

THE MARKETDIGEST

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Economic Analysis: LEADING ECONOMY IN EAST AFRICAN BLOC

By Gladness Deogratias, Head of FX Trading

Global economic growth in the world at large is expected to improve in comparison to the one that has prevailed in the past five years largely on positive impulses from the financial conditions in the US, fiscal stimulus in Europe and growth in parts of the emerging world. Tanzanian economy has seen steady growth and picking up this pace from a number of infrastructure projects including standard gauge as well as improvements of ports services. For over a decade now, GDP growth in Tanzania has averaged 7% making the country one of the top growth champions in the world and the leading economy in the East African bloc. Thus, the country has had a sustained growth in the last quarter of 2016 and the same will be expected in 2017.

Balance of payments registered a surplus in the period under review. On the other hand current account balance recorded a deficit less than one registered in the year 2015 due to drop in imports of goods and services to \$67.5Mio from \$78.2 (2years ago) coupled with increase in exports. These exports are traditional commodities (crops) such as Tea, Tobacco, Sisal and Cotton; Gold and Travel receipts from tourism and goods on transit. This saw the gross official reserves amount to 4.1 import cover.

Diminishing aid inflows and the need to fund the budget domestically whereby the government target is to double revenue collection and hit the target of 16.3% GDP in 2016/17. Consequently, this move is expected to curb the local currency depreciation.

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Fx Trend: CONTINUED CASHEW INFLOW AND GOVERNMENT SPENDING LEFT THE SHILLING UNCHANGED

By Agnes Mayoro, FX Trader

The shilling traded at the same levels Q-o-Q despite continued cashew nuts inflows worthy about \$200 Million. In the last quarter of 2016, the pair closed at TZS2181/\$ lower than TZS2182/\$ staged in Q3. The inflows were neutralized by demand that was a result of improved liquidity in the market from government spending. Unlike most of the year end whereby local currency appreciates as liquidity tightens, 2016 was different leaving the USDTZS pair trading flat.

Overall, the currency was stable in 2016 on account of limited volatility, tight liquidity throughout the year which forced the central bank to participate on both sides of the market with a bias to buying US Dollars in order to distribute the local currency liquidity. In addition, despite an increase in global oil prices Y-o-Y from a close of \$47.07 per barrel in 2015 to \$58.04 per barrel in 2016 and oil being the major part of the country's imports. Overall, the country imports dropped adding to the stability of the currency.

The shilling depreciated by only 1% in 2016 against a 25% depreciation seen the year before.



Source: Reuters

	Open	Low	High	Close
Q4	2184	2178	2185	2181
Q3	2190	2180	2191	2182

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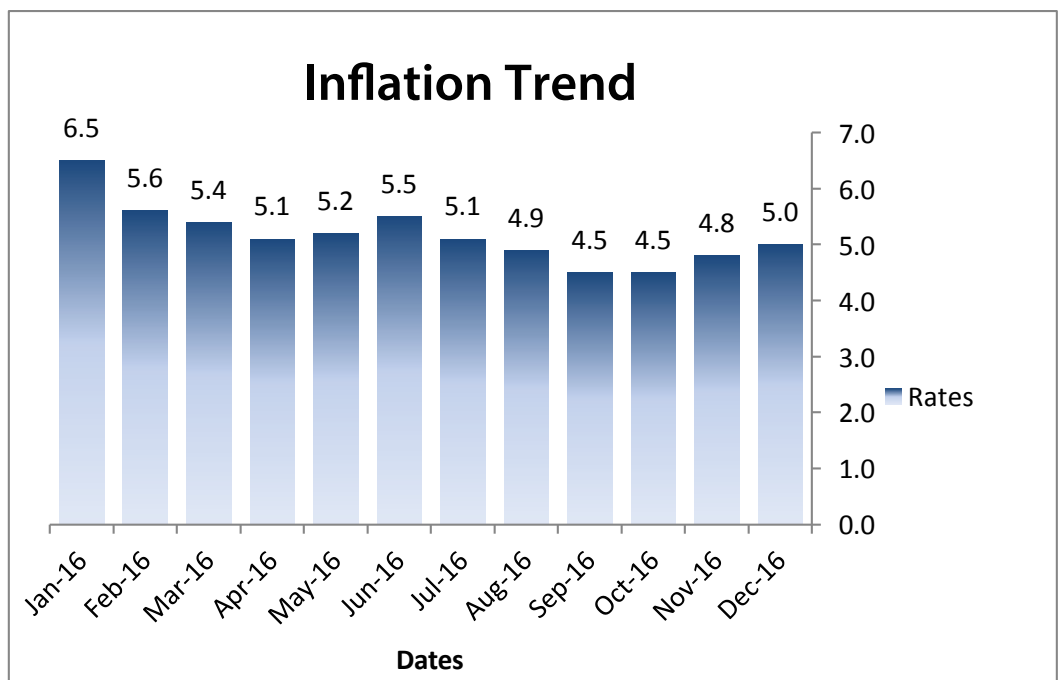
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Inflation Trend: A STEADY INCREASE FROM SEPT, 2016.

