TREASURY & CAPITAL MARKETS

MARKET UPDATES

February, 2018

CRDB BANK

GLOBAL ECONOMY

Global economy is on a strong footing with IMF projecting a 0.2% increase to 3.9% in 2018 on the back of the US tax reform, improved consumer sentiment, a pick-up in investment in developed countries, and improved global trade, among others.

3.9% in 2018 on the back of the US tax reform

However, inward-looking trade policies (protectionism), political uncertainties particularly in the Euro area, geopolitical tension in the Middle East and Korean Peninsula, financial asset prices corrections, are among the major potential headwinds to the growth momentum.

SUB-SAHARAN AFRICA(SSA) ECONOMY

It is projected to reach

3.3% 2018

Regional economy was resilient throughout 2017 with IMF estimating a growth rate of 2.7% up from 1.4% in 2016 supported by mostly commodity prices.

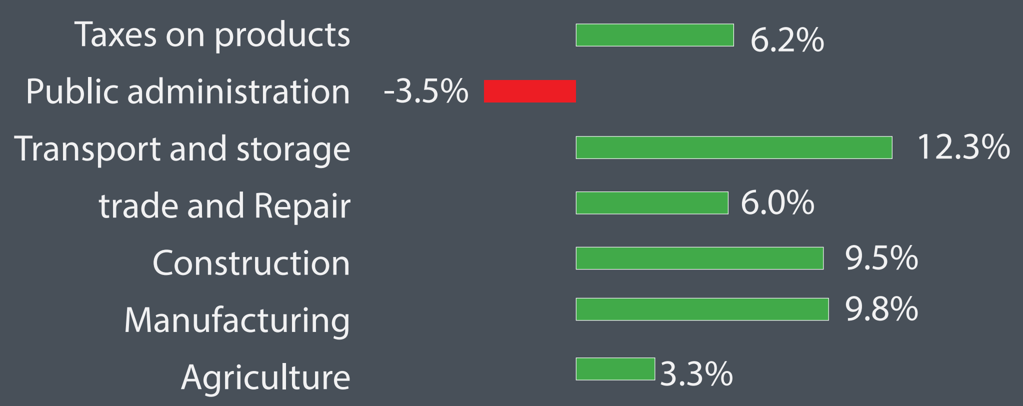
Public infrastructure investments, improved domestic revenue mobilization, better weather conditions and commodity prices will play a major role going forward.

Monetary policy normalization in advanced economies and strengthening of major currencies, particularly the US dollar, will have adverse impact on the region following recent borrowings in the international debt markets mostly on commercial terms.

According to the National Bureau of Statistics (NBS), the country experienced a 6.8% real GDP growth in the first three quarters of 2017 (7% in similar period in 2016) supported by agriculture, manufacturing, and trade activities.

However, slowdown in construction, transport and storage, taxes on products and contraction in public administration weighed down economic growth over the first three quarters.

Average Growth Rate in the first three quarters, 2017



Source: Tanzania National Bureau of Statistics

6.8% real GDP growth in the first three quarters of 2017

With slow budget implementation during the first half of 2017/18 fiscal year (84.6% of the budget with development budget met by 70.7%) following 7.5% below target on revenue collection , it is projected that the fourth quarter will register a relatively weak performance with the agricultural sector providing a cushion following a better cashew nuts season towards the end of the year.

Going forward, however, with the Government securing funds from the external lenders, it is projected that spending on public infrastructure projects will pick up hence supporting economic growth.

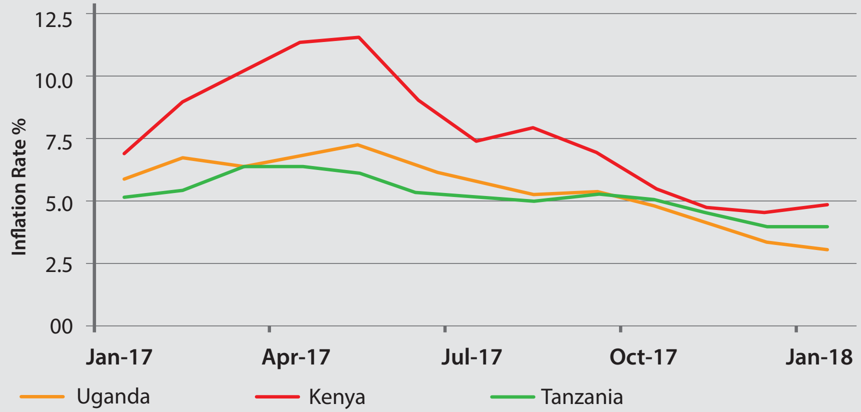
84.6% of the budget with development budget met by **70.7%**

INFLATION DEVELOPMENT

Across the East African region inflationary pressures have eased considerably with annual headline inflations at below 5% in January, far below the convergence criteria of not more than 8%. This was largely supported by lower food prices following a relatively bumper season in the region.

