

THE UNITED REPUBLIC OF TANZANIA



MINISTRY OF FINANCE AND PLANNING

**THE BUDGET EXECUTION REPORT FOR THE FINANCIAL YEAR 2020/21
(JULY 2020 TO JUNE 2021)**

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AUGUST 2021

LIST OF ABBREVIATIONS

BoT	-	Bank of Tanzania
BCG	-	Budgetary Central Government
CPI	-	Consumer Price Index
DOD	-	Disbursed Outstanding Debt
DSA	-	Debt Sustainability Analysis
ENCB	-	External Non-Concessional Borrowing
ETS	-	Electronic Tax Stamps
GBS	-	General Budget Support
GDP	-	Gross Domestic Product
HBS	-	Household Budget Survey
LGAs	-	Local Government Authorities
MDAs	-	Ministries Departments and Agencies
NFA	-	Net Foreign Assets
OC	-	Other Charges
PAYE	-	Pay as You Earn
REA	-	Rural Electrification Agency
RAS	-	Regional Administrative Secretary
SDL	-	Skills Development Levy
SGR	-	Standard Gauge Railway
TACAIDS	-	Tanzania Commission for AIDS
TRA	-	Tanzania Revenue Authority
USD	-	United States Dollar
VAT	-	Value Added Tax

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Executive Summary

In the first quarter (January – March) of 2021, the economy registered a real GDP growth of 4.9 percent compared to 5.9 percent in a corresponding quarter of 2020. The slowdown in growth was due to spill-over effects of the measures taken by major trading partners to contain the spread of COVID-19. In 2020/21, headline inflation remained within the country's medium-term benchmark of between 3 and 5 percent, decreasing to an average of 3.3 percent from 3.5 percent recorded in 2019/20. The decline in inflation was on account of implementation of prudent monetary and fiscal policies, adequate supply of food in the domestic and neighboring countries markets and stable exchange rate.

During the year 2020/21, the Government continued to implement various strategies to ensure that revenue target is achieved. During the fourth quarter, total domestic revenue collection (including LGAs own source) amounted to 5,107.9 billion shillings, which was 2.1 percent higher than 5,004.3 billion shillings collected in a corresponding period in 2019/20. On cumulative basis, total domestic revenue collected for the year 2020/21 was 20,562.3¹ billion shillings against the target of 24,065.5 billion shillings, equivalent to 85 percent of the target for the period and a decrease of 2.4 percent when compared with amount collected in the year 2019/20.

Government spending for the fourth quarter was 10,170.3 billion shillings, equal to 91.6 percent of the quarter target of 11,101.9 billion shillings, and 29 percent higher than total spending in a corresponding quarter in 2019/20. For the period (July 2020 to June 2021) total expenditure amounted to 31,137.9 billion shillings, equivalent to 89.3 percent of the targeted amount of 34,879.8 billion shillings, and 11.7 percent higher when compared to 27,886.9 billion shillings registered in a corresponding period in 2019/20.

Grants received during the fourth quarter of 2020/21 were 178.6 billion shillings, equivalent to 124.8 percent of the estimated amount of 143.1 billion shillings. Out of the total grants, Project Grants were 150.7 billion shillings and Basket Funds were 27.8 billion shillings. Cumulatively, total grants received during the year 2020/21 were 696.0 billion shillings, equivalent to 73.3 percent of the estimates.

Total financing during the fourth quarter was 4,262.1 billion shillings against the target of 1,686.0 billion shillings. Total foreign net financing was 1,813.8 billion shillings against the target of 1,519.7 billion shillings. Total domestic net financing was 2,448.3 billion shillings against the target of 166.3 billion shillings. Cumulatively, total financing for the

¹ Numbers contained in the report are preliminary. Final numbers will be reflected in the Consolidated Audited Financial Statements.

year 2020/21 was 5,990.5 billion shillings against the target of 4,085.6 billion shillings.

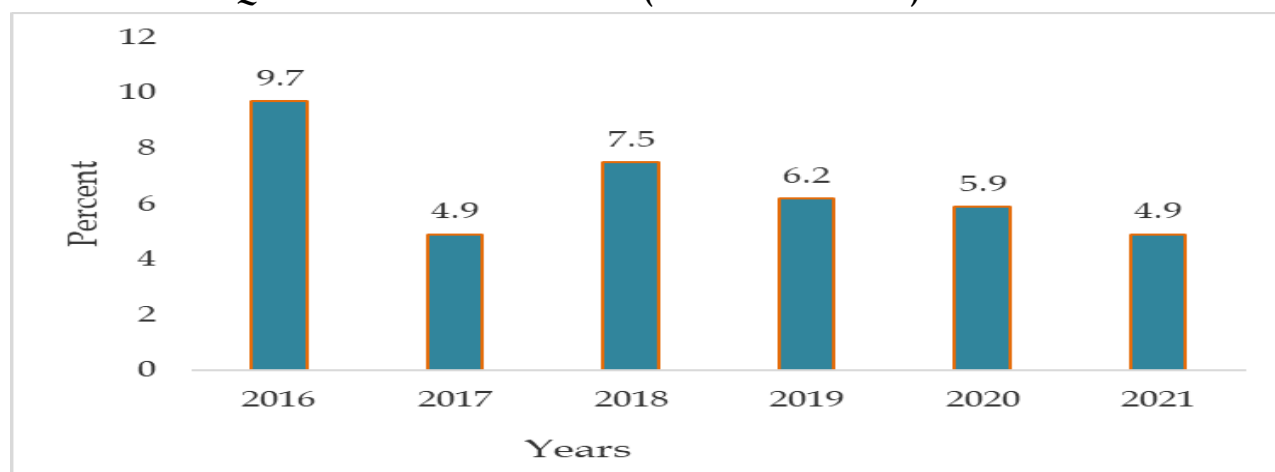
As of end June 2021, Debt stock amounted to 64,497.83 billion shillings compared to 55,700.44 billion shillings recorded as of end June 2020, being an increase of 15.79 percent. Out of the amount, domestic debt stock was 18,934.33 billion shillings and external debt stock was 45,563.499 billion shillings. The increase was driven by new external disbursement for funding development projects and depreciation of shillings against USD.

1.0 RECENT MACROECONOMIC PERFORMANCE

1.1 Real GDP Growth

The Gross Domestic Product (GDP) at constant prices increased to 33.2 trillion shillings in the first quarter of 2021 from 31.7 trillion shillings recorded in a corresponding quarter in 2020, equivalent to a growth of 4.9 percent. The slowdown in growth was due to spill-over effects of the measures taken by major trading partners to contain the spread of COVID-19. During that period, Mining and Quarrying recorded the highest growth of 10.2 percent, followed by Information and Communication (9.1 percent); Transport and Storage (9.0 percent); Water Supply (9.0 percent), Professional Scientific and Technical services (7.8 percent); Administrative Support Services (7.4percent) and Electricity (7.2 percent). In addition, the growth was mainly contributed by the following economic activities: Construction (14.9 percent); Transport and Storage (14.6 percent); Agriculture (12.7 percent); Manufacturing (9.8 percent) and Mining and Quarrying (8.8 percent). The trend of GDP growth is indicated in **Chart 1.1**.

Chart 1.1: First Quarter GDP Growth Rates (From 2016 to 2021)



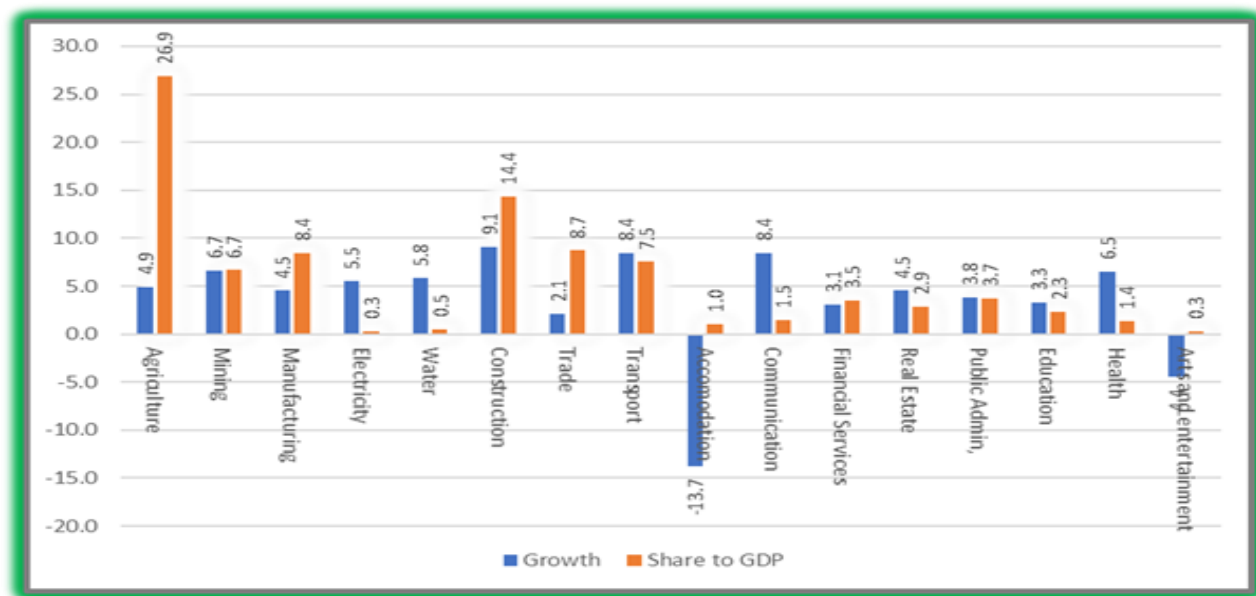
1.2 Real GDP Growth in 2020

In 2020, real GDP growth decreased to 4.8 percent from 7.0 percent in 2019. The slowdown in growth was attributed to heavy rainfall which caused destruction of transport infrastructure and delayed implementation of some projects; and the spill-over effects of measures taken by major trading partners to contain the spread of COVID-19. The measures included lockdown measures, closure of borders and international travel restrictions. Such measures plunged the global economy into recession in which most economies experienced negative growth in 2020 whereas, 11 out of 45 countries in Sub-Saharan Africa recorded positive growth. Despite slowdown in growth, Tanzania economy recorded a positive growth due to the Government's decision of not

implementing lockdown measures except for temporarily closure of schools and recreation activities in the second quarter of 2020. COVID-19 had adversely affected hospitality industry and recreation activities which registered negative growth in the year 2020.

