

# TANZANIA

## Recent developments

**Table 1** 2019

Population, million	58.0
GDP, current US\$ billion	60.4
GDP per capita, current US\$	1041.4
International poverty rate (\$ 1.9) <sup>a</sup>	49.4
Lower middle-income poverty rate (\$3.2) <sup>a</sup>	76.8
Upper middle-income poverty rate (\$5.5) <sup>a</sup>	91.8
Gini index <sup>a</sup>	40.5
School enrollment, primary (% gross) <sup>b</sup>	94.2
Life expectancy at birth, years <sup>b</sup>	65.0

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

Notes:

(a) Most recent value (2018), 2011 PPPs.

(b) Most recent WDI value (2018).

*Tanzania's solid macroeconomic performance during the past six years is being put to the test by the COVID-19 pandemic. GDP growth is projected to decelerate from an estimated 5.8 percent in 2019 to 2.5 percent in 2020 with an expected rebound near 6 percent over the medium-term. Estimates using the international poverty line show the poverty rate increasing from 49.6 percent in 2019 to 50.5 percent in 2020, with modest reduction in poverty incidence expected over the medium term.*

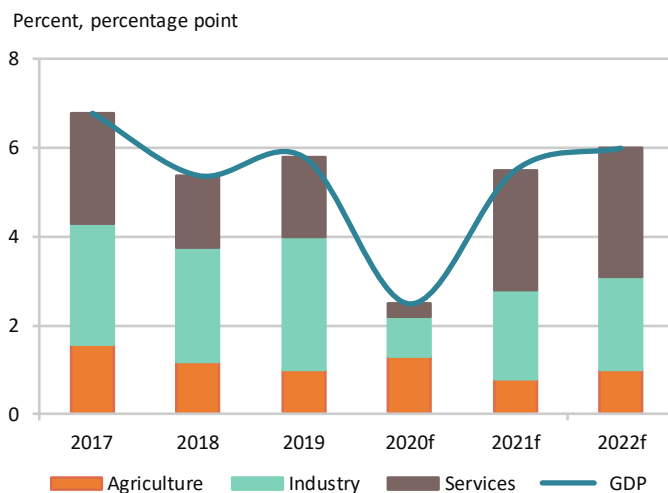
Tanzania has experienced only 509 cases of COVID-19 as of May 11 (latest data) but the country has not been immune to the global pandemic. GDP growth is expected to slow to 2.5 percent in 2020. Tourism, a major contributor to GDP growth, has declined significantly despite the country reopening for tourism in June and is expected to underperform during the peak season of July–October. Leading indicators of private domestic demand show a deceleration. Domestic credit growth has slowed to 6.9 percent in January–June 2020 from 8.9 percent in the first half of 2019. Imports of capital goods, a major component of private investment, declined by about 24 percent y/y in the second quarter of 2020. Business expectations for sales and employment for the next six months are pessimistic. Political uncertainty surrounding general elections may also be contributing to a delay private investment this year.

The pandemic's disruption of global markets is having offsetting effects on Tanzania's balance of payments, with the net effect being an expected narrowing of current account deficit to 2.3 percent of GDP. Exports of travel services plunged to US\$46.2 million during the second quarter of 2020 from US\$511.5 million a year earlier. Higher gold prices have alleviated the loss in exports of manufactured goods and services, and the decline in oil prices has reduced the import bill. Meanwhile, problems at the borders are

reducing both transit trade and Tanzania's imports and exports of goods to neighboring countries. International reserves have remained at relatively high levels of US\$5.2 billion as of June 2020 (covering 6 months of projected imports). The government ended 2019/20 with overall fiscal deficit estimated at 1.5 percent of GDP. This is a significant improvement over 2018/19, although fiscal management continues to suffer from a high level of domestic arrears and under-execution of capital budget. Although the pandemic contributed to lower tax collection in April and May—targets were missed by 17 and 25 percent, respectively—the strong performance during the previous quarters have fully attenuated this decline. Public investment has remained high, at 6.4 percent of GDP in 2019/20 due to the development of flagship projects although capital budget was under-executed by 25 percent. Public spending is expected to continue growing strongly in the remainder of calendar year 2020 as the election nears. To provide support to business during the pandemic, Government has accelerated clearance of domestic payment and VAT refund arrears. Public debt remains under 40 percent of GDP, and the risk of debt distress remains low.

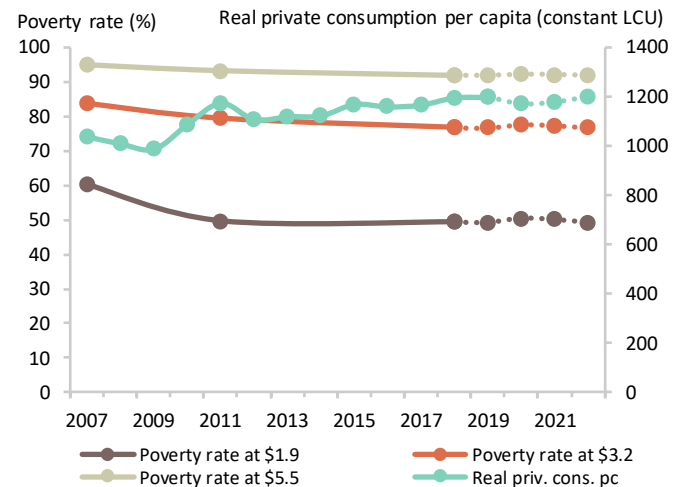
Inflation has been low and stable and reached 3.2 percent in June 2020. The Bank of Tanzania (BoT) has pursued an accommodative monetary policy to boost liquidity in the financial sector. BoT reduced the discount rate by 200 basis points in May 2020 and the minimum reserve requirement ratio, and it has encouraged financial institutions to consider loans restructuring.

