

# COVID-19 MACROECONOMIC POLICY RESPONSES IN AFRICA

07



## Macroeconomic Policy Development in Tanzania

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## About CoMPRA

The COVID-19 Macroeconomic Policy Response in Africa (CoMPRA) project was developed following a call for rapid response policy research into the COVID-19 pandemic by the IDRC. The project's overall goal is to inform macroeconomic policy development in response to the COVID-19 pandemic by low and middle-income countries (LMICs) and development partners that results in more inclusive, climate-resilient, effective and gender-responsive measures through evidence-based research. This will help to mitigate COVID-19's social and economic impact, promote recovery from the pandemic in the short term and position LMICs in the longer term for a more climate-resilient, sustainable and stable future. The CoMPRA project will focus broadly on African countries and specifically on six countries (Benin, Senegal, Tanzania, Uganda, Nigeria and South Africa). SAIIA and CSEA, as the lead implementing partners for this project, also work with think tank partners in these countries.

## Our Donor

This project is supported by the International Development Research Centre (IDRC). The IDRC is a Canadian federal Crown corporation. It is part of Canada's foreign affairs and development efforts and invests in knowledge, innovation, and solutions to improve the lives of people in the developing world.

## Abstract

During the period between 1961, when Tanzania attained independence, and the mid-1980s, the country followed socialist macroeconomic policies. The result of implementing socialist policies was to slow socio-economic growth, double-digit inflation, negative real interest rates, large unsustainable fiscal deficits, an overvalued Tanzanian shilling and a thriving parallel foreign exchange market, which included the rationing of foreign exchange and sometimes consumable commodities. After the liberalisation of the economy in the mid-1980s, macroeconomic policies were market-determined and the government recognised the private sector as the engine of

growth. As a consequence, macroeconomic policies combined with structural reforms began to translate into real gross domestic product growth above the 2.8% population growth level, inflation was brought down to below single digit levels, greater foreign and domestic private investment followed, and a progressive reduction in poverty over the past decade (before COVID-19) was achieved. This resulted in a sustained average real gross domestic product growth rate of 7% per annum between 2010 to 2019.

The advent of the coronavirus pandemic, first detected in Tanzania in March 2020, disrupted the macroeconomic performance achieved over the past decade. Real GDP growth is expected to decline to 5.5% or more in 2020 and 2021, inflation is expected to remain at pre-COVID levels (below 5%), interest rates increased slightly in 2020 hurting businesses, the Tanzanian shilling has depreciated slightly against the US dollar, and the fiscal deficit, although low, continues to face high risks of worsening as international trade continues to be disrupted. The public debt, with its interest payment of nearly 40% of domestic revenue, threatens to increase the economy's liquidity risks and divert resources, which are much needed to fund ongoing infrastructure investments to improve the country's transport, electricity, water, education and health systems. Overall, however, Tanzania avoided a recession in 2020, partly due to sound macroeconomic measures undertaken, but the second wave of the pandemic is significantly impacting lives and livelihoods across the country.

In order to counter the severe impact of the pandemic on the economy, the macroeconomic policies adopted by the Bank of Tanzania (central bank) and the government have been to shield the economy from further deterioration by injecting greater funding into the health sector to contain the spread of the pandemic, increasing social spending to save lives and livelihoods, employing accommodative monetary policy to steer the economy towards a sustainable monetary and fiscal stance, and 'build back better' to the pre-COVID period. Macroeconomic policies going forward should be to intensify and increase funding to prevent the risk of more than 11 million Tanzanians falling below the poverty line, adopt monetary policies that increase liquidity to the economy and to banks to reduce the country-wide liquidity crunch, and to enhance credit availability to the private sector – including micro, small and medium enterprises to facilitate investment expansion and help the economy bounce back.

## Introduction

This paper attempts to discuss macroeconomic policy development in Tanzania with the objective of informing policy responses to the coronavirus pandemic. The rationale hinges on the understanding that the macroeconomic framework of the country has implications for the country's growth trajectory. It has been well established that macroeconomic instability was

one of the key factors undermining the development of African countries, including Tanzania, between the 1970s and 1990s. Therefore, as Tanzania implements its industrialisation resolve, its macroeconomic policy should be positioned to create an enabling environment for industrial policy. To achieve the country's 2025 vision to become a semi-industrialised middle-income country, macroeconomic policy should also maintain the conditions that facilitate the structural transformations necessary for economic development.

After these introductory remarks, the paper summarises the macroeconomic development in Tanzania and analyses the country's macroeconomic policy environment. The impact of the pandemic on Tanzania is discussed next, followed by the country's macroeconomic policy responses and interventions to contain the spread of the pandemic and steer the economy back to a sustained growth path such as it was on for the decade prior to the pandemic.

## Evolution of macroeconomic policy

Since its independence in 1961, and especially after the adoption of socialist macroeconomic policies, Tanzania has experienced a series of overlapping domestic and external economic shocks, which pushed the economy into an economic crisis between the 1970s and mid-1980s. This crisis was characterised by dismal and sometimes negative real gross domestic product (GDP) growth rates, double-digit inflation, negative real interest rates, huge fiscal deficits (funded largely by domestic financing and the printing of money), an overvalued Tanzanian shilling, and a thriving parallel foreign exchange market – in addition to the rationing of foreign exchange.<sup>1</sup> A number of attempts were made to address these shocks. Chief among these were the attempts made by International Monetary Fund (IMF) and World Bank to correct socialist policies in the early 1980s. However, these interventions were not fully successful until 1986, when Tanzania adopted structural adjustment programmes to enhance structural reforms and restore macroeconomic stability.

Macroeconomic policies after 1986 included the liberalisation of interest and exchange rates, as well as the transition to the indirect monetary policy of monetary targeting, among others.<sup>2</sup> These were prudent monetary policy interventions, which had since 1995 successfully delivered real GDP growth increasing to an average of 7% in the 2000s, from 3.7% in 1995, and with

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1 Benno Ndulu, "Structural Adjustment Policies and Programmes: A Case Study of Tanzania", (Helsinki: World Institute for Development Economics Research for the United Nations University, 1987).

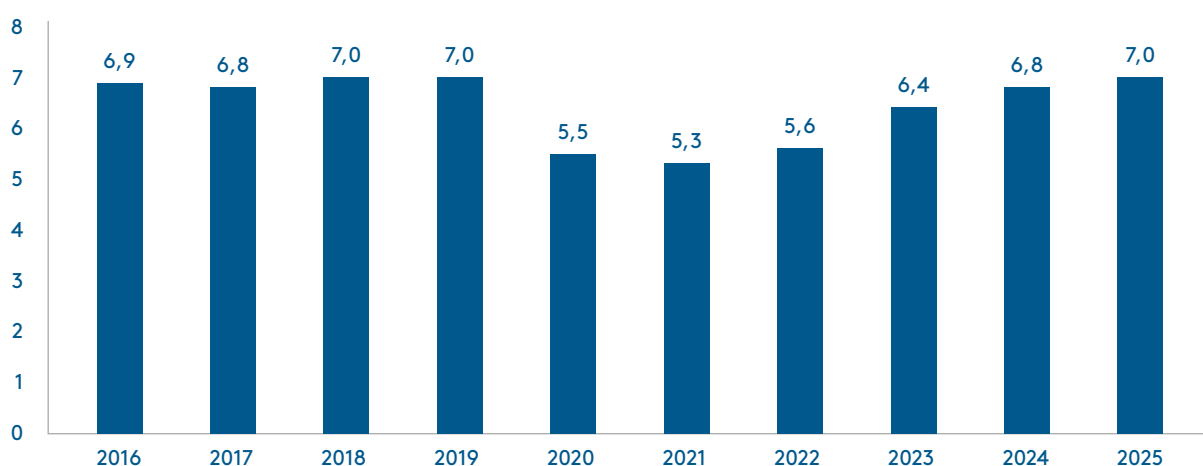
2 Enock T. Nyorekwa and Nicholas M. Odhiambo, "Monetary Policy Performance in Tanzania (1961-2014): A Review", *Banks and Bank Systems* Volume 9, Issue 4, 2014, 8–15. [https://www.businessperspectives.org/images/pdf/applications/publishing/templates/article/assets/6084/BBS\\_en\\_2014\\_04\\_Nyorekwa.pdf](https://www.businessperspectives.org/images/pdf/applications/publishing/templates/article/assets/6084/BBS_en_2014_04_Nyorekwa.pdf).

inflation declining to an average of 10% in the 2000s, from 35% in 1994.<sup>3</sup> The improvement in price stability was in part due to a deceleration in the growth of the money supply (M2) to an annual average of 17.5% (since 1995) compared to the annual average of 33% a decade before.<sup>4</sup> Likewise, the financial deepening, which slowed down in the late 1990s, picked up again in the 2000s, to match levels achieved in the early 1990s. Domestic credit to the private sector increased from 3.1% in 2000 to 12.1% in 2019, growing at an average annual rate of 8.0%, but slowing to 5.1% in 2020 due to the impact of COVID-19.

In order to maintain an appropriate macroeconomic stance, the government accelerated structural reforms by introducing its comprehensive Economic Recovery Programme in 1986. This programme aimed to restore economic stability through various instruments namely:

- Liberalising internal and external trade;
- unifying the exchange rate;
- reviving exports;
- stimulating domestic saving; and
- restoring fiscal sustainability.

**Figure 1 Real GDP growth**



Source: Tanzania National Bureau of Statistics, <https://www.nbs.go.tz/index.php/en/>, May 2021

3 Bank of Tanzania, "Tanzania Mainland's 50 Years of Independence: A Review of the Role and Functions of the Bank of Tanzania (1961-2011)", June 2011, <https://www.bot.go.tz/Adverts/PressRelease/en/202003130724034239.pdf>.

