Key Policy Insights to boost Tanzania Economy, 2020-2025

Tanzania is a lower-middle income economy. Tanzania is largely dependent on agriculture for employment, accounting for about half of the employed workforce. The economy has been transitioning from a command economy to a market economy since 1985. Although total GDP has increased since these reforms began, GDP per capita dropped sharply at first, and only exceeded the pre-transition figure in around 2007.

The economy of Tanzania advanced by 5.7 percent year-on-year in the first quarter of 2020, following a downwardly revised 6.2 percent growth in the previous period. That was the slowest economic expansion since the third quarter of 2017, mainly linked to the Covid-19 outbreak. The government projects Tanzania's economic growth at 5.5 percent in 2020, while the World Bank sees it at 2.6 percent.

At a Glance

① *2020 Projected Real GDP (% Change) : 2.0*

② *2020 Projected Consumer Prices (% Change): 3.9*

③ *Outstanding Purchases and Loans (SDR): 18.57 million (March 31, 2020)*

④ *Special Drawing Rights (SDR): 6.48 million*

⑤ *Quota (SDR): 397.8 million*

General Overview of Tanzania Economy

Economic growth

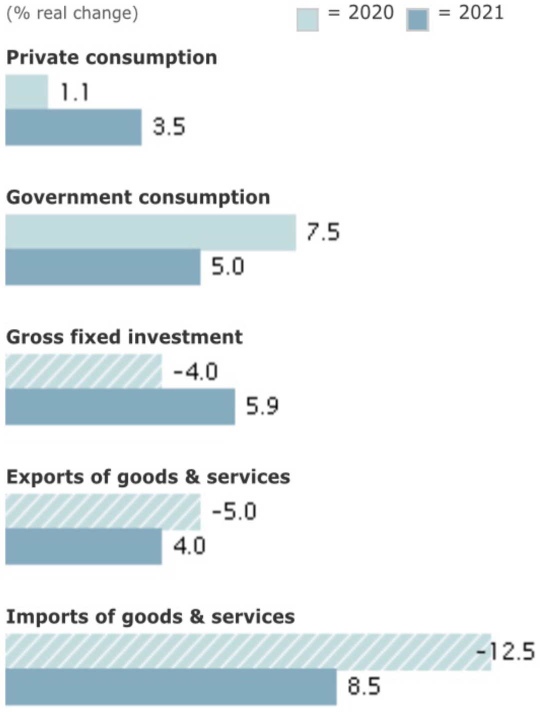
(% unless otherwise indicated)

	2019	2020	2021
US GDP	2.3	-4.8	2.4
OECD GDP	1.6	-6.1	3.5
World GDP	2.3	-4.8	4.3
World trade	0.9	-22.6	11.9

Source: The Economist Intelligence Unit

Expenditure on GDP

(% real change)



Source: The Economist Intelligence Unit

Tanzania - Economic Forecasts - 2020-2022 Outlook

Overview	Actual	Q3	Q4	Q1	Q2	2021
GDP Annual Growth Rate (%)	5.70	2.3	2.5	3.6	4.6	5
Unemployment Rate (%)	9.70	11	11	11.6	11.6	11.6
Inflation Rate (%)	3.20	3.5	3.6	3.2	3.4	4
Interest Rate (%)	5.00	5	5	5	5	5
Balance of Trade (USD Million)	-641.10	-869	-859	-631	-631	-828
Current Account to GDP (%)	-3.70	-4.4	-4.4	-5	-5	-5
Government Debt to GDP (%)	37.80	38.8	38.8	38.6	38.6	38.6
Government Budget (% of GDP)	-3.10	-9.5	-9.5	-6	-6	-6
Corporate Tax Rate (%)	30.00	30	30	30	30	30

General Recommendations

Most importantly, we must seize control of our economy and destiny. This will require courageous leadership, self-confidence, ingenuity, hard work and economic patriotism.

> “Promote a venture capital system with important direct links to university research and innovation to boost entrepreneurship”

① Extend exceptional fiscal support measures as needed based on epidemiological and economic developments while ensuring they do not hinder the reallocation of resources towards firms and sectors with better growth prospects.

② Continue to fight evasion and enlarge the tax base so as to lower statutory tax rates.