The subsiding inflationary pressure offers a monetary space for central banks in the region to credit expansion and, in turn, economic growth.

E. A. Inflation Development



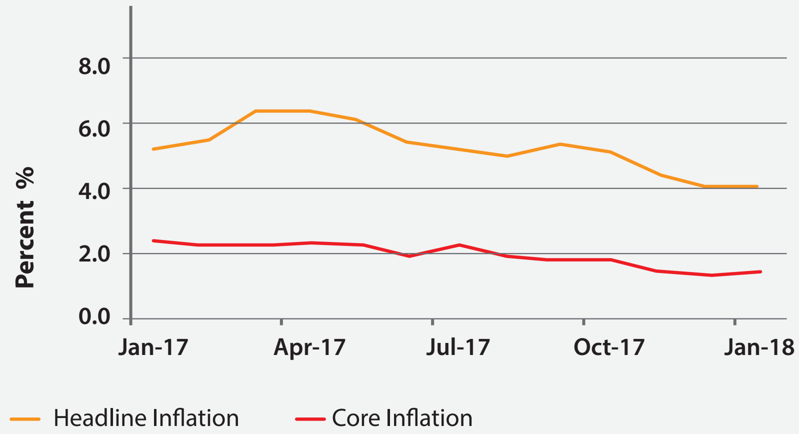
[1]Bank of Tanzania: February, 2018 Monetary Policy Statement

Source: National Bureau of Statistics (Kenya, Uganda and Tanzania)

below the convergence criteria of not more than **8%.**

According to the NBS, January annual headline inflation in Tanzania was at 4.0%, the same as in the preceding month but down from 5.2% recorded in the period ending January, 2017. The inflation rate was, to a larger extent, weighed down by food inflation following improved food output during the year.

Tanzania Inflation



Source: Tanzania National Bureau of Statistics

inflation in Tanzania was at

4.0%.

Inflation rate which excludes food and energy, was slightly up at 1.4% from **1.3%**

On the other hand, core Inflation rate which excludes food and energy, was slightly up at 1.4% from 1.3% recorded in the preceding month but down from 2.3% in January, 2017. The relatively lower core inflation rate could be a signal that aggregate demand in the economy is subdued. This might translate into relatively slower economic growth in the short- to medium-term.

It is forecast that headline inflation will continue to be subdued in the short-term supported by a relatively stable local currency and better agricultural output. However, rising global oil prices as a result of ongoing OPEC production cuts, will put an upward pressure albeit with a diminishing impact as the country increasingly replaces heavy fuel oil with gas for power generation.

INTER-BANK FX MARKET (IFEM)

Overall the shilling has been stable in the most part of 2017 following prudent monetary policy, bumper cashew nuts season and improved current account balances.