4 Bank of Tanzania, "Tanzania Mainland's 50 Years of Independence".

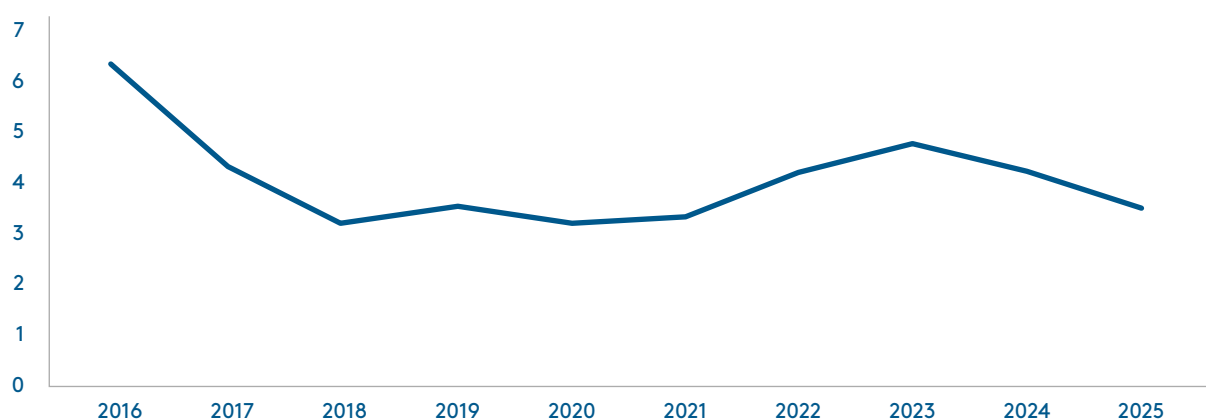
The three-year Economic and Social Action Plan was subsequently adopted in 1989, to further liberalise and reform the banking, agriculture, parastatal and social sectors, as well as government administration.<sup>5</sup> Financial reforms started in 1987, with adjustments designed to move real interest rates into positive territory. Private banking started in 1991 following the Financial Institutions Act. To date, Tanzania has a sound macroeconomic framework, which contributed to the country averting a recession in 2020 despite the high impact of the pandemic on the economy.

## Tanzania macroeconomic environment

### Economic growth

Tanzania's economy exhibited strong real GDP growth, which averaged nearly 7% for four years prior to COVID-19 (Figure 1). The robust growth is largely attributed to high public investments in infrastructure. Other sectors that performed well included mining and quarrying (17.7%); construction (14.8%); arts, entertainment and recreation (11.2%); transport and storage (8.7%); and administrative and support services (8.4%). The percentage shares of sectors to nominal GDP were agriculture (26.6%), construction (14.3%), trade and repairs (8.8%), and manufacturing (8.5%).

Figure 2 Inflation rate (%)



Source: Tanzania National Bureau of Statistics, <https://www.nbs.go.tz/index.php/en/>, May 2021

<sup>5</sup> Nyorekwa and Odhiambo, "Monetary Policy Performance in Tanzania".

COVID-19 appeared to exert some impact on real growth, with the Bank of Tanzania projecting a slowing down of the real GDP growth rate to 5.5% in 2020.<sup>6</sup> However, the World Bank observed that the country avoided a recession in 2020<sup>7</sup> and estimates a 5.8% and 6.1% growth rate for 2020 and 2021, respectively,<sup>8</sup> while the African Development Bank estimates 6.4% and 6.6% for 2020 and 2021, respectively.<sup>9</sup> The IMF also projects similar real economic growth, stating that Tanzania's economy is 'supported by 'prudent monetary and fiscal policies, Tanzania's economic conditions remain stable, with economic growth estimated at about 6%, inflation at under 5%, an adequate level of foreign reserves, and manageable public debt''.<sup>10</sup> The reduced growth from its pre-COVID-19 path is due to a slowdown in the rate of growth of some sectors of the economy, such as tourism, hotels, education, international travel and social activities. The government's policy to conduct 'business as usual' and not to lockdown the economy (except for schools and social activities in March to May 2020) helped to maintain relatively good growth. This was aided by agriculture, which benefitted from ample rains during the season, good mining performance due to high global market prices and enhanced management of the sector. The public's high investment in infrastructure and accommodative monetary policy somehow helped to cushion the impact of the pandemic on the economy. The two largest investments are \$ 3.6 billion for the 2 115 MW Julius Nyerere Hydropower Station, of which \$ 695.6 million is from domestic resources, and \$ 1.46 billion

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"The government's policy to conduct 'business as usual' and not to lockdown the economy helped to maintain relatively good growth ... aided by agriculture, which benefitted from ample rains during the season and good mining performance"

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6 Bank of Tanzania, "Monetary Policy Statement 2020/21 Report", Issue ISSN 0856-6976, 2020, <https://www.bot.go.tz/Publications/Regular/Monetary%20Policy%20Statement/en/2020061515311396.pdf>.

7 World Bank, "Tanzania Economic Update, February 2021: Raising the Bar – Achieving Tanzania's Development Vision", Issue 15, February 2021, <https://openknowledge.worldbank.org/bitstream/handle/10986/35204/Tanzania-Economic-Update-Raising-the-Bar-Achieving-Tanzania-s-Development-Vision.pdf?sequence=1&isAllowed=y>.

8 Reuters, "World Bank Says Tanzania's GDP to Grow Faster in 2020", <https://www.reuters.com/article/us-tanzania-economy/world-bank-says-tanzanias-gdp-to-grow-faster-in-2020-idINKBN1Y700T>.

9 African Development Bank Group, "Tanzania Economic Outlook", 2021, <https://www.afdb.org/en/countries-east-africa-tanzania/tanzania-economic-outlook>.

10 International Monetary Fund, "IMF Staff Completes 2020 Article IV Mission to Tanzania", press release, March 5, 2020, <https://www.imf.org/en/News/Articles/2020/03/05/pr2081-tanzania-imf-staff-completes-2020-article-iv-mission>.

for a 1 224km standard gauge railroad. The cost of financing these two infrastructure projects is about 33.7% of the country's \$ 15 billion 2020/21 budget. The infrastructure projects were planned before the pandemic and continued to be funded as planned in 2020. The government aims to put in place fiscal, monetary and trade policies that will support a fast recovery in order to attain a 7-10% rate of real GDP growth by 2025. Projections indicate that the country can expect to bounce back to its pre-COVID growth path (Figure 1).

## Inflation

Overall inflation has remained low and stable at below 4% for the three years before COVID-19 and remained stable at 3-4% in 2020 to April 2021<sup>11</sup> due to continued adequate food supply in most parts of the country, the pursuit of prudent monetary and fiscal policies coupled with low oil prices and adequate power supply (Figure 2).<sup>12</sup> Projections show the second wave of COVID-19 might exert pressure on inflation in 2021 and beyond but existence of large stocks of food supply,<sup>13</sup> subdued demand pressure for goods and services, continued low oil prices globally and stable power supply should maintain inflation at the target level of 5% or below (Figure 2).

## Interest rates

Since mid-1980s interest rates have been market-determined, with the Bank of Tanzania applying an accommodative monetary policy to steer interest rates in cases of perceived market failure. As Figure 3 shows, both short-term and overall lending rates declined slightly between June and December 2019, but rose sharply up to June 2020 due in part to tight credit in the banking system. The Bank of Tanzania intervened in the credit market and, as a result, lending rates declined from about 17% in June 2020 to 8.6% and 6.5% for both the short-term and overall lending rates, respectively. The intention was to stimulate economic growth and encourage borrowing and investment by the private sector. However, as the severity of the pandemic continued to depress the economy, both lending rates rose again to about 16% as of end March 2021. Deposit rates appear to have risen steadily from 2.2% in December 2019 to 6.9% and 8.8% for overall time deposit and short-term lending rates, respectively. The increase is partly due to the expectation that interest rates will continue to increase during the pandemic period.

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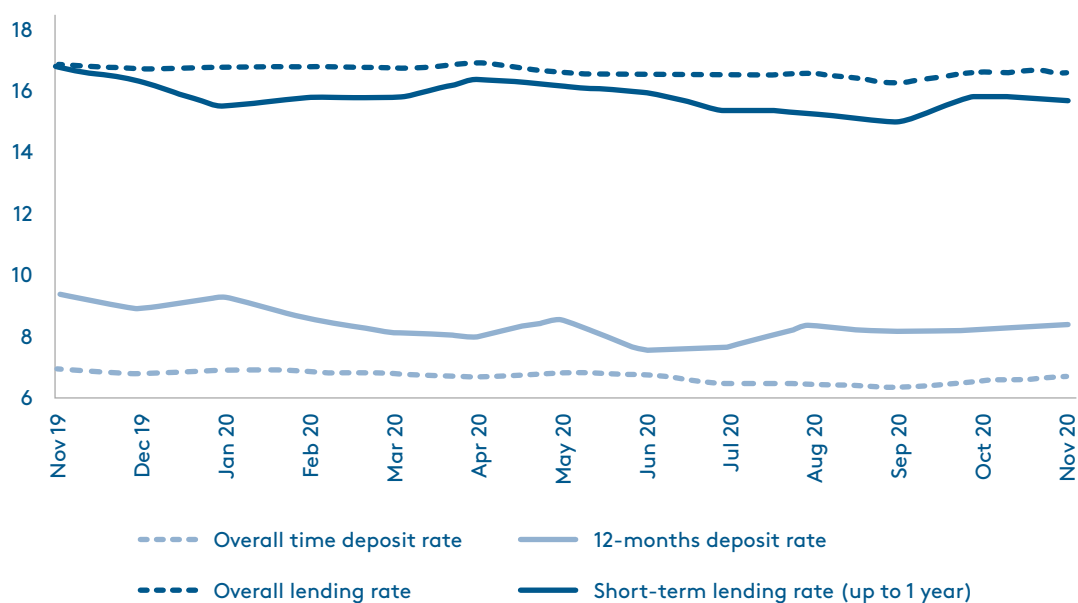
11 Bank of Tanzania, "Monthly Economic Review, December 2020", <https://www.bot.go.tz/Publications/Regular/Monthly%20Economic%20Review/en/2021010510481472.pdf>; Bank of Tanzania, "Monthly Economic Review, April 2021", <https://www.bot.go.tz/Publications/Regular/Monthly%20Economic%20Review/en/2021050317360315.pdf>.

12 Bank of Tanzania, "Monetary Policy Committee Statement", press release, January 25, 2021, [Bank of Tanzania \(via Public\) / MONETARY POLICY COMMITTEE STATEMENT \(publicnow.com\)](https://www.bot.go.tz/Publications/Regular/MONETARY_POLICY_COMMITTEE_STATEMENT(publicnow.com)).