By Samira Saleh, Senior Dealer ALM and Fixed Income

The annual headline inflation in Dec 2016 increased to 5.0% Y-o-Y from 4.5% Y-o-Y in Sep 2016. This shows, the the speed of increase in commodities prices in the quarter ending December 2016 was higher as than the speed of price increase recorded for the quarter ended September 2016. Moreover, the purchasing power of 100 Tanzanian shillings has reached TZS 95.20 in December 2016 from TZS 62.02 in December 2015, indicating that consumers can buy greater number of items than they would have been able to buy in December 2015 for the same unit of TZS.



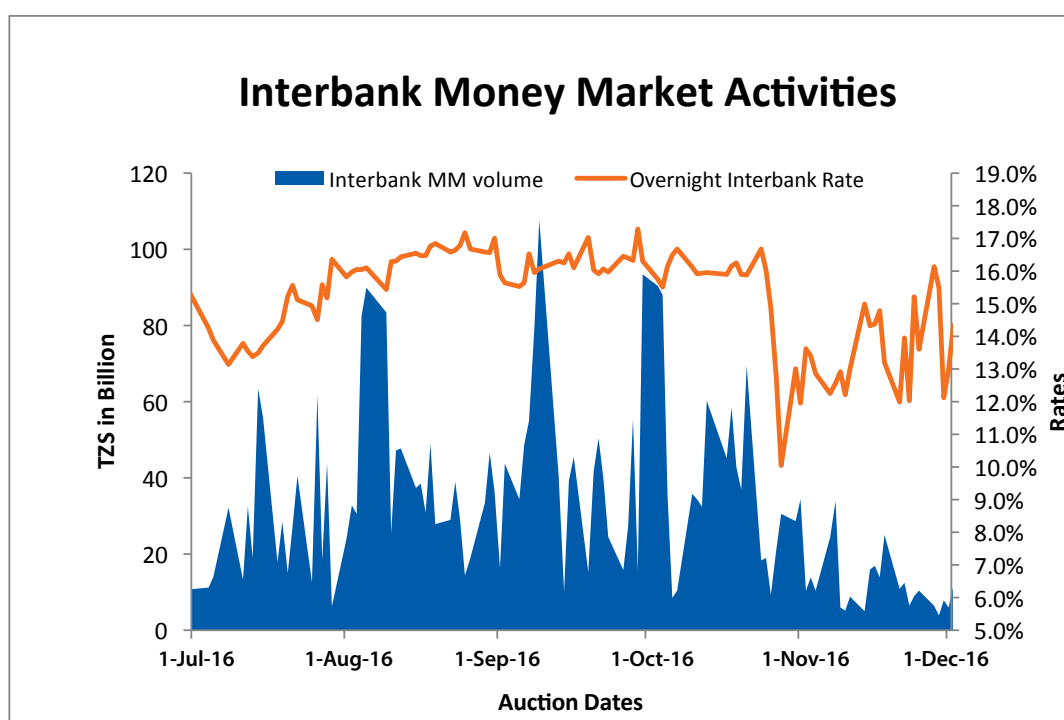
Source: National Bureau of Statistics

Interbank MM Activities and Rates: DECREASING TREND IN MONEY MARKET ACTIVITIES

By Samira Saleh, Senior dealer ALM and Fixed Income

In the last quarter of 2016, there was a slowdown of interbank activities (lending/borrowing) depicting a liquid market. Traded volumes in Q4 totaled TZS 2.35 trillion, which is higher than TZS 2.31 trillion recorded in Q3. Nevertheless, in comparison to volumes traded in Q4, 2015 (TZS 1.23 trillion), this is 90% growth Y-o-Y.

