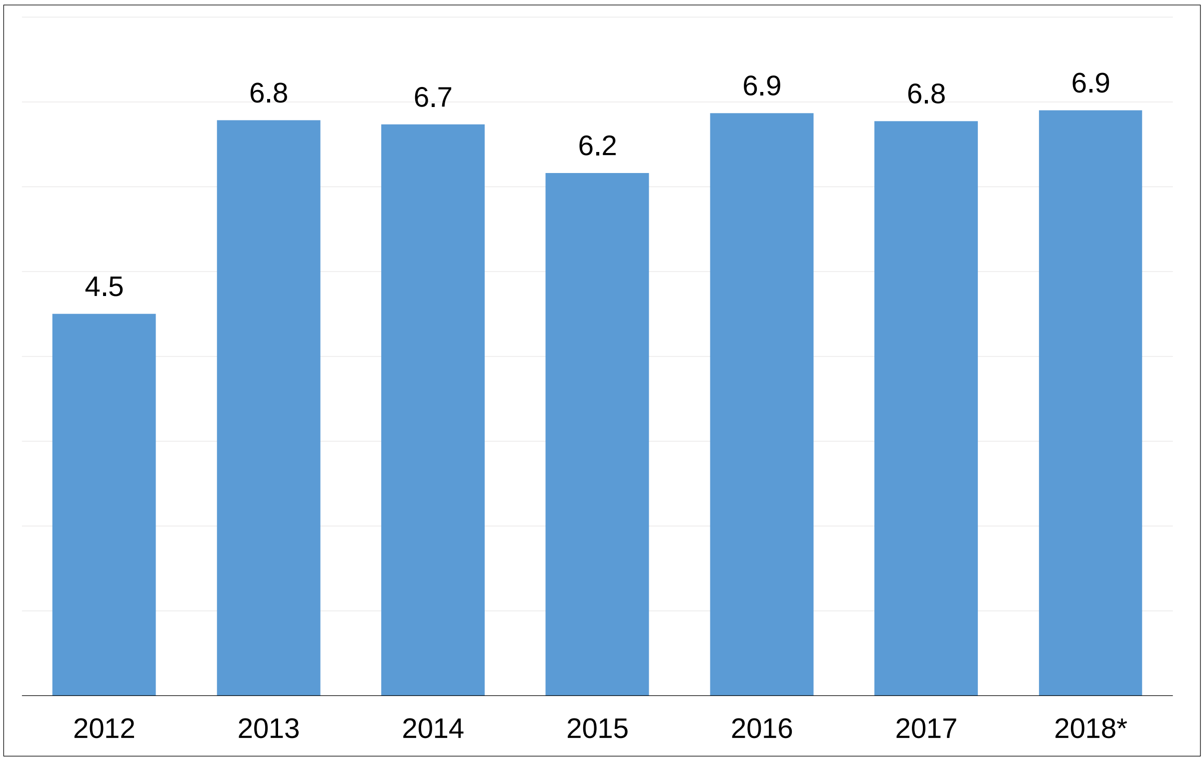
Domestic economy performance remained stable, amid internal and external shocks. Real GDP grew at 6.9 percent in 2018 compared to 6.8 percent in 2017 mainly contributed by partly expansionary fiscal and accommodative monetary policies, whereby the government increased expenditure on infrastructure development, construction while private increased investment in manufacturing (**Chart 1.5**). The Central Bank continued to implement accommodative monetary policy, a measure that kept inflation below acceptable rate and supported increase of credit to the private sector to an annual growth of 9.2 percent in March 2019.

The growth outlook is however, exposed to external threats including projected weaker global demand, which may lead to a decline in commodity prices, widen current account balance and increase debt-servicing costs for external private and public debt. Tighter financial conditions and higher oil prices may exert pressure on inflation and exchange rates, hence affecting public and private corporates with foreign currency denominated debt. Further, with higher public external debt, which accounts for about 70.0 percent of total public debt, may increase the burden on foreign currency denominated debt due to changes in external financial conditions. Nevertheless, the risk to debt servicing burden remains low because large portion of public external debts are concessional.

On the other hand, the economy may also be exposed to the widening fiscal deficit as the Government continues spend on strategic development projects. Further variant and unfavourable weather conditions may lead to a decrease in agricultural production. Notwithstanding the observed vulnerabilities have not impaired the ability of government to borrow because Debt Sustainability Analysis (DSA) conducted in 2018 indicated 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 attesting that the Government has enough adequate borrowing space for further investment and growth.

Chart 1.5: Annual GDP growth rates

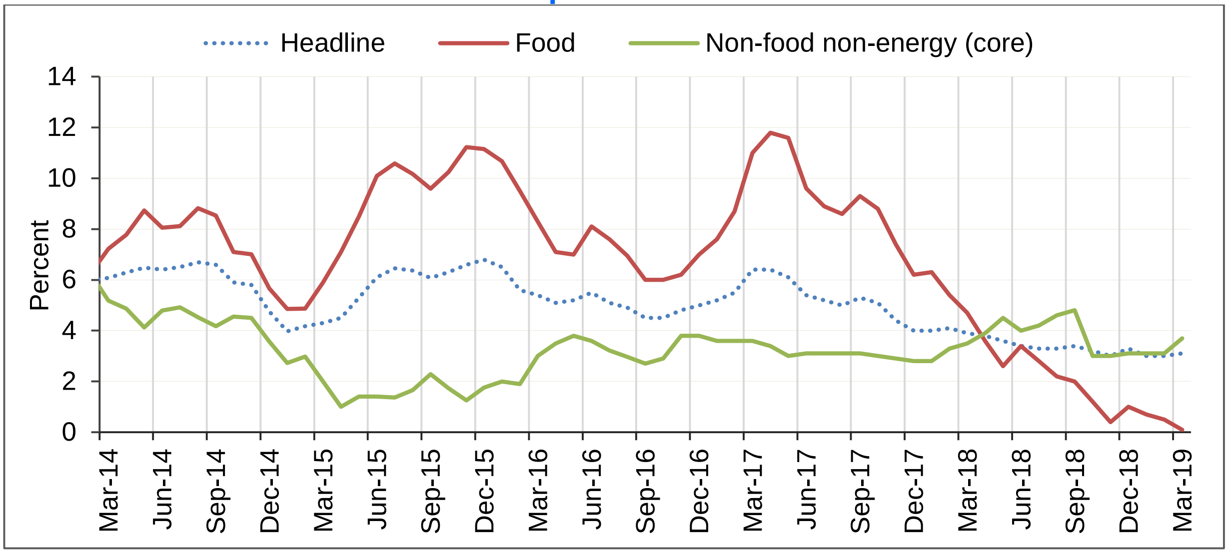
Percent



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

During six months' period to the end of March 2019, inflation was 3.1 percent compared to 3.4 percent in September 2018, which is below the threshold of 5.0 percent. The low and stable inflation rate was mainly attributed to low food prices and stable macroeconomic environment (**Chart 1.6**). However, domestic economy remains susceptible to downside risks due to unexpected weather conditions and increase in oil prices, which may exert pressure on domestic inflation and exchange rate. Nevertheless, the increased use of natural gas in domestic and industries may somewhat offset the impact of increased oil prices.

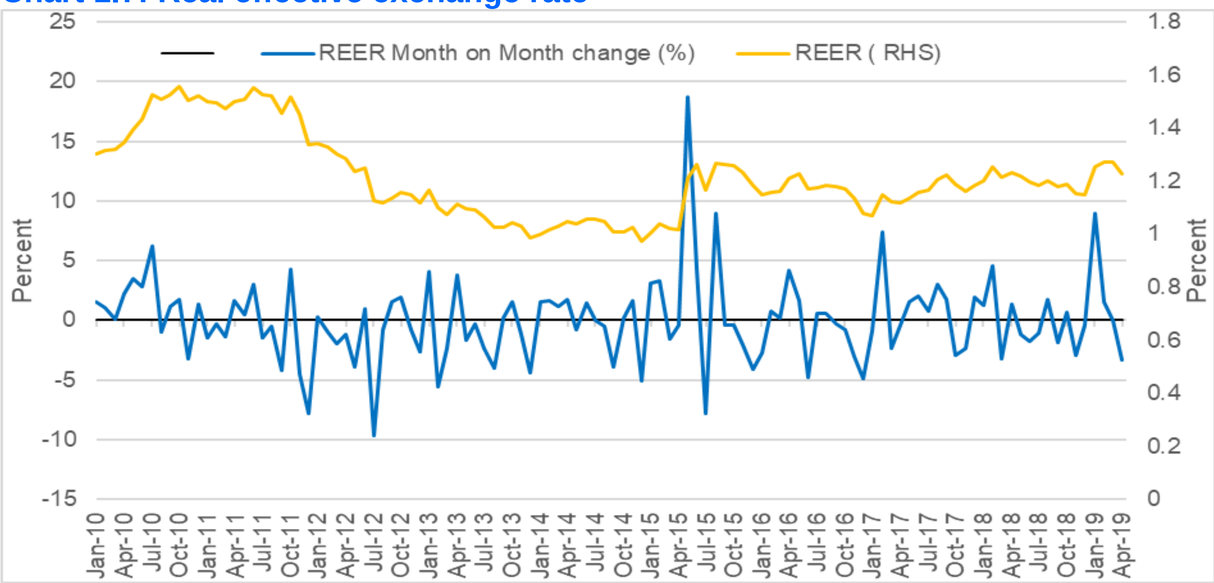
Chart 1.6: Domestic inflation developments



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 1.7**). The current account balance widened to a deficit of USD 2,469.7 million in March 2019 from USD 2,159.0 million in September 2018, due to increase in imports, particularly of capital goods linked to on-going investments in large infrastructure projects. The decline in exports, particularly traditional export crops, also contributed to the widening of the current account deficit. 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.

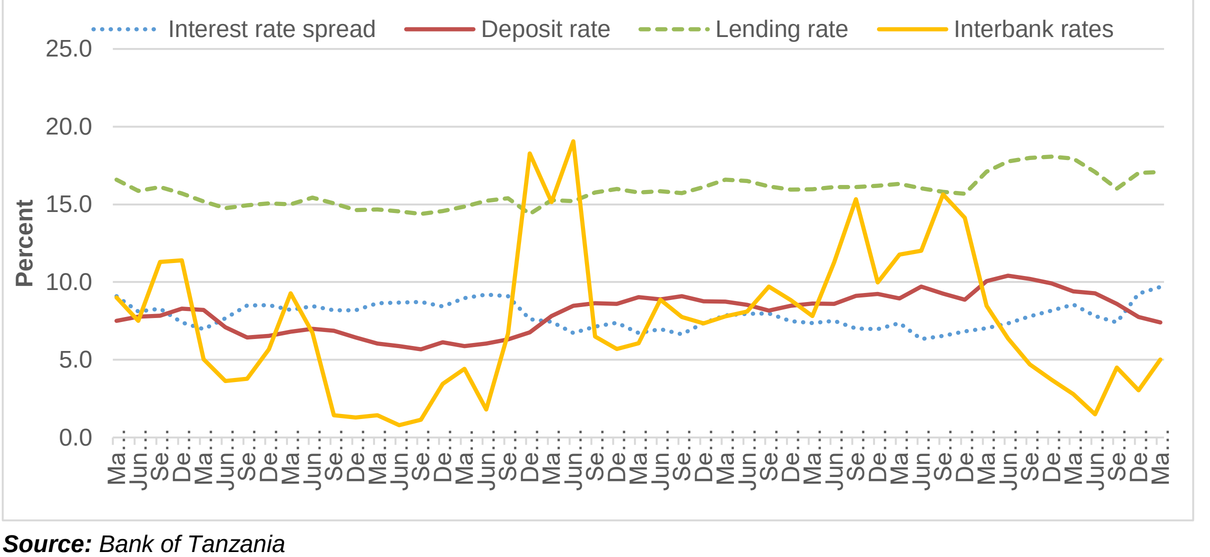
Chart 1.7: Real effective exchange rate



Source: *Bank of Tanzania*

The interbank cash market (IBCM) rate slightly increased to 5.59 percent in March 2019 from 1.8 percent in September 2018, signalling banks liquidity needs, attributed to continued recovery of credit intermediation by banks. The spread between lending and deposits rates widened, reflecting by increased lending rates relative to deposit rates (**Chart 1.8**). The increase in lending rates reflects existence of high-risk premium charged by lending institutions. The ongoing measures to improve business environment and mandatory use of credit reference system are expected to reduce information asymmetry, moral hazard and adverse selection of potential borrowers and therefore credit risk. However, credit growth continued to recover, a reflection of the impact of accommodative monetary policy and measures implemented by banks to reduce non-performing loans coupled with expansion of some economic activities.

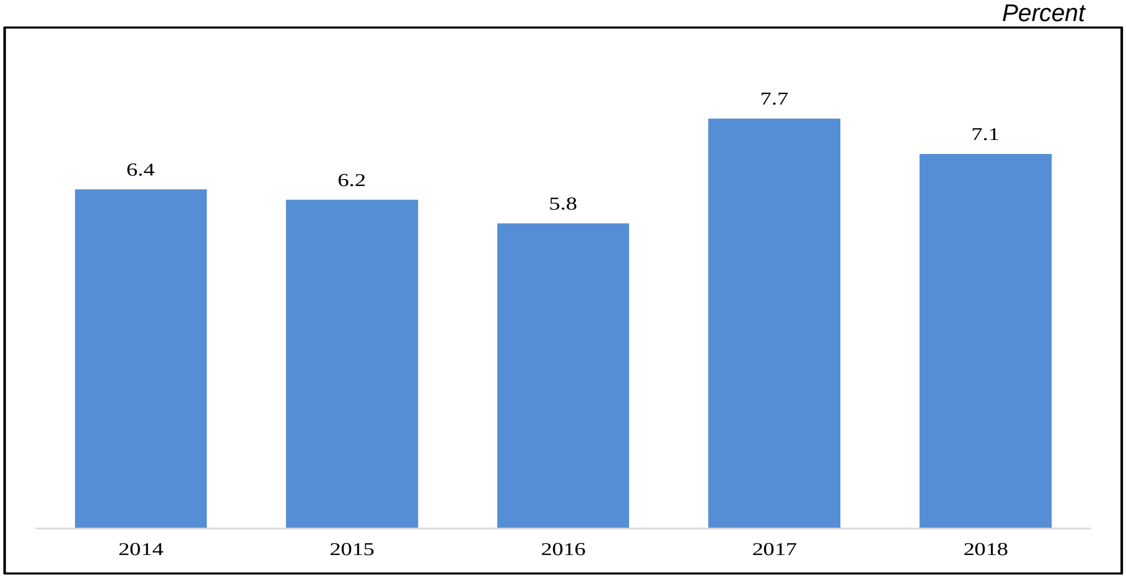
Chart 1.8: Interest rates developments



Source: *Bank of Tanzania*

Zanzibar continued to record strong economic growth, driven by stable macroeconomic environment. Zanzibar economy continued to register strong performance, growing at an average of 6.3 percent between 2011 and 2018. Real GDP grew by 7.1 percent in 2018 compared with 7.7 percent recorded in the preceding year (**Chart 1.9**). The main drivers to growth were accommodation and food services, 39.8 percent; trade and repairs, 6.3 percent and transport and storage, 5.5 percent.

Chart 1.9: Zanzibar GDP growth rates

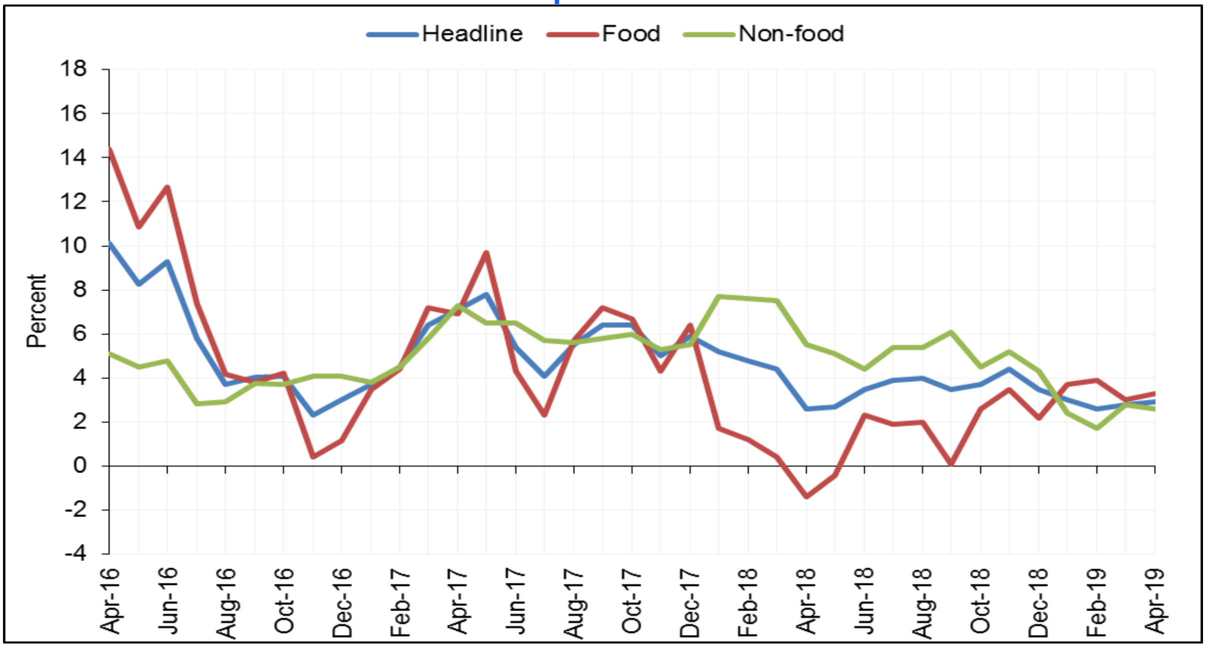


Source: *Office of Chief Government Statistician (OCGS)*

Zanzibar economic growth is projected at 7.8 percent in 2019 following the ongoing public investment in health, education and infrastructure, particularly roads, ports and airports as well as increased private sector investment in tourism and related activities. Major risks to economic growth includes less diversification of economic activities and weak linkage between tourism and other sectors of economy, in this case agriculture and manufacturing. Further, the ongoing trade tensions and slowdown in global growth is likely to reduce demand for exports and tourism.