During the period under review, sectors which recorded high growth rate included construction (9.1 percent); information and communication (8.4 percent); transport and storage (8.4 percent); mining and quarrying (9.5 percent) and health (6.5 percent) as reflected in Chart 1.2. All economic activities except accommodation and food services and arts and entertainment recorded a positive growth with majority recording lower growth than previous year. Accommodation and food services recorded a negative growth of 13.7 percent while arts and entertainment grew by negative 4.4 percent in the year under review owing to the impact of COVID-19. In terms of GDP share, the dominant activities were agriculture (26.9 percent), construction (14.4 percent), trade and repair (8.7 percent), manufacturing (8.4 percent), transport and storage (7.5 percent) and mining (6.7 percent).

Chart 1.2: Growth Rates for the Fourth Quarter by Economic Activities (2019 to 2020)

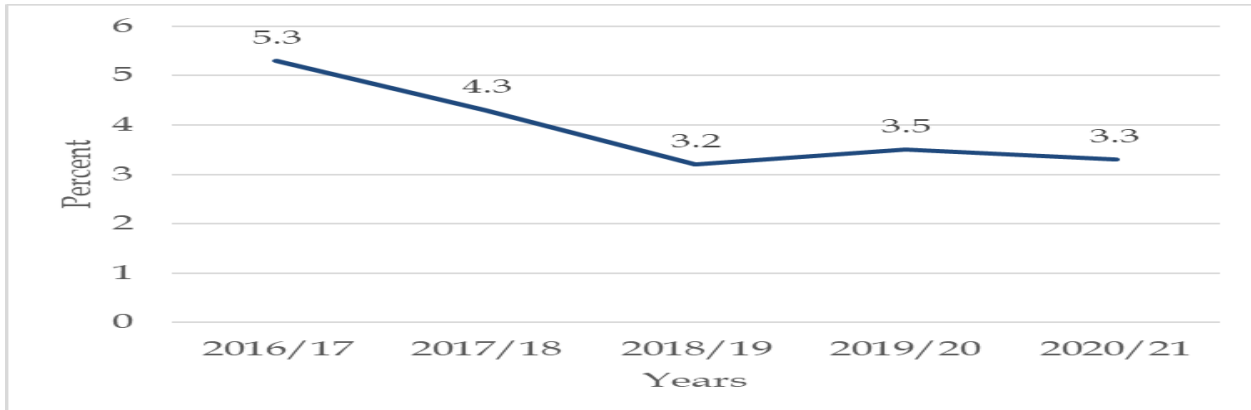


1.3 Inflation Development

In 2020/21, headline inflation remained within the country’s medium term benchmark of between 3 and 5 percent, and regional benchmarks for East Africa Community being not more than 8 percent and Southern Africa Development Community ranging between 3 and 7 percent, decreasing to an average of 3.3 percent from 3.5 percent recorded in 2019/20 (Chart 1.3). The decline in inflation was on account of implementation of

prudent monetary and fiscal policies, adequate supply of food in the domestic and neighboring country markets and stable exchange rate. On quarterly basis, headline inflation increased from an average of 3.2 percent in fourth quarter of 2019/20 to 3.4 percent in 2020/21, owing to an increase in prices of petroleum products.

Chart 1.3: Trend of Headline Inflation from 2016/17 to 2020/21



1.4 External Trade

In 2020/21, current account deficit widened to USD 1,414.2 million from a deficit of USD 1,127.0 million recorded in 2019/20. The widening of current account deficit was due to lower services receipts, particularly travel. In 2020/21, exports of goods and services declined to USD 8,850.3 million from USD 9,347.4 million recorded in 2019/20, equivalent a decrease of 5.3 percent. This was largely attributed to decline in service receipts by 31.2 percent. The outturn in travel receipts is a result of spill-over effects of the measures taken by major trading partners to contain the spread of COVID-19. The measures included lockdown measures, closure of borders and international travel restrictions. In addition, exports of goods increased by 10.0 percent to USD 6,457.9 million in 2020/21 from USD 5,868.7 million recorded in 2019/20, following good performance of non-traditional goods especially gold export which increased from USD 2,591.3 million in 2019/20 to USD 3,028.8 million in 2020/21, equivalent to an increase of 16.9 percent. Conversely, traditional goods exports declined to USD 578.4 million compared to USD 995.9 million in 2019/21, mainly driven by decrease in export values of cashew nuts, tobacco, cotton, and cloves. On the other end, import of goods and services amounted to USD 9,869.7 million, compared with USD 10,043.7 million recorded in the corresponding period in 2019/20, owing to decrease in services payments by 20.2 percent due to decline in travel payments.

1.5 Gross official reserves

Foreign exchange reserves remained high at USD 5,209.8 million at the end of June 2021, sufficient to cover about 5.7 months of projected imports. The import cover was within

the country benchmark and EAC convergence criteria of at least 4 months and 4.5 months, respectively. During that period, foreign assets of banks amounted to USD 1,236.0 million.

1.6 Money Supply and Credit

In 2020/21, money supply in extended broad money (M3) grew by 16.2 percent broad money supply grew by 18.0 percent and narrow money supply grew by 18.6 percent compared with 10 percent, 11.5 percent and 13.4 percent in similar period in 2019/20 respectively, largely due to increase in foreign assets and credit to private sector. In addition, credit to the private sector grew by an average of 4.4 percent compared with 8.1 percent in 2019/20. The subdued growth of private sector credit was mainly attributed to decrease in demand for new loans in businesses and investments due to COVID - 19 impacts in which spilled over to some economic activities.

During the quarter ending June 2021, money supply in extended broad money (M3) grew by 9.1 percent compared to 11.2 percent recorded in June 2021. During the period under review, credit to the private sector expanded by 4.4 percent compared with 5.4 percent in corresponding period in 2020. This was partly, reflecting the impacts of COVID - 19 in some economic sectors.

1.7 Interest Rates Development

In 2020/21, one-year and overall lending rates averaged at 15.8 percent and 16.6 percent, a decline from 16.22 percent and 16.8 percent recorded in 2019/20 respectively. The decrease was largely attributed to sustained accommodative monetary policy and ongoing regulatory measures taken by the Bank to reduce cost of funds and increase financial intermediation. In addition, one-year and overall deposit rate eased to an average of 8.43 percent and 6.75 percent from 8.65 percent and 6.98 percent in corresponding period of 2019/20 respectively. Given such trend, the spread between one year lending and deposit interest rates narrowed to an average of 7.37 percentage points from 7.55 percentage points registered in 2019/20, reflecting a gradual decrease in cost of borrowing to customers and cost of funds to banks.

In last quarter of 2020/21, the overall and one-year lending interest rates averaged 16.63 percent and 16.32 percent compared with 16.7 percent and 16.18 percent that was registered in similar quarter 2019/20 respectively. In additional, Overall and one-year time deposits interest rates averaged 6.96 percent and 8.74 percent, compared with 6.75 percent and 8.04 percent that was recorded in similar quarter 2019/20 respectively.

1.8 Exchange Rate

In a quarter ending June 2021, the shilling was traded at an average of shilling 2,298.60 per USD compared to shilling 2,292.1 per USD in similar period in 2020, equivalent to an average depreciation of 0.3 percent. The sustained stability of the shilling against USD and other major global currencies was due to low and stable inflation environment, moderate current account deficit and continued prudence in both monetary and fiscal policies.

2.0 GOVERNMENT OPERATIONS

2.1 Domestic Revenue

During the year 2020/21, the Government continued to implement various strategies to ensure the revenue target is achieved. During the fourth quarter, total domestic revenue collection (including LGAs own source) amounted to 5,107.9 billion shillings, which was 2.1 percent higher than 5,004.3 billion shillings collected in a corresponding period in 2019/20. On cumulative basis, total domestic revenue collected for the year 2020/21 was 20,562.3 billion shillings against the target of 24,065.5 billion shillings, equivalent to 85 percent of the target for the period and a decrease of 2.4 percent when compared with the amount collected in the year 2019/20. Out of the collected amount, collection from Tanzania Revenue Authority (TRA) was 17,624.5 billion shillings against the target of 20,325.8 billion shillings, equivalent to 86.7 percent. Non tax revenue collected by MDAs was 2,213.2 billion shillings, equivalent to 75.7 percent of the target of 2,924.8 billion shillings and collection from LGAs own source was 724.6 billion shillings against the target of 815.0 billion shillings, equivalent to 88.9 percent.