During the quarter under review, overnight weighted average rates traded as low as 7.43% and as high as 18%. The Bank of Tanzania provided liquidity to the market through reverse repos as part of the intervention package in addressing liquidity challenges experienced by some banks.



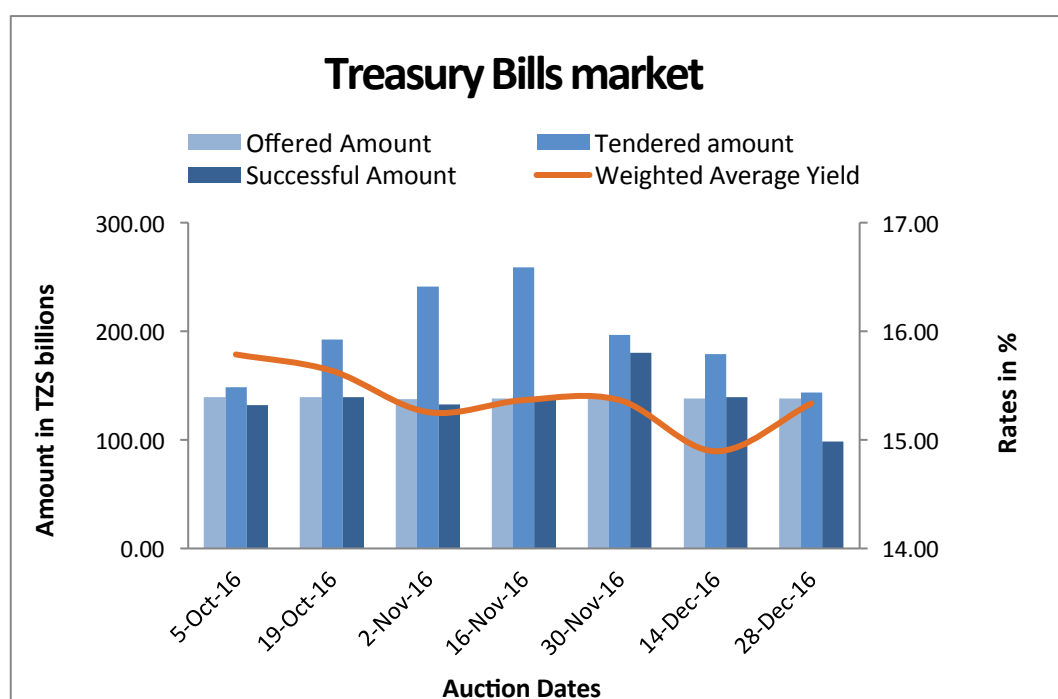
Source: Bank of Tanzania

Government Securities Trend:

By Samira Saleh, Senior dealer ALM and Fixed Income

Treasury Bills: OVERSUBSCRIBED AUCTIONS, UNFULFILLED TENDERS

Auctions held this quarter were mostly, mostly were oversubscribed as the market tendered bids worth TZS 1.36 trillion versus TZS 971 billion offered. However, the central bank was reluctant to mop up liquidity and took less than the offered amount (TZS 962.62 billion). This left most of investors unsatisfied consequently leading to more liquidity in the market than the previous quarter.