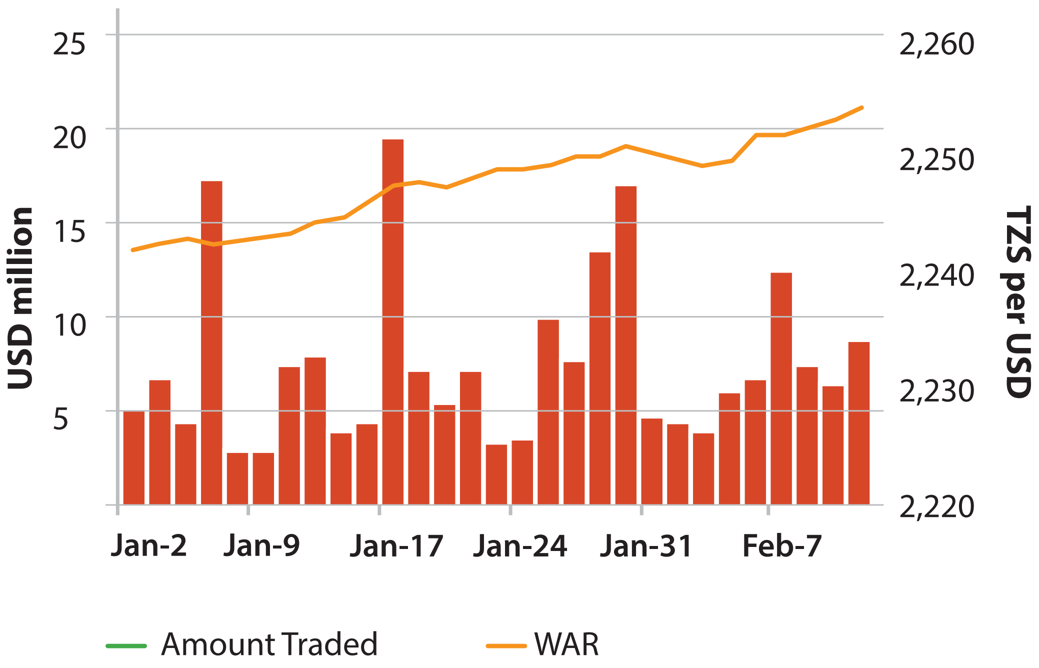
With volumes traded in the Interbank Foreign Exchange Market (IFEM) at seasonal low, the shilling has depreciated by about 0.55% since the start of the year 2018 to close at a weighted average rate of

USD/TZS

2,254.04

on 12th February, 2018 (Bank of Tanzania).

IFEM 2018



It is forecast that the shilling will continue with the downward trend in the medium term on the back of expected widening of current account deficit in the coming quarters as the Government implements the public infrastructure projects . However, given the size of the official reserves, the BOT will be in a position to intervene to support the currency.

Source: Bank of Tanzania

MONETARY DEVELOPMENTS

According to the Bank of Tanzania (BOT), money supply improved towards the end of the year growing at 8% in December up from 3.4% in 2016. This follows a significant growth in net foreign assets, particularly at the BOT, as a result of recent external debt disbursement to the Government. In addition, this is due to the BOT several interventions in the foreign exchange market to provide liquidity in line with its accommodative monetary policy stance that is aimed at supporting credit expansion to the private sector.

Following a period of deteriorating asset qualities, commercial banks have been reluctant to extend credit to the private sector. Despite a recovery in credit growth towards the end of the year 2017 closing at estimated 1.7%, this is still lower than 7.2% in December, 2016 (BOT Monthly Economic Reports).

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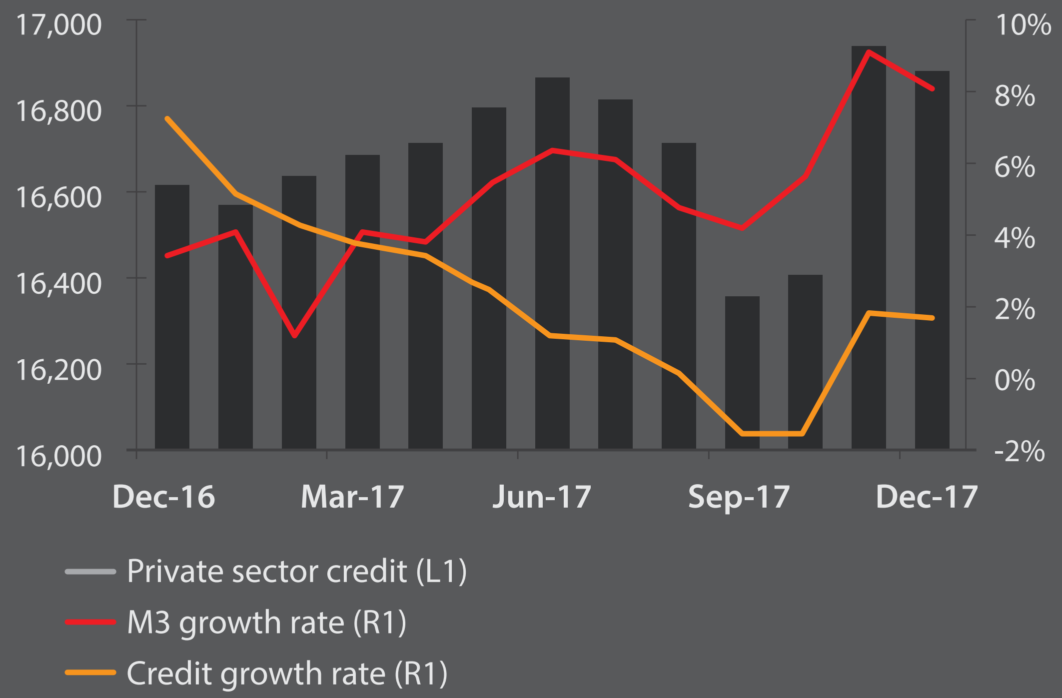
Monetary Developments



