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TANZANIA ECONOMIC UPDATE - 2023

In the midst of a challenging global economic landscape, it's important to take a closer look at Tanzania's economic resilience. Despite the prevailing headwinds, Tanzania's economy managed to maintain a relatively robust performance. In 2023, the world witnessed a significant slowdown in global growth due to ongoing monetary tightening, which led to constraints in credit supply. Simultaneously, inflationary pressures remained a dominant force across many regions, with headline inflation rates consistently surpassing policy targets in most inflation-targeting economies. This stubbornly high inflation triggered a cascade of effects, including increased borrowing costs, stricter credit conditions, and heightened financial stress.

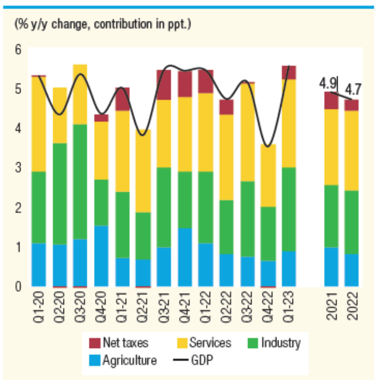
Within this global context, Tanzania emerged as a beacon of economic stability. With a GDP growth rate reaching 4.6 per cent in 2022, the country was poised for further growth in 2023, with expectations of a 5.1 per cent increase. This growth can be attributed to various factors, including an increasingly favorable business climate and the strategic implementation of structural reforms. Despite the global challenges of soaring food and fuel prices, Tanzania's headline inflation rate remained on a moderate trajectory, closely aligning with the central bank's targets, even as the pressures from elevated global food and fuel prices persisted.

To gain a comprehensive understanding of Tanzania's economic growth, it's essential to examine key economic indicators.

i. Gross Domestic Product (GDP)

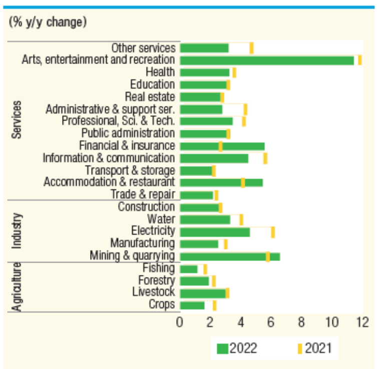
During 2022, the real GDP growth rate was 4.7 per cent year-on-year (y/y), slightly down from 4.9 per cent in 2021. This slight deceleration reflected a modest decline in the agricultural sector's contribution, while all other sectors broadly sustained their contributions from the previous year (Figure 1). However, growth was not constant across all subsectors, and accelerations in some compensated for slowdowns in others (Figure 2). On a sequential basis, real GDP growth bottomed out at 3.5 per cent in the fourth quarter (Q4) of 2022 before rebounding to 5.6 per cent, the highest y/y quarterly growth rate since 2020, in the first quarter (Q1) of 2023.

FIGURE 1 • GDP Growth



Source: NBS, WB staff estimates.

FIGURE 2 • GDP Growth by Sector



Source: NBS, WB staff estimates.
Note: Sci. refers to Science and Tech. refers to Technology.

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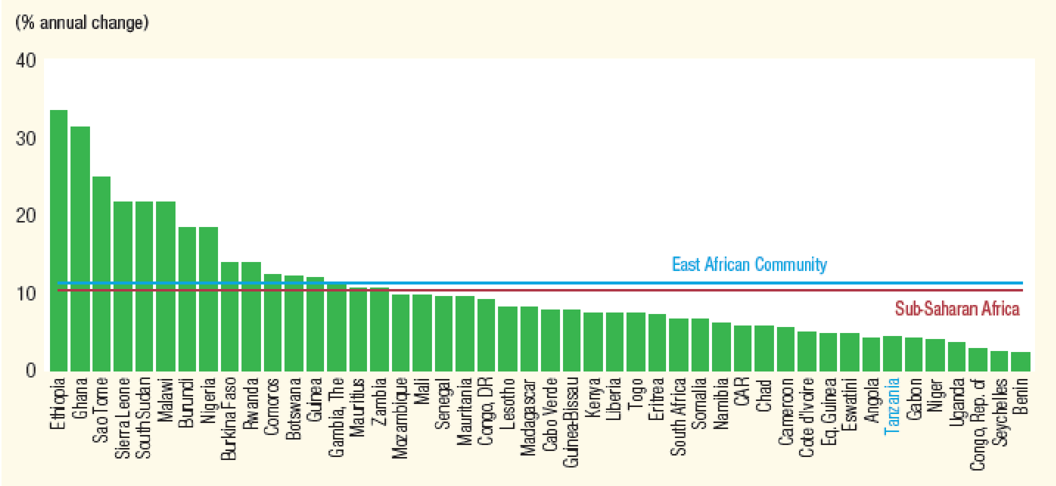
ii. Inflation rate

