

TANZANIA

Key conditions and challenges

Table 1 2020

Population, million	59.7
GDP, current US\$ billion	61.8
GDP per capita, current US\$	1035.6
International poverty rate (\$ 1.9) ^a	49.4
Lower middle-income poverty rate (\$3.2) ^a	76.8
Upper middle-income poverty rate (\$5.5) ^a	91.8
Gini index ^a	40.5
School enrollment, primary (% gross) ^b	98.8
Life expectancy at birth, years ^b	65.0

Source: WDI, Macro Poverty Outlook, and official data.
Notes:
(a) Most recent value (2018), 2011 PPPs.
(b) WDI for school enrollment (2019); life expectancy (2018).

Shocks from the global pandemic slowed Tanzania's growth to 2.0 percent in 2020. Tanzania's growth outlook is highly uncertain with risks tilted to downside. The major risks are primarily external, though delayed policy response and reform slippages could negatively impact the recovery. The international poverty headcount ratio is estimated to have increased by 1.2 percentage points to 50.5 percent in 2020. The pandemic has underscored the need to accelerate inclusive private investment-driven growth for achieving Tanzania's development vision.

Tanzania became a lower middle-income country (LMIC) in July 2020 thanks to the solid income growth over two decades, averaging 6.5 percent per year, and macroeconomic stability. Inflation rates have been low, and fiscal and current-account deficits have remained manageable. Investment has been a key driver of growth, consistently contributing two-thirds to it. About three quarters of total investment was from private sources, but lately this ratio has shifted with waning extractives FDI and a more challenging business environment.

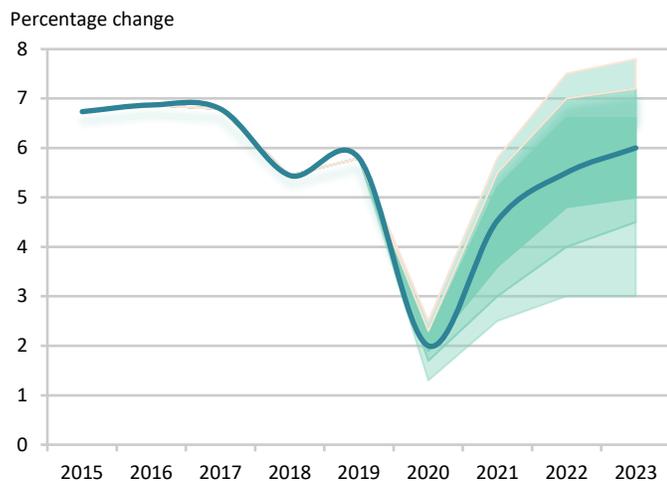
Poverty response to rapid economic growth was moderate and has slowed in recent years, and growth became less inclusive. Half of Tanzanians live below the international extreme poverty line of US\$1.90/day in 2011 PPP as compared to 30 percent average for the first-year LMICs. Since 2012, income and consumption growth among the wealthiest households has outpaced growth among the poorest. High population growth, insufficient level of education, low agricultural productivity, and slow and uneven creation of more productive income earning opportunities have hindered the inclusiveness of growth. The COVID-19 pandemic has further exacerbated existing challenges, reversing some of the gains in poverty reduction achieved over the last decade.

National aspirations laid out in the Tanzania Development Vision 2025 are to become a middle-income country with well-developed human capital, an ample supply of high-quality livelihood opportunities, and broad-based gains in living standards. Realizing the vision will require concerted efforts to restore the economy's growth momentum while expanding access to economic opportunities for low-income households. Policy priorities include accelerating productive investments, prioritizing human capital development, enabling agricultural transformation, leveraging digital technologies, and building public sector institutions and capabilities. As the pandemic continues to depress global economic activity, Tanzania will need to endure a slump in external demand regardless of the effectiveness of its domestic health response.

Recent developments

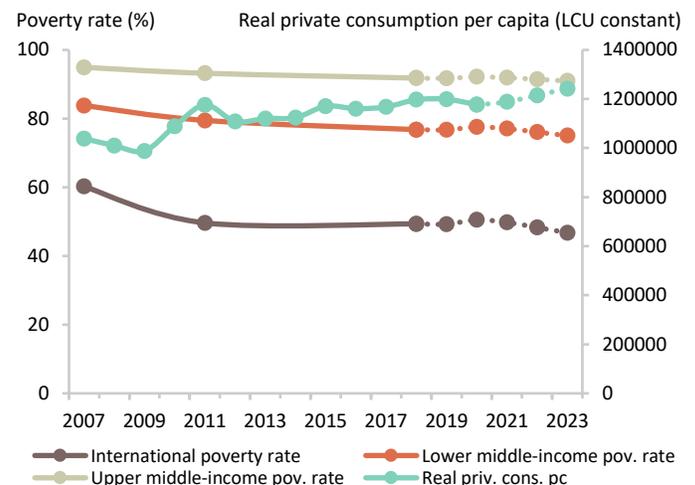
Although Tanzania avoided a recession in 2020, real GDP growth decelerated to an estimated 2.0 percent from 5.8 percent in 2019. Tourism, a major contributor to GDP growth, declined significantly despite the country reopening for tourism in June, and exports of tourism-related services fell by 44.4 percent in 2020. Private sector credit growth plunged to 3 percent in December 2020 from 11.1 percent a year earlier. Imports of capital goods dropped by 14.8 percent in 2020 due to diminished orders for construction materials and machinery. Demand

FIGURE 1 Tanzania / Real GDP growth rate forecasts under alternative scenarios



Source: WB staff estimates based on NBS data.

