

TANZANIA

Table 1	2022
Population, million	65.6
GDP, current US\$ billion	75.5
GDP per capita, current US\$	1151.4
International poverty rate (\$2.15) ^a	44.9
Lower middle-income poverty rate (\$3.65) ^a	74.3
Upper middle-income poverty rate (\$6.85) ^a	92.3
Gini index ^a	40.5
School enrollment, primary (% gross) ^b	97.2
Life expectancy at birth, years ^b	66.4
Total GHG emissions (mtCO ₂ e)	159.8

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2018), 2017 PPPs.
b/ WDI for School enrollment (2021); Life expectancy (2020).

Tanzania's economy has maintained its growth momentum, expanding by 4.6 percent in 2022, up from 4.3 percent in 2021. GDP per capita rose by 1.4 percent in 2022 and the international poverty rate dropped marginally by 0.3 percentage points. Headwinds from high commodity prices kept growth below potential, however. Sustaining the growth momentum hinges on the Government facilitating private sector investment that creates jobs. The economy continues to face headwind as result of ongoing Russia's invasion of Ukraine.

Key conditions and challenges

Tanzania's economy emerged from the pandemic in relatively good shape because of strong macroeconomic conditions: relatively low and stable inflation and manageable external and fiscal balances. However, the economic recovery has been relatively subdued due to strong headwinds associated with the war in Ukraine and the weak domestic business environment, which reduced private investment, including FDI. Tanzania's private sector has been challenged by a costly business regulatory environment, high taxes, weak infrastructure, and inadequate skills.

The elasticity of poverty reduction to growth has been very low, indicating the importance of policy measures to ensure growth benefits all households including the poor, for example through public spending on social sectors and rural infrastructure. Priority reforms should aim to strengthen the efficiency of public investment, strengthen debt management and data transparency, and augment fiscal space to increase investments in physical and human capital by enhancing public expenditure efficiency and domestic revenue mobilization. To enhance the impact of growth on poverty reduction, investing in human capital, raising smallholder agricultural productivity, and supporting the creation of good jobs by facilitating private sector investment through deregulation will be essential. Moreover, helping

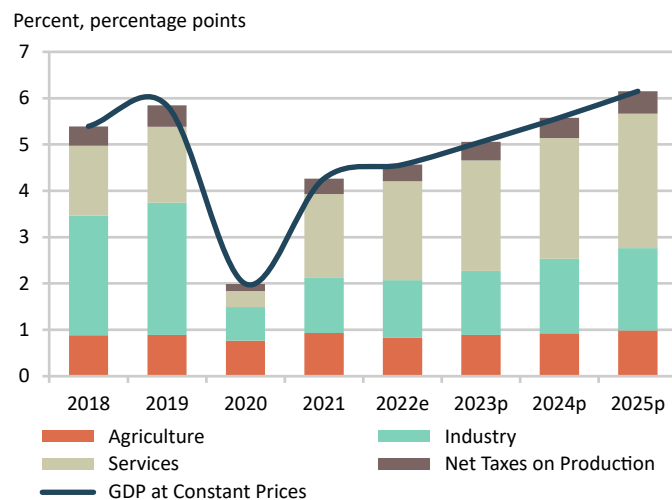
women access economic opportunities and assets such as land remains critical.

Recent developments

In 2022, Tanzania maintained its growth momentum, with estimated real GDP growth of 4.6 percent, up from 4.3 percent in 2021 but slightly lower than the authorities' forecast of 4.9 percent. Led by the services and industry sectors, the recovery remained broad-based as all subsectors surpassed their pre-pandemic production levels by Q3-2022. This is consistent with high frequency indicators including cement production, electricity generation, and tourist arrivals, all of which grew substantially in 2022. Shocks from global commodity markets and prolonged droughts pushed headline inflation up, averaging 4.3 percent in 2022 and reaching 4.9 percent (y/y) in January 2023. A combination of tight monetary policy stance and fuel subsidies have managed to keep inflation low relative to Tanzania's neighbors.

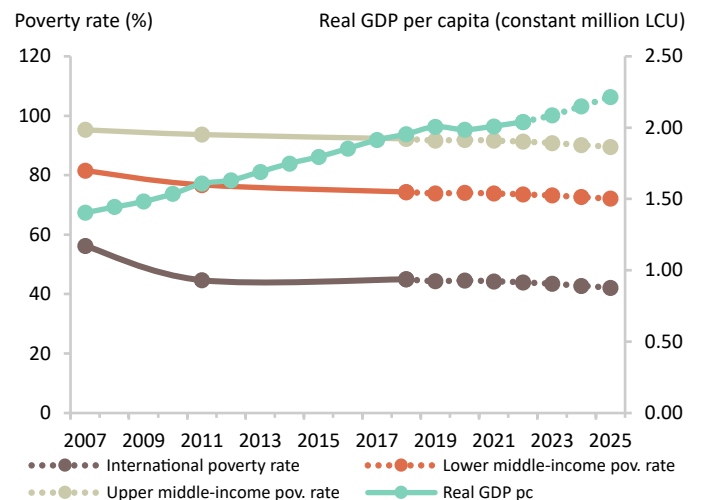
Global headwinds have challenged Tanzania's external sector. The current-account deficit widened to an estimated 5.6 percent of GDP in 2022, up from 3.2 percent of GDP in 2021, as higher food and fuel prices meant the import bill grew faster than exports earnings. The current account deficit has been funded mainly by external loans and foreign reserves. Gross official liquid reserves of the BOT declined by US\$ 1.2 billion over the past one year reaching US\$ 5.2 billion at end-2022 (equivalent to 4.7 months of imports). The Tanzanian Shilling has remained relatively

FIGURE 1 Tanzania / Real GDP growth and sectoral contributions to real GDP growth



Source: World Bank staff estimates and projections.

