

THE UNITED REPUBLIC OF TANZANIA



MINISTRY OF FINANCE AND PLANNING

**THE BUDGET EXECUTION REPORT FOR THE THIRD QUARTER OF 2020/21
(JANUARY TO MARCH 2021)**

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MAY 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

TABLE OF CONTENTS

1.0	RECENT MACROECONOMIC PERFORMANCE	6
1.1.	Real GDP Growth	6
1.2.	Inflation Development	7
1.3.	External Trade	8
1.4.	Export of Goods and Services	9
1.5.	Import of Goods and Services	10
1.6.	Money Supply and Credit	10
1.7.	Interest Rates Development	10
1.8.	Exchange Rate	10
2.0	GOVERNMENT OPERATIONS.....	11
2.1	Domestic Revenue	11
2.2	Revenue by Source	11
2.2.1	Taxes on Imports.....	11
2.2.2	Taxes on Domestic Sales.....	12
2.2.3	Income Tax.....	13
2.2.4	Other Taxes.....	14
2.2.5	Non Tax Revenue.....	15
2.3	Expenditure	16
2.3.1	Third Quarter Expenditure Performance.....	16
2.3.2	Recurrent Expenditure	16
2.3.3	Wages and Salaries	17
2.3.4	Debt Service.....	17
2.3.5	Goods, Services and Transfers	17
2.3.6	Development Expenditure.....	17
2.3.7	Cumulative Expenditure Performance	18
2.4	Grants	20
2.5	Financing	20
2.5.1	Domestic Financing	20
2.5.2	Foreign Financing.....	21
3.0	GOVERNMENT DEBT DEVELOPMENT	22
3.1	Overall Debt Stock	22
3.2	Domestic debt stock.....	23
3.3	External debt stock	23
3.4	The Result of Debt Sustainability Analysis.....	24
4.0	BUDGET LIKELY OUTTURN TO JUNE 2021	24

Executive Summary

The growth of real Gross Domestic Product (GDP) in the fourth quarter of 2020 was 4.9 percent compared to 6.2 percent recorded in the corresponding period in 2019. The slowdown in growth was on account of impacts of COVID – 19 in some of economic activities. During the third quarter of 2020/21, headline inflation remained low and below the country's medium-term target of 5.0 percent, decreasing to an average of 3.3 percent in 2020/21 from 3.6 percent recorded in 2019/20. The decline in inflation was attributed to several factors including implementation of prudent monetary and fiscal policies, adequate supply of food in domestic and neighboring country markets, stable exchange rate, and subdued oil prices in the world market.

During the third quarter of 2020/21, total domestic revenue collection (including LGAs own source) amounted to 4,987.2 billion shillings, which was 8 percent lower than 5,402.2 billion shillings collected in the corresponding period in 2019/20. On cumulative basis, for the first three quarters of 2021, total amount collected was 15,454.4 billion shillings against the target of 17,832.3 billion shillings, equivalent to 87 percent, and a decrease of 4 percent when compared with the amount collected in the same period in 2019/20.

The Government spending for the third quarter was 8,185.8 billion shillings, equal to 93.0 percent of the quarter target of 8,798.0 billion shillings, and 13.2 percent higher than the amount recorded in the corresponding quarter in 2019/20. For the period (July 2020 to March 2021) total expenditure amounted to 21,306.8 billion shillings, equivalent to 89.6 percent of the targeted amount of 23,777.9 billion shillings, and 5.8 percent higher when compared to 20,131.8 billion shillings registered in the corresponding period in 2019/20.

Grants received during the third quarter of 2020/21 were 123.7 billion shillings, equivalent to 39.7 percent of the estimated amount of 311.6 billion shillings. Out of the total grants, project grants were 36.6 billion shillings, equivalent to 19.2 percent of estimates and basket funds amounted to 87.2 billion shillings, or 286.8 percent of estimates. Cumulatively, total grants received during the first three quarters of 2020/21 were 511.4 billion shillings, equivalent to 63.4 percent of the target.

Total financing during the third quarter was borrowing of 1,191.3 billion shillings against the target of 1,941.2 billion shillings. For the period between July 2020 and March 2021, total financing was a borrowing of 1,707.2 billion shillings against the target of 2,797.4 billion shillings.

As of end March 2021, total debt stock was 59,852.63 billion shillings compared to 54,976.15 billion shillings at the end March 2020. Out of the amount, domestic debt stock was 16,116.53 billion shillings and external debt stock was 43,736.10 billion shillings. The increase was driven by new borrowing to finance development projects.