2.2 Revenue by Source

2.2.1 Taxes on Imports

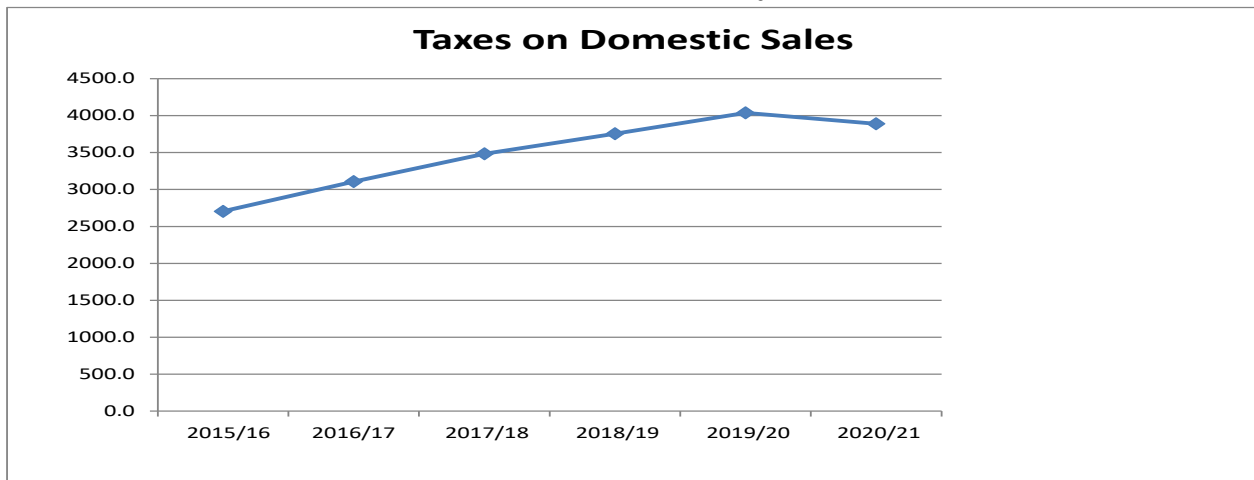
Import taxes and duties collection in the fourth quarter, amounted to 1,459.3 billion shillings, reflecting a performance of 96.2 percent of estimated 1,517.3 billion shillings, and 32.8 percent higher when compared to collections registered in a similar period in 2019/20. Cumulatively, import taxes and duties collection amounted to 5,317.2 billion shillings, reflecting a performance of 90.6 percent of estimated 5,925.2 billion shillings, and 9.0 percent higher when compared to collections registered in a similar period in 2019/20. The excise on petroleum imports surpassed the target with total collection of 1,261.1 billion shillings, which was 102.8 percent of the planned target of 1,227.0 billion shillings. Excise on other imports registered performance of 92.0 percent of the target by collecting 205.5 billion shillings. Import duty performed below the target by collecting 1,320.2 billion shillings, equivalent to 82.5 percent of the target and VAT on non-petroleum performed at 89.9 percent of the target by collecting 2,584.5 billion shillings. During the year 2020/21, importation of consumer goods grew by 13.0 percent, while

capital and intermediate goods declined by 0.7 percent. The increase in imports of consumer goods was largely attributed to the increase in value of taxable products which falls under mineral fuels, oil products such as gas oil (automotive, light, amber for high-speed engines), and motor spirit (gasoline) premium with a contribution of 8.4 percent and 6.2 percent to total imports respectively.

2.2.2 Taxes on Domestic Sales

In the fourth quarter of 2020/21, actual tax collection from domestic sales increased by 1.2 percent to 893.2 billion shillings from 882.7 billion shillings collected in a corresponding period in 2019/20. This collection was equivalent to 79.4 percent of the target of 1,124.7 billion shillings. On cumulative basis, for the year 2020/21 actual tax collection from domestic sales decreased by 3.7 percent to 3,889.2 billion shillings from 4,037.6 billion shillings collected in the year 2019/20 and 80.4 percent of the target of 4,832.8 billion shillings. Out of the total domestic sales tax, excise duty was 1,255.8 billion shillings, equivalent to 80.3 percent of the target of 1,563.7 billion shillings while VAT on domestic sales amounted to 2,633.4 billion shillings, which was 80.5 percent of the target and 4.7 percent lower when compared to the year 2019/20. Under performance was due to change of consumer behaviour from premium (high priced) to low brands (low priced) especially beer and cigarette; down-trading of the tourism sector affecting consumption of goods; exemptions of cement 385,551 MT with VAT forgone of 14,714.66 million shillings granted to strategic projects; low demand leading to low sales of consumable products such as beer, cigarettes and soft drinks. The underperformance of the domestic excise duty was mainly due to low demand causing low production of excisable goods, such as cigarette and soft drinks for various reasons including change in consumer behaviour. **Chart 2.1** shows the trend of tax on domestic sales for the financial years (2015/16 - 2020/21).

Chart 2.1: Trend of Tax on Domestic Sales from the year 2015/16 to 2020/21

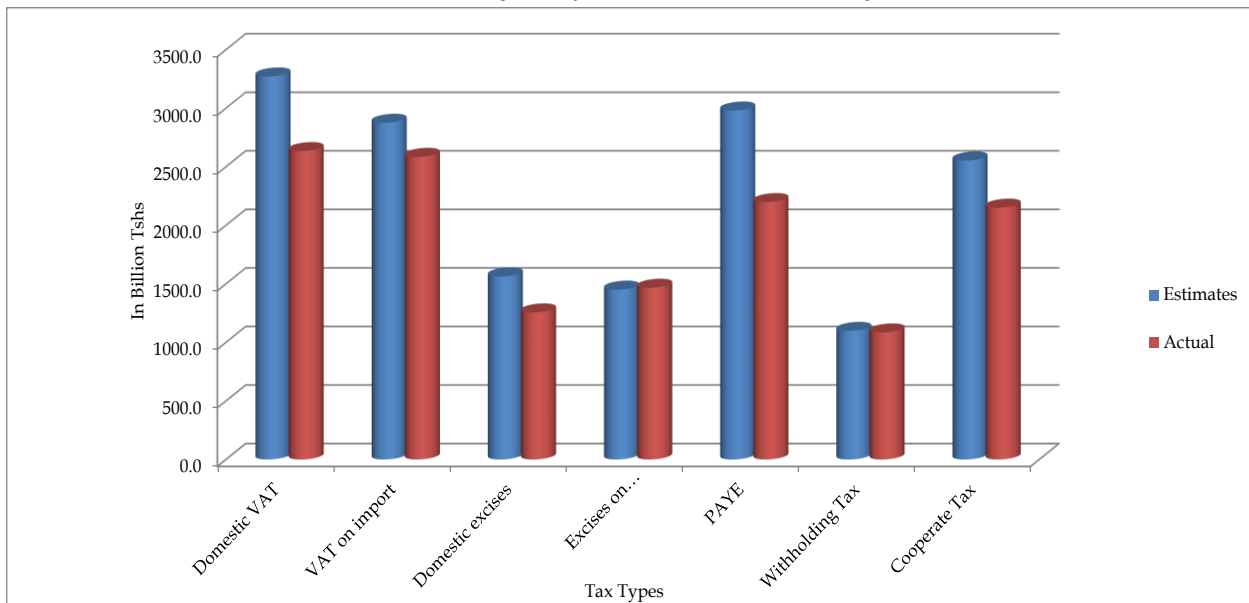


2.2.3 Income Tax

The overall income tax collection during the fourth quarter of 2020/21 amounted to 1,481.0 billion shillings which was 77.9 percent of the target of collecting 1,900.3 billion shillings, reflecting a decrease of 18.0 percent compared to collections registered in the same period in 2019/20. Cumulatively, up to June 2021 income tax collection was 6,015.9 billion shillings, which was 83.6 percent of estimates of 7,200.2 billion shillings. In the fourth quarter of 2020/21, PAYE collection was 571.2 billion shillings, equivalent to 75.9 percent of the target. Cumulatively, in the year 2020/21, PAYE collection was 2,198.0 billion shillings against the target of 2,979.9 billion shillings, signifying the performance of 73.8 percent and lower by 13.9 percent when compared to 2,552.90 billion shillings collected in the year 2019/20. The performance was affected by continued impact of the freezing payroll due to number of reasons including retirement and resignations which are not supplemented by new employments, whereby up to June 2021 more than 2,250 employees were removed from the payroll.

During the fourth quarter of 2020/21, revenue collection from the corporate tax was 512.5 billion shillings, which was 73.0 percent of the target of 702.1 billion shillings. Cumulatively, amount collected from corporate tax was 2,150.6 billion shillings equivalent to 84.2 percent of the target and 16.4 percent lower compared to amount collected in the year 2019/20. The performance was attributed to some of the taxpayers, especially in the mining, insurance and telecommunication companies, lowered down their provisional installment payments for the quarter installments in anticipation of fall in profitability; The downturn trends, on the tourism and allied sectors such as hotel and tour operators, has adversely impacted expected corporate income taxes; and Some of the taxpayers who have installment agreements failed to pay their installment due to financial hardship. Collections from withholding taxes for the fourth quarter were 259.6 billion shillings equivalent to 90.6 percent of the target. Cumulatively, for the year 2020/21, collections of withholding taxes were 1,084.9 billion shillings against the target of 1,098.2 billion shillings which was 98.8 percent and 15.5 percent higher compared to what was collected in the year 2019/20. The main reason for impressive performance in the period under review was due to the increase in number of transactions that attracts withholding taxes such transactions include Dividend Payments, Rental Charges, Management Fees, Interest Paid, Services Rendered to Resident and/or Non-Resident, Capital Gain and others. Revenue performance by major tax items is shown in **Chart 2.2**.