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



Sources: The source is National Bureau of Statistics and World Bank staff estimates.

**FIGURE 2 Tanzania** / Actual and projected poverty along international poverty lines and real private consumption per capita



Source: World Bank. Notes: see Table 2.

In consequence, commercial interest lending rates have declined from 16.9 percent on average in 2019 to 16.5 percent as of June 2020.

Estimates suggest poverty barely changed as GDP growth mainly benefits the non-poor. Based on the national poverty line of PPP US\$1.35/capita, poverty dropped by 0.2 percentage points to 26.2 percent in 2019. As population size continues to increase, the number of poor is expected to have risen by about 300,000 between 2018 and 2019.

A phone survey conducted in July 2020 among 1000 small and medium sized firms suggests that around 8 percent of workers have lost their job. With one quarter of the poor relying on the non-farm sector for their income, poverty is likely to increase by 1–2 percent in 2020.

## Outlook

Over the medium term, GDP growth is expected to rebound to 5.5 percent in 2021 and converge to 6 percent thereafter, assuming a vaccine becomes available in 2021 and health systems in most countries are adequately resourced, and the global economy starts recovering, albeit sluggishly. The main sources of the recovery

are a rebound in exports, in particular of services such as a tourism, higher private investment and accelerated public spending in flagship projects. The current account deficit is expected to widen to 4 percent of GDP over the medium term as the growth in capital imports for infrastructure investment outpaces export growth. An overall fiscal deficit is projected to widen to 2.6 percent of GDP in 2020/21 and to over 3 percent of GDP over the medium term as capital expenditures continue rising and recurrent expenditures remaining controlled.

In 2020, an additional 1.6 million people are expected to live below the international poverty line of PPP US\$ 1.9 per day, compared to 2019. The international poverty rate is expected to rise to 50.4 percent in 2020 and is projected to drop marginally over the medium-term, with the number of poor increasing by around 600,000 per year.

## Risks and challenges

The current outlook is highly uncertain, and risks are tilted to the downside. A protracted global health crisis that continues in 2021 could undermine global demand and thus the Tanzanian economy.

Even if the global health crisis is contained, additional trade and logistics restrictions could continue disrupting global trade during the recovery. Moreover, the absence of a sequential program to support the recovery phase could delay the expected rebound of the economy, affecting investors and consumers expectations, and thus hindering new investment projects. A full recovery in 2021–2022 requires government attention to reforms to improve the business environment as a key input to bolster recovery of the private sector.

Unless growth per capita is substantial and benefits poor population groups, the poverty rate will remain unchanged and the number of poor people will rise due to high population growth. Increase in agricultural output benefiting smallholders, as well as improved coverage and targeting of existing social productive transfer programs will be important to substantially reduce poverty. Support to small enterprises affected by the economic downturn is needed to maintain and expand livelihoods that depend on them.

**TABLE 2 Tanzania / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
<b>Real GDP growth, at constant market prices</b>	6.8	5.4	5.8	2.5	5.5	6.0
Private Consumption	3.7	5.6	3.1	1.1	4.0	5.2
Government Consumption	1.1	2.0	2.3	9.7	6.3	8.3
Gross Fixed Capital Investment	15.8	7.7	8.0	3.0	7.9	6.7
Exports, Goods and Services	-4.1	-1.7	19.0	-10.5	7.0	6.0
Imports, Goods and Services	-7.1	16.7	-1.4	-8.0	8.5	7.0
<b>Real GDP growth, at constant factor prices</b>	7.0	5.4	5.8	2.5	5.5	6.0
Agriculture	5.9	3.4	3.5	3.4	3.7	3.8
Industry	10.6	9.7	10.3	4.5	9.1	9.5
Services	5.3	3.8	4.2	0.5	3.8	4.6
<b>Inflation (Consumer Price Index)</b>	5.3	3.5	3.5	3.5	3.5	3.5
<b>Current Account Balance (% of GDP)</b>	-3.4	-3.3	-1.9	-2.2	-1.1	-1.1
<b>Net Foreign Direct Investment (% of GDP)</b>	1.8	1.7	1.6	0.7	1.2	1.5
<b>Fiscal Balance (% of GDP)</b>	-1.3	-2.5	-2.5	-1.5	-2.5	-2.1
<b>Debt (% of GDP)</b>	28.3	28.0	27.3	25.4	25.4	25.5
<b>Primary Balance (% of GDP)</b>	0.2	-0.9	-0.6	0.1	-0.8	-0.6
<b>International poverty rate (\$1.9 in 2011 PPP)<sup>a,b</sup></b>		49.4	49.3	50.4	50.1	49.3
<b>Lower middle-income poverty rate (\$3.2 in 2011 PPP)<sup>a,b</sup></b>		76.8	76.8	77.5	77.3	76.7
<b>Upper middle-income poverty rate (\$5.5 in 2011 PPP)<sup>a,b</sup></b>		91.8	91.8	92.1	92.1	91.8

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate. f = forecast.

(a) Calculations based on 2018-HBS. Actual data: 2018. Nowcast: 2019. Forecast are from 2020 to 2022.

(b) Projection using neutral distribution (2018) with pass-through = 0.87 based on private consumption per capita in constant LCU.