The slowdown follows a decline in credit extended to trading activities, which accounts for a about 20% of total credit to the private sector . However, personal loans, which has replaced trade loans accounting for the largest share of credit, continued to be resilient despite a slight slowdown. This possibly signals the move by commercial banks to consolidate their balance sheets focusing on retail loans, particularly salaried loans, amid prevailing poor asset qualities and tight profitability margins.

It is forecast that given the slowdown in credit to the private sector, economic growth in the coming quarters will be under pressure, particularly in private sector transport and communication, and trade activities.

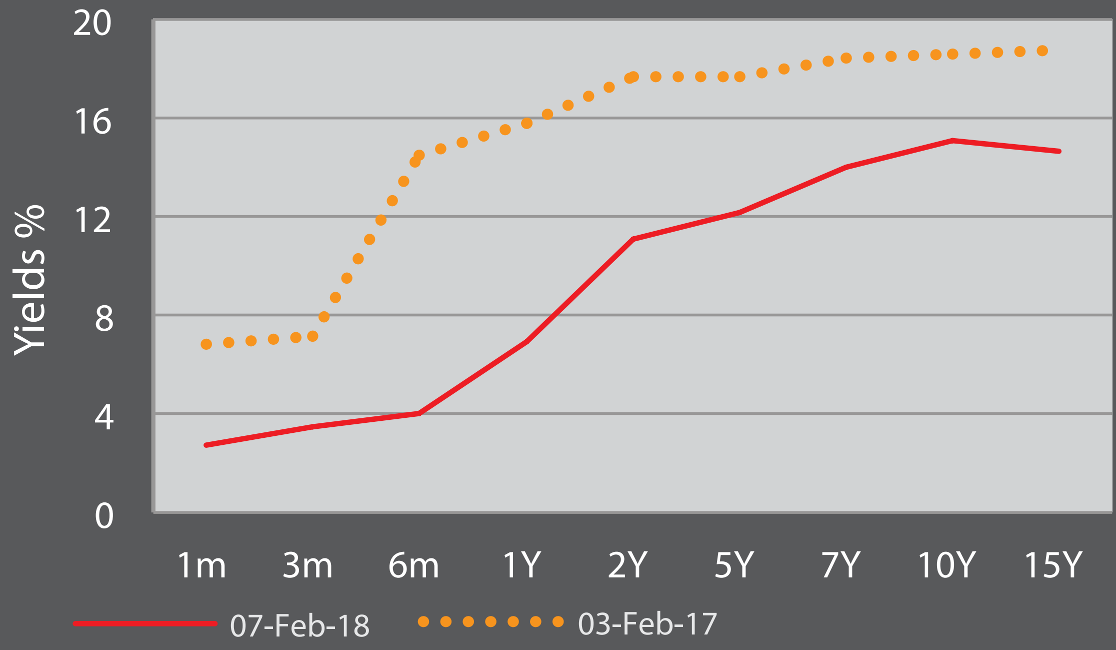
Source: Bank of Tanzania

commercial banks have increased their holdings of Government securities by 37.9% to about

TZS **5.59** trillion

Following the slowdown in credit extension to the private sector, commercial banks have been active in the Government securities market in order to insulate their balance sheets from poor asset qualities. According to the BOT, commercial banks have increased their holdings of Government securities by 37.9% to about TZS 5.59 trillion in the year ending December, 2017.