13 In 2019/20, Tanzania was 120% food self-sufficient.



**Figure 3 Lending and deposits interest rates**



Source: Bank of Tanzania, <https://www.bot.go.tz/>, May 2021

## Exchange rates

The Tanzanian shilling appears to have depreciated against the US dollar from 2016 to 2020 (Figure 4) by about 5.2 percentage points. This depreciation is fairly low partly due to low and stable inflation, a moderate current account deficit, prudent monetary and fiscal policies, and measures taken to ensure orderly functioning of the foreign exchange market. COVID-19 exerted a small depreciation of the shilling – about 0.4 percentage points against the US dollar between December 2019 to December 2020. It is worth noting that, due to the pandemic, volatility increased during the second quarter of 2020 as capital inflows to Tanzania sharply declined. However, the Bank of Tanzania interventions in the foreign-exchange market were able to stabilise the shilling. To achieve its monetary policy objectives, the Bank of Tanzania usually focuses on maintaining an adequate level of liquidity in the economy and ensuring stable interest and exchange rates. Overall, in 2020, the real effective exchange rate depreciated only by about 0.1%, and the inflation differential

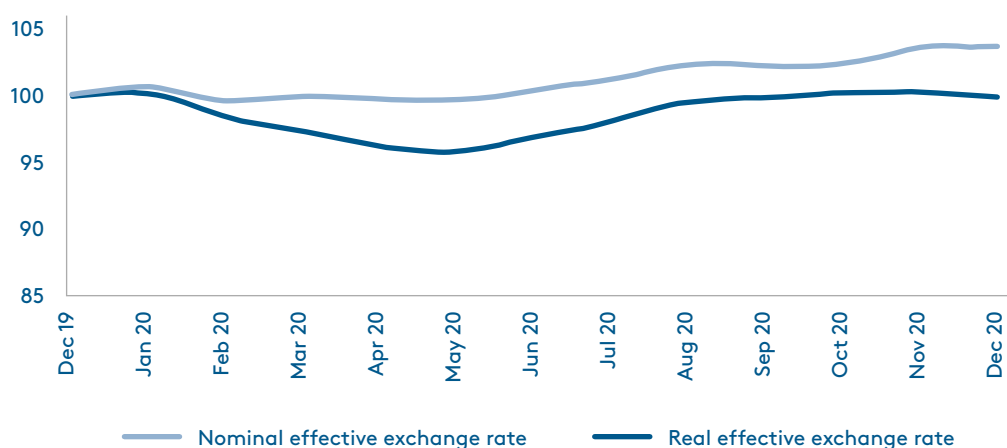
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“Volatility increased during the second quarter of 2020 as capital inflows to Tanzania sharply declined. However, the Bank of Tanzania interventions in the foreign-exchange market were able to stabilise the shilling

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between Tanzania and its major trading partners partly offset a decline in the country's nominal exchange rate. The increase in the real effective exchange rate has been accompanied by rising exports of manufactured goods even in a context of lower global demand associated with the pandemic.

**Figure 4 Real effective exchange rate 2019–20 (%)**



Source: World Bank Databank, <https://databank.worldbank.org/home.aspx>, May 2021

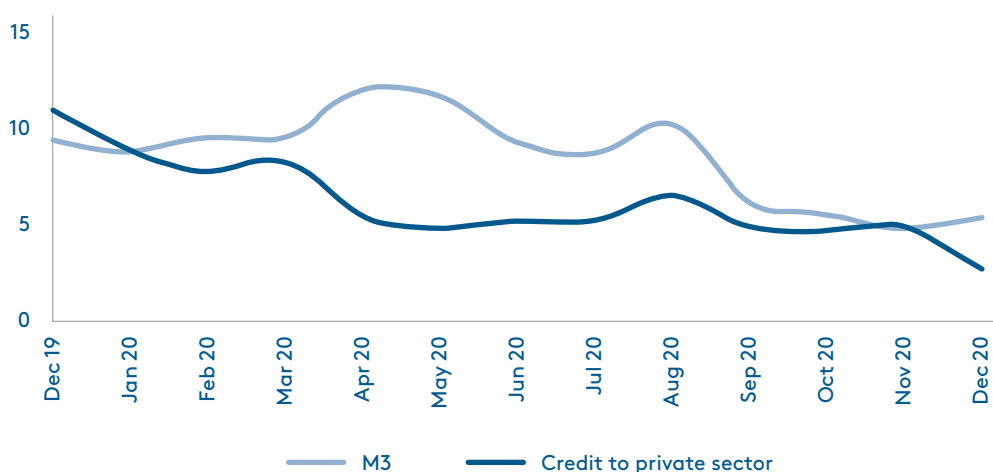
## Money supply and credit to the private sector

Overall, the supply of credit decreased in 2020 and 2021. The behaviour of money supply (M3) and credit to the private sector in 2020 and early 2021 is shown in Figure 5. During the period 2018 to 2019, money supply increased from 4.5% to 9.6%, respectively, due to a rise in credit to the government for the funding of large infrastructure investments. The two largest investments are \$ 3.6 billion for a 2 115 MW Julius Nyerere Hydropower Station, of which \$ 695.6 million is from domestic resources, and \$ 1.46 billion for 1 224km of standard gauge railroad (which is 33.7% of the total annual budget). The government borrowed \$ 2.3 billion from the domestic market for infrastructure spending, and this has tended to crowd out the private sector. The extended broad money supply (M3) grew at an average rate of 8.8% between December 2019 and December 2020, which was below the Bank of Tanzania's target of 10.0%.

Bank of Tanzania credit grew at an average rate of 6% between December 2019 and December 2020. This was below the target set by the central bank, which was 13.5%, and below the 8.6% average growth rate observed in the same period. However, Bank of Tanzania credit to the government was reduced by an average rate of 3.8% between January and June 2020 before

expanding at an average rate of 38.4% between July and December. Increased funding was needed to spend on fiscal measures in order to deter further deterioration of the economy due to the pandemic. As Figure 5 shows, credit to the private sector has been progressively declining from about 12.1% in 2019 to a very low level of 2.3% in February 2021 – as government borrowing from the banking system continued to crowd out the private sector from the credit market. Going forward, the Bank of Tanzania envisions that credit to the private sector will rebound to the pre-COVID period and remain fairly stable as a share of GDP in 2021/22 due to various accommodative measures being taken. These measures will facilitate continued lending to businesses to encourage greater investment as well as to help the economy ‘build back better’ to its pre-COVID growth path.

**Figure 5 Growth rates of M3 and credit to the private sector (% change)**



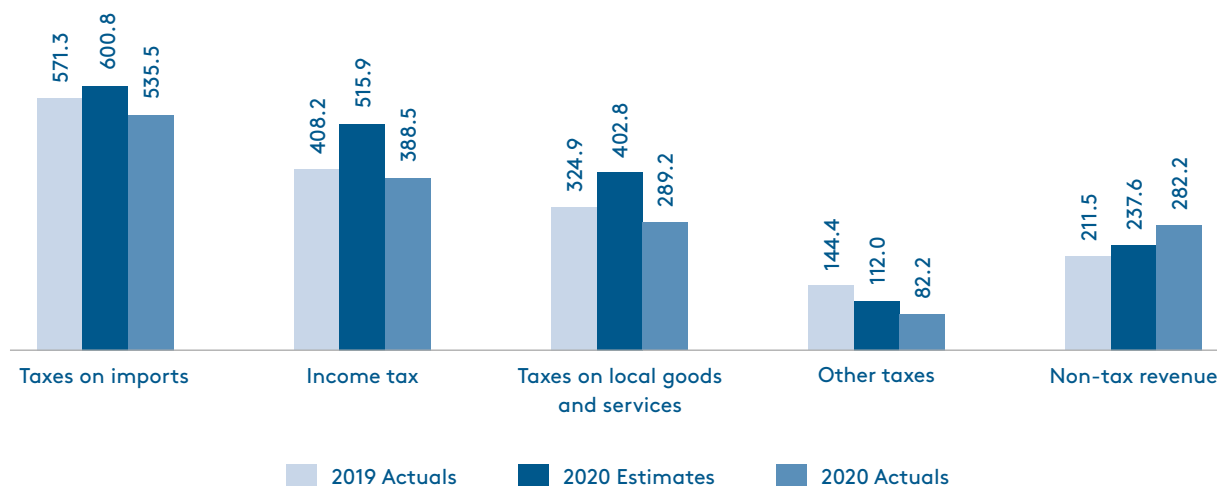
Source: Bank of Tanzania, <https://www.bot.go.tz/>, May 2021

## Public finance

Tanzania’s fiscal policy remained on track during pre-COVID-19 in 2019, as well as into 2020, by leveraging technology to secure optimal revenue mobilisation through making use of an electronic revenue collection system – the Government e-Payment Gateway – and other ICT-based revenue collection systems, such as e-services, e-payments and the local government revenue collection information system. Further, the government streamlined expenditure towards financing strategic development projects – as planned. However, during 2020, many taxpayers failed to meet their tax obligations, and this appears to have impacted on monthly revenue returns. Planned monthly revenue levels in most of the tax categories failed to meet targets except for non-tax revenue (Figure 6). Taxes on imports declined by 10.8%, income tax revenue fell short by 24.7%, and taxes

on local goods and services fell by 28.2%. Only non-tax revenue performed well, increasing by 18.7% in 2020, largely driven by an increase in dividend payments.

**Figure 6 Government revenue (TZS\* billions)**



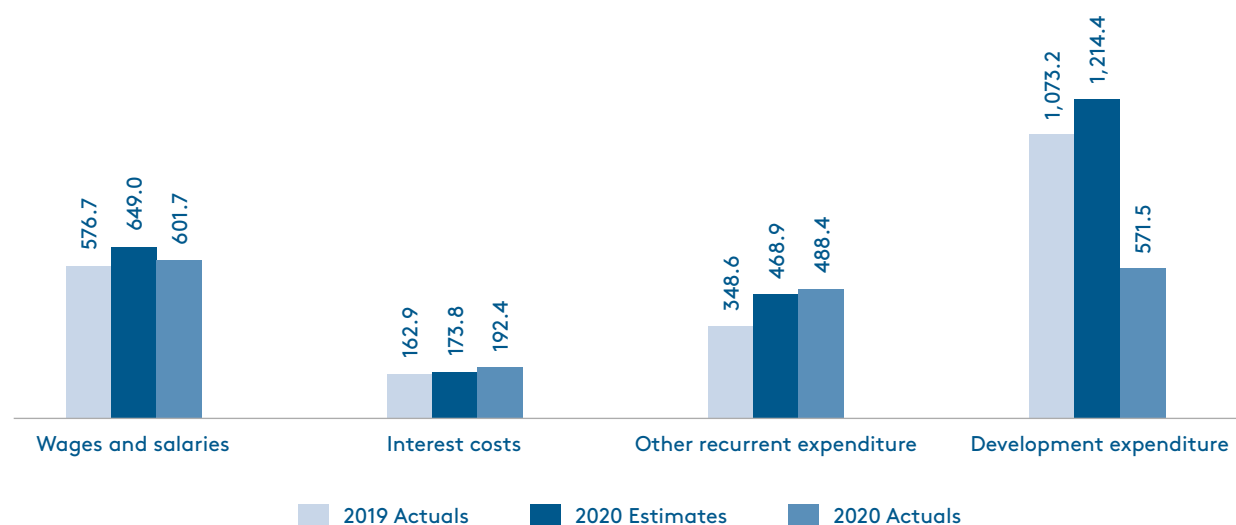
\* TZS = currency code for Tanzanian Shilling

Source: Bank of Tanzania, <https://www.bot.go.tz/>, 2020

With revenue shortfall, monthly expenditure was streamlined to accommodate estimates for 2020/21. Budget execution is based on available resources and aligned with financing needs for pro-poor programmes, which include expenditure on health and education, and substantial investments in infrastructure (electricity, roads, railroads, airports, etc.) to create an enabling environment for private sector operations. Expenditure on wages and salaries remained almost unchanged between the pre-COVID-19 period in 2019, and planned and actual spending in 2020 (Figure 7).