1.0 RECENT MACROECONOMIC PERFORMANCE

1.1. Real GDP Growth

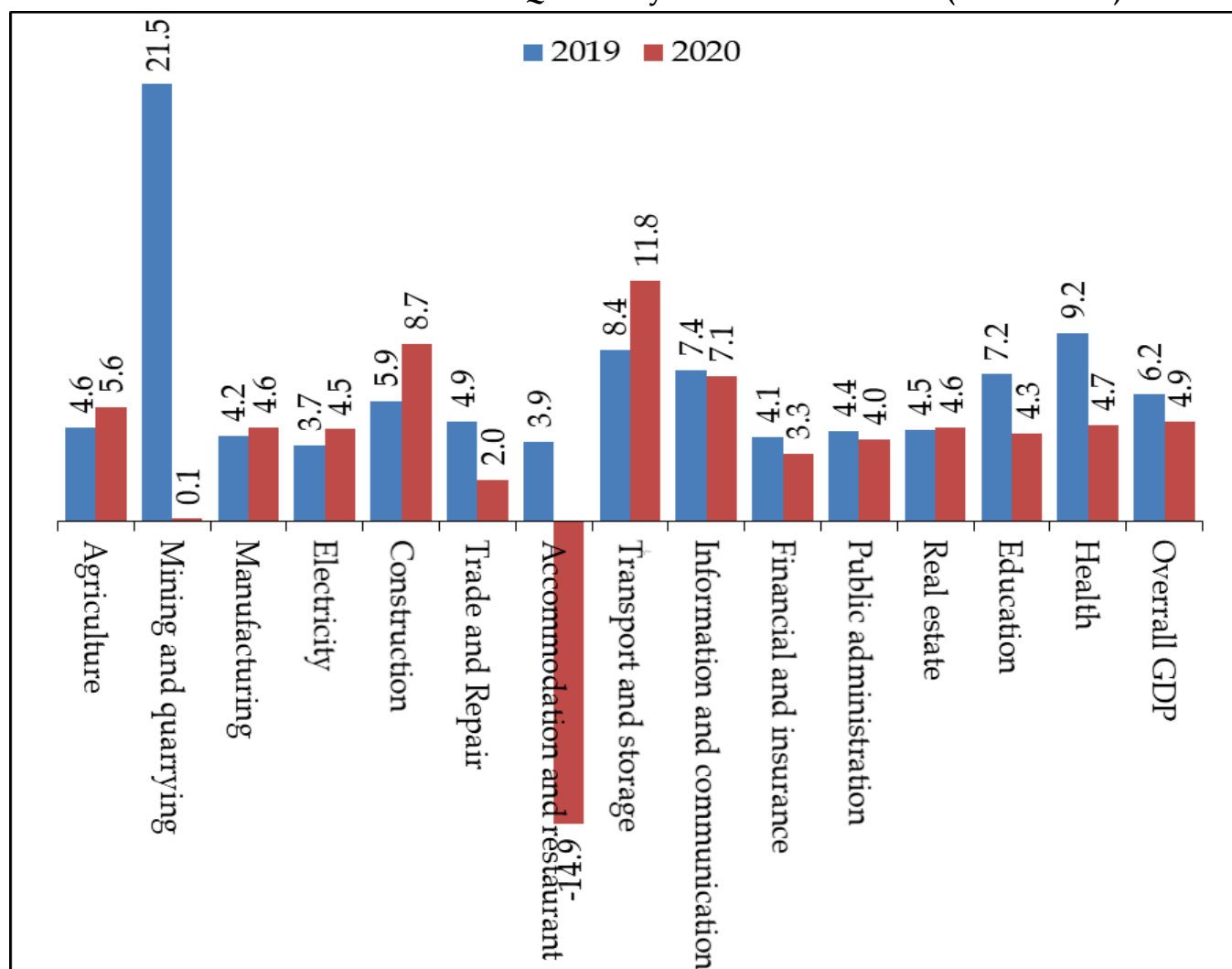
The value of Gross Domestic Products (GDP) at constant prices increased to Tanzanian shillings 35.2 trillion in the fourth quarter of 2020 from 33.5 trillion shillings in the corresponding quarter of 2019, equivalent to a growth of 4.9 percent. The relatively low growth in the fourth quarter was mainly explained by measures taken by major trading partners to contain the spread of COVID 19 which included lockdown and suspension of international passenger flights. The trend of GDP growth is indicated in **Chart 1.1**.