③ Government need to improve the efficient reallocation of resources to boost productivity and ensure a durable recovery. Over recent years fiscal consolidation has improved fiscal credibility, supported by progress in fighting tax evasion and improved tax administration. However, statutory tax rates are high while the tax base, despite progress, remains narrow. The government has to reduce tax rates and plans further reductions.

④ The quality of public spending remains low despite recent improvements. Public investment has been cut and programme evaluations are still little used. The government plans to use spending reviews more regularly and to introduce performance budgeting.

⑤ Boost public investment to support growth and environmental sustainability, including in public transport, innovation and waste management, based on cost-benefit analysis.

⑥ Ensure results of spending reviews are available early in the budget cycle.

⑦ Ensure pension spending does not crowd out other, better-targeted, social programmes and public investment.

Promoting productivity and innovation

③ R&D spending has increased, driven by businesses but continues to be low. Despite increased government support, research and innovation policies are complex and fragmented, detracting from the general research environment. Research productivity is low and links between universities and industry are underdeveloped. Difficulties in obtaining public grants or subsidies are one the most important hurdles for innovative activities.

① A more inclusive and better performing labour marker.) High taxes and social insurance contributions stifle employment and Reduce social insurance contribution rates, especially at low discourage formalisation, especially for low-income workers and vulnerable incomes, while aligning taxation across employment types. groups. Some recent policy changes may widen differences in effective tax rates between employment types.

② Unemployment is falling but remains high while employers often cannot find workers with the skills they need. Job-search and training programmes provide little support for re-skilling and matching jobseekers with jobs.

Employ more specialised counsellors and profiling tools in public employment services to significantly improve job-search and training support, linking them better with private job-search agencies.

⑧ Reduce policy uncertainty with full ownership of reform programme; meet fiscal targets and maintain a downward trajectory for public debt; send credible signals about a new growth model, including: privatisations and legislation increasing labour and product market flexibility; increasing transparency and improving public sector performance.

⑨ Lower personal income tax and lower social security contribution rates; increase labour market flexibility; address long-term demographic trends; reverse brain drain

⑩ Modernise the education system giving schools and universities more operational and pedagogical autonomy; develop courses to improve digital skills; enhance intergenerational equality (with reference, among others to the pension system). Broaden the tax base across and within types of tax-payers.

⑪ Enhance access to ICT networks and enable SMEs to engage in e-commerce to allow small firms to participate in global trade.

⑫ Accelerate the codification of existing laws and regulations. Lower product market regulation in professional services, especially for notaries, lawyers, civil engineers and architects, and retail distribution.

⑬ Improve judicial efficiency through more training of staff and judges and using courts' performance indicators.

⑭ Accelerating the disposal of banks' non-performing loans is a pre-requisite for a lasting recovery in investment. Further progress in improving the business environment and raising public administration effectiveness (including the justice system) is key to lowering the costs and uncertainties of doing businesses in Greece, thus raising domestic and foreign investment and innovation. This requires: modernising the public administration; improving regulatory quality and further promoting competition; streamlining innovation policies and R&D tax incentives; and opening state-owned enterprises to private capital and management.

⑮ Creating jobs, improving the quality and raising wages require enhancing active labour market programmes and reducing job-skill mismatches. Lifting participation and reducing informality hinges on lowering the high labour income tax wedge, ensuring that wages grow in line with workers' productivity and addressing barriers to work. Further strengthening on social safety net and better targeting most vulnerable will help to reduce high poverty rates among the young and working age population and protect workers from income shocks.

> "Policies to support families and facilities for child and elderly care are underdeveloped. Caregiving obligations impede many from working, contributing to low fertility rates"

16 Extend exceptional fiscal support measures as needed based on epidemiological and economic developments while ensuring they do not hinder the reallocation of resources towards firms and sectors with better growth prospects.

17 Continue to fight evasion and enlarge the tax base so as to lower statutory tax rates.

18 Introduce targeted incentives for the use of electronic payments in industries with high risk of tax evasion, such as professional services.

19 Boost public investment to support growth and environmental sustainability, including in public transport, innovation and waste management, based on cost-benefit analysis.

20 Ensure results of spending reviews are available early enough in the budget cycle.

21 Reduce social insurance contribution rates, especially at low incomes, while aligning taxation across employment types.

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