Average inflation rate for six months to March 2019 declined slightly to 3.3 percent from 3.5 percent recorded in the six months to September 2019 mainly on account of stable food prices (**Chart 1.10**). Current account deficit widened to USD 56.6 million in the year ending March 2019 from a surplus of USD 32.3 million recorded in similar period in 2018. The widening is largely explained by increase in imports coupled with decrease in exports, mainly cloves. The widening of current account position may expose the economy to foreign exchange risk, leading to increase public and private foreign currency denominated debt burden. In addition, foreign exchange risk may lead to decline in profitability of the corporates.

Chart 1.10: Zanzibar inflation developments



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

5.0 PERFORMANCE OF THE FINANCIAL SECTOR

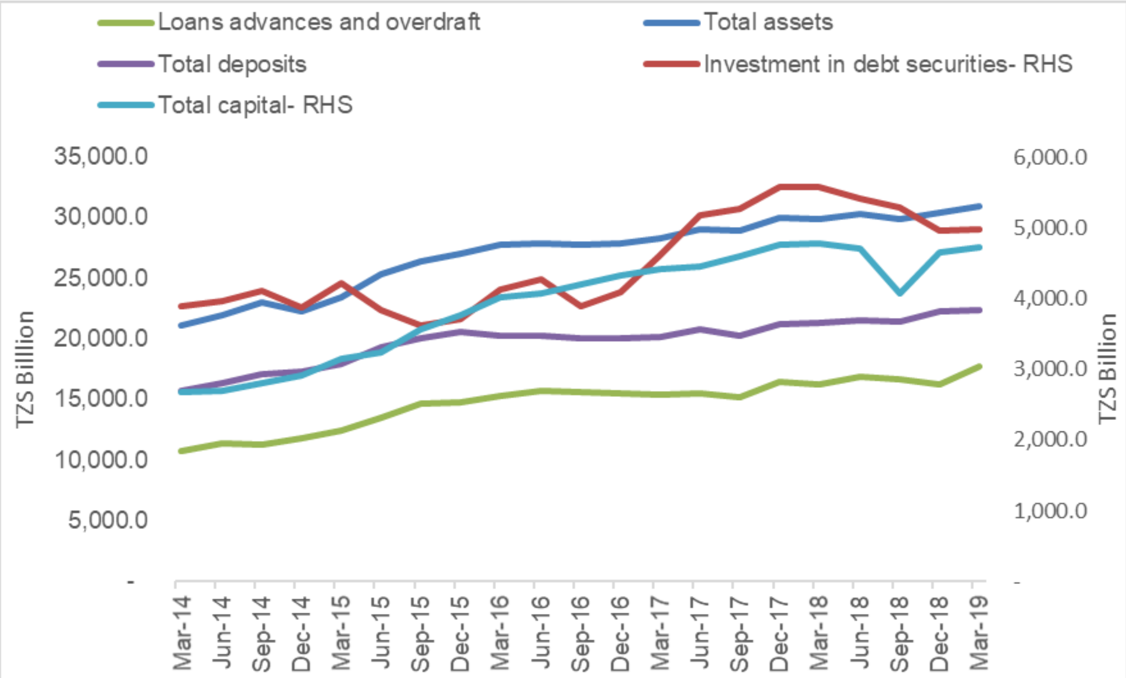
The financial sector's total assets as a percentage of GDP stood at 38.3 percent as at the end of March 2019. The contribution of the banking sector assets to GDP continued to dominate, followed by social security schemes. In addition, the depth of the equity market as measured by the market capitalization to GDP ratio declined to 17.2 percent from 22.4 percent mainly contributed by decline in share prices of major domestic listed companies. During the period to March 2019, the banking sector contributed 69.9 percent of the total assets, social security's schemes 27.3 percent, insurance sector 2.1 percent and collective investment schemes 0.6 percent.

5.1 Banking sector

Assets for the sector increased, owing to enhanced deposits mobilization. The banking sector assets increased by 3.2 percent to TZS 30,888.8 billion as at the end of March 2019 financed mainly by core deposits. Deposits accounted for 59.2 percent of total funding sources while non-core deposits contributed 25.9 percent. Borrowing accounted for 8.5 percent of the total funding, respectively (**Chart 5.1** and **Table 5.1**).

Chart 5.1: Selected bank assets composition

TZS billion



Source: *Bank of Tanzania*

The banking sector continued to be dominated by commercial banks with asset composition of 92.9 percent, followed by development financial institutions accounting 4.4 percent share of the total assets. As at the end of March 2019, TIB Development Bank Ltd injected additional capital, which increased market share to 4.4 percent from 3.0 percent recorded in September 2018 in addressing the capital inadequacy problem.

Table 5.1: Composition of banking sector assets

Percent

Type of Banking Institutions	Sep-17	Dec-17	Mar-18	Sep-18	Dec-18	Mar-19
Commercial banks	94.0	93.8	94.3	92.5	93.8	92.9
Community banks	0.3	0.4	0.3	2.0	0.4	0.4
Microfinance Institutions	0.6	0.6	0.6	0.6	0.6	0.5
Development Financial Institutions	3.0	3.3	3.0	3.0	3.4	4.4
Financial Insitutions	2.1	1.9	1.9	1.9	1.8	1.8
Total Assets (TZS Billion)	28,920.3	28,605.3	29,894.7	29,921.1	30,383.6	30,888.8

Source: *Bank of Tanzania*

The trend of growth of core deposits to gross loans ratio slightly declined as the economy picked up and banks willingness to lend increased. As at the end of March 2019, the ratio dropped to 85.4 percent as at the end of March 2019 from 89.7 percent in September 2019. Likewise, the ratio of core deposits to total funding slightly decreased to 59.2 percent during the same period. The decline in deposits was partly attributed to less effort in mobilizing retail deposits. However, there was diversification in deposit mobilisation, whereby banks preferred financing programmes to support SMEs and agricultural products rather than retail deposits alone. The continued use of agency banking platform has provided an infrastructure for deposit mobilization for intermediation purposes suggesting that the banking sector still depends on retail deposits than wholesale funding (**Table 5.2**).

Table 5.2: Core deposits and total funding

Particulars	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Total core deposits (TZS billion)	13,748.4	14,559.0	13,751.9	14,727.7	15,023.1	15,401.2	15,312.4	15,697.8	15,537.5
Total funding (TZS billion)	23,974.5	24,617.8	24,408.0	25,235.6	25,232.1	25,698.4	25,251.8	25,716.2	26,265.5
Gross Loans (TZS billion)	16,352.0	16,384.6	16,270.1	16,343.4	16,277.7	16,947.4	17,065.0	17,425.1	18,203.5
Core deposits to Total funding (%)	57.3	59.1	56.3	58.4	59.5	59.9	60.6	61.0	59.2
Core deposits to Gross Loans (%)	84.1	88.9	84.5	90.1	92.3	90.9	89.7	90.1	85.4

Source: *Bank of Tanzania*

The banking sector earning assets are mainly funded by customer deposits. The banking sector-funding gap decreased by 70.4 percent to TZS 272.8 billion as at the end of March 2019, reflecting a reduced mismatch between assets and liabilities. The sector increased its investment appetite by placing funds in foreign banks partly attracted by increase in interest rate in advanced economies. Deposit mobilisation by banks increased by 1.6 percent. However, over dependency on retail deposits may limit the financing capacity of banks and lead to higher maturity mismatch and therefore liquidity risk (**Table 5.3**).

Table 5.3 : Funding gap as at March 2019

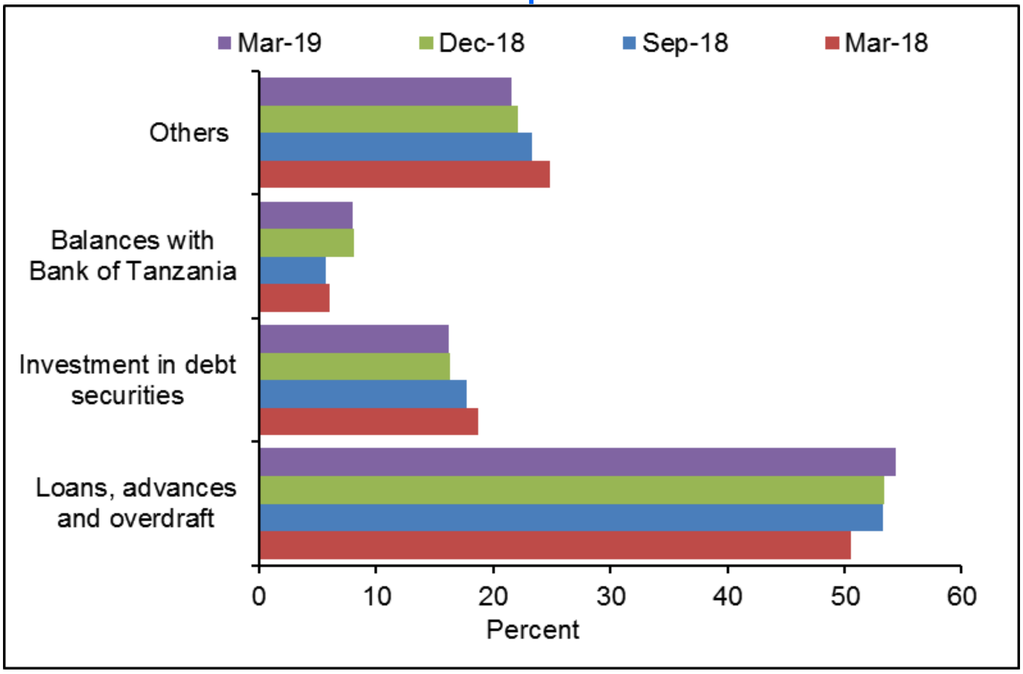
TZS Billion

Particulars	Mar-16	Sep-16	Mar-17	Sep-17	Mar-18	Sep-18	Mar-19
Customer Deposits	19,218.1	18,788.0	18,952.7	19,064.4	20,016.2	20,099.9	20,418.5
LESS: Eaning Assets							
Loans, overdrafts and advances	15,680.9	16,193.5	16,060.7	15,985.6	15,927.1	16,755.2	17,863.2
Government securities	4,079.2	3,863.3	4,595.4	5,225.4	5,535.3	5,297.1	4,988.4
Due from domestic banks	439.3	463.8	533.1	570.1	723.3	419.1	376.8
Due from Foreign Banks	1,215.5	1,087.0	872.5	875.9	1,102.0	1,290.4	1,480.6
Commercial and Other Bills purchased and discounted	21.8	16.7	11.5	18.7	21.4	28.3	35.1
	(2,218.7)	*(2,836.2)*	*(3,120.5)*	*(3,611.3)*	*(3,292.8)*	*(3,690.1)*	*(4,325.6)*
ADD: (wholesale funding):							
Due to Domestic Banks Deposits	(526.0)	(644.7)	(586.0)	(529.3)	(681.2)	(532.2)	(617.1)
Due to Foreign Banks Deposits	(227.3)	(304.7)	(386.4)	(377.4)	(266.0)	(418.7)	(320.4)
Due to Domestic Banks Borrowing	(894.5)	(775.3)	(812.2)	(931.7)	(865.4)	(669.9)	(793.1)
Due to Foreign Banks Borrowing	(1,195.8)	(1,437.0)	(1,575.9)	(1,893.7)	(1,707.2)	(1,539.5)	(1,374.8)
	624.9	*325.6*	*240.0*	*120.9*	*227.0*	*(529.9)*	*(1,220.1)*
ADD: (equity component):							
Retained earnings	1,300.2	1,148.8	1,449.1	1,396.9	1,533.6	1,451.2	1,492.9
Funding gap	*1,925.1*	*1,474.4*	*1,689.1*	*1,517.8*	*1,760.6*	*921.3*	*272.8*

Source: *Bank of Tanzania*

During the review period, the composition of the banking sector's assets remained almost the same with loans, advances and overdraft, investment in debt securities and balance with Bank of Tanzania accounting for 54.4 percent, 16.2 percent and 8.0 percent, respectively. The investment in loans, advances and overdraft slightly increased by 6.7 percent from 5.2 percent in September 2018 mainly driven by improvement in macro-economic environment, increased public investment and banks' willingness to lend. However, investment in government securities reduced following a slight decline in rates for yields in short-term securities and discounting of securities by some banks in order to meet short-term financial obligations. Other assets such cash, balance with other banks, equity investment and receivables revealed a declining trend to March 2019 (**Chart 5.2**).

Chart 5.2: Bank sector assets composition



Source: *Bank of Tanzania*

The ratio of interest bearing liabilities to interest bearing assets stood at 81.2 percent in March 2019 from 93.8 percent in September 2018. Composition of investment in interest bearing assets increased in loans due to a slight decline in interest rates of short term government securities. (**Table 5.4**).

Table 5.4: Interest bearing liabilities and assets

TZS Billion

Particulars	**Sep-17**	**Dec-17**	**Mar-18**	**Jun-18**	**Sep-18**	**Dec-18**	**Mar-19**
Demand Deposits	4,470.0	4,693.3	3,636.0	6,513.9	7,141.0	5,887.5	5,491.5
Savings Deposits	3,008.3	3,154.8	1,818.4	3,695.9	3,424.5	3,538.9	3,501.4
Time Deposits	3,536.3	3,587.2	2,694.3	3,596.0	3,562.7	3,526.5	3,367.2
Borrowings	932.5	841.6	813.6	1,134.3	1,031.5	1,136.1	1,367.4
Other Interest Bearing Liabities	102.0	115.7	99.7	294.1	315.0	463.3	368.4
Total Interest Bearing Liabilities	12,049.1	12,392.6	9,062.0	15,221.0	15,419.2	14,552.3	14,095.7
Loans and Advances	8,326.8	8,722.6	6,406.4	11,111.5	9,442.5	9,772.9	10,284.5
Overdraft	1,924.3	1,827.8	1,556.7	2,009.4	1,579.5	1,557.9	1,735.7
Treasury Bills	2,910.0	2,929.8	2,367.6	2,552.1	2,088.7	1,932.8	2,081.5
Government Bonds	2,100.3	2,304.3	1,935.7	3,624.4	3,215.9	3,133.4	3,024.9
Interbank Loans Receivable	240.3	243.4	257.0	208.0	146.9	193.9	311.3
Other Interest Bearing Assets	401.2	355.1	406.1	417.2	210.4	222.3	165.7
Total Interest Bearing Assets	15,902.9	16,383.0	12,929.6	19,675.6	16,437.4	16,566.5	17,356.8
Ratio of I.B Liabilities to I.B Assets	75.8	75.6	70.1	77.4	93.8	87.8	81.2

Source: *Bank of Tanzania*

Overall, risk in the banking sector moderated as depicted by a trend of key financial stability indicators (**Table 5.5**). Asset quality improved as the level of watch loans declined hence reducing credit risk. The Bank's intervention had a positive impact on banks' asset after commercial banks adopted different strategies of reducing growing NPLs. For instance, the use of credit reference bureau services has reduced the problem of information asymmetry in the credit market, borrowing costs and eventually NPLs.

Table 5.5: Selected financial soundness indicators for the banking system

Percent

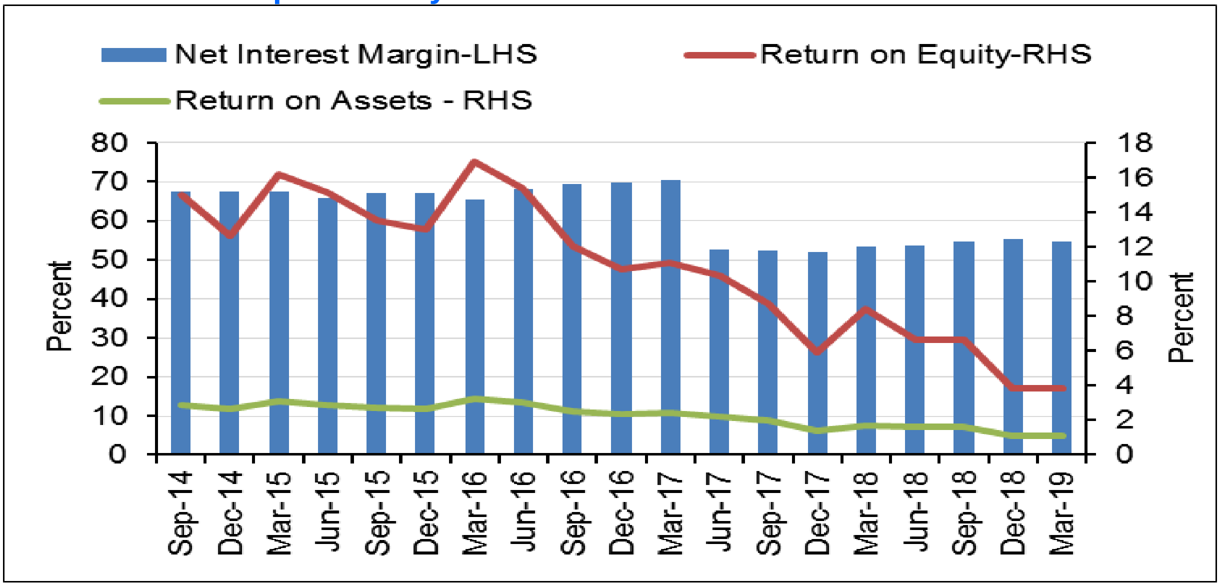
Indicators	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Capital adequacy							
Core capital/TRWA	18.9	18.4	18.7	18.2	16.3	16.1	16.6
Total capital/TRWA	20.9	20.4	20.7	20.2	18.3	18.0	18.4
Liquidity							
Liquid assets/demand liabilities	37.9	40.2	39.5	37.6	34.6	35.2	34.1
Total loans/customer deposits	84.9	81.1	80.9	83.9	84.4	85.1	88.7
Earnings and profitability							
Net interest margin	52.3	52.0	53.3	53.6	54.6	55.2	54.8
Non-interest expenses to gross income	51.9	52.4	53.8	54.6	55.3	56.1	56.2
Personnel expenses to non-interest expenses	45.2	44.6	46.1	45.7	45.3	45.6	48.0
Return on Assets	2.0	1.6	1.7	1.6	1.6	1.1	1.8
Return on Equity	8.7	4.6	7.1	6.7	6.6	3.8	7.7
Asset composition and quality							
Foreign exchange loans to total loans	35.1	35.8	35.8	36.0	34.9	33.1	32.0
Gross non-performing loans to gross loans	12.5	11.9	11.5	11.3	9.7	10.4	10.9
NPLs net of provisions to total capital	28.5	23.3	25.2	42.8	36.9	40.1	43.1
Large exposures to total capital	125.3	118.6	123.1	122.4	105.5	199.5	161.4
Net loans and advances to total assets	52.7	50.9	50.4	51.8	53.3	53.5	54.4
Sensitivity to market risk							
FX currency denominated assets to total assets	29.2	29.9	29.1	30.5	31.0	29.8	29.1
FX currency denominated liabilities to total liabilities	36.4	35.4	34.3	34.8	34.6	33.7	32.2
Net open positions in FX to total capital	2.1	2.1	0.8	3.3	5.0	6.2	5.3

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

The banking sector remained adequately capitalised, supported by earnings and capital injection. Core and total capital ratios were above regulatory requirement of 10.0 percent and 12.0 percent as at the end of March 2019, respectively. However, the ratios were slightly above the September 2018 position attributable to an increase in retained earnings.

