

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	66.2
Total GHG emissions (mtCO2e)	159.8

Source: WDI, Macro Poverty Outlook, and official data.

a/ Most recent value (2018), 2017 PPPs.

b/ Most recent WDI value (2021).

In 2023, Tanzania has maintained its economic momentum. High-frequency indicators suggest that GDP growth has already reached its pre-pandemic levels, 5.1 percent in 2023 (annual estimate). In the medium-term, with transformative reforms aimed at improving business environment, boosting private sector investment, and creating jobs, a 6 percent growth rate can be reached. Risks to the country's macroeconomic outlook include the incomplete implementation of these reforms, global economic slowdown, protracted war in Ukraine, and increased commodity price volatilities.

Key conditions and challenges

Tanzania has adequate opportunities to accelerate its transition to a successful middle-income status. With relatively limited impact of external shocks, including Covid-19 pandemic and the war in Ukraine, and moderate risk of debt distress, the country continues to hold sufficient fiscal space to implement its development programs. Although official gross reserves have declined, they remain adequate. To lay the foundation for robust, inclusive, and sustainable long-term growth, the government should seize the opportunity to implement more ambitious human capital investments and structural reforms to improve business environment for private investment, including FDI. Tanzania's private sector has been challenged by a costly business regulatory environment, high taxes, weak infrastructure, and inadequate skills.

To reduce high and persistent rates of poverty in the country, significant increase in public spending on social services and infrastructure is required, especially in rural areas. Priority reforms should aim to strengthen the macroeconomic stability (including exchange rate), efficiency of public investment, debt management, 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

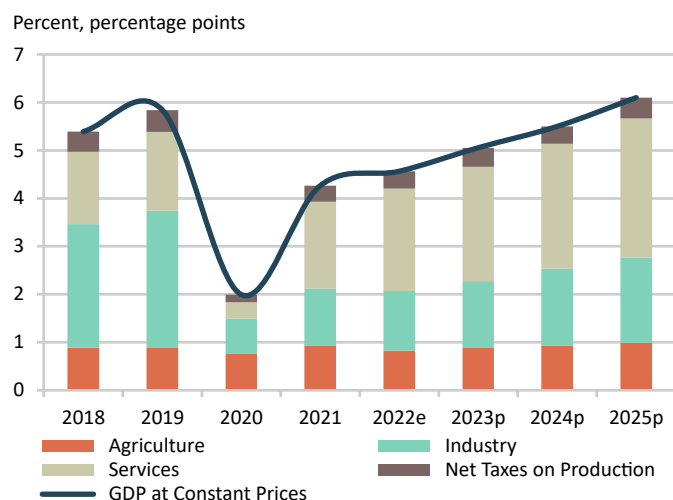
by facilitating private sector investment through regulatory environment streamlining will be essential. Moreover, helping women access economic opportunities and assets such as land remains critical.

Recent developments

Following the COVID-19 pandemic and facing the headwind of the war in Ukraine and its global economic impact, Tanzania's economic growth rate rose to 4.6 percent in 2022, up from 4.3 percent in 2021. This moderate rebound was driven by the services sector led by trade, transportation, tourism, and financial services which accounted for half of GDP growth. High-frequency indicators including cement production, electricity generation, and tourist arrivals indicate economic activity remained robust during the H1 2023. The tightening of liquidity in the financial system and subsidies for fuel and fertilizer helped to contain inflationary pressures. Headline inflation stood at 3.3 percent in July 2023, well below Tanzania's neighbors.

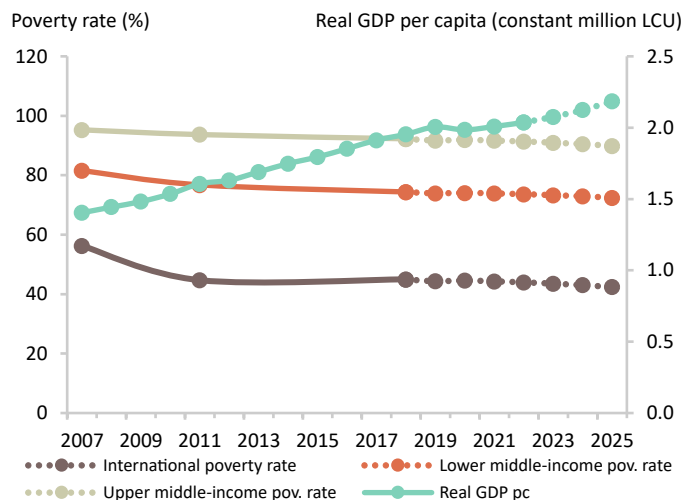
Despite a robust growth in exports, the stronger growth of imports pushed up by domestic demand compounded with rising international commodity prices widened the current-account deficit to 5.6 percent of GDP in 2022. The Bank of Tanzania has relied on foreign exchange sales in response to the balance of payment pressure. As a result, official gross foreign reserve fell to US\$5.3 billion (covering 4.8 months of imports) by end of June 2023

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



Source: World Bank staff estimates and projections (2018-2025).