Driven both by global and domestic factors, headline inflation in Tanzania has risen, albeit at a slower pace than in many peer countries. Cumulatively, the headline consumer price index (CPI) inflation rose from 3.7 per cent in 2021 to 4.4 per cent in 2022—exceeding 4 per cent for the first time since 2017. Almost 40 per cent of the increase in domestic inflation during 2022 can be attributed to higher food prices as the spike in food-price inflation caused by Russia's war in Ukraine compounded the effects of a protracted regional drought.

Despite headwinds, inflation in Tanzania remained substantially lower than in many other regional economies. According to the latest IMF estimates, headline inflation rates in Sub-Saharan Africa (SSA) averaged about 14.5 per cent in 2022, almost 3.3 times higher than in Tanzania.12 Cross-country data show that all major inflation components were lower in Tanzania than in SSA during 2022. Though inflation remains well below the central bank's medium-term target of 5 per cent, monetary policy remained relatively tight in early 2023.

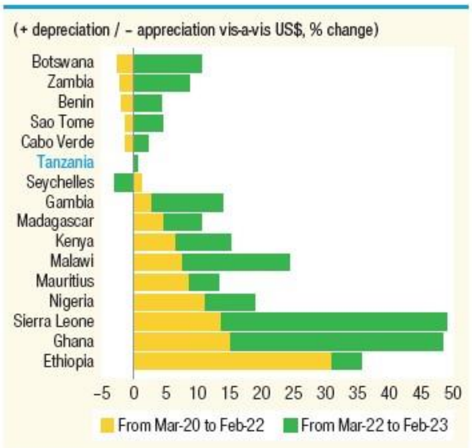
FIGURE B2.A • Headline Inflation Rates, Sub-Sahara Africa, 2022



Source: MPO Springs 2023, WB staff estimates.
Note: Simple average after exlcluding Sudan and Zimbabwe where annual inflation reached to 164 percent and 193 percent in 2022, respectively.

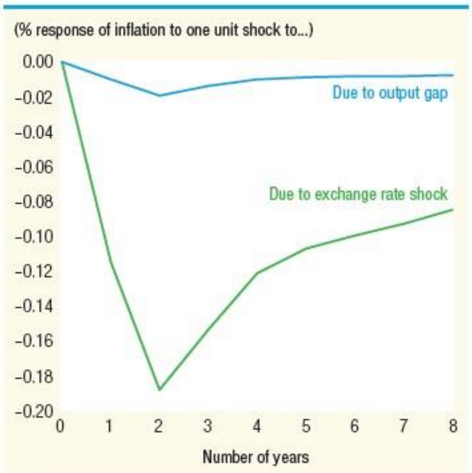
BOX 2: RECENT INFLATION IN TANZANIA VS. REGIONAL COUNTRIES: SOME OBSERVATIONS *(continued)*

FIGURE B2.B • Nominal Exchange-Rate Depreciation



Source: Bloomberg, WB staff estimates.

FIGURE B2.C • Drivers of Inflation in Tanzania



Source: WB staff estimates.