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



Source: World Bank. Notes: see Table 2.

for durable goods weakened significantly, and imports of services declined on the back of lower demand for travel and transportation. The current-account deficit narrowed to an estimated 1.6 percent of GDP in 2020 due to the offsetting effects of the pandemic-induced shocks on Tanzania's balance of payments. Higher gold prices partially alleviated the decline in other exports and falling oil prices reduced the import bill. Official gross reserves dropped by 20 percent to US\$4.8 billion but remained at a relatively healthy level of 5.6 months of projected imports. Tanzania's policy response to COVID-19 in the first half of 2020 was moderate and relatively short-lived. In the context of low inflation and slowing economic activities, the Bank of Tanzania pursued an accommodative monetary policy to boost liquidity in the financial sector. However, average commercial lending rates declined only marginally. Fiscal policy response included expediting clearance of domestic arrears and expanding the coverage of social security schemes. In the wake of spending pressure and declining revenues, the government has tightened control over expenditures. Real per capita GDP declined for the first time in over 25 years. The poverty rate based on the international extreme poverty line is estimated to rise from 49.3

percent in 2019 to 50.5 percent in 2020. The most affected households are those relying on self-employment and informal microenterprises in urban areas.

Outlook

Tanzania's real GDP growth rate is projected to rebound to 4.5 percent in 2021 conditional on successful global rollout of a COVID-19 vaccine and improvement in the business environment and prudent fiscal management to foster a swift recovery. The global economic recovery is expected to bolster demand for Tanzanian exports and financing of the infrastructure projects. The current account is expected to improve but remain at about 1.5 percent of GDP, as the growth of capital-goods imports will outpace export growth. The financing of capital projects is expected to widen the fiscal deficit to about 2.9 percent of GDP, while recurrent expenditures are expected to remain controlled.

The current outlook is highly uncertain with risks are tilted to the downside. GDP is projected to grow by between 3.0 and 5.3 percent in 2021, below its long-run potential growth rate of about 6 percent. Even without an uncontrolled domestic

outbreak, an ongoing global health crisis would continue to undermine external demand, especially for tourism. A persistently weak global economy would also limit the availability of capital inflows, including to private and financial sectors. The international poverty rate is projected to fall to 49.8 percent in 2021 but remain above the pre-crisis level. To sustainably reduce poverty, the recovery must create jobs, including for the low-skilled workers, enable growth of small and medium enterprises, and foster productivity of agriculture, on which three-quarters of poor households depend. To bolster household consumption and accelerate poverty reduction, the government must further strengthen the implementation of social assistance programs such as Productive Social Safety Nets Program and ensure adequate coverage in urban areas. The government will need to maintain prudent macroeconomic and fiscal management to ensure that adequate fiscal space is available to finance major investments in physical, human, and institutional capital.

TABLE 2 Tanzania / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	5.4	5.8	2.0	4.5	5.5	6.0
Private Consumption	5.6	3.1	1.0	3.3	3.8	4.1
Government Consumption	2.0	2.3	7.4	8.1	8.0	7.8
Gross Fixed Capital Investment	7.7	8.0	2.4	4.2	9.5	10.0
Exports, Goods and Services	-1.7	19.0	-8.6	8.2	8.5	8.7
Imports, Goods and Services	16.7	-1.4	-7.6	5.1	14.2	13.3
Real GDP growth, at constant factor prices	5.4	5.8	2.0	4.5	5.5	6.0
Agriculture	3.4	3.5	3.1	3.6	3.5	3.5
Industry	9.7	10.3	2.5	7.4	8.2	9.4
Services	3.8	4.2	0.9	2.9	4.6	4.7
Inflation (Consumer Price Index)	3.5	3.5	3.4	3.5	3.7	4.0
Current Account Balance (% of GDP)	-3.7	-2.3	-1.6	-1.5	-2.4	-3.3
Net Foreign Direct Investment (% of GDP)	1.7	1.6	1.0	1.2	1.4	1.6
Fiscal Balance (% of GDP)	-2.5	-1.4	-2.0	-2.9	-3.2	-3.5
Debt (% of GDP)	39.7	38.1	38.1	37.3	36.9	36.5
Primary Balance (% of GDP)	-0.9	0.4	0.2	-0.8	-1.0	-1.2
International poverty rate (\$1.9 in 2011 PPP)^{a,b}	49.4	49.3	50.5	49.8	48.3	46.8
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{a,b}	76.8	76.7	77.6	77.1	76.1	75.0
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{a,b}	91.8	91.8	92.2	92.0	91.5	91.0

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.
Notes: e = estimate, f = forecast.

(a) Calculations based on 2007-HBS and 2018-HBS. Actual data: 2018. Nowcast: 2019-2020. Forecast are from 2021 to 2023.

(b) Projection using annualized elasticity (2007-2018) with pass-through = 1 based on private consumption per capita in constant LCU.