FIGURE 2 Tanzania / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

stable against the currencies of major trading partners.

During FY2021/22, the overall fiscal deficit narrowed to 3.6 percent of GDP, down from 4.0 percent of GDP in FY2020/21. This performance was due to a combination of higher tax revenue collections and expenditure restraint notwithstanding the implementation of fuel and fertilizer subsidy programs. Both external and domestic loans remained almost equally important for financing the deficit (on net basis). According to the latest debt sustainability analysis, Tanzania's public and publicly guaranteed debt as a share of GDP remains relatively modest at 42.1 percent of GDP as of FY2022/23. The latest DSA indicates that Tanzania's risk of external debt distress remains moderate.

Only a minor reduction in the poverty rate is anticipated in 2022. The international poverty rate for mainland Tanzania is projected to drop from 44.3 in 2021 to 44.0 percent in 2022, about 0.3 percentage points below pre-pandemic levels.

Outlook

GDP growth is projected to reach 5.1 percent in 2023 – about 2.2 percent per capita – as investment increases and external terms of trade improve. However, Tanzania is only projected to reach its potential growth rate of 6 percent in 2025. The current account is projected at 6.1 percent of GDP in 2023 as import demand to support public investment remains elevated. Driven by increased revenue collection from expanding economic activities, the fiscal deficit is projected to narrow marginally to 3.0 percent of GDP in 2023. However, this hides a large quantity of VAT refunds and domestic payment arrears that remain outstanding and are estimated at 3-4 percent of GDP end 2022. Addressing this key issue further to the strategy the authorities put forward will be critical to fiscal management.

A deterioration of the external environment and the slow pace of implementation of domestic policies are the major risks to the macroeconomic outlook, with real GDP growth ranging between 4.5–5.5 percent in 2023 under alternative scenarios (1.6 to 2.6 percent per capita). Supply shocks and commodity-price pressures associated with the war in Ukraine and a slow recovery of global demand coupled with tightening external financial conditions are major downside risks. Domestic risks include slow or incomplete implementation of structural reforms particularly related to key issues such as private sector and gender as well as climate change effects on the agriculture and tourism sectors.

In 2023 poverty is expected to drop by 0.6 percentage points based on a GDP per capita growth rate of 2.2 percent and the average poverty to growth elasticity for Sub-Saharan Africa. A new nationwide integrated household budget survey will be conducted in 2023/24 which will enable an update of the official poverty rate.

TABLE 2 Tanzania / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022e	2023f	2024f	2025f
Real GDP growth, at constant market prices	2.0	4.3	4.6	5.1	5.6	6.2
Private Consumption	0.9	2.3	4.8	3.8	3.2	3.4
Government Consumption	7.4	9.0	8.4	6.2	4.6	7.3
Gross Fixed Capital Investment	2.4	7.8	9.3	6.8	4.8	7.0
Exports, Goods and Services	-8.6	5.2	10.2	12.3	11.5	8.9
Imports, Goods and Services	-7.6	9.6	23.7	11.5	1.9	3.6
Real GDP growth, at constant factor prices	2.0	4.3	4.5	5.0	5.6	6.2
Agriculture	3.1	3.7	3.3	3.6	3.8	4.1
Industry	2.5	4.1	4.3	4.8	5.6	6.2
Services	0.9	4.8	5.5	6.1	6.8	7.5
Inflation (Consumer Price Index)	3.3	3.7	4.3	5.2	4.5	3.9
Current Account Balance (% of GDP)	-2.5	-3.2	-5.6	-6.1	-4.8	-4.1
Net Foreign Direct Investment Inflow (% of GDP)	1.4	1.6	1.8	2.1	2.4	2.7
Fiscal Balance (% of GDP)	-2.9	-3.8	-3.5	-3.1	-2.7	-2.2
Revenues (% of GDP)	14.3	14.5	15.6	16.1	16.1	16.6
Debt (% of GDP)	39.3	42.0	42.2	42.1	41.9	41.3
Primary Balance (% of GDP)	-1.3	-2.1	-1.8	-1.4	-1.1	-0.7
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	44.6	44.3	44.0	43.4	42.8	42.1
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	74.1	73.8	73.6	73.2	72.7	72.2
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	91.9	91.7	91.3	90.8	90.2	89.6
GHG emissions growth (mtCO₂e)	0.8	0.8	1.5	1.9	1.7	1.6
Energy related GHG emissions (% of total)	10.0	9.4	9.4	9.7	9.8	9.9

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast.

a/ Calculations based on 2013- and 2018-HBS. Actual data: 2018. Nowcast: 2019-2022. Forecasts are from 2023 to 2025.

b/ Projection using point to point elasticity at regional level with pass-through = 0.7 based on GDP per capita in constant LCU.