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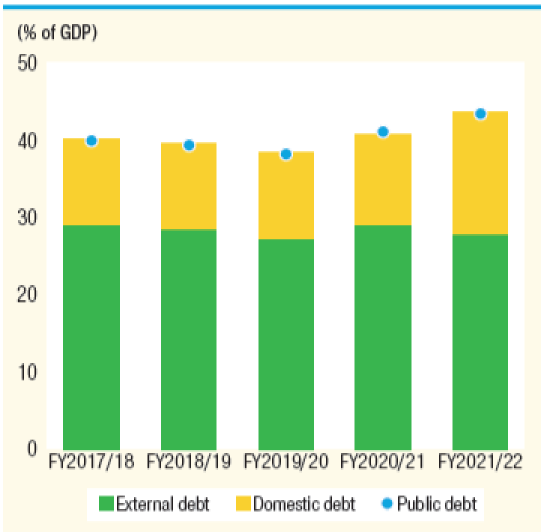
iii. Debt to GDP ratio

Tanzania's public debt-to-GDP ratio has risen, but its risk of debt distress remains moderate. The public and publicly guaranteed (PPG) debt stock increased from 41.3 per cent of GDP at the end of FY2020/21 to 43.8 per cent at end-FY2021/22, largely due to the government's efforts to strengthen the balance sheets of state-own. However, the public debt-to-GDP ratio remains well-anchored and relatively modest by the standards of neighboring countries. At end-FY2021/22, almost 64 percent of public debt was held externally, while the remaining 36 percent was domestic debted enterprises (SOEs).

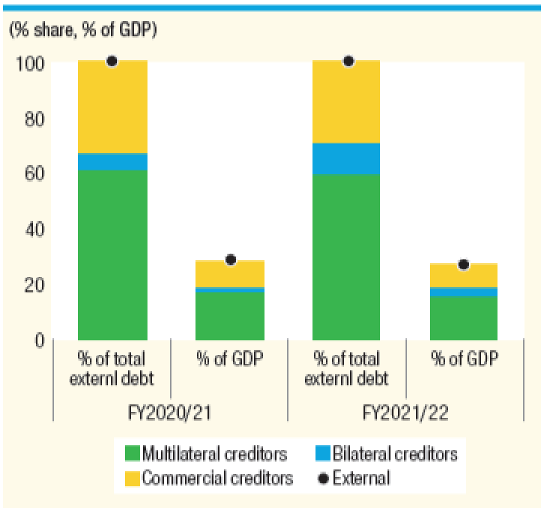
The latest joint IMF-World Bank Debt Sustainability Analysis (DSA) assessed Tanzania's risk of overall public and external debt distress as moderate, unchanged from the previous analysis. The DSA results underscore the importance of safeguarding debt sustainability by maximizing concessional financing, increasing revenue mobilization, and strengthening public investment management by selecting only those investment projects with clear socioeconomic benefits.

FIGURE 11 • Tanzania's Public Debt



Source: DSA(April-2023), WB staff estimates.

FIGURE 12 • Concessional External Debt by Component



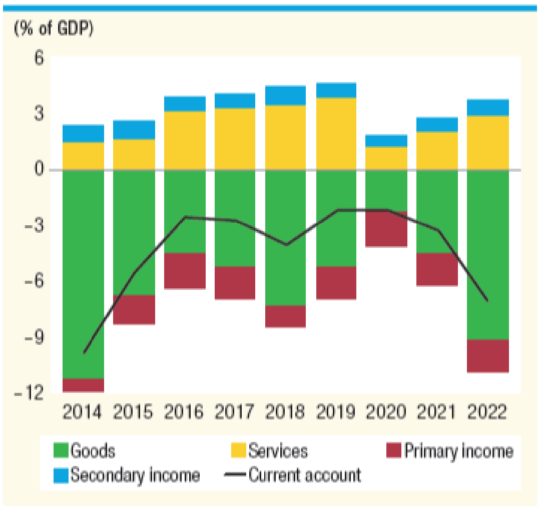
Source: DSA(April-2023), WB staff estimates.

iv. Balance of Payment position

An uncertain global economic environment continued to place significant pressure on Tanzania's external sector in 2022. In particular, rising food and energy prices and other spillovers from Russia's war in Ukraine pushed the country's current account deficit (CAD) to its highest level since 2014. The CAD widened from US$2.37 billion (or 3.4 per cent of GDP) in 2021 to US$5.40 billion (or 7.1 per cent of GDP) in 2022. The external trade deficit for merchandise accounted for almost the entire deterioration in the CAD during 2022.