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



Source: World Bank. Notes: see Table 2.

from US\$6.4 billion (6.6 months of imports) at the end of 2021. Although the Tanzanian shilling remained relatively stable against the US dollar in 2022, in 2023 pressure on the shilling has increased and there are signs of emergence of parallel exchange market.

Despite broadly stable public revenue collection, an increase in overall expenditures widened fiscal deficit from 3.6 percent of GDP in FY2021/22 to 4.4 percent in FY2022/23. Domestic borrowing, mainly from bank and non-bank sources, covered almost 60 percent of the fiscal deficit. According to the latest Debt Sustainability Analysis (DSA) Tanzania's Public and Publicly Guaranteed debt stock stood at 43.8 percent of GDP by end-June 2022, compared to 41.3 percent by end-June 2021. The DSA shows Tanzania's risk of debt distress remains moderate.

The rate of poverty reduction, which notably decelerated in the 2010s, is expected to continue its slow pace into the 2020s. In 2022, extreme poverty was at 44 percent, and it's projected to decline marginally to 43 percent in 2023 and 2024, further dropping to 42 percent in 2025. Considering the

country's rapid population growth, the absolute number of individuals living in extreme poverty is expected to rise from 26 million in 2018 to over 30 million by 2025. At the lower middle-income poverty line, the count is likely to increase from 44 million in 2018 to 52 million by 2025.

Outlook

GDP is projected to grow at 5.1 percent in 2023 and 6.1 percent by 2025, close to its long-run potential, supported by increasing domestic demand and exports as reforms to improve business climate are implemented successfully. The current account deficit is projected to narrow to 5.1 percent of GDP in 2023 as exports are expected to grow faster than imports, partly due to a combination of easing commodity prices and strong rebound in tourism. The current account deficit is expected to be financed by external loans and increasing FDI. The fiscal deficit is projected to decline further to about 2 percent of GDP in 2024/25, well below the 3 percent of GDP

ceiling posed by the convergence criterion of the East African Community, as improved business environment strengthens domestic revenue mobilization and public expenditures stabilize. The narrowing fiscal deficit is expected to be financed by both external and domestic loans.

Tanzania's macroeconomic outlook face downside risks, which could suppress GDP growth by 1-2 percentage points if one of those risks materialize. A global slowdown, protracted war in Ukraine, and increased commodity price volatilities are among major downside external 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.

The poverty rate will likely follow a consistent downward trend. Projections suggest a decline of 1.3 percentage points, from 43.4 percent in 2023 to 42.1 percent in 2025. This trajectory is underpinned by robust growth prospects, that will likely propel the country's GDP growth to pre-pandemic levels by 2025.

TABLE 2 Tanzania / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2020	2021	2022	2023e	2024f	2025f
Real GDP growth, at constant market prices	2.0	4.3	4.6	5.1	5.5	6.1
Private consumption	0.9	2.3	4.8	2.2	3.3	3.3
Government consumption	7.4	9.0	8.4	10.7	6.2	11.3
Gross fixed capital investment	2.4	7.8	9.3	5.3	5.4	5.3
Exports, goods and services	-8.6	5.2	10.2	13.8	10.4	10.2
Imports, goods and services	-7.6	9.6	23.7	6.8	4.2	3.6
Real GDP growth, at constant factor prices	2.0	4.3	4.6	5.1	5.5	6.1
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	5.6	6.3	6.4	7.2
Inflation (consumer price index)	3.3	3.7	4.3	4.2	4.1	3.9
Current account balance (% of GDP)	-2.5	-3.2	-5.6	-5.1	-4.4	-3.5
Net foreign direct investment inflow (% of GDP)	1.4	1.6	1.8	2.1	2.6	2.9
Fiscal balance (% of GDP)	-2.9	-3.8	-3.5	-4.0	-3.4	-2.9
Revenues (% of GDP)	14.3	14.5	15.6	15.9	16.4	16.9
Debt (% of GDP)	39.3	42.0	42.2	43.2	42.7	42.2
Primary balance (% of GDP)	-1.3	-2.1	-1.8	-2.3	-1.8	-1.3
International poverty rate (\$2.15 in 2017 PPP)^{a,b}	44.6	44.3	44.0	43.5	43.0	42.4
Lower middle-income poverty rate (\$3.65 in 2017 PPP)^{a,b}	74.1	73.9	73.6	73.3	72.9	72.4
Upper middle-income poverty rate (\$6.85 in 2017 PPP)^{a,b}	91.9	91.7	91.4	90.9	90.5	89.9
GHG emissions growth (mtCO₂e)	1.9	-0.4	1.5	2.3	1.4	1.5
Energy related GHG emissions (% of total)	11.0	9.3	9.4	10.2	10.1	10.1

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.