Chart 1.1: Trend of GDP Growth for the Fourth Quarters (October to December), 2015 to 2020



During the period under review, sectors which recorded high growth included: fishing (24.7 percent); transport and storage (11.8 percent); construction (8.7 percent); professional scientific and technical services (8.4 percent); administrative support services (7.6 percent); information and communication (7.1 percent); and agriculture (5.6 percent). All economic activities except accommodation and food services recorded a positive growth with majority recording lower growth than previous year. Accommodation and food services recorded a recession in the quarter under review owing to the impact of COVID-19. The trend of growth in economic activities for the fourth quarters from 2019 to 2020 is reflected in **Chart 1.2**.

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

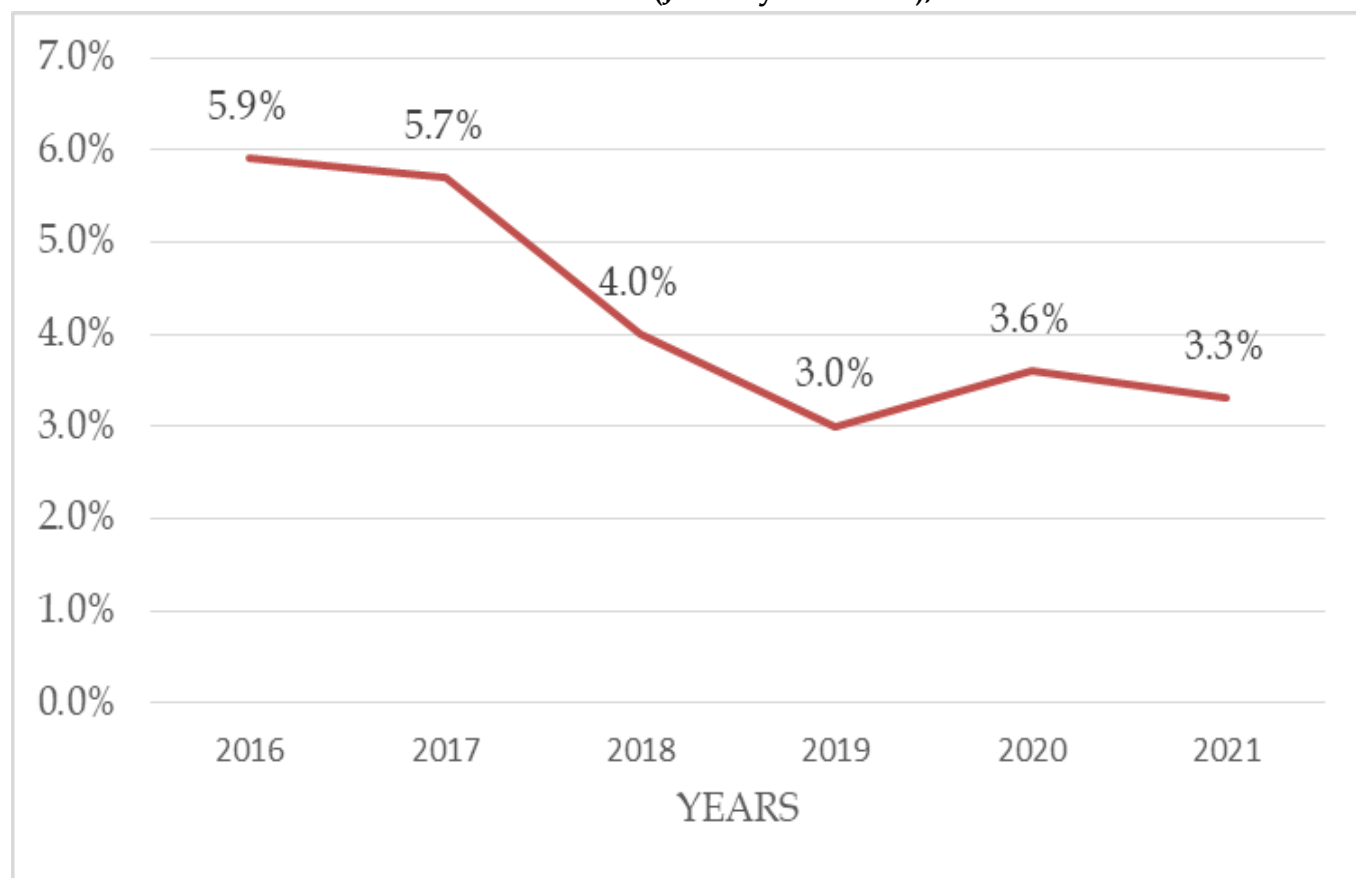


1.2. Inflation Development

The National Bureau of Statistics (NBS) rebased Consumer Price Index (CPI) to base year of December 2020 (December 2020=100) from December 2015 to reflect changes in consumption pattern of goods and services by households, due to changes in taste, preference, and technology. The rebasing exercise was based on household consumption pattern obtained from Household Budget Survey (HBS) conducted in 2017/18. The new CPI covers 383 consumer goods and services compared to 278 in the old CPI. In the new CPI, 67 consumer goods and services have been incorporated, while 28 items were dropped and thus, the weighting pattern of broad categories of CPI has changed. The proportion of core CPI in overall CPI increased to 73.9 percent from 54.3 percent and food and non-alcoholic beverages decreased to 28.2 percent from 38.5 percent. The rebasing followed the guidelines issued by the East African Community, International Labour Organization, and United Nations Statistical Commission on Classification of Individual Consumption According to Purpose.

In the first three quarters of 2020/21, the headline inflation remained low and below the country's medium-term target of 5.0 percent, decreasing to an average of 3.3 percent from 3.6 percent recorded in the similar period in 2019/20. During the third quarter of 2020/21, the average headline inflation based on new CPI remained low and within the target range of 3.0 to 5.0 percent, decreasing from an average **of 3.6 percent in 2019/20 to 3.3 percent in 2020** (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, stable exchange rate, and subdued oil prices in the world market.

Chart 1.3: Trend of Headline Inflation from (January to March), 2016 to 2021



1.3. External Trade