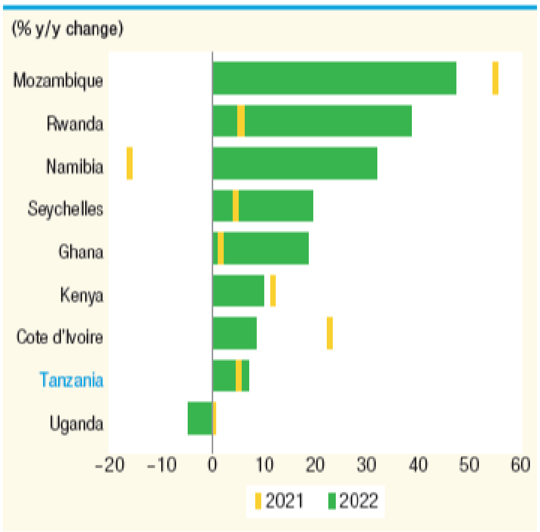
Goods exports grew modestly during 2022, supported by nontraditional items. Favorable prices helped Tanzania's goods exports grow by a cumulative 6.8 per cent during 2022, up from 5.4 per cent in 2021. Nontraditional items like minerals and manufactured goods accounted for about 70 per cent of the increase in merchandise exports.

FIGURE 13 • The Current-Account Balance and its Drivers



Source: Bank of Tanzania, WB staff estimates.

FIGURE 14 • The Growth of Goods Exports



Source: Haver Analytics, WB staff estimates.

v. Tax to GDP ratio.

Rising tax effort has boosted Tanzania's tax-to-GDP ratio, and significant progress has been made in closing the tax gap. Tanzania's tax effort has steadily increased since 2000, with the tax gap narrowing from an average of about 8 per cent of GDP in 2000 to a low of 5.6 per cent in 2017. Between 2000 and 2017, the growth of personal income tax (PIT) and corporate income tax (CIT) drove the increase in total tax revenue, while the contributions from VAT and excise taxes declined. Together, these four instruments account for about 80 per cent of total tax revenue. As a result, Tanzania has increased its total tax revenue while shifting to a greater reliance on direct taxes over indirect taxes.

Tanzania's tax system is progressive, but the tax net is very limited. The PIT, which is based on a graduate rate structure, is very progressive, and revenue is collected exclusively from formal workers, who tend to be better off than their informal counterparts. Tanzania's VAT is also progressive, unlike the VATs of many comparable countries. This is due in part to its narrow base, as many low-turnover businesses need not register for VAT. The VAT turnover threshold was approximately 47 times GDP per capita in 2020, far higher than the thresholds in other large middle-income countries with significant informal sectors.

vi. Budget deficit

Tanzania's overall deficit, including grants, widened from 3.6 per cent of GDP in FY2021/22 to 4.4 per cent in FY2022/23. Despite broadly stable revenue collection and the containment of overall expenditures, the use of cash and other items increased by 1.0 per cent of GDP, widening the deficit. Total government resources stood at 14.8 per cent of GDP in FY2022/23, almost the same level as the prior fiscal year but 1.1 per cent lower than anticipated.

On June 15, Budget FY2023/24 was submitted to Parliament. It envisions a consolidation effort to bring the fiscal deficit (including grants) of the Central government to below 3 per cent of GDP. This will be achieved through a combination of revenue-enhancing and expenditure-curtailing measures. Domestic resources played a larger role in financing Tanzania's overall fiscal deficit during FY2022/23.

In conclusion, Tanzania witnessed a noteworthy recovery in its economic activity following the challenges posed by the COVID-19 pandemic, albeit at a pace somewhat subdued compared to the pre-pandemic era. This resurgence in economic vitality found its impetus in key sectors such as agriculture, construction, mining and quarrying, manufacturing, and trade. Looking ahead, the economic forecast for Tanzania remains positive, with a projected growth rate of 4.7 per cent in 2023. However, it's important to acknowledge that this growth trajectory is not devoid of external pressures, including the impact of global shocks, the ongoing conflict in Ukraine, and the resurgence of the COVID-19 pandemic in some of its trading partners. These multifaceted factors will play a significant role in shaping Tanzania's economic landscape in the coming year.