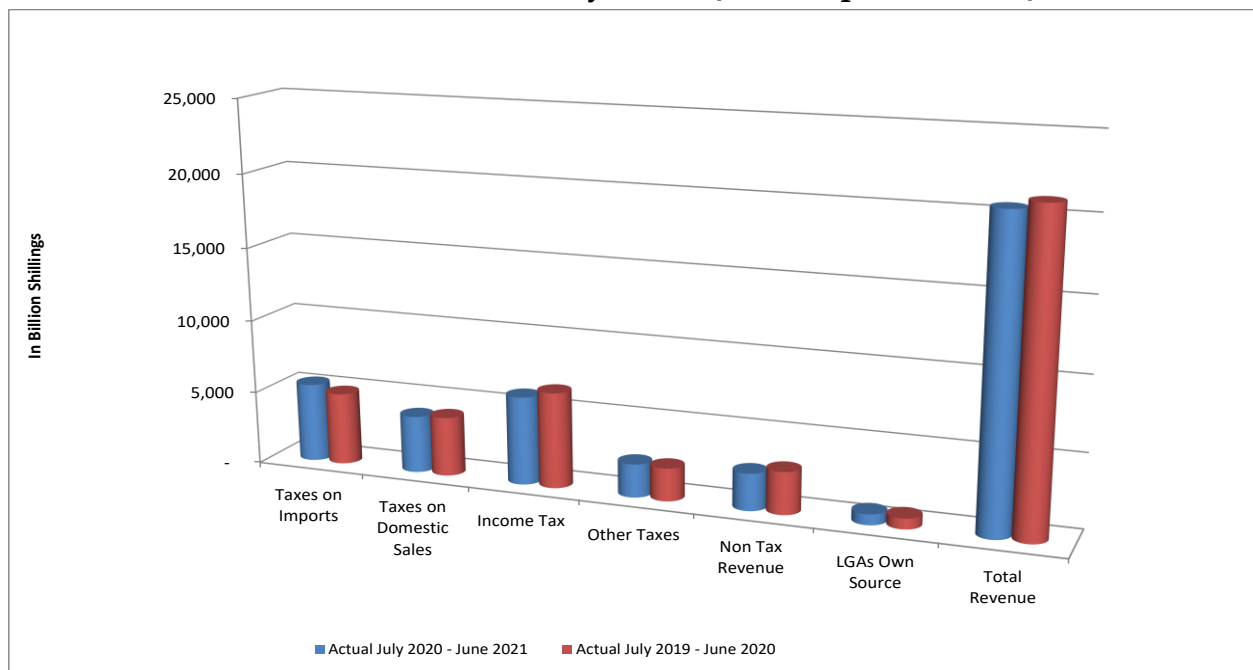
Chart 2.2: Revenue Performance by Major Tax Item for the year 2020/21



2.2.4 Other Taxes

During the period (April – June 2021), actual collections from this category amounted to 562.6 billion shillings, which was 85,7 percent of the period estimate of 656.4 billion shillings. On cumulative basis, amount collected from this source was 2,264.1 billion shillings, which was 87.6 percent of the target of 2,583.5 billion shillings, an increase of 1.6 percent when compared to the amount collected in the year 2019/20. Out of the amount, Fuel Levy and Transit Fee was 868.4 billion shillings, equivalent to 96.4 percent of estimates; collections meant for National Water Development Fund was 165.0 billion shillings, which was 96.5 percent of estimates; and collections for Rural Energy Agency (REA) was 358.8 billion shillings, or 98.9 percent of estimates. On the other hand, collections from other sources were below the target, which included: collections for Railway Development Fund 255.0 billion shillings, equivalent to 88.2 percent of estimates; Business Skill Development Levy (SDL) recorded 285.2 billion shillings, equivalent to 77.6 percent of estimates, and Departure Service Charges performed at 36.3 percent of estimates of 66.5 billion shillings. The under-performance of SDL was attributed to retrenchment of employees and decline in the compensation of employees. The registered underperformance of departure service charge was due to slowdown of international travel in the world due to Covid-19 outbreak as a result number of Aircraft arrival and outward decreased by 49.0 and 48.9 percent while the passengers’ departure decreased by 49.2 percent. The trend of revenue performance is indicated in **Chart 2.3**.

Chart 2.3: Revenue Performance for the year 2020/21 Compared to 2019/20



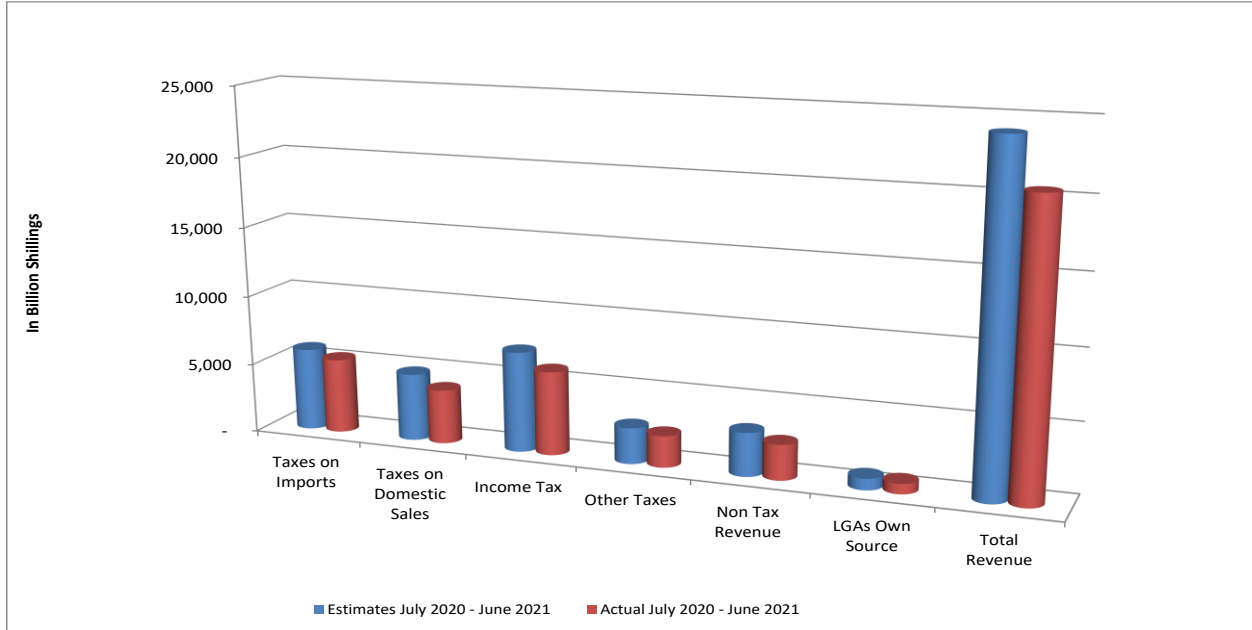
2.2.5 Non Tax Revenue

Collections of non-tax revenue in the fourth quarter of 2020/21 were 660.2 billion shillings, equivalent to 69.7 percent of quarter estimates of 946.7 billion shillings. The collections were lower by 4.5 percent when compared to collections registered in the same period in 2019/20. For the year 2020/21, collections of non-tax revenue were 2,520.1 billion shillings equivalent to 80.9 percent of period estimates of 3,114.6 billion shillings and lower by 12.5 percent when compared to collections registered in the year 2019/20. Out of the amount, non-tax revenues collected by ministries were 1,576.8 billion shillings, against the target of 1,993.7 billion shillings, equivalent to 79.1 percent, dividends and contribution from Government Institutions were 636.4 billion shillings, which was 68.4 percent of the target, non-tax revenues collected by TRA (billboard fee, property tax, tourist sector and others) were 306.8 billion shillings, which was 161.6 percent of the period estimates of 189.8 billion shillings. The performance of non-tax revenue was largely attributed to lockdown from other countries resulted from COVID -19 pandemic which affect revenue collected from work permit, resident permit and visa under Immigration Department and Prime Minister Office - Labour, Youth, Employment and Disabilities; some of Institutions or Parastatals fail to pay 15 percent contribution or dividend to Consolidated Fund on time; and other source of revenue from Ministry of Natural Resource and tourism which mainly depend on tourism.

Collections from LGAs own source in the fourth quarter of 2020/21, was 167.2 billion shillings, equivalent to 86.6 percent of estimates and a decrease of 6.4 percent compared

to collections in the fourth quarter of 2019/20. For the year 2020/21, LGAs own source recorded 724.6 billion shillings, which was 88.9 percent of the target, and higher by 1.0 percent when compared to the year 2019/20. Domestic revenue performance for the year 2020/21 compared to estimates is depicted in **Chart 2.4**.

Chart 2.4: Domestic Revenue Performance for the year 2020/21 Compared to Estimates



2.3 Expenditure

The approved Government spending for 2020/21 amounted to 34,879.8 billion shillings, comprising of 22,100.5 billion shillings recurrent expenditure and 12,779.3 billion shillings development expenditure.

2.3.1 Fourth Quarter Expenditure Performance

Expenditure performance during the fourth quarter of 2020/21 was reasonably good albeit the continued global impacts of the COVID-19 pandemic. Total spending during the quarter under review amounted to 10,170.3 billion shillings, equivalent to 91.6 percent of the targeted spending of 11,101.9 billion shillings. The recorded spending was 29 percent higher when compared to 7,884.4 billion shillings spent in the corresponding quarter in 2019/20. The performance was mainly attributed to an improved revenue collection from majority of revenue sources, although some of the sources including import duty, excise on other imports, VAT on non-petroleum and PAYE performed below expectations.

2.3.2 Recurrent Expenditure

Recurrent expenditure continued to register good performance consistent with the Government's commitment to honoring statutory obligations and financing of office operations. During the fourth quarter, total outlays on recurrent activities were 4,911.5 billion shillings, signifying a performance of 86.1 percent of the projected spending of 5,707.1 billion shillings. The registered spending was 16.3 percent higher when compared to 4,907.0 billion shillings recorded in same quarter in 2019/20. The improved performance was coupled by an increased efforts on revenue collection from domestic revenue sources as well as increased spending on clearing of outstanding arrears related to employees and suppliers of goods and services.