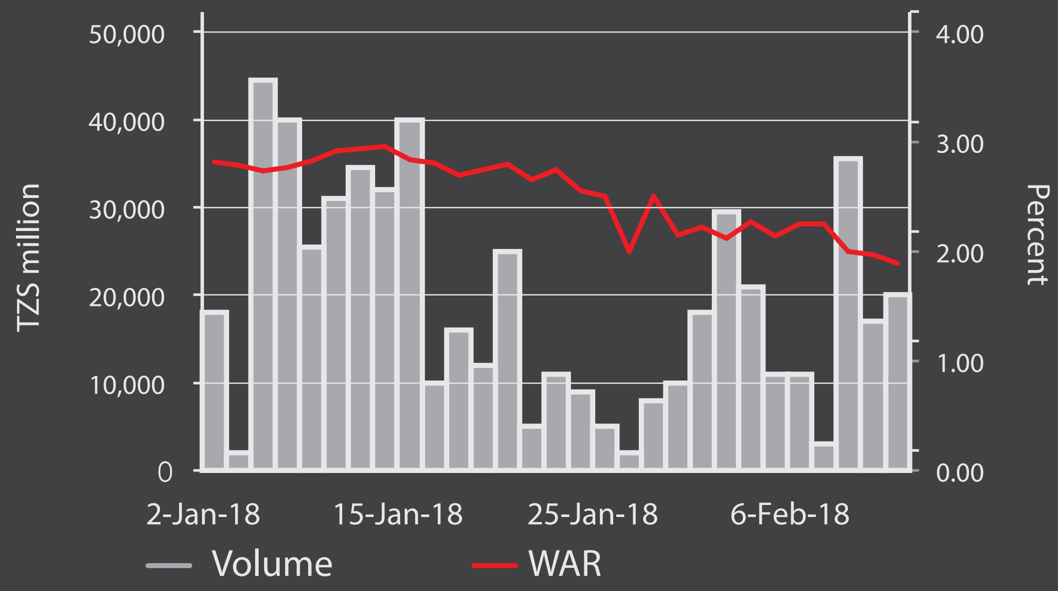
Government Securities Yields



Source: Bank of Tanzania **Note: m = month, Y = year**

The improved liquidity among commercial banks and tight competition on Government securities have seen the overnight interbank cash market rate continue with the downward trend to close the year 2017 at 2.77% with annual volume traded in the market reaching about TZS 2.9 trillion, down from about TZS 9.15 trillion in 2016. This indicates improved liquidity among commercial banks over the year.

Overnight Interbank Cash Market: 2018



Source: Bank of Tanzania

The BOT is moving toward interest-rate targeting framework which is the modern monetary policy framework. The Central Bank will use the overnight interbank cash market rate to influence money supply aiming at ensuring price stability and hence, sustainable economic growth.

The improved liquidity continued in the beginning of 2018 with the rate declining to 1.89% by 12th February, 2018, the lowest level in years despite large volumes traded indicating that the excess liquidity is concentrated among few banks while few also large banks are tapping into this liquidity in the market.

It is forecast that interest rates in the financial markets will continue with the downward trend in the short- to medium-term on the back of the expansionary monetary policy.

Annual volume traded in the market reaching about TZS **2.9** trillion,

DAR ES SALAAM STOCK EXCHANGE (DSE)

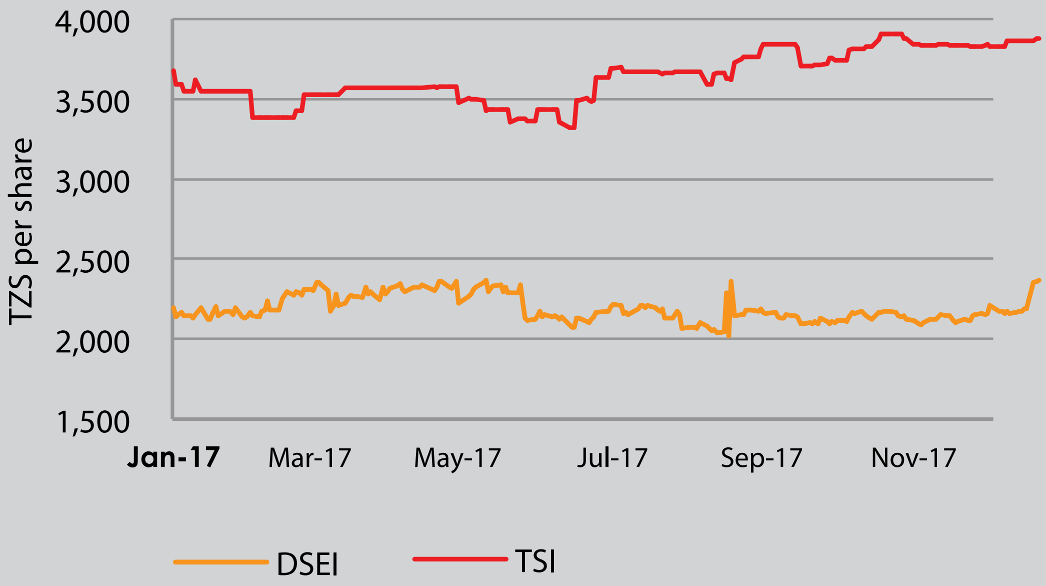
During the year 2017, as per DSE daily market reports, the domestic market capitalization of the Dar Es Salaam Stock Exchange (DSE) reached TZS 10.27 trillion, growing by over 30% over the period partly contributed by listing of Vodacom shares.