The strong capital position in aggregate terms continued to provide buffer for banks' loss absorption capacity and their resilience to financial stress. As at the end of March 2019, the Return on Assets and Return on Equity increased to 1.8 percent and 7.7 percent from 1.6 percent and 6.8 percent respectively. The increase in profitability was largely contributed by a decrease in bad loans written off and decrease in non-interest expenses and impairment, suggesting improvement in cost and operational efficiencies (**Chart 5.3**).

Chart 5.3: Banks' profitability



Source: *Bank of Tanzania*

On individual assessment of capital adequacy four banks did not meet the minimum regulatory requirement of which; two are commercial banks, one microfinance and two community banks However, the Bank is closely monitoring undercapitalised banks through engagement and directives to prepare and implement Capital Restoration Plans (CRP) towards compliance with regulatory requirement as per agreed timeframe (**Table 5.5**). The number of banks that incurred losses increased to 21 in March 2019 from 19 in September 2018, however in aggregate, the banking sector remained profitable.

Table 5.3: Capital adequacy analysis

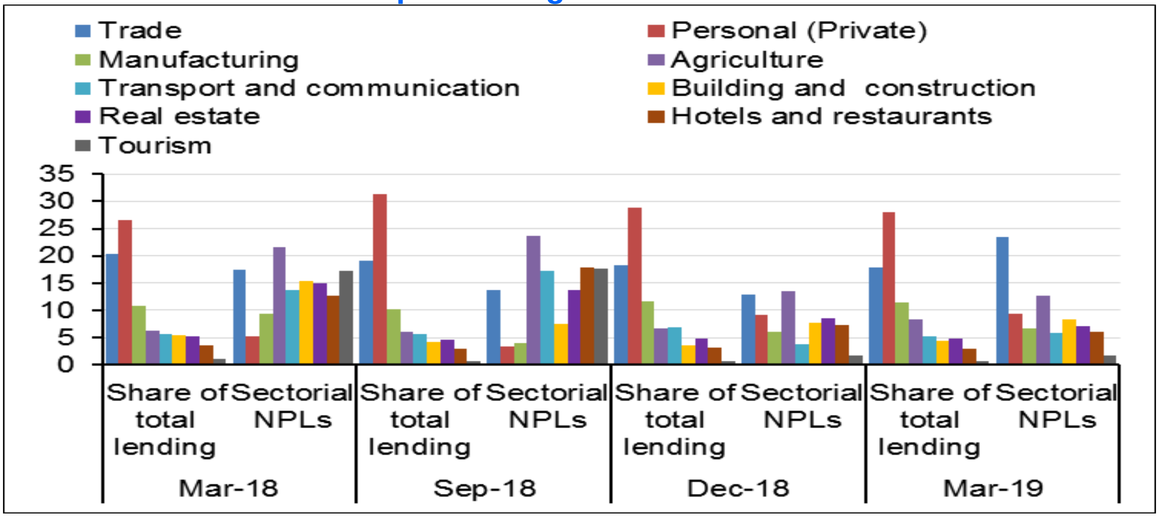
Particulars	Sep-17		Dec-17		Mar-18		Jun-18		Sep-18		Dec-18		Mar-19	
	Core Capital	Total Capital	Core Capital	Total Capital	Core Capital	Total Capital	Core Capital	Total Capital	Core Capital	Total Capital	Core Capital	Total Capital	Core Capital	Total Capital
All Banks														
<8	10	10	6	6	6	6	3	3	5	3	5	3	4	2
8-10	2	0	0	0	0	1	2	1	0	2	0	2	2	2
10-12	1	3	3	0	2	1	2	2	3	1	2	1	1	2
12-14	1	0	3	3	2	1	5	5	6	5	7	4	3	3
>14	45	46	42	45	45	46	41	42	38	41	39	43	43	44
TOTAL	59	59	54	54	55	55	53	53	52	52	53	53	53	53
Commercial Banks														
<8	2	2	2	2	2	3	1	1	2	2	2	2	2	1
8-10	2	0	0	0	0	0	2	1	0	1	0	0	2	1
10-12	1	3	2	0	2	1	1	1	3	1	1	0	1	2
12-14	1	0	3	2	2	1	3	4	5	4	7	4	3	3
>14	37	38	34	37	37	38	35	36	30	33	30	34	33	34
TOTAL	43	43	41	41	43	43	42	42	40	40	40	40	41	41
Development Financial Institutions														
<8	1	1	0	0	0	0	0	0	0	0	0	0	0	0
8-10	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10-12	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12-14	0	0	0	0	0	0	0	0	0	0	0	0	0	0
>14	1	1	2	2	2	2	2	2	2	2	2	2	2	2
TOTAL	2	2	2	2	2	2	2	2	2	2	2	2	2	2
Microfinance Institutions														
<8	0	0	0	0	1	0	1	1	1	1	1	1	1	1
8-10	0	0	0	0	0	1	0	0	0	0	0	0	0	0
10-12	0	0	1	0	0	0	0	0	0	0	0	0	0	0
12-14	0	0	0	1	0	0	0	0	1	1	0	0	0	0
>14	5	5	4	4	4	4	4	4	3	3	4	4	4	4
TOTAL	5	5	5	5	5	5	5	5	5	5	5	5	5	5
Community Banks														
<8	7	7	4	4	3	3	1	1	2	2	2	1	1	0
8-10	0	0	0	0	0	0	0	0	0	0	0	1	0	1
10-12	0	0	0	0	0	0	1	1	0	0	0	0	0	0
12-14	0	0	0	0	0	0	0	0	0	0	0	0	0	0
>14	2	2	1	1	2	2	3	3	4	4	3	3	4	4
TOTAL	9	9	5	5	5	5	5	5	6	6	5	5	5	5

Source: *Bank of Tanzania*

Banking sector continued to maintain adequate liquidity to meet short-term obligations. The ratio of liquid assets to demand liabilities slightly declined to 34.1 percent as at the end of March 2019, from 34.6 percent in September 2018, which is above regulatory requirement of 20.0 percent. The decrease in the ratio was partly associated with some banks discounting their securities to meet short-term financial obligations and improve credit growth. During the review period, loan to deposit ratio increased to 88.7 percent from 84.4 percent reflecting reliance on retail deposits as stable and main source of funding. The ratio increased as banks adopted aggressive deposit mobilisation efforts with introduction of return on new strategies, which attracted savings. Loans and advances increased as some banks' eased credit conditions, which stimulated investment and economic growth. However, at individual level and experienced liquidity challenges during the period under review.

Credit risk continued to heighten in line with increase in lending. As at the end of March 2019, credit to the private sector improved, with a growth of 5.2 percent from 4.8 percent recorded in September 2018. However, the NPLs ratio increased to 10.9 percent from 9.7 percent recorded in September 2018, partly due to delayed completion of loan funded projects; declining performance in some economic activities such as mining; and internal frauds in credit underwriting and provisioning. Other reasons include difficulties in disposition of pledged collateral due to fall in prices and court injunctions filed by loan defaulters, which constrains banks and financial institution from recovering non-performing loans and delayed completion of funded projects particularly of construction nature for some banks. However, NPLs are expected to decrease following the implementation of Bank of Tanzania circular that required banks to put in place strategies to minimize NPLs. Efforts are underway to mobilise deposits and further increase credit to private sector, while managing credit risk exposures from trade, agriculture and building and construction (Chart 5.4).

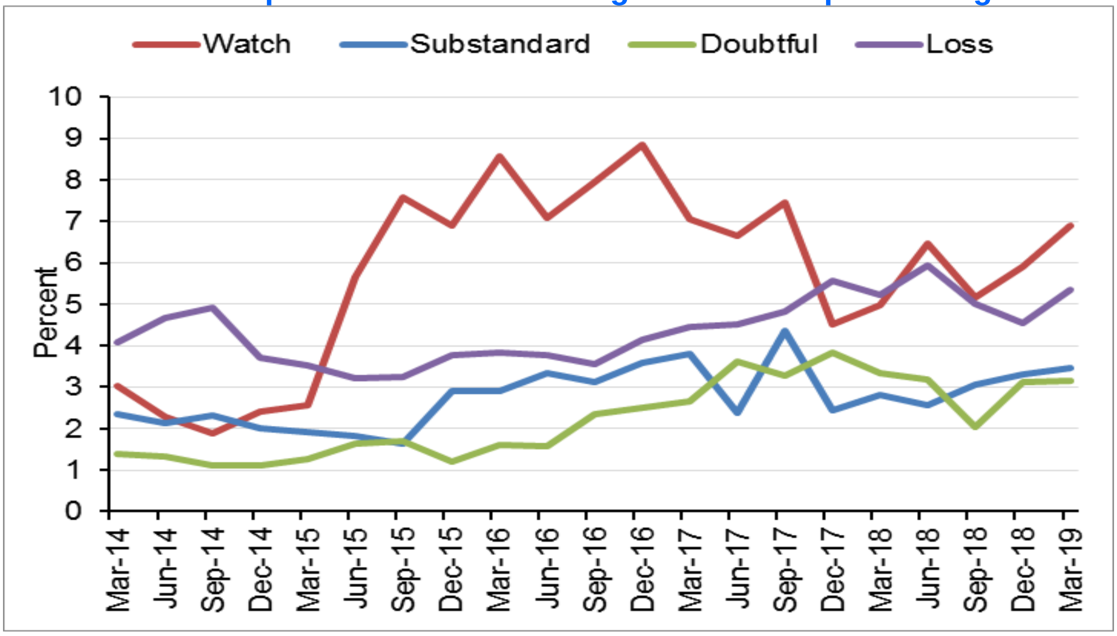
Chart 5.4: Credit and non-performing loans for selected economic activities



Source: *Bank of Tanzania*

The quality of banks' asset deteriorated as reflected by increased NPLs. The level of watch loans[1], indicating future possible losses increased during the period ending March 2019, signalling potential increase arising from non-performing assets. However, measures are being taken by banks to improve asset quality through implementing internal remedial measures including enhanced loan approval process, disciplinary and legal actions against fraudulent practices and restructuring credit departments to increase efficiency and controls. On the other hand, the regulator took measures to monitor the effectiveness of the actions taken by banks in addressing the problem of high NPLs including; improving strategies and reporting progress, credit-underwriting process, mandatory use of credit reference reports and enhancing loan recovery efforts (**Chart 5.5**).

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



Source: *Bank of Tanzania*

Credit concentration

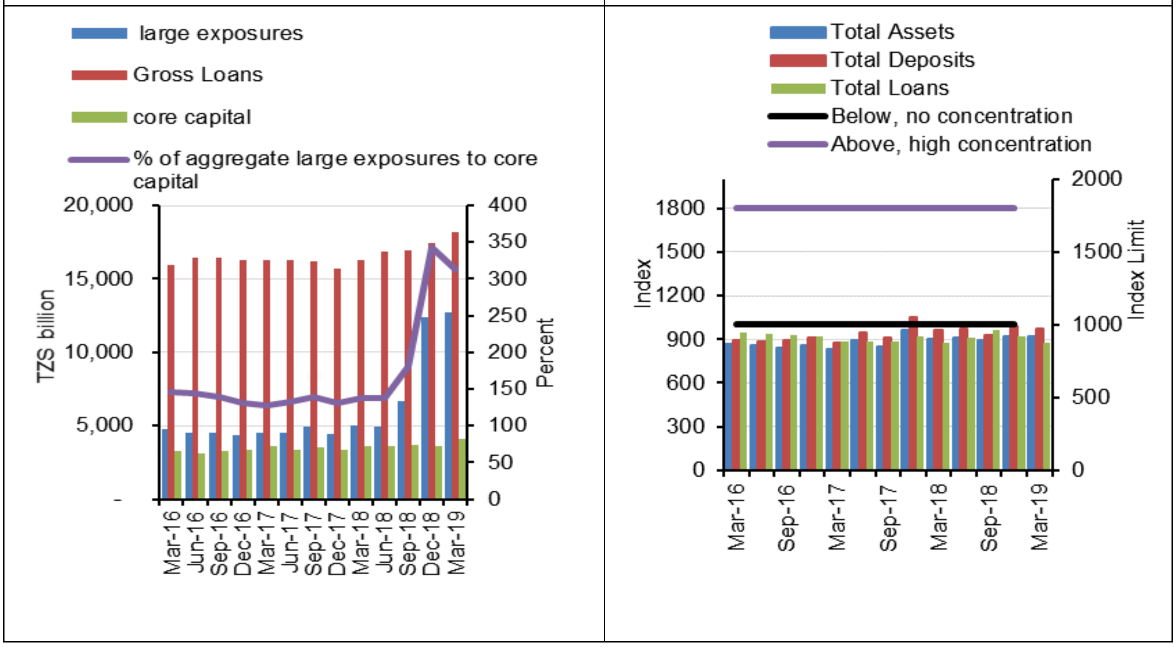
The aggregate large exposures to core capital was 312.6 percent as at the end of March 2019, which was within the regulatory limit of 800.0 percent. However, at individual level, one Community Bank and three commercial banks had the ratio above the limit. Among the top ten banks, three banks had ratios above 600.0 percent hence warranting monitoring given their systemic importance in the financial system (**Chart 5.6a**). In aggregated terms, the

[1] 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.

diversification in terms of deposits, loans and assets for the banking sector as measured by the Herfindahl Hirschman Index (HHI), was 970, 880 and 922, respectively as at the end of March 2019, which were within the limit[2] of no market share concentration (**Chart 5.6b**).

Chart 5.6: Measures of risk diversification

(a): Credit concentration risk | **(b): HHI for all banks**



Source: *Bank of Tanzania*

Concentration of the top ten banks remains dominant with more than 50.0 percent share in deposit mobilisation as well as credit intermediation hence exposure to few banks driving the market. Herfindahl Hirschman Index (HHI) for top 10 banks indicated that assets and deposits were on the concentration range of 1776 and 1782, respectively, which are above no concentration limit[3] reflecting dominance of big banks on access to cheap deposits relative to small and medium banks. This trend may increase dependency on interbank cash market as an alternative source of fund, which may trigger contagion effects leading to high cost of funding during liquidity shortage. In addition, the HHI for loan market increased significantly to 1906 suggesting that there was high concentration of loans in top ten banks. This signals top ten banks hold large exposure concentration of few borrowers implying that, in the event of default,

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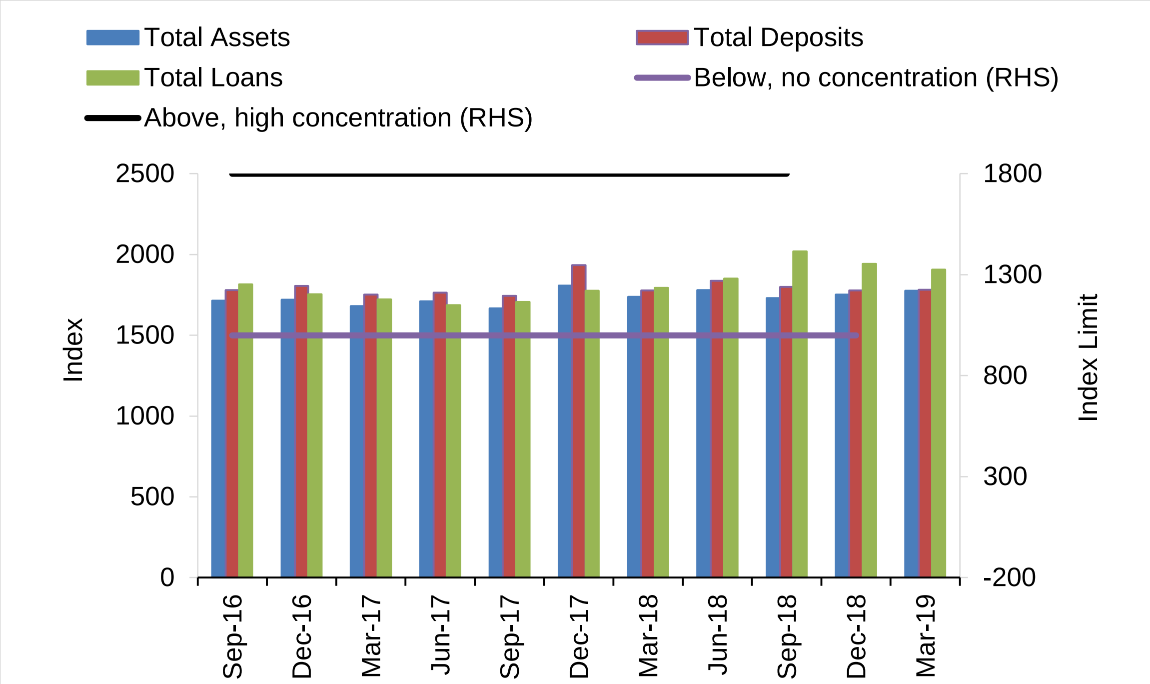
[2] A limit of no concentration ranges from 100 to 1000.
[3] A HHI no concentration ranges from 100 to 1000 while concentration ranges from 1000 to 1800

the asset quality of the banking sector may significantly deteriorate and cause instability to the financial system (**Chart 5.7**).