2.3.3 Wages and Salaries

Expenditure on wages and salaries during the quarter under review was 1,934.9 billion shillings, equivalent to 90.8 percent of the targeted spending of 2,130.6 billion shillings, and 4.3 percent higher than the amount disbursed in the similar quarter in 2019/20. The registered spending was in line with the expenditure needs submitted by Votes as per existed employees and new recruitments.

2.3.4 Debt Service

The debt service expenditure performance during the fourth quarter was consistent with the Government's commitment to timely honor statutory obligations, with total releases amounting to 1,878.7 billion shillings, reflecting a performance of 69.6 percent of estimates of 2,700.5. Out of the released amount, 1,268.6 billion shillings were directed to debt amortization and 610.1 billion shillings to interest payment. The spending on debt service was in line with the matured debt obligations during the fourth quarter.

2.3.5 Goods, Services and Transfers

Spending on Goods, Services and Transfers during the fourth quarter continued to perform well, thanks to positive results from majority of domestic revenue sources. The total spending on goods, services and transfers was 1,097.9 billion shillings, reflecting a performance of 125.3 percent of the quarter target of 876.1 billion shillings. The higher performance than expected was due to continued Government's commitment to direct more funds to COVID-19 protective and health care interventions.

2.3.6 Development Expenditure

During the fourth quarter, the funds disbursed for development activities amounted 5,258.7 billion shillings, equivalent to 97.5 percent of the quarter target of 5,394.8 billion shillings, and 76.6 percent higher than the amount released in the same period in

2019/20. Out of the released amount, 4,212.9 billion shillings were from local sources and 1,045.8 billion shillings from external sources. The slight mismatch in execution of development budget was attributed to several factors, including low disbursement of external non-concessional loans contributed by high borrowing costs due to COVID-19 pandemic. The performance of budget execution in major categories of recurrent and development and economic classification for the fourth quarter of 2020/21 is presented in **Chart 2.5** and **Chart 2.6**.

Chart 2.5: Expenditure Performance by Recurrent and Development Budget (April to June 2021)

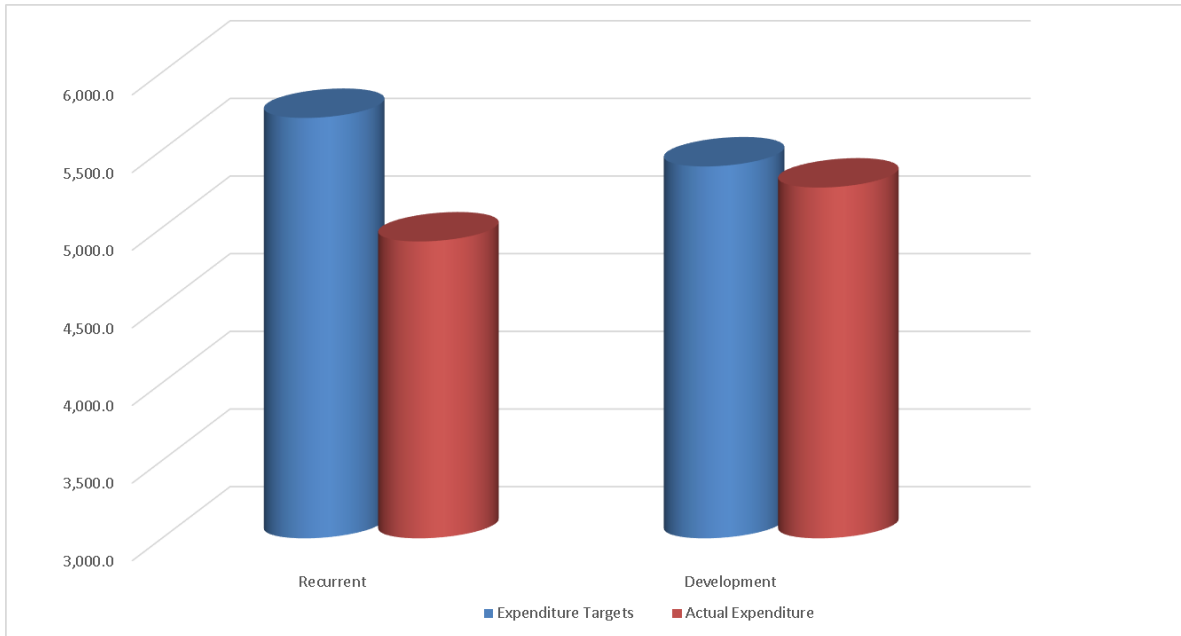
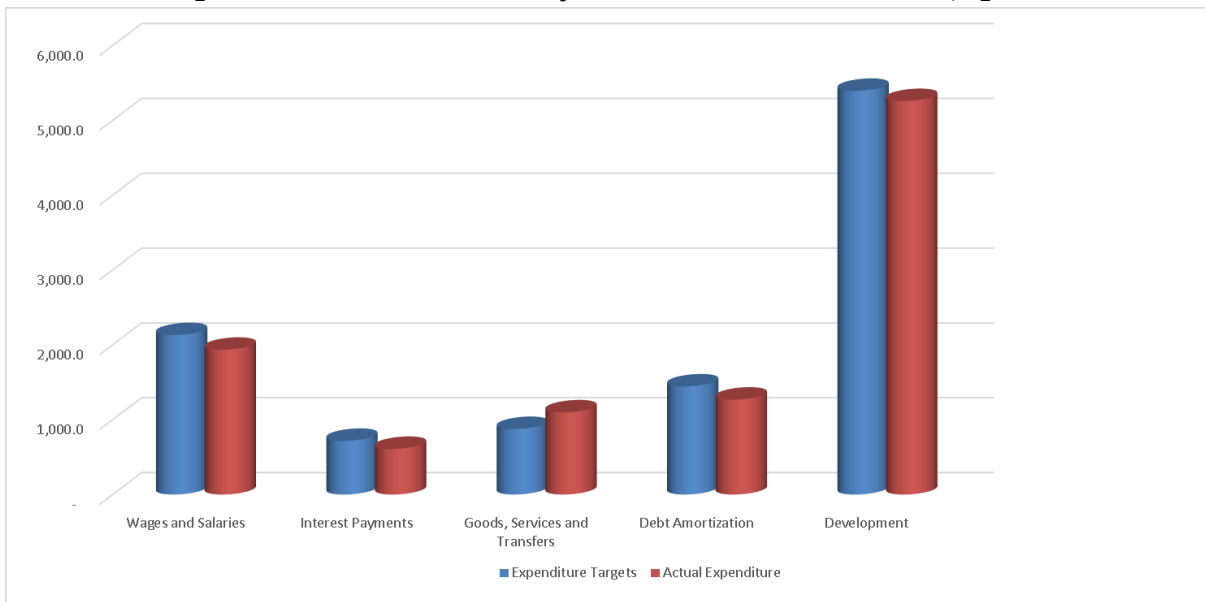


Chart 2.6: Expenditure Performance by Economic Classification (April to June 2021)



2.3.7 Cumulative Expenditure Performance

During the year 2020/21 the Government total spending was estimated at 34,879.8 billion shillings, which included 22,100.5 billion shillings recurrent expenditure and 12,779.3 billion shillings development expenditure. As at end June 2021, total spending amounted to 31,137.9 billion shillings, equivalent to 89.3 percent of the annual estimates of 34,879.8 billion shillings, and 11.7 percent higher when compared to 27,886.9 billion shillings spent in the similar period in 2019/20. The lower expenditure than the target was on account of lower-than-expected revenue collection contributed by the global impacts of COVID-19 pandemic. The recurrent expenditure carried the largest portion of the total spending, amounting to 20,612.9 billion shillings, equivalent to 93.3 percent of the annual target of 22,100.5 billion shillings. Out of the recurrent spending: wages and salaries were 7,638.5 billion shillings (equivalent to 98.4 percent of the annual target of 7,762.4 billion shillings); debt service 8,020.1 billion shillings (equivalent to 92.7 percent of annual estimates of 8,649.9 billion shillings); and goods, services and transfers 4,954.3 billion shillings (equivalent to 87.1 percent of the annual projection of 5,688.2 billion shillings). The inspiring performance in recurrent expenditure was on account of good performance registered by majority of the domestic sources of revenue.

The cumulative execution of the development budget had also improved compared to the same period in 2019/20, though not as good as recurrent budget. The funds disbursed for development activities as of June, 2021 amounted to 10,525.0 billion shillings, reflecting the performance of 82.4 percent of the planned annual estimates of 12,799.3 billion shillings. Regardless of underperformance, the recorded spending was higher by 36.5 percent when compared to similar period in 2019/20. The projects financed by domestic revenues enjoyed the largest share of the disbursed funds, amounting to 9,239.5 billion shillings, which was 92.0 percent of the annual target of 10,043.2 billion shillings. Conversely, the foreign funded projects registered the lowest share, amounting to 1,285.4 billion shillings, equivalent to 47 percent of annual target of 2,736.0 percent.

The below target performance in execution of locally financed development projects was contributed by low revenue collection from some domestic revenue sources while for externally financed projects, the underperformance was on account of low disbursement of grants and external non-concessional loans contributed by high borrowing rates due to COVID-19 pandemic. The cumulative performance of budget execution in major categories of recurrent and development and economic classification for July 2020 to June 2021 is presented in **Chart 2.7 and Chart 2.8**.