TREASURY BILLS AUCTIONS SUMMARY

	Amount TZS Billions
Amount Offered	971.00
Total Tendered	1,362.46
Successful Amount	962.62
Current Weighted Average Yield	15.34%

Source: Bank of Tanzania

Treasury Bonds: LOW INVESTOR APPETITE.

1. Primary Market

Treasury bond market tendered was 9% less than the amount offered .Total amounts offered in all auctions were TZS 682billion, however, TZS 618 billion was tendered and only TZS 478billion was successful. Treasury bonds in this quarter were least preferred as seen by the tendered amounts indicating that, investors preferred short term securities. This could be linked to the upcoming telecoms IPOs expected in Q1 2017.

TREASURY BONDS AUCTIONS SUMMARY AMOUNT IN TZS BILLIONS

	2-year (7.82%)	5-Year (9.18%)	7-Year (10.08%)	10-Year (11.44%)	15-Year (13.50%)
Amount Offered (TZS Mn)	257.10	105.00	138.46	111.00	70.50
Total tendered (TZS Mn)	200.37	113.87	69.58	109.55	124.71
Successful Amount (TZS Mn)	148.02	60.33	90.49	89.16	90.49
Current Weighted Average Yield	17.6668%	17.9637%	17.9215%	18.3351%	18.7293%

Source: Bank of Tanzania

2.Secondary Market

The Stock Exchange in collaboration with the regulator and other market participants have put a lot of measures to ensure this market evolve such as awareness programs, improved services: automation of the trading, settlement and depository systems. During the quarter under review, Tbonds turnover went up by 18.14% to stand at TZS 140.67billion from TZS 119.07 billion in the previous quarter. It is expected that, increase in efficiency, product offering and market participants will spur a more robust market.

Below is the summary of Government bond traded in the secondary market under the period of review.

GOVERNMENT BONDS TURNOVER						
	2 YEARS	5 YEARS	7 YEARS	10 YEARS	15 YEARS	Total
Amount traded (TZS in BN)	1.50	40.03	14.30	23.53	61.31	140.67

Source: Dar es Salaam Stock Exchange

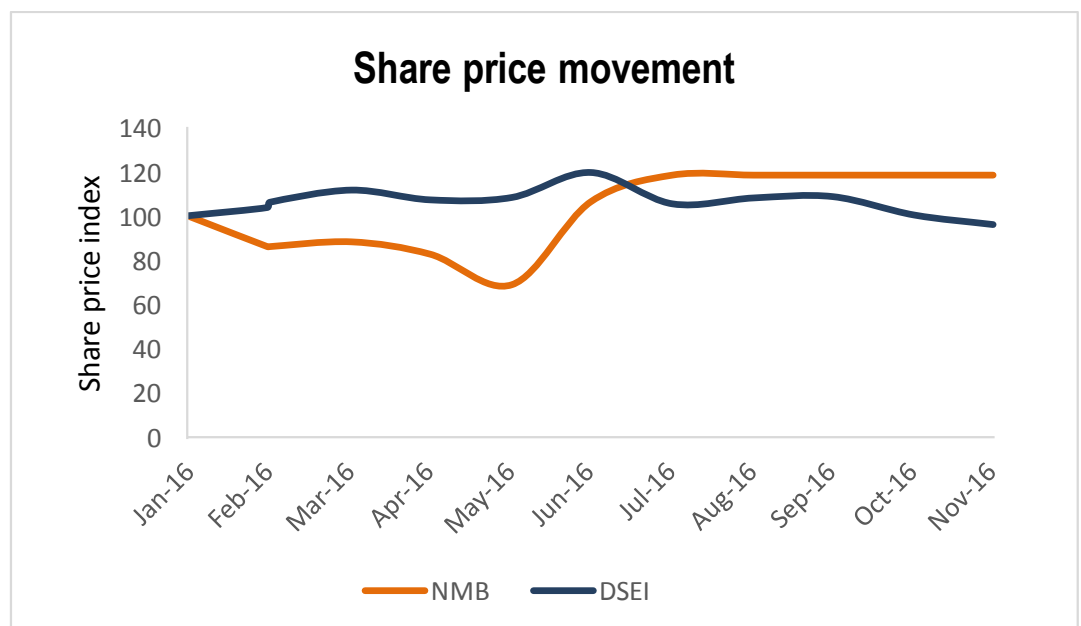
Equity Market Analysis:

SLOWDOWN IN TRADING ACTIVITIES

By Caroline Yambesi & Anna Mwashu, Strategy & Special Projects

The last quarter of 2016 was marked by a slowdown in trading activity at the Dar es Salaam Stock Exchange (DSE), with a significant drop observed towards the end of the year. The bearish position at the bourse can be attributed to the fall of commodity prices and the lesser than expected global growth in trading and investment activities.

The DSE's total market capitalization decreased by 13% to TZS 19.1 trillion compared to TZS 22 trillion recorded at the end of the third quarter.



HIGHLIGHTS FROM Q4 2016

1. NMB assigned first-time credit rating by Moody's Investor Services

The bank was assigned a credit rating of B1 Stable, b1.

This rating places NMB among the highest of our peer group of banks. Whilst the rating is largely limited by the credit rating of Tanzania itself which the bank cannot exceed, NMB scores higher number of other African banks (excluding South Africa).

Further, according to Moody's, NMB's ratings reflect its (1) solid capitalization and profitability metrics, supported by its retail-focused domestic franchise, (2) strong liquidity buffers and a retail-deposit funded profile that has withstood the gradual reduction of government deposits, (3) relatively low non-performing loans that benefit from the solid performance of its salary-linked personal loans, and (4) risks posed by high banking competition and lower potential growth in salary-linked loans.



Financial Inclusion: TANZANIA CONTINUES TO LAG BEHIND

By Neema Kassim, Manager Business Development Alternative Channels

Innovative digital technologies play a key role in advancing financial inclusion worldwide, and the rapid growth of 'mobile money' is an entry point for providing broader financial services to many low-income families. Mobile Network Operators (MNOs) collaboration on mobile money space whereby customers are able to send money from a wallet of one service provider to another has increased remittance transactions to a large extent. Commercial Banks have had to integrate with MNOs for payments and interbank instant transfers however, financial inclusion in Tanzania continues to be relatively low.

There are number of fundamental barriers that limit the growth of Financial Inclusion in Tanzania. These include supply side barriers such as high interest rates, inappropriate services that do not meet demand-side needs, and high costs due to inefficiencies of service delivery. There are also demand side barriers such as information asymmetry, irregular income patterns, and financial literacy. In addition, structural and regulatory barriers include, stringent or lack of proportionate requirements for client on-boarding, lack of regulatory framework for broad based micro-finance services, and delays in rolling out the national identification system to mention a few.

Hence, Financial services together with the aforementioned framework attempts to address the broad barriers of Financial Inclusion through implementation of key priority areas for identified core enablers to build a robust infrastructure which will enable growth and outreach of all financial services.

The key priority areas include:-

Proximity: Enhancing and implementing access channels, such as Agent banking, mobile money, point of sales, stand-alone ATMs etc. NMB extends its services through branch network of over 187 Branches, 650 ATMs, over 1600 NMB Wakala Agency Banking retailers, as well as through MNOs. Cashless Payments for buying goods and services; NMB has robust electronic platforms that facilitate cost effective access to financial services which include integration with Central Governments and TAMISEMI, Fastjet, TPA, TRA, Pay TVs, DAWASCO to centralize their payments. NMB has also launched youth banking proposition with an intention to banked the youth and be financially included. The proposition was given a name WAJIBU which carries three tailor made financial solution to support kids, teenagers and young adults above 18 years of age in Secondary School, colleges and Universities. The WAJIBU propositions offers a tailor made financial literacy education to all kids up to 18 years of age.



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