Chart 5.7: HHI for top ten banks



Source: *Bank of Tanzania calculations*

Banks continued to minimise risk exposure in foreign currency denominated loans. The share of foreign currency denominated loans to total loans slightly declined to 34.1 percent as at the end of March 2019 from 34.9 percent in September 2018. This was attributed to improved macro-economic environment and gained momentum in local business; therefore, the need for credit expansion to private sector. The share of foreign denominated deposits to total deposits decreased to 29.0 percent as at the end of March 2019 compared to September 2018. Banks introduced new products to encourage savings for retail depositors by providing incentives of saving schemes that stimulated local deposits (**Table 5.6**).

Table 5.4: Foreign currency denominated loans and deposits

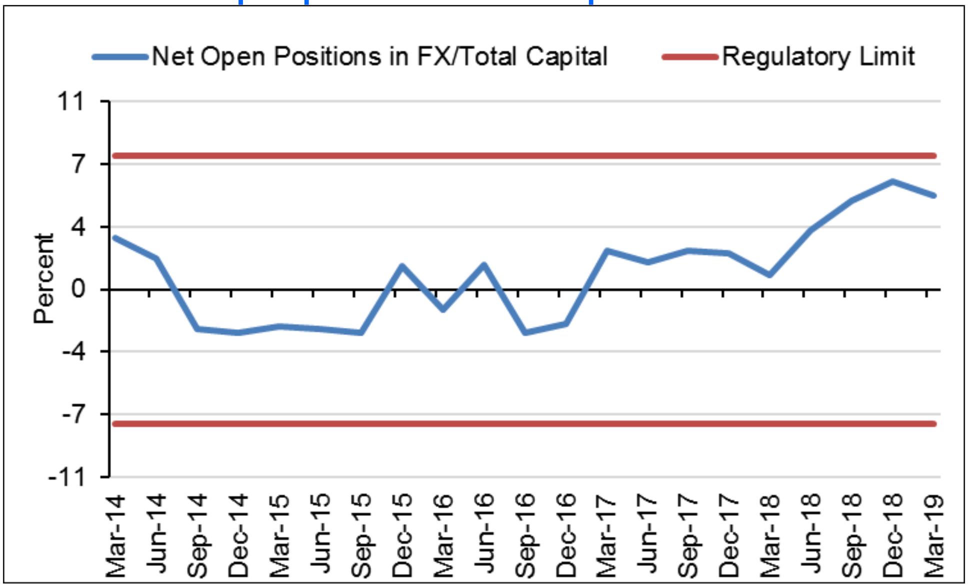
TZS billion

Particulars	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Foreign currency denominated loans	5,674.4	5,816.7	5,794.3	5,951.1	5,920.8	5,745.4	5,691.5
Foreign currency denominated deposits	6,455.7	6,192.5	6,625.6	6,667.7	6,888.4	6,863.1	6,452.9
Total loans	16,190.6	16,336.7	16,252.8	16,854.4	16,966.8	16,177.5	16,714.9
Total deposits	20,230.3	20,357.0	21,271.5	21,498.5	21,466.0	22,126.2	22,222.9
Foreign currency denominated deposits/total deposits (Percent)	31.9	30.4	31.1	31.0	32.1	31.0	29.0
Foreign currency denominated loans/total loans (Percent)	35.0	35.6	35.7	35.3	34.9	35.5	34.1
Foreign loans/foreign deposits (Percent)	87.9	93.9	87.5	78.4	79.0	73.1	75.2

Source: *Bank of Tanzania*

Net Open Position for foreign exchange exposure stood at 5.3 percent as at the end of March 2019, an increase from 5.0 percent in September 2018, which is within the regulatory limit of +/-7.5 percent. The movement implies that the foreign denominated assets increased more proportionately to foreign currency denominated liabilities. However, the stable exchange rate environment experienced from March 2019 has cushioned the banks against foreign exchange risks (**Chart 5.8**).

Chart 5.8: Net open position to total capital



Source: *Bank of Tanzania*

The EACs' banking sector continued to dominate the financial sector. As at the end of December 2018, assets of the banking sector represented over 65.0 percent of total financial sector assets. Social security sector was the second largest, followed by insurance sector accounting for about 25.0 percent and about 5.0 percent respectively. The total assets of the EAC banking sector stood at US dollar 85.2 billion, of which Kenyan banks holds 51.0 percent, followed by Tanzania 26.0 percent, Uganda 13.0 percent, Rwanda 6.0 percent, South Sudan and Burundi 2.0 percent each (**Table 5.7**).

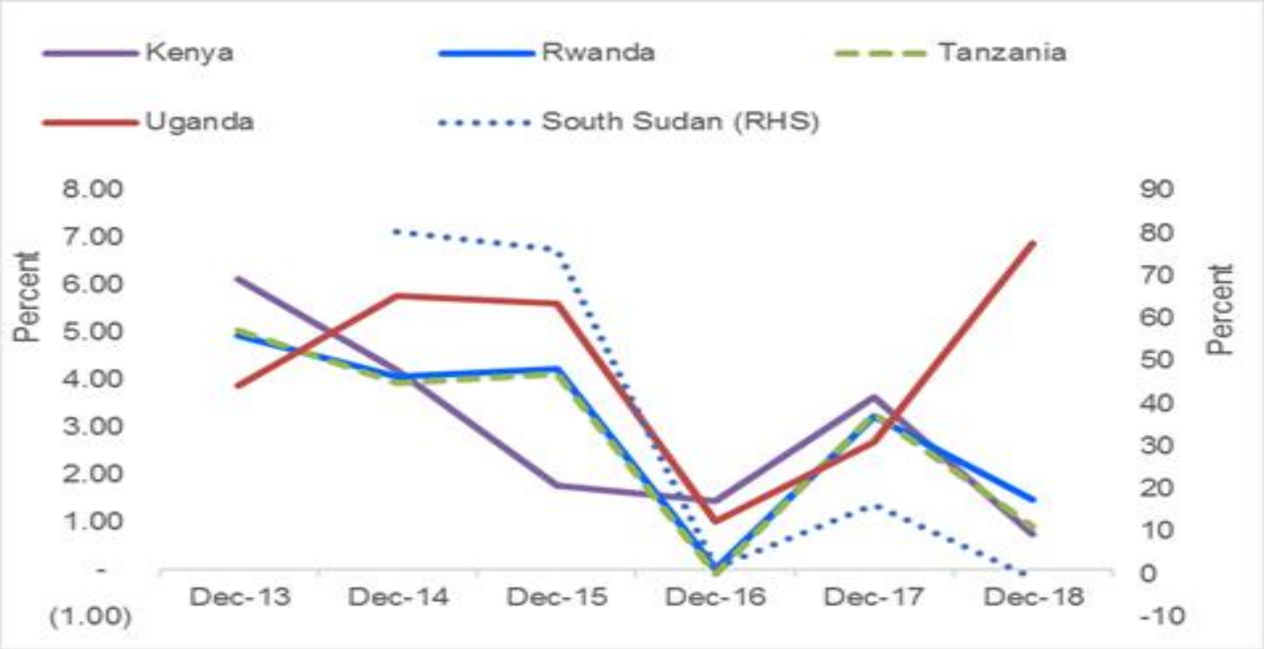
Table 5.7: Structure of Financial Sector in EAC (% of total assets)

Sector	Rwanda	Kenya	Uganda	Tanzania	South Sudan
Banking	66.7	65.9	68.9	66.2	100.0
Insurance	9.8	9.4	3.6	2.0	N/A
MFI+Saccos	6.0	8.3	2.0	2.5	N/A
Pension schemes	17.5	17.3	24.8	29.3	N/A

Source: *EAC Partner States Central Banks (EAC Dashboard December 2018)*

Credit growth improved in all Partner States mainly on account of eased supply-side constraints and improved macro-economic environment. The outlook for credit growth in the region is positive supported by improved economic growth prospects and increased public investment. However, downside risks to this outlook include increased inflationary pressures and tightened global financial conditions (**Chart 5.9**).

Chart 5.9: Credit to Private Sector

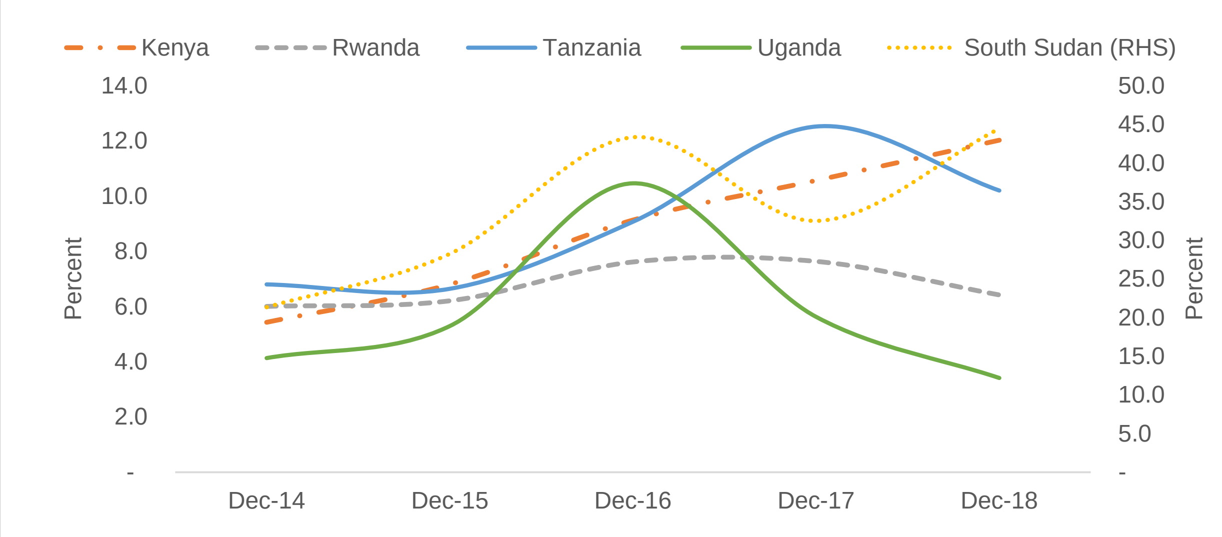


Source: *EAC Partner States Central Banks (EAC Dashboard December 2018)*

Credit risk remained elevated except for Uganda. During the period under review, NPL ratios in Kenya, South Sudan, Tanzania, Rwanda and Uganda were 12.0 percent, 44.4 percent, 10.2 percent, 6.2 percent and 3.4 percent, respectively. This was mainly attributable to delayed government payments to suppliers, inadequate credit underwriting and reduction in real estate occupancy and prices. However, during the period to end March 2019 the credit growth in Tanzania was 6.7 percent.

The rise in NPLs was distributed across all sectors with the largest overall increase recorded in the trade, real estate, manufacturing and agriculture sectors (**Chart 5.10**).

Chart 5.10: Trends of NPLs to Total Loans in the EAC

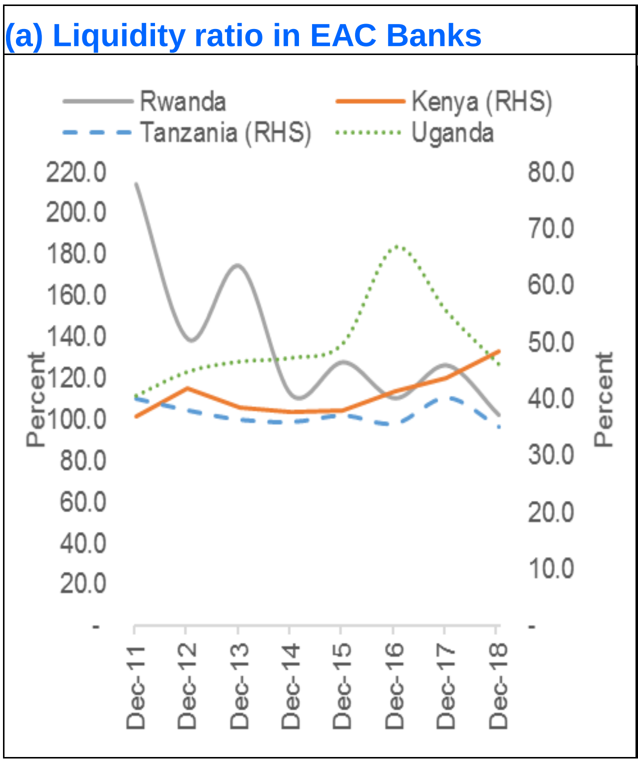


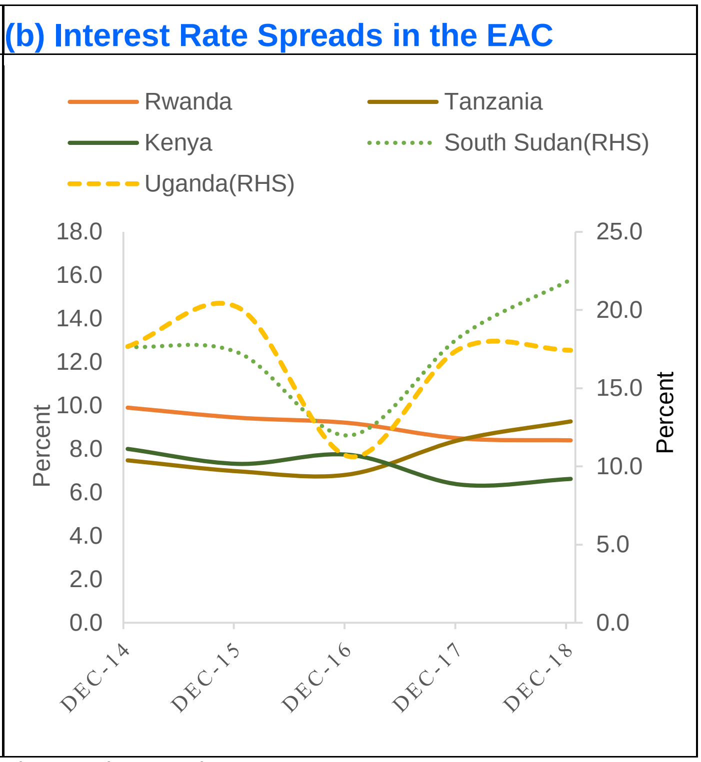
Source: *EAC Partner States Central Banks (EAC Dashboard December 2018)*

On aggregate, most banks in the EAC Partner States held liquid assets that were well above the minimum regulatory requirements of 20.0 percent. Liquidity coverage ratio for banks in Rwanda was also maintained above 100.0 percent. Retail deposits constituted the main source of funding for banks in the region. Nevertheless, the interbank spread widened in most EAC Partner States signalling some liquidity pressures in the wholesale market (**Chart 5.11a**).

Interest rate spreads remained high across the region and were driven by rising operating costs. A decomposition of the interest rate spreads across the EAC showed that spreads were highest in Uganda and South Sudan at 17.4 percent and 15.8 percent respectively. Spreads for Kenya, Rwanda and Tanzania were 6.6 percent, 8.4 percent and 9.3 percent, respectively. Spreads for Kenya reduced following the introduction of interest capping law (**Chart 5.11b**).

