

Recent macroeconomic and financial developments

GDP grew at 4.90% in 2021, up from 4.8% in 2020, supported by the global economic recovery. Growth was driven by agriculture and services on the supply side and final consumption and investment on the demand side. Monetary policy remained tight, which stabilized inflation at 3.3% in 2020 and 3.7% in 2021. The Tanzanian shilling remained stable in 2020–21, depreciating by only 0.2% against the US dollar. The ratio of NPLs to gross loans fell to 9.4% in March 2021 from 11.0% in March 2020, but was still above the statutory requirement of 5%. The fiscal deficit increased to 3.4% of GDP in 2021 from 0.8% in 2020 due to weak revenue performance and growing financing needs to address the impacts of COVID-19; it was financed by external and domestic borrowing. The current account deficit widened from 1.5% of GDP in 2020 to 3.1% in 2021, partly due to subdued tourism receipts, and was mainly financed by external commercial debt because other financial inflows, including FDI and grants, declined. International reserves increased to 6.6 months of import cover in 2021 from 5.6 months in 2020 due to increased external official inflows and the SDR allocation of \$543 million (0.8% of GDP). Tanzania had previously reduced poverty, but about 1 million people are estimated to have fallen back into poverty in 2020 due to COVID-19.

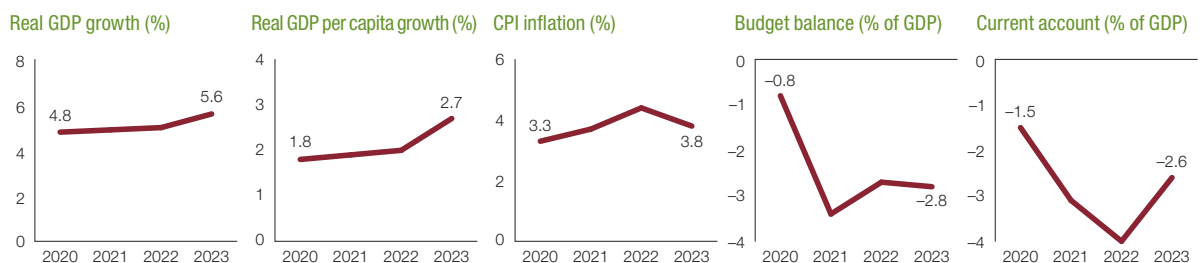
Outlook and risks

GDP growth is projected at 5.0% and 5.6% in 2022 and 2023, due to improved performance in tourism, the reopening of trade corridors, and accelerated rollout of vaccines. Inflation is projected to increase to 4.4% in 2022 and to 3.8% in 2023 due to higher energy prices

because of the Russia–Ukraine conflict. The fiscal deficit is expected to narrow to 2.7% and 2.8% of GDP in the same period due to better revenue performance and will be financed by domestic and external borrowing. The current account deficit is expected to widen to 4.0% of GDP in 2022 due to higher oil prices before narrowing to 2.6% in 2023 as merchandise exports and tourism receipts stabilize, and will be financed mainly by external borrowing. The major downside risks relate to new COVID-19 variants and associated disruptions to economic activity, but should be mitigated by increased public awareness and uptake of vaccines.

Climate change issues and policy options

Agriculture, manufacturing, and energy are among the key sectors most vulnerable to climate change, with drought affecting agriculture and reliable power supply. Tanzania is 67 on the 2021 GCRI. Its latest review of the 2015 NDC estimated the economic costs from climate shocks at about 1% of GDP. The government has developed policies to support climate resilience, including the National Climate Change Strategy 2021–2026, the Zanzibar Climate Change Strategy (2014) and the Environmental Management Act Cap. 191. Tanzania’s NDC has a target of reducing GHG emissions by 10–20% by 2030 through actions including promotion of clean technologies and RE sources. However, rapid population growth and a significant RE financing gap present substantial challenges to achieving the NDC targets. Tanzania estimates that about \$60 billion is needed by 2030 for mitigation investments, requiring a scaling-up of mobilized climate finance. The country is on track to achieve SDG 13 on climate action.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team. Data on the budget balance correspond to Tanzania’s fiscal year, which runs from July 1 to June 30.