Interest payments increased by 9.6% signifying an increase in demand for money or credit. Other recurrent spending also increased by 4%, while development spending dropped by 52.9% due to a shortfall in revenue to accommodate all the planned activities (Figure 7). Except for the health, social protection and infrastructure sectors, which exhibited an increase in development spending, all other sectors suffered a decline in development spending. The most affected sectors in terms of their percentage shares in development spending, when fiscal year 2019 is compared with 2020 (with the percentage decline in brackets), are construction (28.9% to 24.0%), trade (0.4% to 0.2%), industry (28.9% to 24%), tourism (0.4% to 0.3%) and education (7% to 6.7%).

**Figure 7 Government expenditure (TZS billion)**



Source: Bank of Tanzania, <https://www.bot.go.tz/>, May 2021

## Public debt

Tanzania’s debt before COVID-19 in 2019 and during the pandemic remains sustainable but debt service costs are high. Total debt stock, which consists of external and domestic debt, reached \$ 29 708.9 million in November 2020; 80.1% or \$ 23 813.6 million was external debt. Compared with the pre-COVID period in 2019, the total debt stock increased by 5% from the end of November 2019 to end November 2020. Part of the reason for the increase in debt is ongoing public infrastructure investments such as the 2 115 MW Nyerere Hydropower Station and standard gauge modern railroad. As Table 1 shows, the risk of both external and public debt distress remains low, with all benchmark ratios below the threshold level. However, debt service spending in 2020/21 is expected to be about 40% of domestic revenue, which will increase the economy’s liquidity risks and will require more precautionary debt management measures going forward.

The Bank of Tanzania debt ratios are below IMF estimates, but the IMF concurs with the bank that Tanzania’s public debt is sustainable and that the country does not suffer from

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“The debt management strategy followed by the government through the central bank has been to maintain the credibility and sustainability of the debt stock to conform to international benchmarks so that Tanzania continues to be creditworthy”

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debt distress.<sup>14</sup> The debt management strategy followed by the government through the central bank has been to maintain the credibility and sustainability of the debt stock to conform to international benchmarks so that Tanzania continues to be creditworthy. The government has developed a sound institutional arrangement consisting of a Monetary Policy Committee, Audit Committee, Bank Supervision Committee and Finance and Investment Committee to ensure oversight and proper management of domestic and external public debt. On average, about 46% of Tanzania’s public debt is owed to multilateral organisations, with most of this debt being concessional loans: 35% commercial loans; 9% bilateral loans, which are mostly concessional; and 10% export credits. As discussed earlier, debt sustainability analysis conducted by the IMF in 2020 shows that the country’s debt is sustainable and all debt indicator ratios are below the acceptable debt threshold (Table 1).

**Table 1 Public debt sustainability indicators**

Indicators	Threshold	2019/20	2020/21	2021/22	2022/23
	Percent				
<b>Present value (PV) of debt-to-GDP ratio</b>	70	27.1	27.5	28.1	29.2
<b>PV of debt-to-export ratio</b>	240	103.9	105.5	110.9	116.7
<b>Debt service-to-export ratio</b>	21	11.9	11.1	9.5	10.3
<b>Debt service-to-revenue ratio</b>	23	11.9	11.9	10.1	10.7

Source: Bank of Tanzania, <https://www.bot.go.tz/>, May 2021

## Fiscal institutional analysis

Tanzania’s fiscal institutional structure is led by the Ministry of Finance and Planning (MoFP), which prepares planning and budget guidelines in each fiscal year. The guidelines have considered the impact of COVID-19 by restructuring the budget to ensure greater budgetary allocation to the health sector and social spending resources, which are channelled through the Tanzania Social Action Fund (TASAF) to help prevent poor families from falling further into poverty due to the pandemic. In the 2020/21 budget, for example, health spending increased by at least \$ 8.4 million (TZS 19.3 billion) using the Bank of Tanzania’s existing contingency reserves for COVID-related priority interventions.<sup>15</sup> Ministries, departments and agencies prepare budget submissions for the fiscal year on the basis of the planning and budget guidelines distributed by

14 IMF African Department, “Request for Debt Relief Under the Catastrophe Containment and Relief Trust”, press release PR20/265, July 2020, <https://www.imf.org/en/Publications/CR/Issues/2020/07/24/Burundi-Request-for-Debt-Relief-Under-the-Catastrophe-Containment-and-Relief-Trust-Press-49607>.

15 TZS is the currency code for Tanzanian shilling.

the MoFP. Budgets of ministries, departments and agencies are submitted to the Inter-Ministerial Technical Committee – a committee of all permanent secretaries that scrutinise budget proposals before final Cabinet approval. In order to facilitate discussions by the Cabinet, the MoFP prepares a draft cabinet budget paper that covers the budget frame, including the financial demands after dialogues with ministries, department and agencies; government priorities; and, finally, the financial implications of the proposed budget interventions. After a thorough review, the Inter-Ministerial Technical Committee may require the MoFP to make further technical improvements to the budget paper or develop recommendations for consideration by the Cabinet. The paper is then sent to the Cabinet for discussion. The role of the Cabinet is to deliberate on the budget cabinet paper and eventually approve government budget proposals for the next fiscal year before they are submitted to the legislature for the Parliament to debate, approve and authorise for the fiscal year. Monetary policy is set by the Bank of Tanzania – specifically the Monetary Policy Committee of the Board of Governors, chaired by the governor and responsible for setting the monetary policy direction of the country on a bi-monthly basis.

## Balance of payments

The overall balance of payments in 2020 narrowed indicating modest fiscal deficits. According to Bank of Tanzania data, during the year ending November 2020, the current account deficit narrowed by half to \$ 818.6 million from a deficit of \$ 1 661.3 million recorded during pre-COVID-19 in the year ending November 2019. The relatively good performance was due to higher exports of goods especially minerals, led by gold (exports rose by 33.6%), followed by cashew nuts, cloves, cotton and horticulture. The narrowing of the deficit was also aided by a decline in the imports bill due to a decrease in imports of capital, intermediate goods and oil, which declined by 28.8%. The overall balance of payments in the year ending November 2020 recorded a deficit of \$ 681.9 million, compared with a surplus of \$ 719.4 million in the corresponding period in 2019, owing to relatively low official flows largely caused by COVID-19. Debt service remained below the sustainability threshold in all indicators compared with the pre-COVID period in 2019 (discussed in the preceding section).

Foreign reserves declined by 14.7% to \$ 4 806.9 million as at the end of November 2020, compared to \$ 5 636.3 million as at the end of November 2019 – partly due to COVID-19 disruption of international trade. The level of reserves, however, was enough to cover 5.6 months of projected imports of goods and services excluding imports related to foreign direct investment (FDI). The import cover was above the country's benchmark of at least four months and the East African Community convergence benchmark of not less than 4.5 months.

## Foreign direct investment

Foreign direct investment (FDI) declined slightly in 2020, as the government continued to invite FDI to finance its industrialisation, large infrastructure investments and other development agendas. In 2019, FDI reached \$ 1 112 million and declined by 17.5% in 2020, partly due to the COVID-19 disruption to international travel and trade. Greenfield investments declined by 25% (Table 2).<sup>16</sup> Investors and potential investors noted that the biggest challenges relate to the high cost of doing business in Tanzania. Some frequently cited challenges include difficulty in hiring foreign workers, reduced profits due to unfriendly and opaque tax policies, increased local content requirements, regulatory/policy instability, lack of trust between the government and the private sector, and mandatory initial public offerings in key industries.

**Table 2 Public debt sustainability indicators**

Foreign direct investment	2017	2018	2019	2020(e)	2021(e)
<b>FDI inward flow (\$ million)</b>	938	1 056	1 112	917	895
<b>FDI stock (\$ million)</b>	13 500	14 556	21 824	20 187	19 450
<b>Number of greenfield investments</b>	22	19	24	18	15
<b>Value of greenfield investments (\$ million)</b>	1 773	684	897	740	650

Source: UN Conference on Trade and Development, "Global Foreign Direct Investment Fell by 42% in 2020, Outlook Remains Weak", <https://unctad.org/news/global-foreign-direct-investment-fell-42-2020-outlook-remains-weak>

As Table 2 shows, FDI is estimated to decline further by 2.4% in 2021 partly due to the second and third wave of COVID-19, but the impact is expected to be low because trading partners have begun opening up their economies and international travel is expected to rebound as the pandemic is brought under control. Despite the persistence of the coronavirus Tanzania still enjoys the confidence of

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“Despite the persistence of the coronavirus Tanzania still enjoys the confidence of international tourists ... the tourist sector is rebounding”

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<sup>16</sup> Greenfield investments are a form of FDI where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

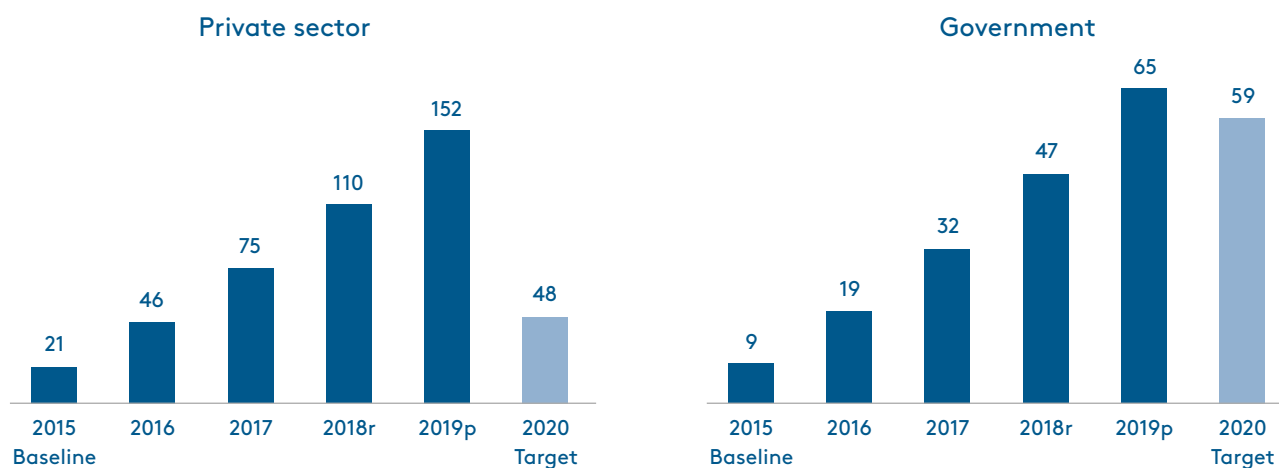


international tourists, who have begun to visit the country. The tourist sector is rebounding, and, with the onset of the peak tourism season, major international airlines resume flights to and from Tanzania, including KLM Royal Dutch Airlines, Swiss Air and Emirates.<sup>17</sup>

## Resource mobilisation

Five-year development plans are Tanzania’s tool for resource mobilisation. During the 2016/17 to 2020/21 plan, resources to be mobilised were estimated at TZS 136 trillion (\$ 64.7 billion) to be defrayed by the private sector, government and donor support. The result by the end of 2020 for the private sector and government on a cumulative basis is shown in Figure 8. Overall, by the end of 2019, the private sector had invested TZS 152 trillion (\$ 72.4 billion), about three times the target of TZS 48 trillion (\$ 22.8 billion). This was largely due to ongoing improvements to the cost of doing business in Tanzania and higher FDI over the past five years. The government had invested TZS 65 trillion (\$ 30.9 billion) against a target of TZS 65.8 trillion (\$ 31.3 billion) by the end of 2019 – slightly short of target. Other financing resources were mobilised from donors and other sources.