Chart 5.11: Selected EAC-4 financial soundness indicators





Source: *EAC Partner States Central Banks (EAC Dashboard December 2018)*

5.2 Non-banking financial sector

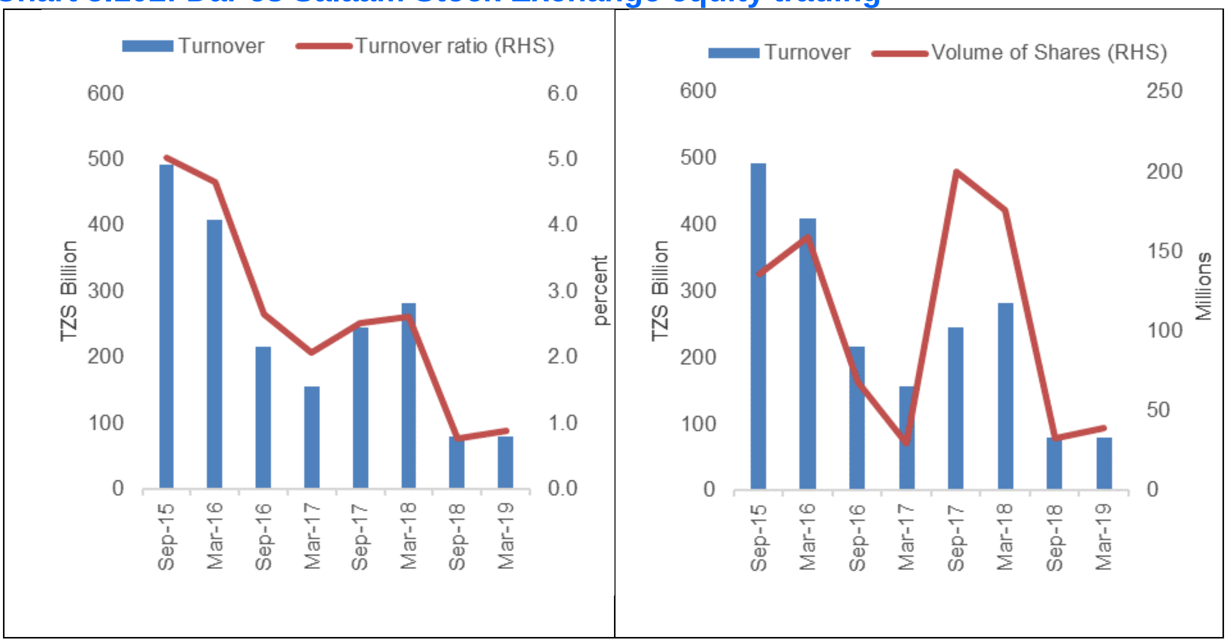
5.2.1 Capital markets

Capital market depicted a mixed performance in terms of equity and bond markets. Trading activity in the equity market slightly increased while for bond market declined. The slightly improvement in equity trading was partly explained by increase in turnover and improvement in corporate performance. The development reflects increased appetite for corporates in equity market while individuals predominantly preferred the bond market on the buying side. The Collective Investment schemes performance slightly deteriorated mainly due to share price depreciation as the funds hold more than 50.0 percent of the investments in the equity market

Equity market

Trading activity in the equity market increased, with dominance in foreign investors' participation. Equity market experienced a slight improvement in trading activity as reflected by increase in market turnover. During the six months to the end of March 2019, market turnover increased to TZS 80.2 billion from TZS 79.6 billion largely driven by the increase in trading at the counters of TBL, CRDB, DSE and NMB. The increase in trading activity was attributed to improved corporates financial performance and dividend declarations. In addition, during the period under review, TCCL counters gained in market turnover by 0.4 percent from 0.1 percent as investors were optimistic about the increase in demand for cement, due to the on-going construction of Government projects (**Chart 5.12**).

Chart 5.102: Dar es Salaam Stock Exchange equity trading



Source: *Dar es Salaam Stock Exchange*

At individual level, TBL continued to dominate trading activities accounting for 86.8 percent of the total turnover, followed by CRDB 4.7 percent. Nevertheless, CRDB counter continued to be the most active, accounting for 70.1 percent of the total number of shares traded, followed by TBL (14.6 percent) and VODA (6.0 percent). High demand for CRDB shares was due to low price, making it affordable to small investors who mainly hold shares for precautionary purpose and dividend payouts. Trading volume for VODA and TBL was driven by their improved performance and active participation of foreign investors. On the the other hand, TCCL counter continued to experience an increase in turnover by 218.3 percent on account of investors' positive sentiment about increase in demand for cement due to on-going construction of public investments.

The number of shares that exchanged hands increased to 38.9 million shares in the period ending March 2019 from 32.9 million in September 2018. The increase in the number of shares traded and turnover reflects improvement of market liquidity during the period under review (**Table 5.7**).

Table 5.5: Individual companies' total turnover for the six months

COMPANIES	Oct'17 -Mar'18 TZS Million	% of Total Turnover	April'18 -Sept'18 TZS Million	% of Total Turnover	Oct'18 -Mar'19 TZS Million	% of Total Turnover
TBL	239,873.6	85.3	63,595.8	79.9	71,034.3	86.8
CRDB	10,140.6	3.6	2,894.7	3.6	3,819.8	4.7
TCC	9,349.3	3.3	3,143.4	3.9	105.3	0.1
DSE	909.2	0.3	944.9	1.2	1,806.5	2.2
VODA	4,965.7	1.8	5,620.1	7.1	1,763.3	2.2
TPCC	5,895.0	2.1	1,319.6	1.7	509.5	0.6
SWISS	9,376.0	3.3	1,010.7	1.3	92.3	0.1
NMB	61.1	0.0	60.4	0.1	1,763.3	2.2
TCCL	26.9	0.0	105.3	0.1	335.0	0.4
DCB	28.9	0.0	204.2	0.3	0.2	0.0
MKCB	8.6	0.0	17.3	0.0	337.6	0.4
TOL	469.2	0.2	333.1	0.4	1.0	0.0
NICO		-	265.2	0.3	185.4	0.2
MUCOBA	2.1	0.0	7.8	0.0	-	-
YETU	10.2	0.0	0.8	0.0	-	-
TICL	-	-	3.4	0.0	13.5	0.0
PAL	5.9	0.0		-	9.2	0.0
SWALA	1.4	0.0	24.8	0.0	6.0	0.0
MCB	0.2	0.0	0.2	0.0	2.2	0.0
MBP	15.2	0.0	62.9	0.1	15.8	0.0
TTP	12.8	0.0	12.7	0.0	4.0	0.0
TOTAL	**281,151.7**	**100.0**	**79,627.3**	**100.0**	**81,804.1**	**100.0**

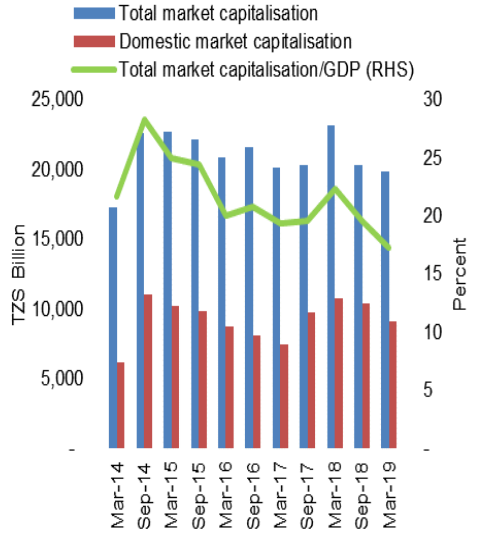
Source: *Dar es Salaam Stock Exchange*

During the review period, equity market depth as depicted by total market capitalisation against GDP slightly declined to 17.2 percent from 19.2 percent, mainly driven by a decline in share prices of domestic listed companies. Domestic market capitalization decreased by 11.8 percent to TZS 10,375.9 billion, largely driven by depreciation of share prices for some domestic listed companies such as TBL and NMB. This exposes the stock market to few companies price movements.

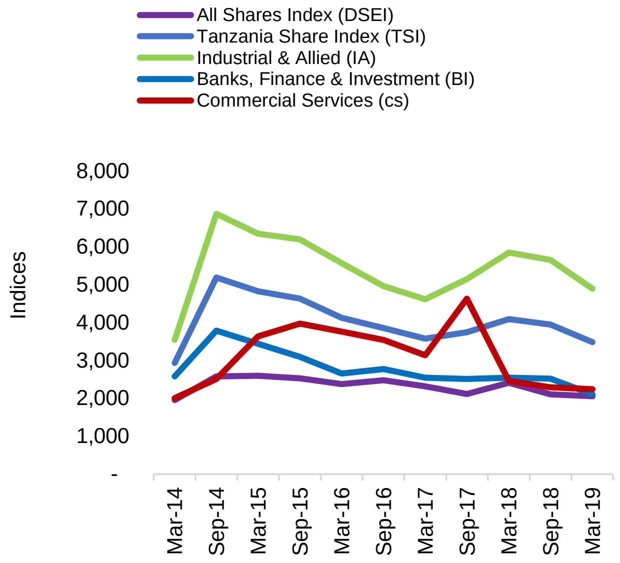
With regard to market indices, Industrial & Allied (IA) Index and Banks, Finance & Investment (BI) Index declined by 13.4 percent and 16.4 percent respectively. The performance in IA index was led by decrease in TBL and TCCL share prices; meanwhile TPCC share price rose thereby reducing the magnitude of decline for the index. The decrease in BI index was mainly attributed to decrease in NMB share price by 14.9 percent (**Table 5.8** and **Chart 5.13**).

Chart 5.13: 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' continued to dominate in terms of market share. During the period under review, the cross-listed companies' market share increased to 53.9 percent from 46.1 percent. This was mainly due to increase in share prices of ACACIA, KCB and EABL by 56.2 percent, 9.9 percent and 9.6 percent, respectively. Overall, market concentration risk was moderate with a fair balance in market capitalization among cross-listed and domestic listed companies. However, for domestic listed companies, market concentration risk exposure of the top five was 91.9 percent, with TBL accounting for 36.8 percent of the domestic market capitalisation (**Table 5.8**).

Table 5.6: Total market capitalization of individual companies

Percent

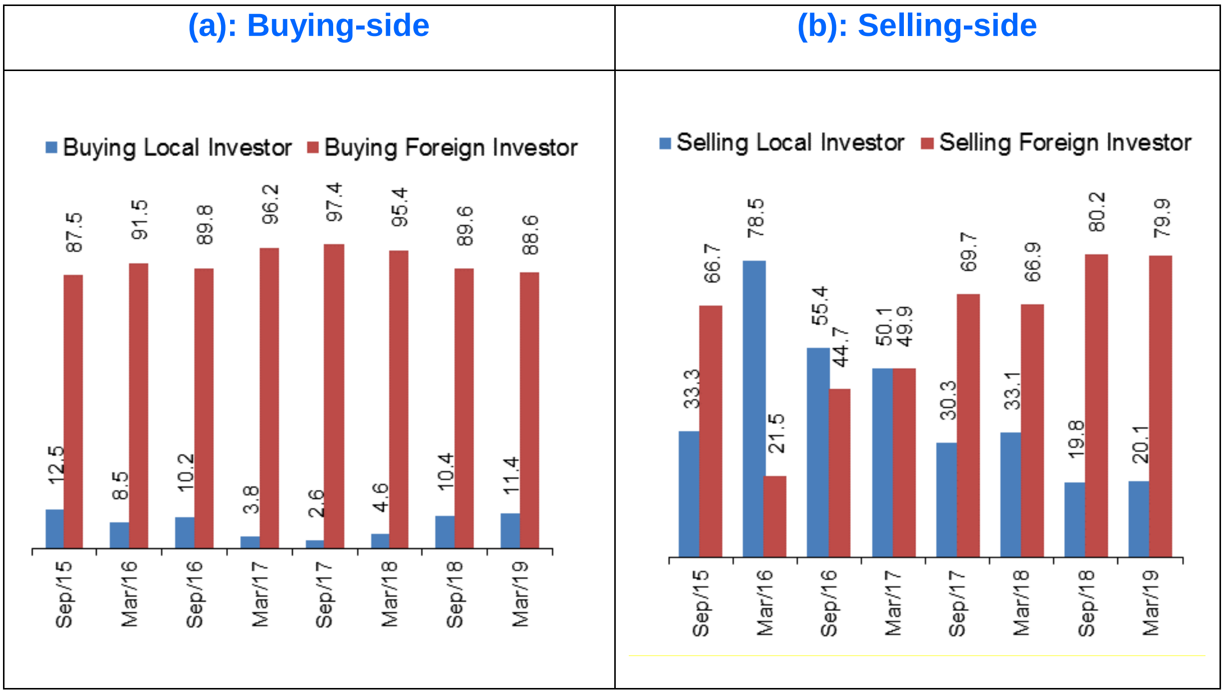
No.	Cross Listed Companies	Mar-16	Sep-16	Mar-17	Sep-17	Mar-18	Sep-18	Mar-19
1	ACA	17.7	26.8	26.2	10.0	7.9	7.7	12.3
2	EABL	22.6	21.5	18.7	21.1	19.9	16.7	18.7
3	JHL	3.1	3.1	3.7	3.7	3.7	3.8	3.4
4	KA	0.7	0.6	1.0	0.7	5.6	5.9	3.3
5	KCB	12.5	8.0	11.1	14.3	14.6	13.3	15.0
6	NMG	3.3	2.3	2.0	2.2	2.0	1.5	1.3
7	USL	0.2	0.1	0.1	0.1	0.1	0.0	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**	**53.9**
No;	**Domestic Listed Companies**							
8	CRDB	4.8	3.1	2.4	2.2	1.9	2.1	1.6
9	DCB	0.2	0.1	0.1	0.1	0.1	0.1	0.1
10	DSE	-	0.1	0.1	0.1	0.1	0.2	0.2
11	MBP	0.0	0.0	0.0	0.0	0.0	0.1	0.1
12	MCB	0.2	0.2	0.2	0.2	0.1	0.2	0.2
13	MKCB	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
15	NICO						0.1	0.1
16	NMB	4.7	6.4	6.8	6.8	5.9	6.8	5.9
17	PAL	0.4	0.3	0.4	0.4	0.3	0.4	0.3
18	SWALA	0.2	0.2	0.2	0.2	0.2	0.3	0.3
19	SWIS	1.2	1.1	1.0	0.7	0.5	0.5	0.3
20	TBL	19.2	17.8	17.6	19.3	19.7	20.8	16.9
21	TCC	5.7	5.4	5.7	7.2	7.0	8.4	8.6
22	TCCL	0.6	0.5	0.5	0.4	0.3	0.2	0.2
23	TCIL					0.1	0.2	0.1
24	TOL	0.2	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	1.9
26	TTP	0.1	0.1	0.1	0.1	0.0	0.0	0.0
27	VODA		-	-	8.5	8.2	8.8	9.0
28	YETU	0.0	0.0	0.0	0.0	0.0	0.0	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**	**46.1**

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 dominated the selling side. This implies reversed positive perception about performance of domestic market in light of improvement of global financial markets (**Chart 5.14**). 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 5.114: Investors' participation in the DSE

Percent



Source: *Dar es Salaam Stock Exchange*

During the period under review, individual investors and corporations continued to be net sellers, while insurance companies and foreign investors were net buyers. Foreign investors continued to acquire more holdings in the equity market, reflecting increased confidence by investors in the Tanzanian equity market.

Despite a slight increase in trading activity at the bourse, there was no participation of Pension Funds, the key players in promoting liquidity in the market because they were still in a transition period during merging process (**Table 5.9**).

Table 5.7: Equity trading participation in the Dar es Salaam Stock Exchange by investors' category

TZS million

	Oct 17 to Mar 18			Apr 18 to Sept 18			Oct 18 to Mar 19		
Category	**Purchase**	**Sale**	**Net Flows**	**Purchase**	**Sale**	**Net Flows**	**Purchase**	**Sale**	**Net Flows**
Individuals	4,118	16,106	(11,988)	5,019	13,634	(8,615)	3,492	8,448	(4,956)
Corporations	2,829	87,784	(84,956)	1,708	4,301	(2,593)	5,401	7,594	(2,193)
Pension Funds	0	14,606	(14,606)	1	2,245	(2,244)	0	0	0
Insurance	6	2,159	(2,153)	2,112	2,481	(370)	225	92	133
Banks	0	0	0	0	0	0	0	0	0
Foreigners	274,199	160,496	113,703	70,788	56,965	13,823	71,109	64,093	7,016
Total	**281,152**	**281,152**	**0**	**79,627**	**79,627**	**0**	**80,227**	**80,227**	**0**

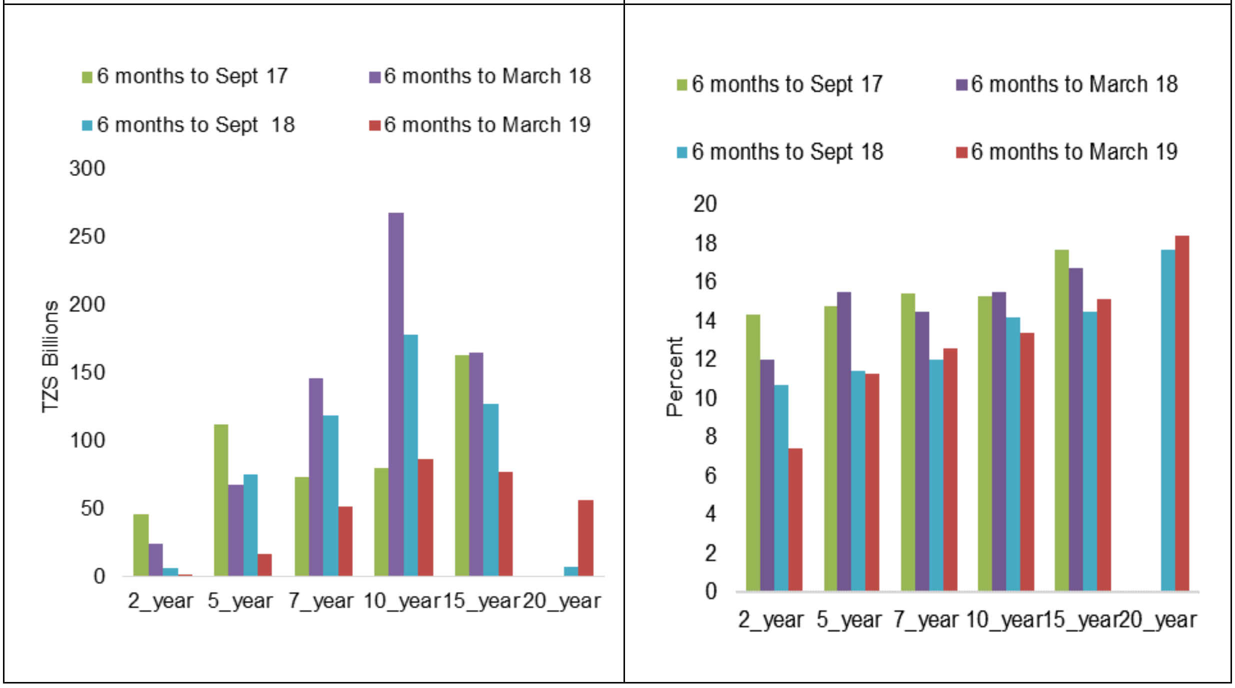
Source: *Dar es Salaam Stock Exchange*

Bond market

Trading in bond market slowed, partly contributed by low participation of Social Security Funds and Insurance companies. Trading of government bonds decreased by 43.8 percent from TZS 511.7 billion traded during the previous six months to September 2018. The 15-year and 10-year bonds were the most traded in the market due to their favourable yields to maturity of 15.1 percent and 13.4 percent respectively (**Chart 5.15a & b**).