Over the period, the Tanzania Share Index (TSI) gained about 6.6% largely supported by the industrial sector.

Dar Es Salaam Stock Exchange (DSE) reached TZS 10.27 trillion, growing by over

30%

DSE Performance 2017



Source: Dar Es Salaam Stock Exchange

TBL and TCC contributed the most in terms of share price movements on the index gaining 17% and 46%, respectively.

CRDB and DSE share counters were the most active in the Banks, Finance and Investment Index (BI).

During period, activity in the market improved with about **237** **million**

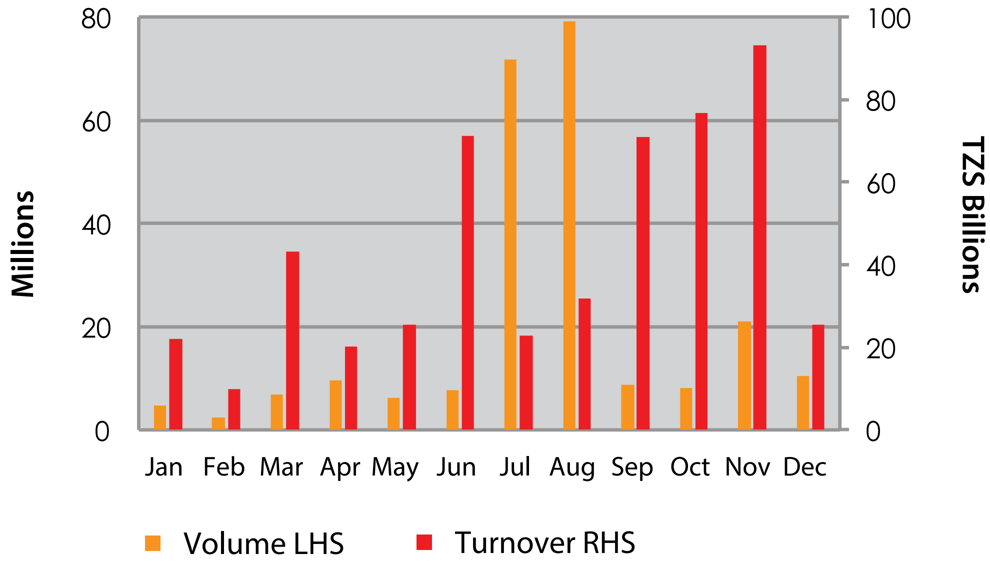
During period, activity in the market improved with about 237 million shares traded compared with about 193 million shares in 2016 with foreign investors dominating as per DSE daily market reports

According to DSE daily market reports, total turnover during the period amounted to about TZS 512 billion, up from about TZS 420 billion recorded in 2016. The total turnover was mainly contributed by TBL share counter.

The ongoing decline in yields in government securities provide better valuations to shares of companies listed on the DSE following estimated lower borrowing costs. This will continue to attract long-term investors, particularly foreign investors, towards those companies with strong fundamentals.

However, ongoing tight fiscal stance, declining business sentiment and changing consumer pattern might strain corporate profit margins leading to balance sheet consolidation through capital restructuring, asset disposals and scaling down of business operations in order to protect bottom lines.

DSE Market Performance 2017



Source: Dar Es Salaam Stock Exchange

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