Chart 2.7: Cumulative Expenditure Performance by Recurrent and Development Budget (July 2020 to June 2021)

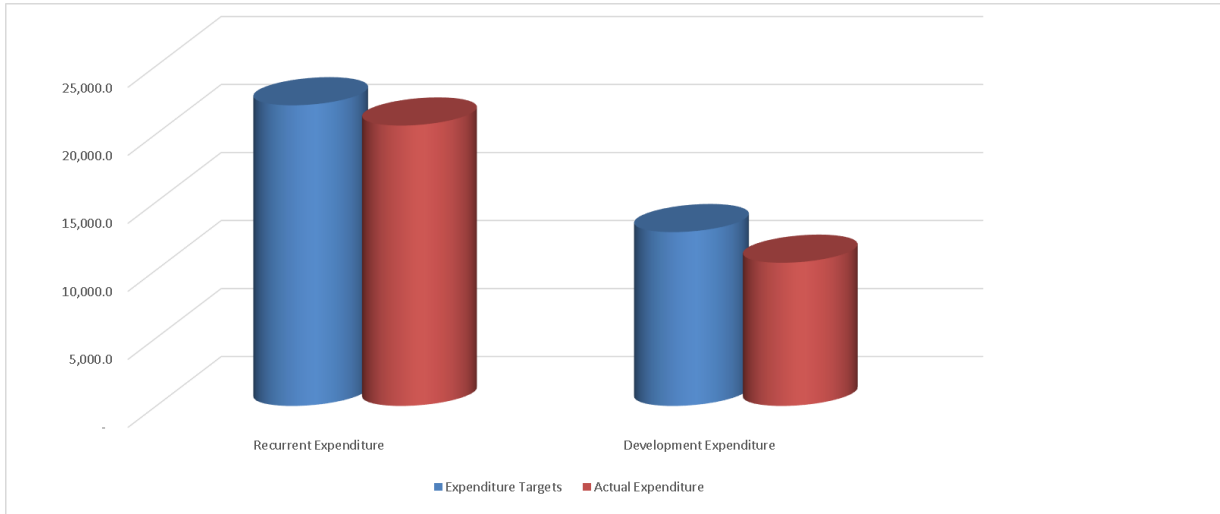
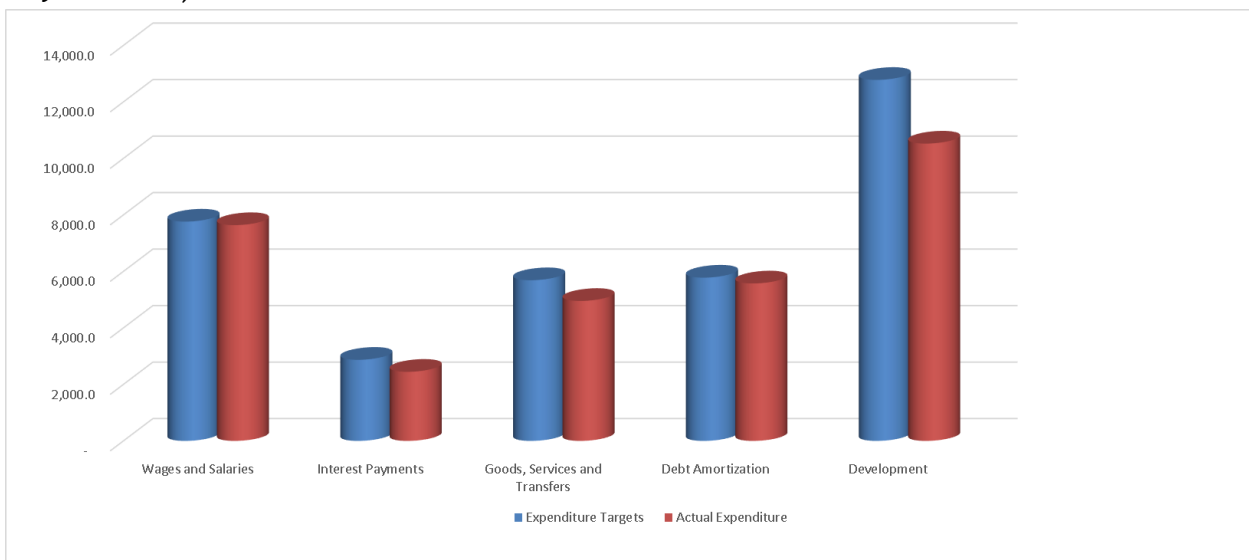


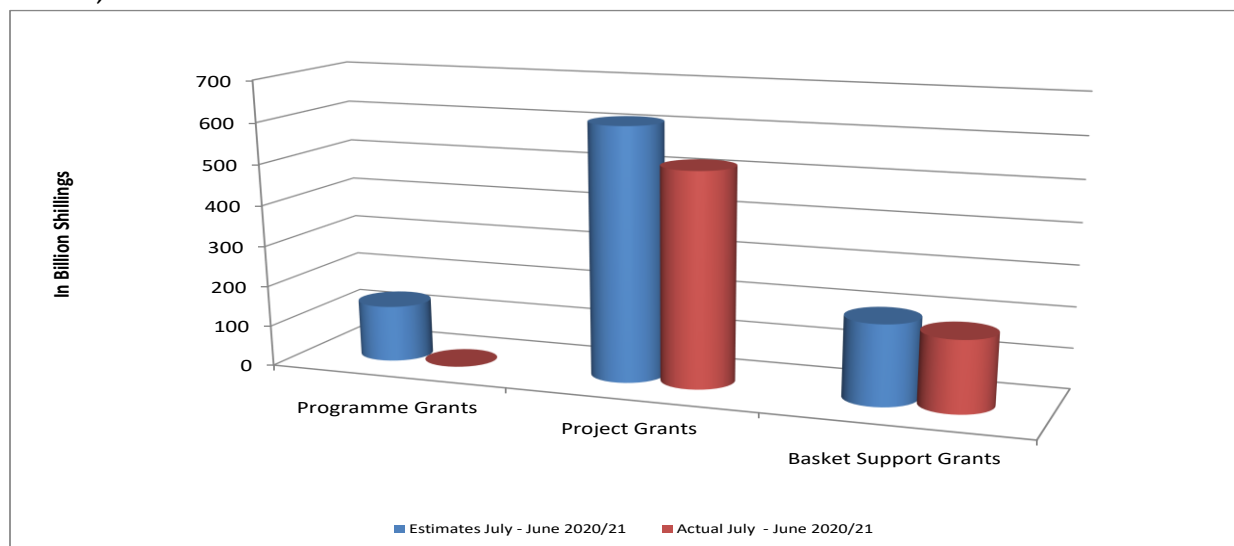
Chart 2.8: Cumulative Expenditure Performance by Economic Classification (July 2020 to June 2021)



2.4 Grants

Grants received during the fourth quarter of 2020/21 were 178.6 billion shillings, equivalent to 124.8 percent of the estimated amount of 143.1 billion shillings. Out of the total grants, Project Grants were 150.7 billion shillings and Basket Funds were 27.8 billion shillings. Cumulatively, total grants received during the year 2020/21 were 696.0 billion shillings, equivalent to 73.3 percent of the estimates. Out of the amount received, Project Grants were 520.6 billion shillings, which was 84.7 percent of the target and Basket Fund were 175.4 billion shillings equivalent to 89.2 percent of the target. **Chart 2.9** shows the cumulative performance of foreign grants for the year 2020/21.

Chart 2.9: Performance of Foreign Grants for the year 2020/21 (Estimates against Actual)



2.5 Financing

Total financing during the fourth quarter was 4,262.1 billion shillings against the target of 1,686.0 billion shillings. Total foreign net financing was 1,813.8 billion shillings against the target of 1,519.7 billion shillings. Total domestic net financing was 2,448.3 billion shillings against the target of 166.3 billion shillings. Cumulatively, total financing for the year 2020/21 was 5,990.5 billion shillings against the target of 4,085.6 billion shillings. Of the amount borrowed, foreign net financing was 2,631.3 billion shillings against the target of 2,497.4 billion shillings. In addition, domestic net financing was 3,359.2 billion shillings against the target of 1,588.2 billion shillings.

2.5.1 Domestic Financing

Domestic borrowing in 2020/21 was planned at 4,904.2 billion shillings, whereas 3,316.1 billion shillings were for financing rolling over of maturing Treasury Bills and Bonds and 1,588.2 billion shillings were new loans for financing development projects. During the fourth quarter of 2020/21, a total of 586.9 billion shillings were borrowed for redemption (rollover) of matured obligations against the target of 823.0 billion shillings and 2,448.3 billion shillings was borrowed for financing development projects against the target of 166.3 billion shillings. For the year 2020/21, the Government managed to borrow 3,262.6 billion shillings for redemption (rollover) of matured obligations against the target of 3,316.1 billion shillings. In addition, 3,359.2 billion shillings was borrowed for financing development projects against the target of 1,588.2 billion shillings.