Chart 5.15: Market performance for government bonds

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



***Source:** Dar es salaam Stock Exchange*

Commercial banks continued to be the main participants, partly taking advantage of price discovery to maximize their returns. The decrease of turnover in bond market was partly attributed to low participation of Social Security Funds (**Table 5.10**).

Table 5.8: Government bonds secondary market trading participation by investors categories

TZS billion

Particulars	Oct 17 to Mar 18			April 18 to Sept 18			Oct 18 to Mar 19		
	Buy	Sell	Net Flow	Buy	Sell	Net Flow	Buy	Sell	Net Flow
Banks	237.8	368.1	(130.3)	221.5	358.6	(137.1)	94.7	173.3	(78.6)
Corporation	159.6	127.8	31.8	28.4	9.6	18.9	21.6	14.6	7.0
Individual	8.1	6.6	1.6	138.6	142.7	(4.2)	102.7	97.4	5.4
Pension Funds	69.4	52.7	16.8	107.1	0.8	106.3	30.9	0.0	30.9
Insurance	21.4	0.0	21.4	12.2	0.0	12.2	1.9	2.1	(0.1)
Foreigners	59.5	0.6	58.9	3.9	0.0	3.9	35.4	0.0	35.4
Total	**555.8**	**555.8**	**0.0**	**511.7**	**511.7**	**0.0**	**287.4**	**287.4**	**0.0**

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

Collective Investment Schemes

Net Asset Value of Collective Investment Schemes declined following depreciation of share prices. As at the end of March 2019, Net Asset Value (NAV) decreased by 0.2 percent from TZS. 281,558.3 million recorded as at September 2018, mainly attributable to depreciation of share prices, which affected Umoja, Wekeza Maisha, Jikimu and Watoto funds. However, the impact was reduced by appreciation of NAV for liquid fund which has no exposure in equity market (**Table 5.11**).

Table 5.9: Open ended collective investment schemes

Scheme	Outstanding units (Millions)			Net Asset Value (NAV)			NAV Growth(%)	
	Mar-18	Sep-18	Mar-19	Mar-18	Sep-18	Mar-19	Mar 18 - Sept 18	Sept 18- Mar 19
Umoja Fund	392.7	389.4	379.3	223,101.5	224,073.0	214,709.8	0.4	-4.2
Wekeza Maisha	4.0	3.3	3.1	1,400.0	1,220.6	1,181.1	-12.8	-3.2
Watoto Fund	9.8	10.0	9.4	3,164.0	3,289.9	3,097.5	4.0	-5.8
Jikimu Fund	168.3	158.8	159.0	21,764.9	20,557.6	20,263.5	-5.5	-1.4
Liquid Fund	138.8	165.9	202.2	25,634.9	32,417.3	41,645.4	26.5	28.5
Total	**713.7**	**727.4**	**752.9**	**275,065.3**	**281,558.3**	**280,897.3**	**2.4**	**-0.2**

Source: *Capital Markets and Securities Authority*

Other fund management companies

Assets under management decreased mainly due to maturity of money market instruments. Total assets under management of other fund managers decreased by 0.3 percent to 143.9 billion as at the end of March 2019. The decrease in size of assets under the management was mainly attributed to maturity of instruments in money market. Funds placed with Fund Managers by individual clients were 46.3 percent of the total fund management portfolio whereas the funds placed by institutional investors were 53.7 percent. Composition of fund management is dominated by Watumishi Housing Company-Real Estate Investment whiich manages 40.2 percent of the total value of funds, followed by TSL Investment Management Limited which holds 38.0 percent. Funds were diversified into several asset classes with 40.7 percent placed in money market instruments, followed by real estate accounting for 33.6 percent, Treasury bonds accounting for 14.1 percent and the rest in equities and other instruments.

5.2.2 Insurance sector

The sector's asset and gross premium written grew, amid decline in net worth. Total assets and Gross Premium Written (GPW) increased by 3.8 percent and 15.2 percent as at the end of March 2019, respectively. The increase in asset was mainly contributed by in government securities and deposits in financial institutions. The investment in government securities by insurers was partly due to the fulfilment of the regulation of maintaining at least 50.0 percent of the minimum capital requirement as government securities. In addition, Gross Premium Written increased due to enactment of new systems in place such as Tanzania Imports Insurance Portal (TIPS), TIRA MIS, aggressive marketing and public awareness program. However, Net worth slightly decreased by 0.4 percent due to increase in liabilities by 5.8 percent mainly contributed to increase in unearned premiums generated from increase in business (**Table 5.12**).

Table 5.10: Insurance sector performance

	TZS Billion					*percent*
Particular	Sep-17	Sep-18	Mar-18	Mar-19	Sept17-Sept18	Mar18-Mar19
Total Assets	876.5	908.9	912.6	947.6	3.7	3.8
Total Liabilities	591.1	616.4	625.0	661.1	4.3	5.8
Total Net Worth	285.4	292.5	287.6	286.5	2.5	-0.4
Total Investments	549.7	633.7	625.9	666.0	15.3	6.4
Gross Premium Written						
General Insurance	430.5	449.3	185.1	212.0	4.4	14.5
Life Assurance	59.0	76.3	21.0	25.4	29.3	21.0
Total	489.5	525.7	206.1	237.4	7.4	15.2

Source: *Tanzania Insurance Regulatory Authority*

Motor class mainly dominated market share for general insurance business, which is a compulsory product. During the period under review, the market share composition for Motor class stood at 29.9 percent followed by health 23.1 percent, fire 22.3 percent, accident: 9.2 percent and other classes combined is 15.5 percent of total general insurance business. On the other hand, life assurance business was dominated by group life class of 77.6 percent, followed by Individual life of 22.3 percent (**Table 5.13**)

Table 5.11: Market share for gross premium written as per business class

Class of Business	Mar 18 (TZS Billion)	Market share Mar 18 (%)	Mar 19 (TZS Billion)	Market share Mar 19 (%)
Fire	45,439.0	24.6	47,250.0	22.3
Engineering	5,689.0	3.1	9,234.0	4.4
Motor	54,370.0	29.4	63,374.0	29.9
Accident	15,770.0	8.5	19,592.0	9.2
Marine	7,983.0	4.3	12,923.0	6.1
Aviation	1,596.0	0.9	1,877.0	0.9
Health	47,674.0	25.8	48,879.0	23.1
Oil & Gas	0.0	0.0	0.0	0.0
Other General	6,554.0	3.5	8,888.0	4.2
Total General Insurance	185,075.0	100.0	212,018.0	100.0
Individual Life	4,952.0	5,666.0	23.6	22.3
Group Life	16,024.0	19,707.0	76.3	77.6
Other Life	16.0	16.0	0.1	0.1
Total Life Insurance	20,992.0	25,389.0	100.0	100.0

Source: *Tanzania Insurance Regulatory Authority*

Insurance sector was capitalized, despite decline in return on investment. During the period ending March 2019, general insurers' solvency ratio was 50.4 percent, which is above the minimum prudential requirement of 25.0 percent. Likewise, life insurers' solvency ratio was 25.4 percent compared to the minimum prudential standard of 8.0 percent. Despite the aggregated ratio being within the acceptable limit, but at individual levels eight insurance companies were undercapitalized. Follow-up is made to insure these companies inject required capital to achieve the required solvency margin level. The increase in gross premium written required the insures to maintain additional contingency reserves to enhance sector's ability to cushion against potential risks. The quality of assets as assessed by the rate of return on investment deteriorated to 1.5 and 0.7 percent as at the end of March 2019 from 2.0 and 1.7 in March 2018 for general insurance and life assurance respectively. The decline in return on investment was partly attributed to decrease in interest income from government securities and deposits. However, the sector's ability to withstand adverse deviations from actuarial liabilities was satisfactory as reflected by the ratio of 53.0 percent as at the end of March 2019 against the statutory maximum limit of 250.0 percent attributed to capital enhancement during the period under review. This indicates resilience of the sector to withstand adverse deviations of actuarial liabilities.

As at the end of March 2019, Return on Equity (RoE) for General insurers increased to 6.4 percent from 4.0 percent in March 2018. This was on account of increase in underwriting income generated by insurers in line with business expansion and decrease in expenses. Further, general and life insurers loss ratio decreased to 43.3 percent and 45.9 percent as at the end of March 2019 compared to 51.3 percent and 50.6 percent recorded in the similar period, respectively. This was mainly contributed to growth in net premium earned.

General insurers' retention ratio slightly increased to 53.3 percent compared to 52.9 percent recorded during the period ending March 2018. The retention ratio was consistent with the minimum prudential retention ratio of between 30.0 percent and 70.0 percent of gross premium written. This implies general insurers' willingness to retain business and accept more risk.

General insurers' liquidity ratio slightly decreased to 100.8 percent as at the end of March, 2019 compared to 102.6 percent recorded in March 2018 due to business expansion. Life insurers' liquidity ratio increased to 58.6 percent from 55.4 percent recorded during the similar period prior year. The ratios were above the minimum prudential requirement, which enable the sector to meet financial obligations (**Table 5.14**).

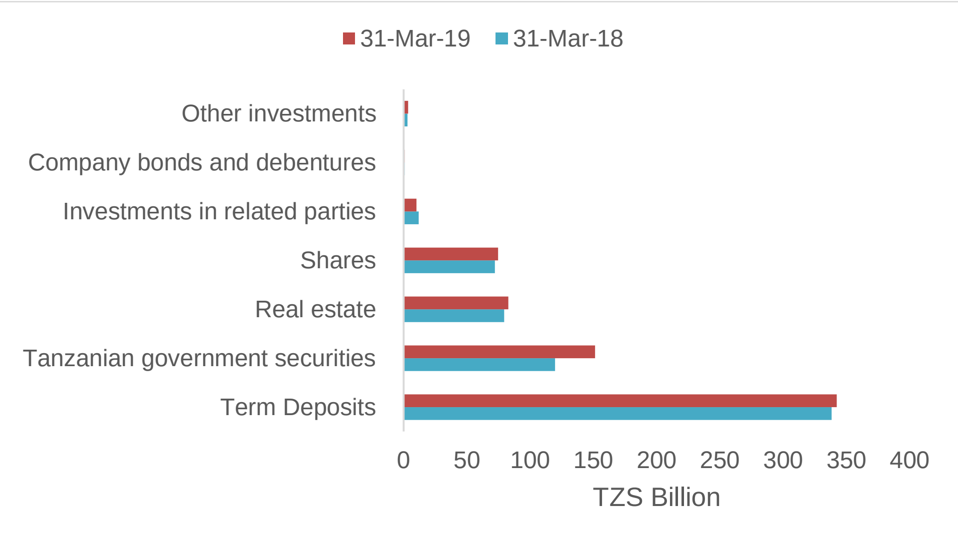
Table 5.14: Financial soundness indicators of the insurance sector (general and life)

Indicator	Statutory Requirement	Mar-18		Mar-19	
		General	Life	General	Life
1. Capital Ratios					
Solvency Ratio	General ≥ 25; Life	51.7	31.0	50.4	25.4
Change in Capital and Reserves		2.0	6.2	1.6	-10.2
2. Asset Quality Ratios					
Rate of Return on Investment		2.0	1.7	1.5	0.7
Investment Mix:					
Investment in government securities		19.2	18.9	23.1	21.8
Investment in bank deposits	Min 30	64.4	29.1	60.9	28.7
Investment in real estate		6.7	26.6	6.5	27.1
3. Reinsurance Ratios					
Retention Ratio	General 30<RR<70; Life	52.9	83.9	53.3	85.5
4. Actuarial Liabilities (General)					
Actuarial Provisions to Capital Ratio	Max 250	55.1		53.0	
5. Earnings Ratios (General)					
Return on Equity		4.0		6.4	
6. Liquidity Ratios					
Liquidity Ratio	General ≥ 95; Life ≥ 50	102.6	55.4	100.8	58.6
Total Receivables as % of Capital & Reserves	Max 100	65.7	36.6	60.7	44.1
7. Loss Ratio		51.3	50.6	43.3	45.9
8. Expense Ratio		47.5		46.2	

Source: *Tanzania Insurance Regulatory Authority*

The sector's investment portfolio concentrated in term deposits, government securities, real estate and shares. As at the end of March 2019, investment in Government securities increased by 26.5 percent, as insurers strive to meet a regulatory requirement of investing at least 50.0 percent of minimum required capital in Government securities. In addition, there was slight increase in real estate and equity investments as the insurers continued to diversify their portfolio. However, the sector is exposed to price movements in real estate and equity markets.

Chart 5.16: Investment mix



Source: *Tanzania Insurance Regulatory Authority*

5.2.3 Social Security sector

Mainland Tanzania

The ability of social security sector to cover obligations improved with increased payment of benefits arrears. The sector's contributions to benefit payments ratio slightly increased to 1.2 in a period of one year to March 2019. This was mainly due to increase in contributions by the members despite the continued payments of benefit arrears. However, total income to benefit payment ratio declined to 1.3 times as at the end of March 2019 as Funds reduced investment in securities hence interest income. Thereafter, the ratio declined partly due to losses observed in fair value adjustments as the share prices in the bourse depreciated. The ability of PSSSF to meet obligations using contributions and generated income declined signalling pressure on the fund in the short to medium term. However, the sustainability of the Fund may increase as reflected by coverage ratio.

Despite the decline in participation of the Funds in the equity and bond market, the sector recorded an increase in Return on Investment by 2.3 percent as at the end March 2019, compared to 1.8 percent observed in March 2018. The increase was mainly contributed to growth in the invested assets namely; government securities, infrastructure and bank deposits. However, return on investment for PSSSF declined on account of liquidated assets to settle payments of benefit arrears.

The sector's efficiency improved slightly as depicted a decrease of administrative expenses to contribution ratio. The ratio reached 9.6 percent as at the end of March 2019, from 10.0 percent in March 2018 due to improved efficiency in PSSSF. However, the individual Funds assessment showed that the ratio for NHIF and WCF was 14.7 percent and 17.6 percent, respectively, which are above the minimum threshold of 10.0 percent implying that NHIF and WCF are administratively cost inefficient.

On the other hand, the aggregate dependency ratio slightly declined to 9 times as the growth of new contributing members against pensioners declined. PSSSF dependency ratio declined to 6 times as at the end of March 2019 from 8 times in March 2018 as the scope of contributors decreased since it is confined to public sector civil servants only.

Nevertheless, the coverage ratio for the sector increased to 20.6 percent as at the end of March 2019 from 9.1 percent in March 2018 following a repayment of more than two folds of backlog benefit payments observed in PSSSF and NSSF, implying that there are adequate assets to cover for long term liabilities (**Table 5.15**).

Table 5.15: Mainland Tanzania: social security selected financial indicators[4]

Indicators	March 2018 (Before Merging)					March 2019 (After Merging)				
	PSSSF	NSSF	NHIF	WCF	TOTAL	PSSSF	NSSF	NHIF	WCF	TOTAL
Asset/Liabilities (Times)	8.1	9.1	20.3	14.4	9.1	22.2	20.4	17.0	13.7	20.6
Return on Investment (Percent)	2.4	0.6	1.9	3.5	1.8	1.9	1.3	5.6	8.3	2.3
Contibutions/Benefit payments ratio (Times)	0.7	2.7	4.8	42.4	1.1	0.8	2.0	1.7	112.6	1.2
Administration Expenses/Contributions (Percent)	9.0	11.3	9.4	21.6	10.0	6.9	10.5	14.7	17.6	9.6
Total Income/Benefit payment (Times)	1.3	3.0	6.0	54.0	1.6	0.9	2.1	2.1	141.8	1.3
Dependency Ratio (Times)	8	27			11	6	25			9

Source: *Social Security Regulatory Authority*

Investment of the sector remained exposed to direct loans to the Government and real estate. The biggest share of the Funds' investment is in government securities accounting for 35.3 percent followed by real estate properties 18.7 percent, and loans to Government 11.4 percent. This exposes the Funds to reduced asset value in case of decline in property and rental prices. However, investment in government securities guarantees liquidity to Funds to meet long-term financial obligations (**Table 5.16**).

[4] Total column represents the social security sector assessment

Table 5.16 : Mainland Tanzania: social security portfolio investment mix

Particular	Prudential Limits	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Bank Deposits	35	9.8	9.4	6.1	7.5	6.3
Government Debt	20-70	29.6	32.3	33.8	33.8	35.3
Commercial Paper, Promissory notes and	20	0.3	0.3	0.4	0.0	0.0
Loans to Government	10	14.1	14.3	11.4	11.2	11.4
Ordinary and Preference Share	20	7.2	7.1	7.9	7.9	8.1
Investments in Licensed Collective Investment	30	1.5	1.6	1.7	1.7	1.8
Real Estate	30	19.3	18.8	19.8	20.2	18.7
Loans to Corporates and Cooperative Societies	10	3.4	3.3	3.7	3.4	3.3
Infrastructure Investment	25	2.9	2.9	3.5	3.6	3.8
Other Assets		11.0	10.0	9.7	10.3	10.9
Total Assets		**12,367.80**	**12,845.80**	**12,042.12**	**12,104.83**	**11,509.20**

Source: *Social Security Regulatory Authority*

Zanzibar Social Security Fund performance review

The Fund continued to grow in terms of investment assets, albeit decline in returns. During the nine months' review period to March 2019, the investment assets increased to TZS.451.6 billion from TZS.324.2 billion in preceding period. This was contributed to investment in treasury bonds, new project of Hifadhi Hotel and investment in land acquired for future real estate projects. The Return on Investment on the other hand, declined to 5.8 percent from 7.0 percent mainly due to share price deprecation and reduced income from fixed deposits as the Fund's benefit payment obligations increased.

