

## **ABSTRACT**

Despite making significant contributions to Tanzania's GDP, the construction sector's growth rate has decelerated due to decreased investments, leading to a considerable lack of essential facilities and necessary urban development. This discrepancy persists despite government allocations to the construction and transport sectors. This study investigated the causal impact of the Construction Sector on Economic Growth in Tanzania, specifically exploring whether expenditure within the construction sector significantly influences the socio-economic development of the country. It investigated the causal relationship and co-integration between two key variables: Construction Sector Expenditure (LCU) and Real GDP per capita (LCU). The study drew from the Investment-Savings (IS) Model and The Endogenous Growth Theory. Employing a quantitative design and a time series data analysis from 2000 to 2020, the study utilized the most recent and long-term data over 21 years to capture the long-term relationship between the variables. Both regression and Granger causality model analyses were conducted using Stata software. The findings revealed an R-square of 74.69%, indicating a well-fitted model. This suggests that GDP per capita is influenced by Construction Sector Expenditure (LCU), with independent variables accounting for 74.69% of the variation in the dependent variable, while the remaining 25.31% is explained by other unidentified factors. Furthermore, the Granger causality test showed that Construction Sector Expenditure (LCU) Granger causes Real GDP per capita (LCU) with a probability of chi-square at 0.000 which is less than 5% significant, signifying statistical significance. Conversely, the chi-square value of Real GDP per capita and Construction Expenditure was 0.009, which is also less than 5% significant, indicating that Real GDP per capita (LCU) granger-causes Construction Expenditure (LCU) in Tanzania. Both null hypotheses were rejected. Given the statistically significant and positive relationship between Construction Sector Expenditure (LCU) and Real GDP per capita (LCU), the study suggests that the government should promote increased investment in the construction sector by offering incentives to construction companies, streamlining regulatory processes. and attracting foreign investment in construction projects.