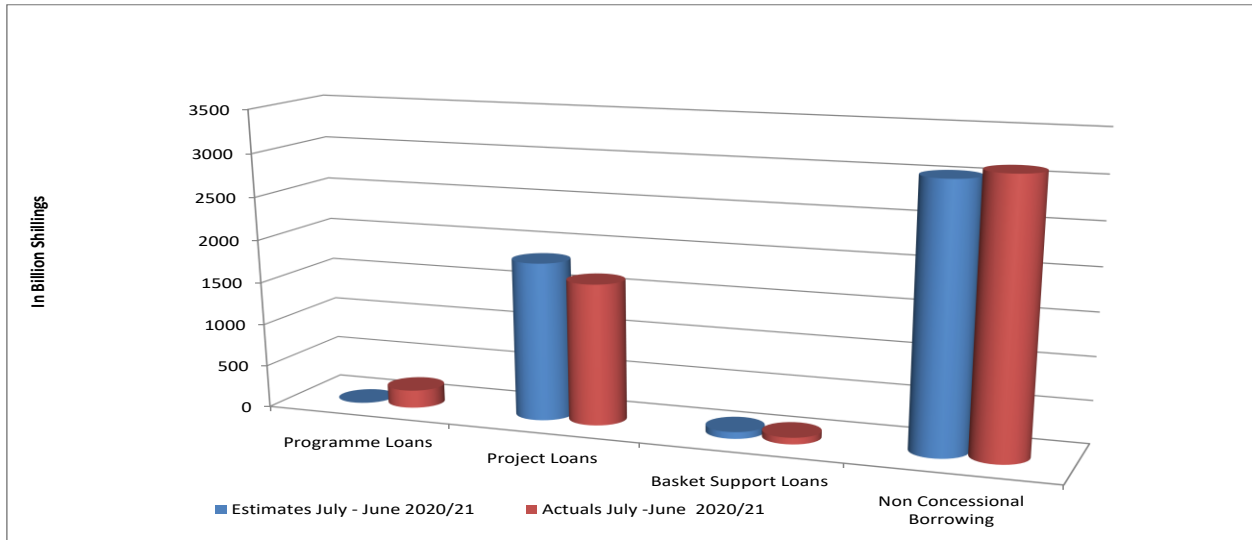
2.5.2 Foreign Financing

Net foreign financing for the fourth quarter was 1,813.8 billion shillings against the target of 1,519.7 billion shillings. During the quarter under review, disbursements of concessional loans were 747.1 billion shillings against the target of 498.1 billion shillings and disbursement of non-concessional loans were 1,982.4 billion shillings against the target of 1,798.9 billion shillings. In addition, amortization of foreign loans was 915.7 billion shillings against estimates of 777.4 billion shillings. Cumulatively, disbursement of concessional loans was 1,937.1 billion shillings against the target of 1,925.0 billion shillings, equivalent to 100.6 percent, and disbursement of non-concessional loans was 3,121.2 billion shillings against the target of 3,035.6 billion shillings and amortization of foreign loans was 2,427.0 billion shillings, equivalent to 98.5 percent of the target. The trend of grants and external concessional loans is shown in **Table 2.1** and the performance of foreign financing for the year 2020/21 is presented in **Chart 2.10**.

Table 1: Trend of Grants and External Concessional Loans for the year 2020/21

Summary Disbursement for the Year 2020-21 (All figures in millions shillings)				
AID MODALITY	Type of assistance	Annual commitment as per budget	Annual disbursement	% of Commitment
GBS	Grants	138,323	-	0%
GBS	Concessional Loan	-	210,239	
Sub Total		138,323	210,239	152%
Basket Funds	Grants	196,538	175,364	89%
Basket Funds	Concessional Loan	79,005	77,107	98%
Sub Total		275,543	252,471	92%
Development Projects	Grants	614,461	520,636	85%
Development Projects	Concessional Loan	1,846,045	1,649,791	89%
Sub Total		2,460,506	2,170,427	88%
Grand Total		2,874,372	2,633,136	92%

Chart 2.10: Performance of Foreign Financing for the year 2020/21 (Estimates Vs Actual)

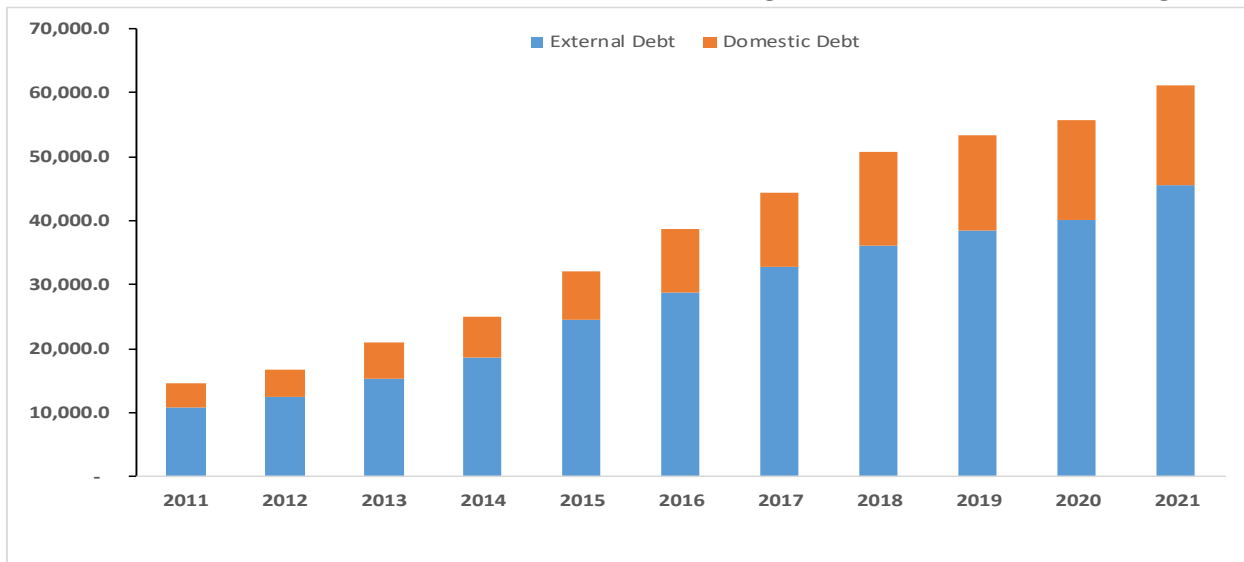


3.0 GOVERNMENT DEBT DEVELOPMENT

3.1 Overall Debt Stock

As of end June 2021, Debt stock was 64,497.83 billion shillings compared to 55,700.44 billion shillings recorded as of end June 2020, being an increase of 15.79 percent (**Chart 3.1**). Out of the amount, domestic debt stock amounted to 18,934.33 billion shillings and external debt stock amounted to 45,563.499 billion shillings. The increase was driven by new external disbursement for funding development projects and depreciation of shillings against USD.

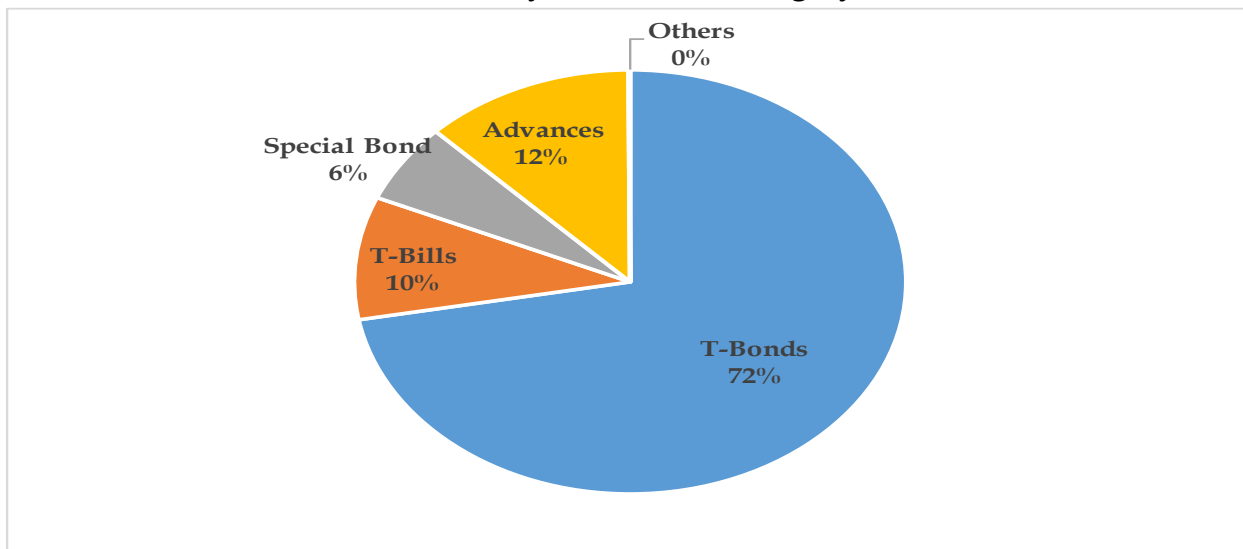
Chart 3.1: Trend of Central Government Debt ending June 2021 (Billion Shillings)



3.2 Central Government Domestic Stock

As of end June 2021, domestic debt stock was 18,934.33 billion shillings compared to 15,515.74 billion shillings as of end end June 2020 being an increase of 22 percent. The increase was mainly attributed to new borrowing for financing of development projects and rolling over matured debt. The composition of domestic debt by instruments shows that, treasury bond accounted for 72.1 percent of total domestic debt stock, followed by treasury bills 9.4 percent, special bond and stocks 6.0 percent, advances to Government 12.3 percent and other debt 0.1 percent. The composition of debt by instrument was consistent with medium-term debt management strategy of mitigating refinancing risk by elongating maturity of debt portfolio. The composition of domestic debt by instrument category is depicted in **Chart 3.2**.