During the review period, the Fund increased its ability to meet short-term obligations as the contribution to total benefit payments[5] ratio increased to 2.9 percent from 2.3 percent. This was mainly due to increase in employment originating from compulsory contributions leading to growth in the membership base. On the other hand, the dependency ratio as depicted by the contributing members to pensioners declined to 11.0 times from 11.9 times as the number of pensioners eligible for payment increased relative to contribution.

However, during the review period the Fund's cost efficiency increased to 9.5 percent from 8.5 percent. The payment to contribution ratio was below the threshold as stipulated by Social Security Regulatory Authority's (SSRA) regulation of a limit of 10.0 percent. ZSSF continued to pay pension benefits, which increased from 24.1 percent to 32.6 percent of the total benefit payments disbursed during the period under review (**Table 5.17**).

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[5] Total benefit payments include pension benefits plus other benefit payments

Table 5.17: ZSSF selected indicators

Particulars	Jul 17-Mar 18	Jul 18-Mar 19
Compulsory contributions (TZS billion)	48.0	59.5
Voluntary contributions (TZS billion)	0.2	0.1
Total contributions (TZS billion)	48.2	59.7
Benefit payments (TZS billion)	15.7	14.1
Pension payments (TZS billion)	5.1	6.8
Total Benefits payments(TZS Billion)	20.7	20.9
Pension payments/Total benefit payments (percent)	24.5	32.6
Contibution income/benefit payments (times)	2.3	2.9
Contributing Members	88,522	95,202
Pensioners	7,458	8,632
Dependancy ratio (times)	11.9	11.0
Investment income (TZS billion)	22.6	26.1
Investment Assets (TZS billion)	324.2	451.6
Investment Income/Investment Assets (percent)	7.0	5.8
Administrative cost (TZS billion)	4.1	5.7
Administrative cost/investment income (percent)	18.1	21.7
Administrative cost/Contribution (percent)	8.5	9.5

***Source**: Zanzibar Social Security Fund*

The ZSSF investment portfolio grew by 33.6 percent mainly in treasury bonds, new project of Hifadhi hotel and investment in land secured for future real estate projects albeit decrease in fixed deposits and loans. This was supported by an increase in investment income by 15.8 percent from government securities and increase in portfolio diversification, which minimise risks exposure to meet long term financial obligations (**Table 5.18**).

Table 5.18: ZSSF investment portfolio

TZS Billion

Particulars	Jul 17-Mar 18	Jul 18-Mar 19
Treasury Bills	0.0	0.0
Government Stock	22.8	27.5
Treasury Bonds	72.5	154.0
Bank Fixed Deposits	106.7	94.0
Equity Investments	9.5	14.8
Call Account	0.0	0.0
Loans	23.3	14.0
Investment Property	52.1	42.2
Investment in Land	7.8	47.6
Hifadhi Hotel	0.0	11.6
Mapinduzi Memorial Museum Items	0.0	0.0
Mapinduzi Revolving Retaurant Items	0.0	0.6
Corporate Bond	6.0	6.2
WIP	23.6	39.0
Total Investment Assets	324.2	451.6
Net Assets	**337.1**	**450.5**

Source: *Zanzibar Social Security Fund*

5.2.4 Cross-sector linkages in the financial system

Interbank operations among the top ten banks continued to rely on foreign deposits for financing and investments in the same foreign banks due to attractive interest rates. As at the end of March 2019, deposits from foreign banks and placements with banks abroad increased by 103.9 percent and 137.9 percent from TZS.668.1 billion and TZS. 1,626.2 billion in March 2018, respectively. Banks reduced domestic interbank operations through borrowing and deposits as the liquidity position eased during the review period. Pension funds and insurance companies reduced investment in deposits by 39.8 percent and 33.6 percent from TZS.526.0billion and TZS.158.3billion, respectively. For the case of pension funds, the decrease in investment in deposits was due to payment of benefit arrears after merging of Funds. Insurance companies decreased deposits investment and increased repayment of customers claims. On the other hand, deposits from mobile network operators increased to 10.6 percent, which provided an avenue for banks to continue mobilising deposits through agent banking operations and enhanced usage of mobile networks (**Table 5.18**).

Table 5.19: Financial interconnectedness (top ten banks) ***TZS million***

Particulars	Mar-17	Sep-17	Mar-18	Sep-18	Mar-19	Mar 18 -Mar 19 (% change)
Placements with Banks Abroad	562.4	400.5	683.7	1,211.7	1,626.2	137.9
Placements with Domestic Banks	467.3	309.6	730.1	147.8	423.7	(42.0)
Deposits from Pension Funds	426.8	402.9	526.0	515.9	316.4	(39.8)
Deposits from Insurance Companies	168.6	274.2	158.3	215.7	105.1	(33.6)
Borrowings from Domestic Banks	755.3	629.4	449.5	112.0	416.8	(7.3)
Deposits from Foreign Banks	672.2	831.0	668.1	253.1	1,361.9	103.9
Inter-bank Contingent Claims to Foreign Banks	260.6	25.2	128.1	56.9	51.6	(59.7)
Deposits from Mobile Network Operators	649.7	686.4	701.1	771.0	775.5	10.6

Source: *Bank of Tanzania*

Box 2: Deposit insurance system

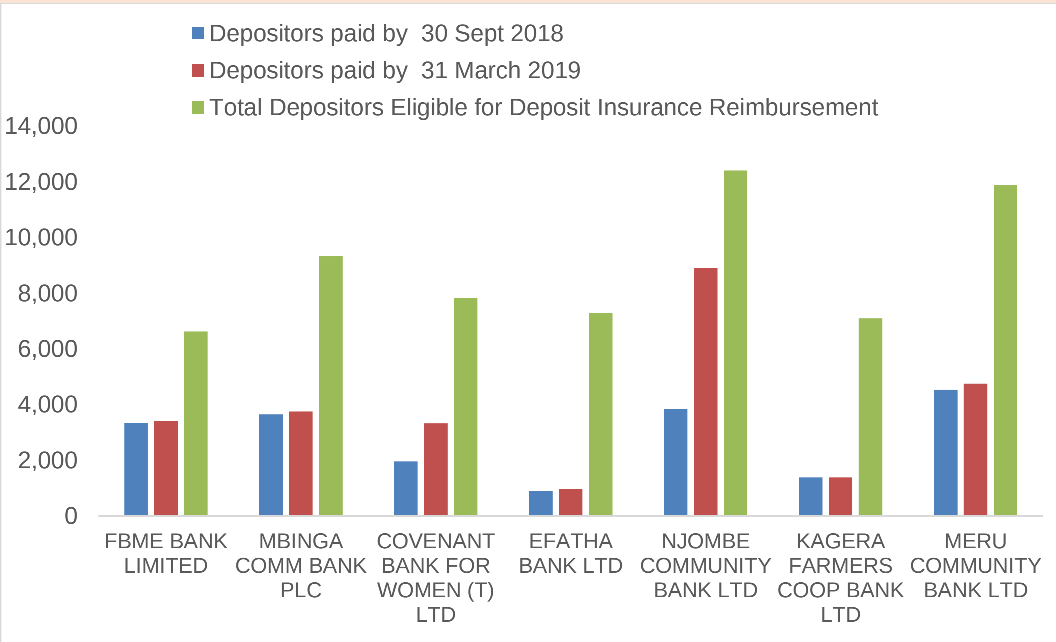
The Banking and Financial Institution Act, 2006 requires the Deposit Insurance Board to make compensation of insured deposits. In executing this activity, DIB compensates depositors of a bank or financial institution whose license has been revoked by the Bank of Tanzania due to failure or non-compliance.

During the review period, the Bank of Tanzania revoked banking license of five community banks namely, Covenant Bank for Women (T) Limited, Efatha Bank Limited, Njombe Community Bank Limited, Kagera Farmers' Cooperative Bank Limited and Meru Community Bank Limited were placed under liquidation. In this regard, the DIB was appointed by the Bank as the liquidator in January 2018.

As at the end of March 2019, a total of 19,348 depositors representing 41.62 percent of eligible depositors were paid. The total amount paid was TZS 4.29 billion, representing 80.54 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 5.19** and **Chart 5.20**).

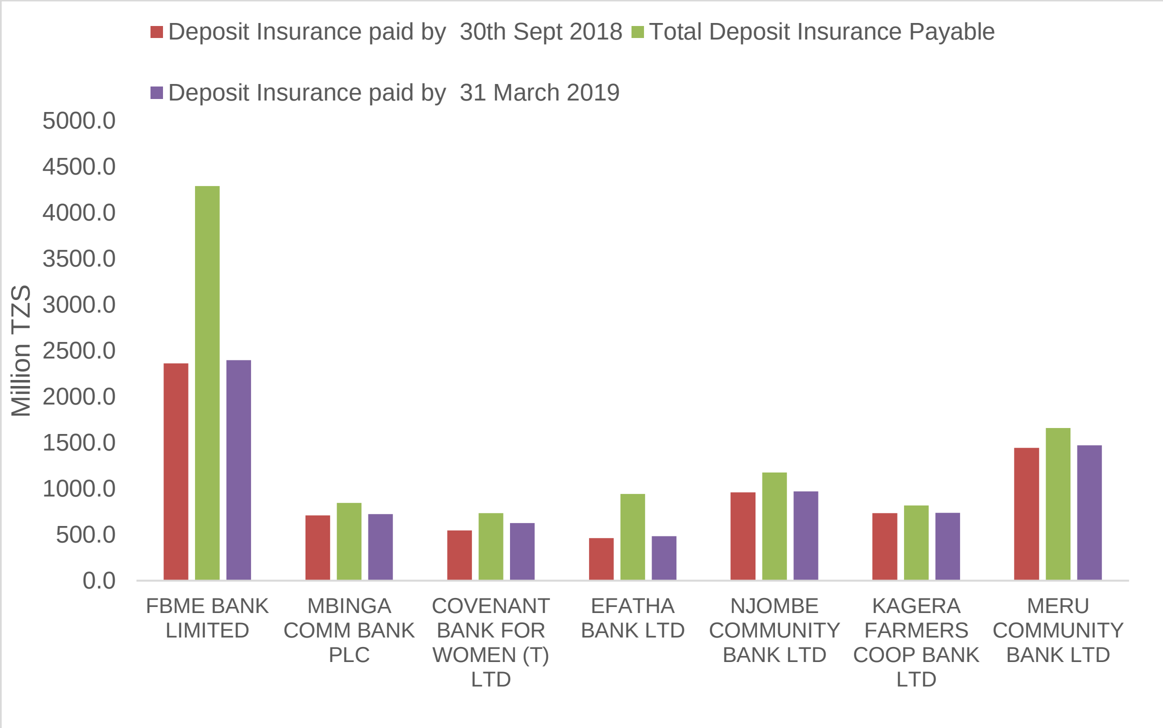
Meanwhile, DIB continued to reimburse depositors of FBME Bank Limited, which was placed under liquidation on 8th May 2017 and by the end of March 2019, 3,420 depositors, representing 51.6 percent of 6,628 eligible depositors of FBME Bank Limited were paid. The total amount paid, as at the end of March 2019 was TZS 2.39 billion, representing 55.92 percent of the total deposit insurance payable. In addition, 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 March 2019, a total of 3,749 depositors out of 9,329 eligible depositors were paid representing 40.19 percent. The total amount paid as at the end of March 2019, was TZS 0.72 billion, representing 85.40 percent of the total deposit insurance payable.

Chart 5.19:Status of deposit insurance paid



Source: *Bank of Tanzania*

Chart 5.20:Status of depositors reimbursed



Source: *Bank of Tanzania*

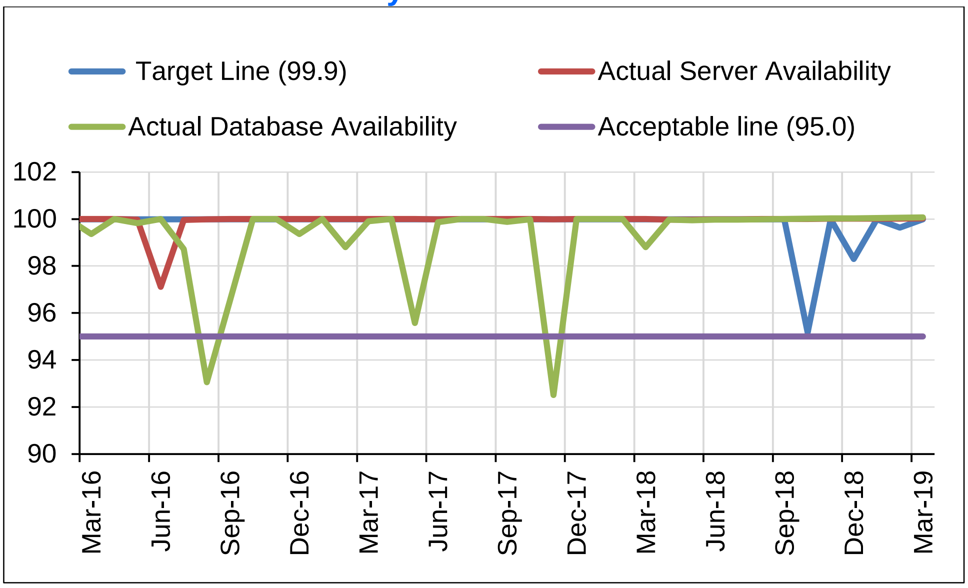
6.0 FINANCIAL SYSTEM INFRASTRUCTURE AND REGULATORY DEVELOPMENTS

6.1 Payment system infrastructure

Payment and settlement systems continued to operate smoothly without disruption. During six months to the end of March 2019, 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, namely; Tanzania Interbank Settlement System (TISS), on average recorded 99.8 percent efficiency in terms of server and database uptime availability (**Chart 6.1**). Given its systemic importance, disruptions due to power failure, server or network outage would impair the payment and settlements in the financial system and cease public and private operations. A mock disaster recovery exercise was conducted on 23rd November to 4th December 2018, whereby the system operated from its secondary site in Dodoma and it was ascertained that the system is robust as mitigation option in the unlikely event of system disruptions.