**Figure 8** Resource mobilisation for implementing five-year development plan 2016/17 to 2020/21 (TZS trillion)



Source: Bank of Tanzania, <https://www.bot.go.tz/>, May 2021

17 Kizito Makoye, “Tanzania’s Tourism Sector Rebounds as Virus Fears Wane”, Anadolu Agency, <https://www.aa.com.tr/en/africa/tanzania-s-tourism-sector-rebounds-as-virus-fears-wane/1942968>.

With regards to COVID-19 resource mobilisation to counter the severe impact of the pandemic, the government prepared the National COVID-19 Response Plan estimated at TZ 250 billion (\$ 109 million) or 0.17% of GDP (as compared with Kenya at 2.8%, Rwanda at 2.2%, Uganda at 0.8% and Burundi at 0.3%) to develop and coordinate mitigation measures, as well as to mobilise resources. This response plan aims to prevent and detect the threats posed by COVID-19, while strengthening the country's systems preparedness for public health emergencies. In implementing the response plan, the government has spent substantial resources to create awareness of the pandemic, precautionary measures to take, and directed use of greater funding in the health sector to mitigate the spread of the pandemic. In addition, the government re-prioritised expenditure in the 2020/21 budget by increasing health spending by at least \$ 8.4 million (TZS 19.3 billion) using existing contingency reserves for COVID-related priority interventions identified in the COVID-19 response plan. The government efforts to combat the spread of the pandemic have received various private, philanthropist, non-government and development partner support as shown in Figure 8 and amplified as follows:

- Important contributions from the private sector and philanthropists to support the government's efforts have included donations (of \$ 98 885.30, \$ 644 904 and \$ 42 993.60, respectively) by the United Bank for Africa, the Cooperatives Rural and Development Bank and National Microfinance Bank Limited, to provide relief materials and critical care facilities.
- Jack Ma donated 100 000 masks, 20 000 testing kits and 1 000 protective suits, contributions from other micro, small and medium enterprises to procure oxygen, vehicles for COVID-19 awareness campaigns and generators to support hospitals to the value of \$ 282 725.92.
- Government requested COVID-related debt relief from the IMF and received \$ 14.3 million (TZS 32.9 billion) in June 2020, and this is expected to alleviate Tanzania's balance of payment needs stemming from COVID-19.
- Government borrowed \$ 3.79 million (TZS 8.7 billion) in September from the World Bank to support laboratory diagnosis and management of COVID-19 cases.
- Government obtained a \$ 50.7 million (TZS 116.6 billion) loan from the African Development Bank as 'Covid-19 crisis response budget support'.
- Government obtained a Euro 1.5 million (TZS 3.75 million) grant from Ireland's initial response to support Tanzania to fight the pandemic, and the Irish Embassy plans to provide a second series of disbursements totalling more than Euro 4 million (TZS 10 billion) to strengthen the health system and respond to COVID-19 in addition to the Euro 5 million (TZS 13 billion) contribution to the country's Health Basket Fund in 2020.
- Government obtained Euro 27 million (TZS 62.1 billion) from the EU to combat the pandemic and other COVID-19 related interventions.

- Government obtained \$ 2.7 million (TZS 6.2 billion) from various donors, including China's Huawei, Twiga Minerals Corporation, businessman Rostam Aziz, and Puma Energy to enable the government to defray COVID-19 related costs, including medical supplies and technological gadgets.
- Government obtained \$ 542 000 (TZS 1.2 billion) from the French government to support government's plans directed at epidemic prevention, food security and economic assistance to high risk and vulnerable rural populations.
- Government obtained \$ 600 000 (TZS 1.4 billion) from the UN Development Programme in support of efforts to combat the spread of the pandemic and other COVID-19 related interventions.
- Government obtained \$ 1 million (TZS 2.3 billion) from the US government to help defray some of the costs related to COVID-19.
- UNICEF, on behalf of the government, appealed to various development partners to support \$ 22.9 million (TZS 52.6 billion) to support provision of critical life-saving services for vulnerable women and children who have been affected by the pandemic, floods that continue to affect vulnerable groups in some districts of Tanzania, and refugee children living in three camps in north-western Tanzania. As at the end of 2020, UNICEF had mobilised 86% of the resources planned.
- The World Diabetes Foundation received a DKK 5 million<sup>18</sup> (TZS 1.8 billion) grant from the Novo Nordisk Foundation to support the COVID-19 response in Tanzania with a focus on people living with diabetes and other non-communicable diseases.
- In October 2020, UN Tanzania appealed for \$ 158.9 million (TZS 365.5 billion) from various donors to help Tanzania combat the spread of the pandemic and facilitate bouncing back to 'build back better' to a pre-pandemic socio-economic growth path. The urgently needed resources amount to \$ 81.4 million (TZS 187.2 billion). According to the UN system in Tanzania, the resources mobilised so far are not adequate to contain the spread and reduce the risk and impact of the pandemic to the most vulnerable members of the population. In a thorough analysis contained in a UN report titled " 'The Flash Appeal',<sup>19</sup> the UN system has identified critical urgent measures to support Tanzania's effort to address the impact of COVID-19. The urgently needed resources will be used to reach 7.4 million high risk people out of the 11.1 million in need of support in the sectors of protection; health; education; nutrition; water,

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18 DKK is the currency code for Danish krone.

19 UNICEF "Tanzania Humanitarian Situation Report No. 4", 2020, <https://reliefweb.int/sites/reliefweb.int/files/resources/Tanzania%20Humanitarian%20Situation%20Report%20No.%204%20%28January-December%202020%29.pdf>.

sanitation and hygiene; food security; livelihoods and other interventions related to COVID-19 to contain the spread of the pandemic and reduce the hardships facing the most vulnerable populations in Tanzania.

## COVID-19 impact

The COVID-19 pandemic is having an adverse economic impact on Tanzania's fiscal and balance of payments demands. Its adverse impact on the country's macroeconomic performance has resulted in a drastic reduction in tourism and traditional exports receipts, exerted budget pressures, and decelerated GDP growth from about 7% in 2019 to a projected 5.5% and 5.4% in 2020 and 2021, respectively. As noted earlier, the World Bank estimates that Tanzania's real rate of growth is likely to slow down to 5.8% in 2020 before rebounding to 6.1% in 2021, and the African Development Bank estimates 6.4% and 6.6% for 2020 and 2021, respectively. These estimates seem not to consider the severity of the second wave of the pandemic, which could plunge the economy into an even lower growth trajectory than projected by the government and development partners.

Tourism earnings dropped substantially – the sector was severely affected by the pandemic due to the disruptions in international travel. The tourism sub-sector is one of the cornerstones of Tanzania's economy, contributing about 17.2% to the country's GDP and 25% of all foreign exchange revenues. The sector, which provides direct employment for more than 600 000 people, generated approximately \$ 2.4 billion in 2018 and \$ 2.5 billion in 2019.<sup>20</sup> In 2020, the number of international tourist arrivals declined by 59.6% to 616 491 from 1 527 230 in the year ending December 2019. This resulted in a drop of 59.2% from tourism earnings to \$ 1.06 billion, exerting undue pressure on the country's balance of payments.

Traditional export earnings also declined due to the disruptions in international trade. The value of traditional exports dropped by 8.8% to \$ 8.8 billion in December 2020, from \$ 9.65 billion in December 2019. The Bank of Tanzania attributed the decrease to declines in export values of cashews, coffee and cotton, and reduced volumes and prices of tea and sisal. On a month-by-month basis, the value of traditional goods exports decreased by 11.4% to \$ 135.5 million in December 2020 from \$ 153 million in the same month in 2019. The COVID-19 induced reduction in export earnings also impacted the smallholder farmers who constitute over 67% of the country's workforce or about 11.3 million people during the 2019/20 crop season, in terms of reduced farm-gate prices and incomes.

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20 Kizito Makoye, "Tanzania's tourism sector rebounds as virus fears wane", August 15, 2020, <https://www.aa.com.tr/en/africa/tanzania-s-tourism-sector-rebounds-as-virus-fears-wane/1942968>.

Gold export earnings rose to ameliorate the balance of payments tension caused by the pandemic. Tanzania's earnings from gold exports rose 34% in 2020 due to increased output and higher prices.<sup>21</sup> Gold exports realised \$ 2.95 billion, up from \$ 2.21-billion in 2019. The good performance supported the current account deficit, which narrowed to \$ 662 million from \$ 1.3 billion. This is because imports declined due to the interruption in international trade triggered by the pandemic. In 2020, Tanzania's oil imports fell by 30% to \$ 1.25 billion compared with 2019, while exports of manufactured goods rose by 13% to \$ 912 million despite pressure exerted by the disruption to international trade. The 'business as usual' approach followed by government during the pandemic probably reduced the risk of a severe impact on businesses, which continued to operate at almost normal levels.