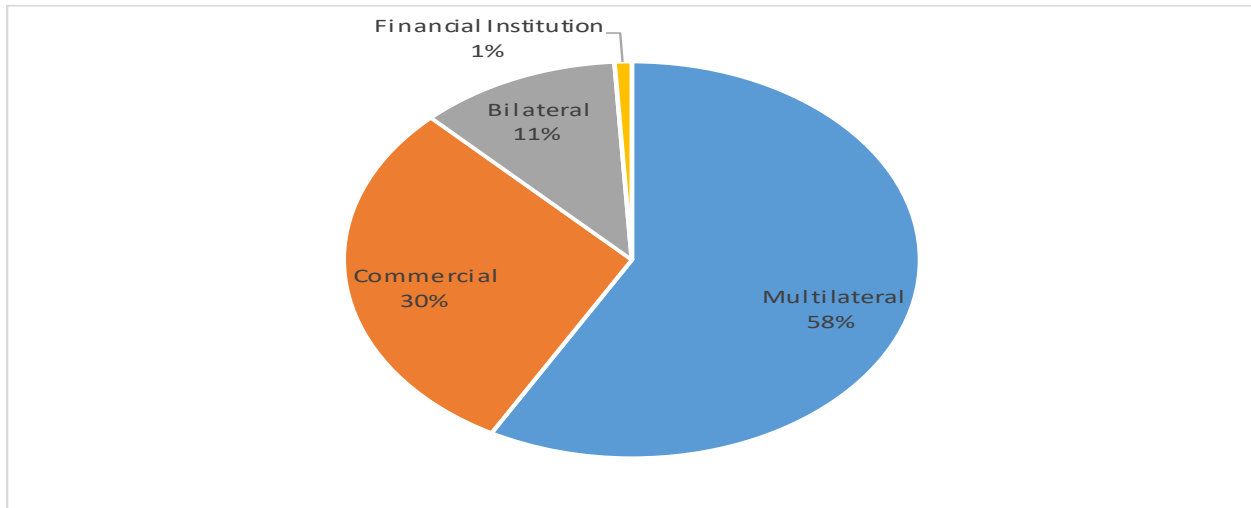
Chart 3.2: Share of Domestic Debt by Instrument Category



3.3 Central Government External Debt

Central Government External debt stock increased to USD 19,721.3 million at the end of June 2021 from USD 17,411.5 million at the end of June 2020 equivalent to an increase of 13.3 per cent. Out of this, Disbursed Outstanding Debt (DOD) was USD 18,658.3 million and USD 1,063.0 million was Interest Arrears. The increase of debt was due to new disbursements. External debt portfolio consisted of loans mainly contracted on concessional terms, with multilateral creditors accounting for 58.1 percent of the total external debt portfolio, Commercial banks and Export Credit Agency (ECA) 29.6 percent, Bilateral 11.3 percent and Financial Institution 1.0 percent. The multilateral institutions remained dominant, accounting for more than half of the total external debt stock. Central Government external debt by creditor category is shown in **Chart 3.3**.

Chart 3.3: Concessionality of Government External Debt



3.4 The Result of Debt Sustainability Analysis

The Debt Sustainability Analysis (DSA) conducted in December 2020 revealed that, the debt is sustainable in the short, medium and long run as the debt burden indicators were below the international agreed thresholds (see **Table 2 and 3**). This implies that, the country has space to borrow for funding development projects while meeting future financial obligations without sharp adjustment to revenue and expenditure.

Table 2: Projected External Public Debt burden indicators

External DSA	Threshold	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2030/31
PV of debt-to GDP ratio	55	17.3	17.5	17.9	17.9	17.2	16.7	14.0
PV of debt-to-exports ratio	240	113.2	109.7	103.5	94.3	87.9	81.2	68.0
Debt service-to-exports ratio	21	14.0	13.4	10.6	10.3	10.7	11.1	11.1
Debt service-to-revenue ratio	23	13.7	13.8	11.8	12.5	13.3	14.4	14.1

Table 3: Projected Overall Public Debt burden indicators

Public DSA	Benchmark	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2030/31
PV of debt-to GDP ratio	70	27.9	27.7	27.8813	28.0	27.8	28.219	33.1
PV of debt-to-Revenue and grant	N/A	171.1	172.0	173.638	174.7	173.7	174.2	202.5
Debt service-to-revenue ratio	N/A	34.5	31.6	29.423	27.6	29.0	30.637	44.3

ANNEX A

Revenue Performance July - June 2021											
											Billion Shillings
	Budget Estimates	April - June 2021			April-June 2019/20 Actual	Year on year % change	July 2020 - June 2021			July-June 2019/20 Actual	Year on year % change
		Estimates	Actual	Percent of estimate			Estimates	Actual	Percent of estimate		
Revenue (Including LGAs own sources)	24,065.5	6,233.3	5,107.9	82%	5,004.3	2%	24,065.5	20,562.3	85%	21,070.0	-2%
Revenue (Excluding LGAs own sources)	23,250.6	6,040.1	4,940.7	82%	4,825.7	2%	23,250.6	19,837.7	85%	20,352.7	-3%
Tax Revenue	20,136.0	5,093.4	4,280.4	84%	4,134.6	4%	20,136.0	17,317.6	86%	17,472.1	-1%
Taxes on Imports	5,925.2	1,517.3	1,459.3	96%	1,099.2	33%	5,925.2	5,371.2	91%	4,928.4	9%
Import Duty	1,599.5	409.6	342.7	84%	287.3	19%	1,599.5	1,320.2	83%	1,269.2	4%
Petroleum	1,227.0	314.2	305.1	97%	198.6	54%	1,227.0	1,261.1	103%	1,042.5	21%
Excise	1,227.0	314.2	305.1	97%	198.6	54%	1,227.0	1,261.1	103%	1,042.5	21%
Others	3,098.7	793.5	811.5	102%	613.3	32%	3,098.7	2,790.0	90%	2,616.7	7%
Excise	223.4	57.2	47.9	84%	41.9	14%	223.4	205.5	92%	195.3	5%
VAT on Non-Petroleum imports	2,875.3	736.3	763.5	104%	571.4	34%	2,875.3	2,584.5	90%	2,421.4	7%
Taxes on Domestic Sales	4,834.8	1,124.7	893.2	79%	882.7	1%	4,834.8	3,889.2	80%	4,037.6	-4%
Excise	1,563.7	382.7	309.4	81%	258.6	20%	1,563.7	1,255.8	80%	1,274.6	-1%
Value Added Tax (VAT)	3,271.1	741.9	583.9	79%	624.1	-6%	3,271.1	2,633.4	81%	2,762.9	-5%
Income Tax	7,200.2	1,900.3	1,481.0	78%	1,805.3	-18%	7,200.2	6,015.9	84%	6,523.8	-8%
PAYE	2,979.9	753.0	571.2	76%	628.8	-9%	2,979.9	2,198.0	74%	2,552.9	-14%
Corporate and Parastatals	2,553.1	702.1	512.5	73%	818.4	-37%	2,553.1	2,150.6	84%	2,571.2	-16%
Individuals	261.9	73.5	53.1	72%	58.5	-9%	261.9	248.6	95%	227.2	9%
Withholding Taxes	1,098.2	286.5	259.6	91%	250.8	3%	1,098.2	1,084.9	99%	939.0	16%
Rental Tax	125.8	34.4	20.5	60%	22.8	-10%	125.8	89.9	71%	101.7	-12%
Other Income	181.2	50.8	64.1	126%	25.9	147%	181.2	243.8	135%	131.8	85%
Other Taxes	2,583.5	656.4	562.6	86%	431.2	30%	2,583.5	2,264.1	88%	2,228.9	2%
Business Skill Development Levy	367.7	96.9	71.7	74%	75.2	-5%	367.7	285.2	78%	315.4	-10%
Fuel Levy and transit fee	900.6	230.6	219.5	95%	155.6	41%	900.6	868.4	96%	772.2	12%
Stamp Duty	20.7	4.6	3.4	74%	5.6	-39%	20.7	20.1	97%	20.0	0%
Departure Service Charges	66.5	15.0	6.3	42%	4.0	59%	66.5	24.2	36%	55.0	-56%
Processing Fee-dry cargo-TRA	74.7	19.1	17.7	92%	16.0	10%	74.7	69.0	92%	65.9	5%
Export Duty	202.7	51.9	6.3	12%	3.1	101%	202.7	93.9	46%	175.0	-46%
Railway Development Fund	289.0	74.0	70.5	95%	55.3	27%	289.0	255.0	88%	249.9	2%
National Water Development Fund	171.0	43.8	41.7	95%	29.6	41%	171.0	165.0	97%	146.6	13%
Motor vehicle taxes	127.0	27.3	32.4	119%	24.9	30%	127.0	124.7	98%	111.9	11%
Treasury Voucher Cheque	0.7	0.2	0.0	0%	1.0	-100%	0.7	0.0	0%	7.4	-100%
Transfer to REA	362.8	92.9	93.0	100%	61.0	53%	362.8	358.8	99%	309.6	16%
Refunds	-407.7	-105.2	-115.6	110%	-83.9	38%	-407.7	-222.9	55%	-246.5	-10%
Refunds - VAT	-361.4	-93.4	-111.7	120%	-60.7	84%	-361.4	-188.7	52%	-195.6	-4%
Refunds - other	-46.3	-11.8	-3.9	33%	-23.2	-83%	-46.3	-34.2	74%	-50.9	-33%
Non Tax Revenue	3,114.6	946.7	660.2	70%	691.0	-4%	3,114.6	2,520.1	81%	2,880.6	-13%
Parastatal Dividends	931.1	340.8	213.2	63%	125.0	71%	931.1	636.4	68%	738.8	-14%
Ministries and Regions	1,993.7	557.3	377.3	68%	533.5	-29%	1,993.7	1,576.8	79%	1,991.1	-21%
TRA Non Tax	145.6	37.0	65.9	178%	22.0	199%	145.6	279.7	192%	116.0	141%
Property tax	21.7	5.4	1.3	24%	4.2	-69%	21.7	6.5	30%	12.9	-50%
Billboard Fee Collections	22.6	6.2	2.6	41%	6.3	-59%	22.6	20.6	91%	21.8	-5%
LGAs own source	815.0	193.1	167.2	87%	178.6	-6%	815.0	724.6	89%	717.2	1%

Source: Ministry of Finance and Planning