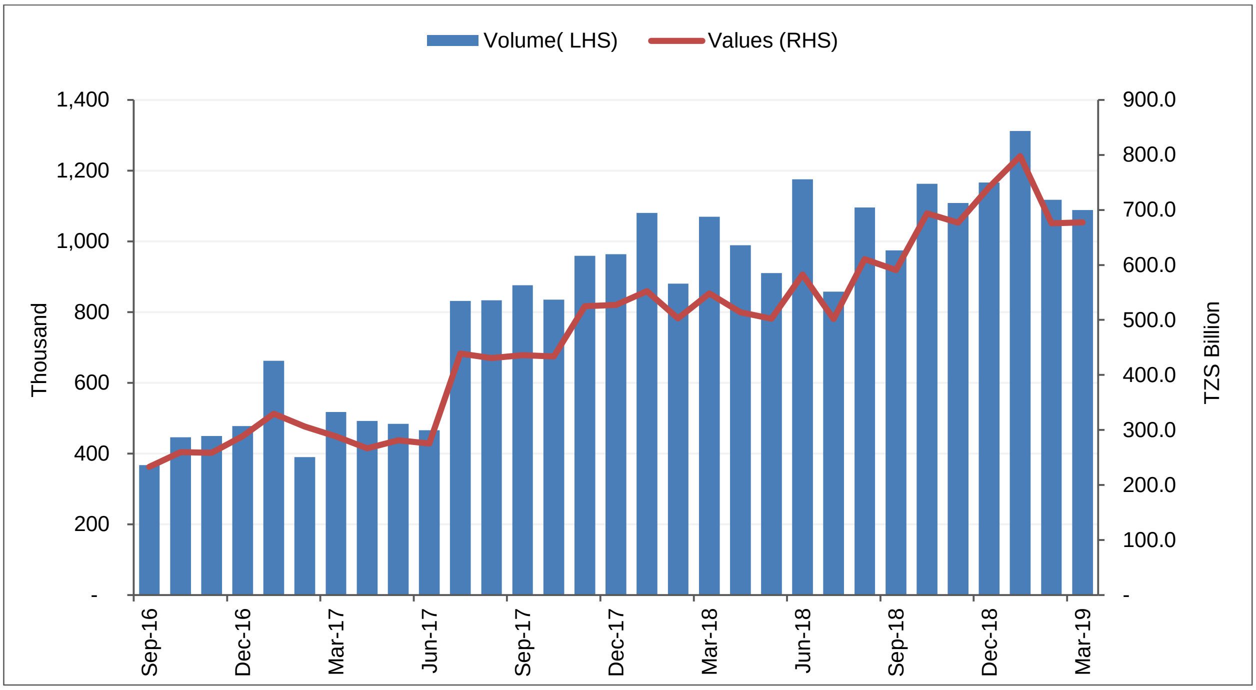
Chart 6.1: TISS availability



***Source**: Bank of Tanzania*

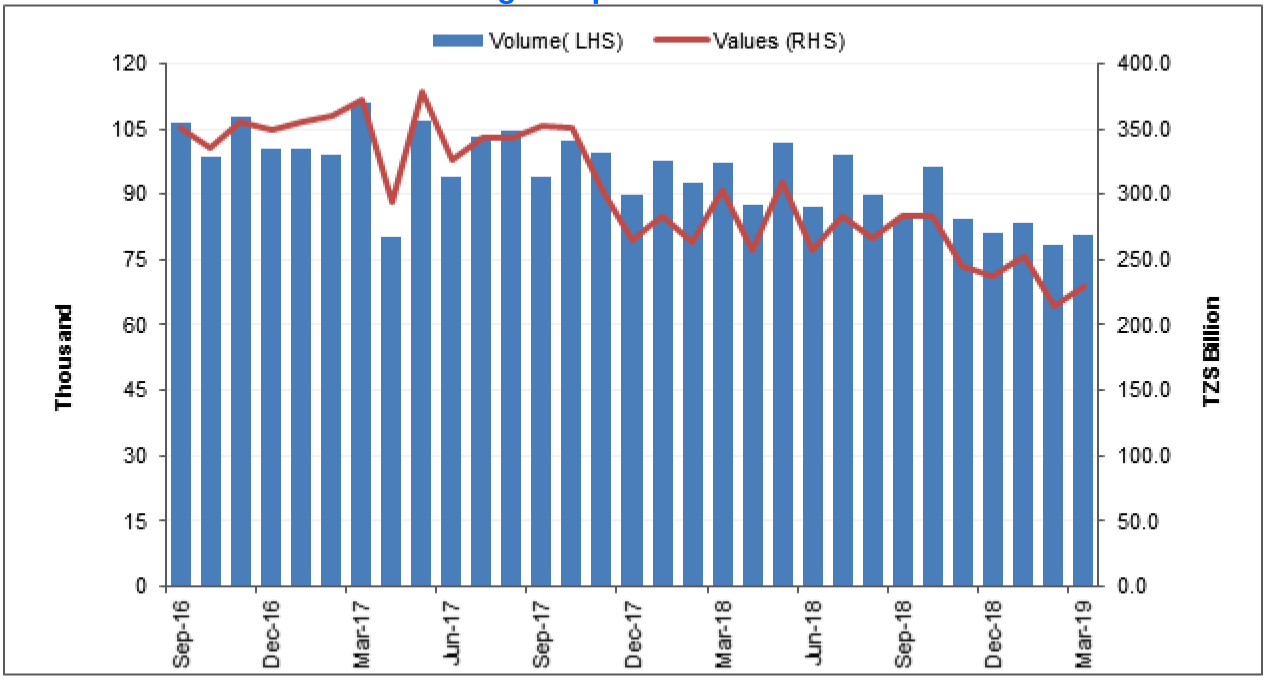
The uptake of digital financial services prompted growth of retail payment systems transactions. The continued increase of the Government's usage of digital channels for payments has enhanced efficiency and security of the payment system in the country as depicted by increased use of Electronic Fund Transfers (EFT) through TACH. During the review period, there was a growth of 38.0 percent in volume and 20.2 percent in value of EFT transactions compared to the corresponding period in 2017/18 (**Chart 6.2** and **Table 6.1**). This progress had a knock-on effect on mobile banking, which has exhibited a growth of 0.6 percent in volume with 59.3 percent increase in value transacted compared to the similar period of 2017/18. Similarly, the effect was observed in the decline in usage of Tanzanian Shilling denominated cheques in TACH, both in terms of volume and value by 12.9 percent and 17.4 percent, respectively (**Chart 6.3**). Nevertheless, TACH is growing given its prominence in facilitating payments and settlement for multiple large and small institutions as well as individuals with high volume of transactions.

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 of Tanzania finalized development of the business case and initial preparatory activities for development of Tanzania Instant Payment System (TIPS). Development of the TIPS was planned to commence in January 2019, which will be a single, national, retail, and real-time payment system. The system is designed to address limitations of current service offerings, particularly with respect to interoperability, which will enable every person, business entities and government agencies to transact with each other, regardless of service provider or sector (bank or non-bank payment service providers). The system will also explore availability of modern technology, which can facilitate country-wide instant payments, easy connections by multiple participating institutions and ultra-low-cost payments. Further, it will provide a single national switch, which will support supervision. This is a remarkable milestone that will ease liquidity constraints going forward (**Table 6.2**).

Table 6.2: 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

Potential risks associated with trust accounts expose mobile money account holders to loss in the event of bank(s) failure. Currently, there are fifteen (15) banks holding trust accounts for six (6) Electronic Money Issuers, with a total balance as at the end of March 2019 being TZS 775.5 billion. These commercial bank(s) maintain trust account(s) for electronic money issuance. However, it remains unknown the modality for reimbursement of insured deposit in the event of bank failure. It is from this predicament that the Bank and the Deposit Insurance Board are developing a mechanism for recognition of individual mobile money account holders for pay-out of the insured deposit in the unlikely event of a bank failure and liquidation.

6.2 Financial system regulatory developments

Payment systems

The Bank is developing Tanzania Instant Payment System (TIPS). The system will be implemented in phases whereby phase one will involve seven stages. During the review period, the Bank started implementing stage one namely, project incremental stage. TIPS shall facilitate instant payment transactions across different payment service providers including traditional bank transfers, mobile banking services and Mobile Network Operators, which provide mobile financial services. It is also expected to promote interoperability amongst financial service providers, increase usage of electronic payments, increase efficiency of retail payments and enhance the Bank's oversight capabilities.

Insurance sector

The Tanzania Insurance Regulatory Authority (TIRA) has finalized development of Reinsurance Portal as part of TIRA Motor Insurance System (TIRA-MIS) electronic regulatory system, with a view of enhancing efficiency and effectiveness of the Authority's mechanism for applications, review and determination of requests for externalization of risks. The Reinsurance Portal is ready and online since 1st February 2019. The portal will be used and run parallel with the existing manual for a pilot period of three months (from March - June 2019). Authority's Reinsurance Portal will be fully automated effective 1st July 2019, whereby all applications for externalization of risks will be submitted and processed electronically.

7.0 FINANCIAL SECTOR RESILIENCE

7.1 Banking sector resilience

The Bank of Tanzania conducted stress testing for the quarter ending March 2019 using Cihak model to assess resilience of the banking sector. The stress testing was based on four main risk exposures namely; 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. In addition, the stress testing assessed both direct and indirect impact of the interest rate risk and the foreign exchange depreciation on loans portfolio (**Table 7.1**).

Table 7.1: Shock calibration

Risk-type	Type of Shock	Shock Size	Description
Credit	Sectoral shocks to NPLs: Agriculture Trade Manufacturing Personal	 4.9 7.2 5.3 5.5	Applies a different shock to the existing level of performing loans of the selected sectors, so that a proportion of them became NPLs
	Proportional increase in NPLs	8.2	Applies a uniform shock to the existing level of performing outstanding loans so that a proportion of them became NPLs
	Provisional rate for new NPLs	45.0	This is a new provision rate assumed for the new NPLs that will be generated from credit shock
Interest Rate	**Direct Impact** Nominal deposits rate < 3 months 3-6 months 6-12 months 1-2yrs 2-3yrs >3yrs	 5.1 5.7 4.9 5.4 4.5 4.5	Assess the effect of parrallel shift of TZ yield curve using deposit interst rate changes on banks' interest sensitive assets and liabilities excluding bonds with an impact assessment on Net Interest Income.
	Indirect Impact *Local currency loans* Increase of NPLs given Interest rate changes	4.0	The Impact of interest rate changes on local currency loans generating assumed new NPLs
	Additional Provisioning on the new NPLs	45.0	This an assumed provional rate from the assumed increase in new NPLs
Exchange Rate	**Direct Impact** Assumed depreciation of selected currencies USD EUR GBP	 5.2 4.6 3.4	Assess the effect of local currency depreciation on banks' existing foreign currency denominated assets and liabilities
	Indirect Impact *Foreign currency loans* Increase of NPLs given Interest rate changes	4.0	The Impact of interest rate changes on foreign currency loans generating assumed new NPLs
	Additional Provisioning on the new NPLs	45.0	This an assumed provional rate from the assumed increase in new NPLs
Liquidity	Withdrawal each day	10.0	Assess the liquidity for the banks to review capability to meet liquidity needs incase of consequentive 5 days 10.0 percent withdraw.

Source: *Bank of Tanzania*

During the quarter ending March 2019, 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 ten banks[6] and other banks. Before stress testing four banks 4 banks were undercapitalised, therefore not stressed. However, under adverse but plausible scenarios, the banks were more vulnerable to the impact on proportional increase in sectoral NPLs. The top ten banks were more exposed to proportional increase in NPLs and have less impact on exchange rate depreciation as they have reduced exposure in foreign currency denominated loans. As for the case of other banks, impact is more on interest rate movements than foreign exchange as they are more exposed to local currency loans hence possibility of developing new NPLs hence affecting capital. Post stress-testing results revealed there was no additional banks that were undercapitalised after applying all three risk factors. Implying that banks were resilient to applied shocks. (**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	17.9	16.8	15.8	17.6	17.6
Top Ten banks	16.2	15.0	14.2	16.5	16.1
Other Banks	18.8	17.6	16.6	18.1	18.3
Regulatory CAR (Core Capital)	10.0	10.0	10.0	10.0	10.0
No. of undercapitalised Major Banks	0	0	0	0	0
No. of undercapitalised Other Banks	4	4	4	4	4

Source: *Bank of Tanzania*

The pre-stress testing results for liquidity showed that two banks failed to pass minimum regulatory liquidity ratio given the assumption of 10.0 percent withdraw 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, thirteen other banks and three major banks fall short of liquidity below the regulatory limit. However, it is worth noting that its 45.2 percent of all banks will experience liquidity problem after abrupt withdrawal of deposits implying that 54.8 percent of the all banks are resilient to liquidity risk under such adverse scenarios (**Table 7.3**)

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

Table 7.3: Summary of liquidity stress testing results

Liquidity Test	Top Ten Banks	Other Banks
Pre shock results	0	0
Post shock results		
Day 1	0	2
Day 2	0	5
Day 3	2	5
Day 4	3	11
Day 5	3	13

Source*: Bank of Tanzania*

8.0 FINANCIAL STABILITY OUTLOOK

Global growth is projected to slow down to 3.3 percent from 3.6 percent in 2018 driven by the introduction of trade-restrictive measures coupled with tightened financial conditions, which may affect business confidence and financial markets sentiments. The slowdown is likely to pose risks to Emerging Markets and Developing Economies as a result of capital flows and exchange rates volatility. The tightening of financial conditions may rebound foreign currency denominated sovereign and private debts.

Domestic economy is expected to remain strong and projected to grow at 7.2 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 ongoing peace and political stability, available natural resources, leveraging from strategic geographical location and growing tourism will support growth prospects.

The banking sector is expected to remain safe and sound on account of stable macro-economic and fiscal policy stance, which is likely to stimulate business growth and profitability. The usage of credit reference bureau services continued to reduce the problem of information asymmetry in the market, borrowing costs and eventually NPLs although there is still a need for enhancing efforts of reducing NPLs. The Bank decision to revise Statutory Minimum reserve downward will ease liquidity pressure in the market, which will reduce cost of funding, stimulate credit growth, investment and expected growth. The projected growth will support business performance, hence easing of credit conditions and improve banking sector's asset quality.

Capital markets performance continued to improve as the corporate appetite to participate in the equity market increased. The improvement is also explained by increase in turnover and improvement in corporate performance. Going forward, trading activities and liquidity in the market are expected to improve as pension funds transition period from merging comes to an end.

During the review period, the decline in insurance sector net-worth depicted an increase in liability implying a likelihood that insurers may fail to meet future obligations. However, the continued efforts in automation and mobilization of collecting premiums will continue to stimulate liquidity, increase the ability of the sector to withstand adverse deviations of actuarial liabilities in the future, which will create additional contingency reserves hence cushion against potential risks.

The social security sector continued to meet obligations of the backlog of benefit payments due to increase of members' contributions. Following the transition period, the Fund liquidated part of the investment in government securities and equity shares in order to meet members' obligations. However, following the merger, the efficiency of the Fund improved as depicted by administrative costs to contributions ratio, which decline. Meanwhile, sustainability of the Fund is optimistic as reflected by improving coverage ratio. The summary of overall risks to financial stability is provided hereunder:

Summary of potential key risks

Risk to global economy	Risks to SSA and EAC	Risks to domestic economy	Risks to non-banking sector	Risks to the banking sector
Risk to global economy likely to increase **Reasons** Trade tensions between US & China still persist. Volatile capital flows between AE & EME Unrealized Brexit deal Decreased business confidence Tighter global financial conditions Volatility in interest and exchange rates in AEs, EMEs and DEs **Challenge** Spillover effects of slowdown in global growth my heighten risks in the domestic market	Risks to growth increased **Reasons** ▪ Likely decrease in commodity prices ▪ Increased debt burden due to increase in oil prices & strengthening of US$ ▪ Exert pressure on C/A and Exchange rate volatility **Challenge** Tighter global financial conditions Increase in cost of funding Decline in investment funding sources	Risks remained low **Reasons** ▪ Strong macroeconomic performance ▪ Low inflation ▪ Stable exchange rate ▪ Likely decrease in commodity prices **Challenge** Tighter global financial conditions Spillover effects of global slowdown	Risk is likely to increase **Reasons** ▪ Equity market at DSE is dominated by foreigners ▪ Asset vs. liability mismatch under the social security funds and insurance sector may result into failure to honour future obligations ▪ Domination of cross listed companies in terms of market share ▪ Increase in mobile money transactions **Challenge** Capital flight due to foreign domination Insurance to cover mobile accounts	Risk my increase **Reasons** ▪ Existence of undercapitalized banks ▪ High levels of NPLs –over 10% ▪ Liquidity challenges facing some banks including big ones **Challenge** Disruption of financial system in case crisis occurs Increased NPLs may lead to tightening of credit

7.0 APPENDICES

Appendix 1: Annual GDP performance by economic activity Mainland Tanzania

(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	Dec-18	Mar-19
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	19,676.9	19,858.8
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	9,696.1	9,148.5
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	9,980.8	10,710.3
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	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	16.9	17.1
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	42,912.5	37,314.7
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	50.7	53.9
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	49.3	46.1
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	2,041.4	2,060.3
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	3,691.4	3,482.9
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	5,285.2	4,896.8
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	2,205.4	2,109.7
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	2,282.8	2,242.4

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	Dec-18	Mar-19
1	ACA	17.7	25.2	26.8	21.0	26.2	18.3	10.0	10.2	7.9	6.9	7.7	11.6	12.3
2	EABL	22.6	21.8	21.5	21.6	18.7	21.4	21.1	18.2	19.9	17.4	16.7	15.8	18.7
3	JHL	3.1	3.0	3.1	3.5	3.7	3.3	3.7	3.2	3.7	3.7	3.8	3.4	3.4
4	KA	0.7	0.6	0.6	1.0	1.0	1.2	0.7	9.6	5.6	6.1	5.9	5.8	3.3
5	KCB	12.5	10.0	8.0	10.4	11.1	13.2	14.3	12.0	14.6	14.0	13.3	12.7	15.0
6	NMG	3.3	2.9	2.3	1.8	2.0	2.2	2.2	2.1	2.0	1.7	1.5	1.5	1.3
7	USL	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	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**	**55.4**	**53.8**	**50.0**	**48.9**	**50.7**	**53.9**
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	2.0	1.6
9	DCB	0.2	0.2	0.1	0.1	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	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	0.1	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	0.2	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	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	0.0	0.0
15	NICOL										0.1	0.1	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	5.9	5.9
17	PAL	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.3	0.3
18	SWALA	0.2	0.2	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.3	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	0.5	0.3
20	TBL	19.2	18.6	17.8	18.5	17.6	20.5	19.3	17.9	19.7	22.1	20.8	19.3	16.9
21	TCC	5.7	5.5	5.4	6.0	5.7	5.7	7.2	7.3	7.0	7.7	8.4	8.6	8.6
22	TCCL	0.6	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.3	0.3	0.2	0.2	0.2
23	TICL									0.1	0.1	0.2	0.1	0.1
24	TOL	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.2	0.2	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	1.9	1.9
26	TTP	0.1	0.1	0.1	0.1	0.1	0.1	0.1	1.1	0.0	0.0	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	9.1	9.0
28	YETU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.3	0.0	0.0	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**	**49.3**	**46.1**

Source: *Dar es Salaam Stock Exchange*

Appendix 4: 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	879.9	3,822	5,380
Dec-13	591	38,024	22,111.8	17,545	3,257.9	5,848	18,854
Mar-14	840	59,929	38,429.7	19,203	5,188.2	3,503	33,241
Jun-14	1,012	83,901	56,846.2	33,869	9,400.2	6,062	47,446
Sep-14	1,317	136,286	83,101.0	41,718	12,663.4	6,729	70,438
Dec-14	1,652	167,617	99,443.4	54,244	14,830.6	6,948	84,613
Mar-15	1,857	281,898	140,217.0	70,283	19,887.4	6,802	120,330
Jun-15	2,333	353,352	193,650.3	126,400	34,928.4	7,834	158,722
Sep-15	2,936	533,243	264,065.9	202,665	57,499.9	9,305	206,566
Dec-15	3,298	589,605	276,315.4	276,303	72,919.1	28,070	203,396
Mar-16	3,485	876,518	329,550.2	307,400	80,529.6	23,348	249,021
Jun-16	4,573	1,055,454	377,065.2	384,350	100,234.9	32,209	276,830
Sep-16	4,798	1,321,734	520,549.1	402,625	108,809.3	48,338	411,740
Dec-16	5,676	1,616,136	656,125.1	562,717	137,560.3	61,900	518,565
Mar-17	6,865	1,927,509	862,130.9	719,893	171,258.8	53,076	690,872
Jun-17	8,008	2,110,176	961,958.5	869,651	216,498.0	69,598	745,460
Sep-17	9,266	2,913,513	1,311,157	1,053,338	277,967.6	11,814	1,033,189
Dec-17	10,689	2,960,497	1,503,298.9	1,432,313	440,644.7	14,583	1,062,654
Mar-18	12,075	3,329,640	1,726,983.5	1,787,388	538,848.8	8,624	1,188,135
Jun-18	13,679	4,002,384	2,218,310.8	2,241,739	658,124.2	8,789	1,560,187
Sep-18	17,432	5,269,454	2,930,320.9	2,495,731	822,375.8	13,466	2,107,945
Dec-18	18,827	5,432,545	3,402,685.5	3,259,334	1,051,133.3	9,959	2,351,552
Mar-19	20,149	6,142,946	3,695,343.1	3,626,305	1,180,419.8	9,152	2,514,923

Source: *Bank of Tanzania*