The most vulnerable populations are being affected both directly and indirectly by the pandemic. World Bank simulations that use the 2018 Household Budget Survey reveal that about 500 000 Tanzanians could fall below the poverty line due to the pandemic, particularly the vulnerable living in urban settings who rely on self-employment and informal/microenterprises.<sup>22</sup> The World Bank conducted the COVID-19 Business Pulse Survey that covered 1 000 small and medium enterprises in Tanzania in June and July 2020. The survey notes that about 140 000 formal jobs were lost in June 2020, and another 2.2 million non-farm informal workers suffered income losses.<sup>23</sup> Although a breakdown of groupings was not indicated, government and development partner funding that supports vulnerable populations is channelled through the TASAF, which has transparent beneficiary criteria and takes gender into account. For example, a 2017 survey of TASAF performance shows between 50% and 54% of the fund's beneficiaries have been women. This sub-indicator,

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“World Bank simulations – using the 2018 Household Budget Survey – reveal that about 500 000 Tanzanians could fall below the poverty line due to the pandemic, particularly the vulnerable living in urban settings who rely on self-employment and informal/microenterprises”

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21 Bank of Tanzania, “Monthly Economic Review, January 2021”, <https://www.bot.go.tz/Publications/Filter/1>.

22 World Bank, “Tanzania Economic Update, June 2020: Addressing the Impact of COVID-19”, <https://openknowledge.worldbank.org/handle/10986/33878>.

23 World Bank, “COVID-19 Business Pulse Survey for Tanzania, June-July 2020”, <https://www.worldbank.org/en/country/tanzania/overview>.

however, simply recorded the general proportion of male/female household members, mirroring the country-level male/female population proportion. More indicative of a gender impact is the fact that while 51% of the beneficiary households were female-headed, an overwhelming 83% of the direct recipients of the cash benefits on behalf of the households were women.<sup>24</sup> The COVID-19 Business Pulse Survey further reveals that the pandemic has had a severe impact on 81% of Tanzanian businesses (with sales falling by an average of 39%); 35% of them could fall into arrears with either their financial obligations or payments to suppliers, and an estimated 20% have temporarily closed their businesses. UN Tanzania estimates more than 11.1 million people,<sup>25</sup> about 19.1% of Tanzania's estimated 58 million people in various regions, are being adversely affected by COVID-19 and need urgent help to mitigate further deterioration of their living standards, including falling further below the poverty line. The UN Tanzania report does not provide a breakdown in terms of gender, youth and other vulnerable groups but provides requirements by sector.

The pandemic has had an adverse effect on banks and other financial institutions. In recent years, the asset quality of commercial banks has deteriorated, and the pandemic continues to have an impact on financial institutions. Provisioning needs have increased. Credit growth has decelerated, hitting borrowers hard, and attempts at dollarisation of bank balance-sheets could create liquidity pressures under the adverse shock scenarios being ushered in by the pandemic (considering that 30% of assets and liabilities are foreign exchange denominated). Non-performing loans (NPLs) have increased, with 24 banks having NPL ratios between 10-30%. Vulnerabilities associated with the pandemic could also amplify the impact of external and domestic shocks, including from tighter global financial conditions and lower trading partner economic growth. Large corporate borrowers that depend mainly on imported inputs continue to suffer, and this has led to reduced production and contract sales. Subsequently, corporate borrowers struggle to repay loans, and if the pandemic does not abate in the near future, commercial lenders will find themselves in a greater predicament in the medium to long term.

The pandemic is inducing an economy-wide liquidity crunch, and this is leading to a sharp drop in cash flow for many businesses, pushing some solvent but illiquid firms into bankruptcy. Many households and businesses – especially micro, small and medium enterprises (MSMEs) – are confronting falling incomes, disruptions in supply chains, tighter credit conditions and a liquidity crunch. As a result, the economy is witnessing delayed deliveries and payments, job losses – and, ultimately, business closures and bankruptcies as witnessed by the closure of many MSMEs in the Kariakoo, Dar es Salaam business area (and other parts of the country). Less profitability,

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24 Tanzania Social Action Fund (TASAF), UNOTED Nations Children's Fund (UNICEF), "Tanzania Youth Study of the Productive Social Safety Net (PSSN) Impact Evaluation Report", April 2018, [https://www.unicef-irc.org/publications/pdf/Endline\\_report\\_final\\_rev.pdf](https://www.unicef-irc.org/publications/pdf/Endline_report_final_rev.pdf).

25 United Nations Tanzania, "Flash Appeal for COVID-19: July-December 2020", [https://reliefweb.int/sites/reliefweb.int/files/resources/Tanzania\\_Emergency\\_Appeal\\_July\\_2020.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/Tanzania_Emergency_Appeal_July_2020.pdf).

lower asset quality and a drop in credit growth can have second-round effects on the real economy and jeopardise the country's financial stability. The business uncertainty and risk aversion among investors due to the pandemic could raise the cost of funding in both external and local capital markets, especially on the Dar es Salaam Stock Exchange. For example, when the government declared that Tanzania is 'coronavirus free' on June 8, 2020,<sup>26</sup> markets reacted to this uncertainty with a day of zero trading.<sup>27</sup> This indicated serious uncertainty and a disconnect between buyers and sellers, as well as an inadequate disclosure of the severity of the pandemic.

The impact of the precautionary measures announcement by the government related to the outbreak of COVID-19 in March 2020 are reflected well in a story by UN Tanzania. In this story, some women 'lament that 'times are hard, people are not buying as they used to buy before this 'coronavirus'.<sup>28</sup> This expresses the sentiment of many women entrepreneurs who and MSMEs all over the country, including agri-dealers, that have seen a remarkable slowdown in business activities, and this has critically affected the consumption patterns of many Tanzanians. Fortunately, maize, rice, fruits and vegetables continue to be readily available in local retail shops and kiosks at fairly affordable prices. However, prices are expected to rise as the second wave of COVID-19 pandemic continues to exert severe suffering and pain on families who have lost loved ones and who are facing a liquidity crunch that appears to have no solution in the near future.

There is massive socio-economic pain as the pandemic hits rural livelihoods hard. In Tanzania, more than 67% of its 59 million people reside in rural areas. During the first wave, the government's official number of pandemic-related deaths

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"The pandemic is inducing an economy-wide liquidity crunch, and this is leading to a sharp drop in cash flow for many businesses, pushing some solvent but illiquid firms into bankruptcy profitability and solvency"

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26 BBC, "Coronavirus: John Magufuli Declares Tanzania Free of Covid-19", <https://www.bbc.com/news/world-africa-52966016>.

27 Josephine Christopher, "Tanzania: Shock and Surprise as Dar es Salaam Stock Exchange Records Zero Trading", *All Africa*, <https://allafrica.com/stories/202006090065.html>.

28 UN, "COVID-19's Economic Impacts on Women in Tanzania", <https://tanzania.un.org/en/42450-covid-19s-economic-impacts-women-tanzania>.

released in May 2020 was 21. Ever since, there has been no official disclosure of deaths. During the second wave, although there are no official figures, the announcement by the Catholic Church of Tanzania that 85 religious men and women have died due to suspected COVID-19 outbreaks between January and February 2021<sup>29</sup> shows that the second wave of the pandemic is devastating, causing untold pain to families all over the country. The measures the government announced in January 2021 (including an appeal to citizens to take precautionary measures) are not working because some believe that Tanzania does not have the COVID-19 virus.<sup>30</sup> Very few Tanzanians wear protective masks, observe social distancing or wash hands regularly. This suggests that there will continue to be a rise in the death toll, which will be compounded by government ruling out vaccines.

Despite the country being 115-120% food-self-sufficient in 2019 and 2020, some people are experiencing serious food shortages and need urgent help. The World Food Programme estimates nearly 1 million people or 20% out of the 4.8 million surveyed in 16 districts in Tanzania were estimated to be experiencing severe food insecurity, with a further 760 600 people or 16% estimated to be in a crisis situation.<sup>31</sup> Furthermore, the impact of the pandemic and containment measures are causing major distress in the following ways:

- Loss of income to workers who have been laid-off ‘without public disclosure’.<sup>32</sup>
- Unpaid salaries (this has been the case in some private schools following closure due to the pandemic. The affected workers have in turn lost the ability to purchase food, adversely affecting their households and reducing income to food suppliers).
- Social distancing is one of the government-announced COVID-19 mitigation measures but is being implemented under ‘business as usual’ circumstances without being backed by policy or enforcement. This precautionary measure has affected transportation and participation in lucrative markets in Dar es Salaam with its over 5.8 million consumers, thus reducing income to MSMEs, many of whom are women.
- High losses of income to horticulture producers as witnessed by the high wastage and spoilage of their fruits and vegetables, as well as other agricultural export products largely due to COVID-19 disruption of air cargo transport and partial border closures by Tanzania’s

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29 J-P Mauro, “Tanzania Reports the Deaths of 60 nuns, 25 Priests to COVID-19”, *Aleteia*, <https://aleteia.org/2021/03/05/tanzania-reports-the-deaths-of-60-nuns-25-priests-to-covid-19/>.

30 BBC, “Coronavirus: John Magufuli Declares Tanzania Free of Covid-19”.

31 World Food Programme, WFP Tanzania, Country Brief (Tanzania, WFP, May 2020), <https://reliefweb.int/report/united-republic-tanzania/wfp-tanzania-country-brief-may-2020>.

32 Public disclosure on COVID-19 ended in May 2020, when the government announced the country had 509 coronavirus infected cases and 21 deaths. Since then, there has been no other public information on the pandemic, including monetary and fiscal measures the government has been taking through the Bank of Tanzania and other government ministries, departments and agencies to combat the impact of the pandemic.



regional trading partners, resulting in huge loss of income to MSMEs and cross-border traders, the majority being women (as discussed further below).

COVID-19 has disrupted 'marine transportation, and 'countries all over the world responded by restricting transportation of both passengers and goods ships as a way of containing the spread of COVID-19'.<sup>33</sup> Consequently, Tanzania witnessed a drastic reduction in the number of ships visiting the country', which has led to 'reductions in exports (manufacturing and agriculture) as well as imports via the ports, with the heaviest impact being on the Dar es Salaam port and its associated logistics companies.

COVID-19 has had a severe impact on informal cross-border trade. The seven countries surrounding Tanzania (Kenya, Uganda, the Democratic Republic of the Congo, Burundi, Mali, Mozambique and Rwanda) provide ample opportunity for informal cross-border trade, which represents about 40% of regional trade. The pandemic has hit women informal traders hard. They represent over 70% of the traders as well as other MSMEs. For example, at the Tanzania-Kenya border posts of Sirari, Namanga and Holili, Tanzanian truck drivers transporting various goods (mostly cereals, fruits, vegetables, tubers, etc.) from Tanzania to Kenya were subjected to mandatory COVID-19 testing. This resulted in long truck queues as they awaited the outcome of the test results. The truck drivers and consignment owners witnessed their products progressively losing quality and becoming spoiled, which resulted in a huge loss of income. At Namanga, for example, both Kenya and Tanzania used to benefit from cross-border trade, with monthly revenue collections at the border in 2019 averaging \$ 13.6 million and \$ 10.7 million per month, respectively.<sup>34</sup> The pandemic lockdown measures have reduced the monthly revenue earnings by 54%, and this has resulted in huge income losses, especially to MSMEs and women traders. At the Tanzania-Rwanda border at Rusumo, motorbike border traders observed that before the pandemic in 2019, they were earning an average of TZS 6 000 per day transporting various goods between the two countries, but in 2020 they have seen net profits decline by 50% to only TZS 3 000. Similar sentiments were expressed by foreign exchange dealers at the border who have seen net profits from transactions with agricultural crops traders, including informal MSME traders, falling from TZS 100 000 per day in 2019 to a mere TZS 10 000 (or a 90% reduction in income). This has had a huge impact on their families and capacity to meet daily consumption needs and pay school fees for their children.

Although neighbouring countries seem to have experienced a shortage of food grains associated with the interruption of international trade, the government opted to retain its carry-over stocks of 505 274 metric tons stored by the National Food Reserve Agency and Cereals and

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33 UNDP "Rapid Socio-Economic Impact Assessment of COVID-19 in Tanzania", April 14, 2020, <https://www.undp.org/content/dam/tanzania/docs/docs2020/undp-tz-SEA-Report%20Rapid-COVID19.pdf>.

34 [https://www.icpac.net/media/documents/FSNWG\\_Full\\_Presentation\\_20\\_March\\_2020.pdf](https://www.icpac.net/media/documents/FSNWG_Full_Presentation_20_March_2020.pdf).

Other Produce Board of Tanzania. Instead, during the pandemic in 2020, the government advised farmers and traders with carry-over stocks and purchases from recent good harvests to take the opportunity offered by COVID-19 to engage in regional and cross-border trade. Most traders, including women and MSMEs took advantage of this government advice, but some were disappointed in the partial border closings in neighbouring countries. Tanzania's Crop and Produce Board exported 500 metric tons of maize flour to the Democratic Republic of Congo in April 2020, and sold 6 000 metric tons of maize and 1 500 metric tons of beans to the World Food Programme in April and May 2020.

Tanzania's economy is facing a country-wide shortage of imported agricultural inputs due to the pandemic. Agricultural input dealers have observed inadequate supplies of imported goods – fertilisers have increased by 16.1% from \$ 31/50kg in 2019 to \$ 36/50kg in 2020. Tanzania imports about 80% of its fertilisers and 60% of its seeds. COVID-19 has reduced considerably the number of ships docking in Tanzania's port of Dar es Salaam. A recent study notes that 'COVID 19 has brought about a huge rise in the cost of inputs (fertiliser) whose impact will be felt in the next planting season'.<sup>35</sup> Overall, the country is facing a shortage of vital agricultural inputs. The government has observed this shortage and has begun subsidising agricultural inputs to flood-affected areas, largely through the provision of seeds at a cost of TZS 2.5 billion (\$ 1 190 000). However, these resources are grossly inadequate to support private sector agri-input importers and agri-dealers. Annually, the government provides over \$ 75 million in agri-inputs subsidies (fertiliser, seeds, agri-chemicals), mostly for the food value chains, but with the slowdown of the economy and interruption of international trade due to the pandemic, financing capacity has been reduced and external sources are now needed to assist.

MSMEs engaged in mining are being severely impacted by the pandemic. A scoping study conducted in Tanzania by the International Peace Information Service in the gold, gemstone, diamond, salt and limestone communities<sup>36</sup> reveals that the impact of the pandemic on MSMEs mining is very high. Mineral production, trade and livelihoods have been seriously affected mostly because of travel bans, border closures and other preventive measures put in place in various countries to control the spread of the virus. Due to the disruption in international trade, the average price paid for a gram of gold was 22% lower in 2020 compared with 2019. Diamond and tanzanite prices seemed to be badly affected, with reported reductions of 60-70% in 2020 compared with prevailing prices in 2019. While miners experienced a much-reduced income, the challenges facing the MSMEs quickly trickled down to impact the available income, employment

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35 UNDP Tanzania, "Support to the National Response to Contain the Impact of COVID-19 Situation Analysis", <https://www1.undp.org/content/dam/rba/docs/COVID-19-CO-Response/undp-rba-covid-tanzania-apr2020.pdf>.

36 Mieke Thierens and Elard Mawala, "The Impact of Covid-19 on Artisanal Mining Communities in Northern Tanzania", International Peace Information Service Insight (IPIS), July 2020, [https://ipisresearch.be/wp-content/uploads/2020/08/202008\\_ASM-Covid-NTan zania\\_Layout1.pdf](https://ipisresearch.be/wp-content/uploads/2020/08/202008_ASM-Covid-NTan zania_Layout1.pdf).

and livelihood opportunities of mining communities ranging in size between 301 400 to 485 600 in the study area of Geita, Shinyanga, Mara and Kigoma.<sup>37</sup>

## Macroeconomic policy measures put in place to reduce the impact of COVID-19

### Fiscal policy measures

The 2020/21 budget was developed under the COVID-19 fiscal threat. Government has taken into consideration the outbreak of the pandemic, which continues to affect all sectors of the economy. The main thrust of the budget has been to stimulate the economy to safeguard livelihoods, jobs, businesses and industrial recovery to enable the economy to 'build back better' while creating an enabling policy environment for a return to a pre-pandemic socio-economic growth path. Further, the budget has taken note of the serious damage caused by heavy rainfalls in 2020 and 2021, including the destruction of transport and transportation infrastructures in rural and urban areas, as well as destruction of crops such as grapes, maize and rice in some districts of the country. Based on this observation, the government will need to use the post-pandemic stimulus to build back towards a more climate resilient economic growth path. In order to implement its resolve and return to the pre-COVID growth trajectory, the government undertook the following:

- Re-prioritise expenditure in the 2020/21 budget by increasing the health spending budget by at least \$ 8.4 million (TZS 19.3 billion) using existing Bank of Tanzania contingency reserves for COVID-related priority interventions. Apart from helping Tanzania reduce the deaths associated with the pandemic, the resources have and will help to protect health workers, thus reducing the number of health staff who might contract the coronavirus.
- Re-programme social spending amid the pandemic to support improving the livelihoods of poor households through the implementation of the Productive Social Safety Net Programme through the TASAF. This programme will allocate TZS 2.03 trillion (\$ 882.6 million) to be spent during the second term of the third phase (2020-2023) of TASAF plan implementation. Implementation of the programme is ongoing and no study has been undertaken to assess impact. However, the identified priority beneficiaries in several of the most affected districts are receiving funding from TASAF.

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37 Estimates based on the mapping and survey of 447 mining and processing sites located in Geita, Shinyanga, Mara and Kigoma, visited by IPIS in 2018. Hans Merket, "Mapping Artisanal and Small-scale Mining in Northwest Tanzania: A Survey on its Nature, Scope and Impact", IPIS January 2019, [https://ipisresearch.be/wp-content/uploads/2019/01/1901-ASM -Tanzania\\_web@.pdf](https://ipisresearch.be/wp-content/uploads/2019/01/1901-ASM -Tanzania_web@.pdf).

- Ensure clean, stable and reliable energy supplies to consumers in rural and urban areas and businesses through investing TZS 1.60 trillion (\$ 695.6 million) for construction of the 2 115 MW Julius Nyerere Hydropower Station, which started in 2019 and is expected to be completed in 2022. The power project is expected to spur socio-economic growth. The project has taken-off to a good start with an estimated 45% of the works completed as of April 2021.
- Improve transport and transportation by increasing the budget for the Ministry of Works, Transport and Communications, and invest TZS 2.10 trillion (\$ 913 million) for construction of the hydroelectric standard gauge railway project, and TZS 823.7 billion (\$ 358.1 million) to improve the other railway system, which currently uses diesel but might be converted to hydroelectricity once the Julius Nyerere project is completed. The improvements will reduce the cost of transport while also improving the business environment. The project is being implemented in five phases: 202km phase 1 (Dar es Salaam to Morogoro section); 348km phase 2 (Morogoro to Makutopora section); 294km phase 3 (Makutopora to Tabora section); 130km phase 4 (Tabora-Isaka section); and 341km phase 5 (Isaka to Mwanza section). Phases 1 and 2 are at completion stage.
- Improve access to water and energy supply in both rural and urban areas by increasing funding to the Ministry of Water and Irrigation and the Rural Energy Agency to enable continued electrification of rural areas where the main source of power will be renewable energy, such as hydroelectricity and solar power.
- Continue to improve the education, skills and knowledge base of the population through investing TZS 298.1 billion (\$ 129.6 million) in fee-free basic education and TZS 490 billion (\$ 213 million) in student loans for higher education to enable the creation of a skilled workforce. The 'fee-free' education system has proved a great success with enrolment surpassing the infrastructure capacity of schools and necessitating the allocation of extra funding to build additional classrooms, train more teachers and procure more teaching materials.
- Pay verified arrears amounting to TZS 600 billion (\$ 260.8 million) for employees, service providers, suppliers and contractors in roads, water and energy to reduce the hardship they faced during this pandemic.
- Create a COVID-19 taskforce to conduct a thorough impact analysis of the pandemic and advise the government on policy actions, including stimulus measures and vaccinations. Depending on the findings from the taskforce, the response to the pandemic is likely to increase future fiscal spending.

## Tax measures

The government undertook several fiscal policy measures to reduce the impact of the pandemic including:

- Mobilising greater tax revenue to reach an estimated 12.9% of GDP in 2020/21 from 12.1% in 2019/20 by streamlining and improving tax administration, broadening the tax base, reducing nuisance taxes, reducing tax rates, fees and levies and curbing tax evasion in order to reduce the cost of doing business in Tanzania. Currently the country does not consider imposing carbon taxes because the exploitation of coal reserves has not started and the extraction of natural gas is too low to have much impact on the generation of greenhouse gases.
- Exempting value added tax (VAT)<sup>38</sup> on agricultural crop insurance, which will reduce the cost on agricultural crop insurance and therefore enable farmers to insure their agricultural crops against unforeseen tragedies such as droughts and floods. This policy action can be considered to be a climate resilience measure because it helps farmers to cope with the adverse effects of climate change.
- Enabling exporters of raw products to recover input tax, which will enhance the competitiveness of their products in international markets, as well as abide to the VAT destination principle.
- Increasing the minimum threshold of primary cooperatives societies liable to income tax from TZS 50 million to TZS 100 million (\$ 21 740 to \$ 43 470) in order to provide tax relief, including savings and credit cooperative society (SACCOS) to enable improved coping mechanisms and reduce risks associated with reduced commercial bank credit to MSMEs.
- Increasing the minimum threshold of employment income (PAYE) not liable to tax by 58.8% from TZS 170 000 to TZS 270 000 per month (\$ 74 to \$117) to reduce the hardship that low-income employees were experiencing due to the pandemic.
- Reviewing the impact of the coronavirus and recommending further implementation measures. 'We cannot isolate ourselves as an island while the world is moving in a different direction,' said the Honorary Samia Suluhu, the first woman to become president of Tanzania.<sup>39</sup> She took office in March 2021 and appointed a high-level team of experts to conduct the review, which was yet to be completed at the time of writing.

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38 In Tanzania, VAT is 18%.

39 Priya Sippy, "Tanzania's New Leader is Making up for Lost Time in the Fight Against Covid", Quartz Africa, May 7, 2021, <https://qz.com/africa/2006013/tanzania-president-samia-hassan-issues-new-covid-19-restrictions/>.

# Monetary policy measures to reduce impact of COVID-19 pandemic

The Bank of Tanzania has implemented several monetary measures to reduce the impact of the pandemic and 'build back better' as follows:

- **Accommodative monetary measures:** In order to ease the liquidity crunch facing the country, the central bank utilised an accommodative monetary policy to shield the economy from the effects of COVID-19. In this regard, the bank extended a broad money supply to an annual growth rate of 9.5% in June 2020 compared to 7.7% in June 2019. To complement this measure, the central bank lowered the statutory minimum reserves requirements of commercial banks and financial institutions from 7% in June 2019 to 6% in June 2020 to provide them with additional liquidity, as well as to encourage a greater supply of credit to the private sector to stimulate economic growth.
- **Lowering the cost of borrowing from the Bank of Tanzania:** In order to ease the scarcity of bank credit facing private sector businesses due to the pandemic, the central bank reduced the discount rate from 7% to 5%, which was sufficient to achieve its intended purpose. The discount rate is the rate at which the central bank lends to banks. This policy measure, which came into effect in May 2020, was meant to enable banks to borrow additional funds from the central bank at a lower discount rate to offer their customers a lower rate to encourage greater investment and spur economic growth.
- **Reducing haircuts<sup>40</sup> on treasury bills:** The central bank reduced haircuts from 10% to 5% and on treasury bonds from 40% to 20% in order to increase the ability of commercial banks to borrow from the central bank with less collateral than before to further ease the credit crunch facing the economy.
- **Easing loan repayments by businesses:** COVID-19 has hit hard businesses engaged in import and export, transportation, tourism and accommodation. Some of these businesses have failed to repay loans. In order to ease the severe impact on businesses, banks have restructured loans to their customers by reducing interest rates, allowing debt payment in instalments and extending the return period. Banks have also issued moratoriums to the extent of giving relief to their customers. In order to curb the general slowdown in private sector credit growth and the increasing number of NPLs, the central bank issued a directive

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<sup>40</sup> Haircuts are the difference between the current market value of an asset and the amount that can be used as collateral for a loan. A higher haircut means that if there is a drop in the market value of the collateral, the lender is still able to recover the amount that has been maintained as collateral.

to banks to reduce the NPL ratio to no more than 5% and allowed restructuring of NPLs up to four times during the pandemic.

- **Increasing transactions limits for mobile money:**

In order to reduce congestion in public places such as banks during the pandemic and further ease the countrywide liquidity crunch, the central bank increased daily transaction limits for mobile money customers from TZS 3 million to TZS 5 million (\$ 1 300 \$ 2 170) as well as increasing daily balance amounts from TZS 5 million to TZS 10 million (\$ 2 170\$4 350) for all mobile money platforms. Promotion of non-cash payments by sellers and the increase in transaction limits and permitted balances are expected to increase the velocity of money in circulation because it reduces the time and transaction costs of making retail payments thus ameliorating the country's liquidity crunch.

## Conclusion

Tanzania, like most economies globally, is facing an unprecedented macroeconomic crisis as attempts are made to contain the impact of the pandemic. The country's 'business as usual' approach (which excluded a lockdown of economic activity apart from urging the population to take precautionary measures) and expansionary macroeconomic policy measures appear to be working because the country averted a recession in 2020. However, some sectors such as imports, exports and tourism have been seriously affected, and cannot be easily reached through a domestic fiscal and monetary stimulus. Recovery in these sectors will depend on how quickly trade and tourism partners recover. The government's fiscal and monetary measures have been largely successful in cushioning the severity of the pandemic on the population and businesses while preventing socio-economic deterioration. According to the Bank of Tanzania projections, the economy is on a good path to 'build back better' in 2021 and return to a pre-COVID growth path.

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"The country's 'business as usual' approach and expansionary macroeconomic policy measures appear to be working because the country averted a recession in 2020"

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# Policy recommendations

The Bank of Tanzania's monetary policy response and the fiscal policy measures have been successful in helping many parts of the nation's economy to respond effectively to the pandemic – averting a recession in 2020. As the second wave of the pandemic continues to hit the economy hard, policies that have worked well – such as keeping inflation at targeted levels of 5% or below, acting prudently in the management of interest rates, keeping fiscal deficits low, maintaining both external and public debt distress low, and upholding import cover above the country's benchmark of at least four months – are crucial to enable the economy 'bounce back better'. As the pandemic continues unabated, additional policy measures are needed.

## Monetary policy measures

The Bank of Tanzania should continue with measures undertaken in 2020 to reduce NPLs and increase provisioning and buffers to manage liquidity, credit and concentration risks. These policy measures should be augmented by strengthening banking supervision and close monitoring of NPLs. Due to the observed liquidity crunch, policy measures – to deepen financial markets, further ease mobile money availability and modernise the monetary policy framework – should be combined with new prudential tools to enhance systemic liquidity management in the economy. In this regard, the Bank of Tanzania should complement its current monetary measures with macroprudential policies. These are financial policies aimed at ensuring the stability of the financial system as a whole to prevent substantial disruptions in credit and other vital financial services, such as are necessary for stable economic growth and 'building back better'. Some of these macroprudential tools the bank can use include setting limits on loan-to-value ratios or debt service-to-income ratios for mortgage borrowers. These limits can be macroprudential when intended to not only protect an individual borrower from too much debt, but also to protect home values and assets from falling sharply – many borrowers have trouble making their payments at the same time due to COVID-19 as discussed briefly above (under increasing non-performing loans as a consequence of the pandemic). Another tool could be to use capital buffer, which requires banks to increase their capital cushions during an economic expansion when systemic risks are rising, and then release them in an economic downturn to absorb losses. This tool reduces the capital constraint through releasing the buffer when the economy slows and helps to insure against deleveraging, which, if not counteracted, could deepen the downturn by restricting credit to the economy and worsening the liquidity crunch.

The Bank of Tanzania should continue to implement accommodative monetary policy measures and to fast track liquidity-easing measures to shield the economy from deterioration and avert a recession, which could easily be brought about by the second wave of COVID-19. The measures



should reduce the risk of further closure of small and medium scale businesses, ensure that banks have adequate liquidity for onward lending to businesses at reduced interest rates, and spur private investments essential to enable the economy to recover and return to pre-COVID growth.

## Fiscal policy measures

There should be a focus on further strengthening health systems to save lives. Resources allocated in 2020 for the prevention, detection and treatment of COVID-19 cases were grossly inadequate. In order to protect lives, increased financing of the health sector is needed to equip medical facilities, protect medical personnel and facilitate the availability of all types of protective gear at a low cost to improve adherence to precautionary measures. Disclosure of information on the pandemic and actions being taken by the government is important to make Tanzanians aware of the severity of the situation to ensure compliance with regards precautionary measures.

Social protection measures to shield the most vulnerable population, including women, youth and the elderly is crucial to prevent them from falling below the poverty line. In this regard, the government should support the mobilisation of UN-identified 'Flash appeal for Covid-19' resources, as well as to fast track the disbursement of \$ 882.6 million funds budgeted for the Productive Social Safety Net Programme implemented by TASAF. TASAF has recently piloted an e-payment programme in 16 districts in Tanzania in which over 65% of Productive Social Safety Net Programme recipients are women, and over half are women-headed households.

Government should continue focusing on investment in education, skills development, healthcare, and research and development. Investment in these areas is thought to have high long-run multiplier effects through raising human capital, improving health outcomes and encouraging

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“The Bank of Tanzania should continue to implement accommodative monetary policy measures and to fast track liquidity-easing measures to shield the economy from deterioration and avert a recession, which could easily be brought about by the second wave of COVID-19”

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the adoption of new technologies – all of which increase productivity, resilience, economic performance and help ‘build back better’ as the pandemic abates. These spending options are also aligned to the county’s resolve to become a semi-industrialised middle-income country by 2025.

Precautionary debt management measures should be undertaken to prevent further escalation of debt service risk by: (a) prioritising concessional financing of the budget by as much as possible; (b) ensuring that projects financed by non-concessional foreign loans have a large impact on overall social-economic growth, green growth and exports; (c) strengthening public investment management and domestic revenue mobilisation; and (d) improving expenditure management to ensure that no new arrears are accumulated and that verified arrears are promptly paid to continue the country’s healthy debt sustainability threshold.

‘Build back better’ by developing and implementing innovative domestic and external trade, as well as a climate resilient economy, by fast-tracking implementation of the third five-year development plan’s (2020/21 to 2025/26) trade policies and strategies, as well as the environment, climate change and disaster preparedness components of the plan.

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Cover image: Empty tables are seen at a beach joint in Stone Town, on October 24, 2020. - Zanzibars economy who rely mainly on tourism has been hard hit by the COVID-19 coronavirus pandemic (Marco Longari/AFP via Getty Images)

# About ESRF

The Economic and Social Research Foundation (ESRF) is an independent policy research tank established in Tanzania for the purposes of undertaking research and providing evidence to support economic management process in Tanzania.

The Foundation was established in October 1992 and effectively started its operations in 1994 at the peak of economic reforms and transition from a socialist to market economy – a transition which was characterized by greater demands for scientific evidence in policy process. Similar to the case of other think tanks established around the same period in the African continent, the formation of ESRF was motivated by a prevailing concern that Africa’s policy making process (back then) wasn’t adequately informed by evidence. Within the country, the formation of ESRF was based on the assumption that there was need and demand for an improved understanding of policy options and development management issues, and that the capacity for this was lacking in the Tanzania civil service. The ESRF was therefore tasked with undertaking the triple objectives of policy and economic management research, capacity development in different sectors on policy and socio-economic matters, and knowledge management. Today, more than 26 years since its establishment, the ESRF is one of the leading policy think tanks in Tanzania.



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