During the first three quarters of 2020/21, the overall balance of payment recorded a deficit of USD 61.3 million from a surplus of USD 993.3 million recorded in the corresponding period in 2019/20, owing to relatively low official inflows. The current account deficit narrowed to USD 630.5 million from a deficit of USD 715.8 million recorded in 2019/20 (Table 1.1). The narrowing of current account deficit was due to increase in exports of goods and decline in imports.

Table 1.1: Current Account

Items	July - March			Percentage
	2018/19	2019/20	2020/21p	Change
Goods account (net)	-3,045.10	-2,388.80	-1,377.10	-42.4
Exports*	3,505.20	4,411.20	4,841.00	9.7
Imports	6,550.40	6,800.10	6,218.10	-8.6
Services account (net)	1,894.70	2,002.20	1,057.50	-47.2
Receipts	3,212.40	3,357.40	1,977.70	-41.1
Payments	1,317.70	1,355.20	920.2	-32.1
Goods and services (net)	-1,150.40	-386.7	-319.6	-17.3
Exports of goods and services	6,717.70	7,768.60	6,818.80	-12.2
Imports of goods and services	7,868.10	8,155.30	7,138.40	-12.5
Primary income account (net)	-503.5	-695.3	-618.6	-11
Receipts	142	157.9	40.7	-74.2
Payments	645.5	853.2	659.4	-22.7
Secondary income account (net)	296.1	366.2	307.8	-16
Inflows	341.3	406.7	345.8	-15
o/w General Government	67.2	161.3	90.3	-44
Outflows	45.2	40.5	38	-6
Current account balance	-1,357.80	-715.8	-630.5	-11.9

Source: Bank of Tanzania

Note: p means provisional. *include adjustment for unrecorded exports.

1.4. Export of Goods and Services

Exports of goods and services for July 2020 to March 2021, declined by 12.2 percent to USD 6,818.8 million from USD 7,768.6 million recorded in the corresponding period in 2019/20, largely attributed to decline in service receipts by 41.1 percent. The outturn in travel receipts is a result of measures taken by partner countries to contain the spread of COVID-19 including lockdowns and travel restrictions. Meanwhile, exports of goods increased by 9.7 percent to USD 4,841.0 million during the period ending March 2021 from USD 4,411.2 million in the corresponding period in 2019/20, following good performance of non-traditional goods. Non-traditional exports increased to USD 4,079.2 million, an increase of 25.8 percent from the value recorded in 2019/20. The increase in exports of non-traditional goods was largely driven by exports of minerals particularly gold and mineral concentrates; manufactured goods; horticultural products and other exports. Conversely, traditional goods exports declined to USD 531.4 million compared to USD 936.6 million, mainly driven by decrease in export values of cashew nuts, tobacco, cotton, and cloves.

1.5. Import of Goods and Services

The value of import of goods and services amounted to USD 7,138.4 million, compared with USD 8,155.3 million recorded in the corresponding period in 2019/20. All goods import recorded a decline except for consumer goods. Significant declines were noted on importation of transport equipment, oil, building and construction materials, as well as food and foodstuffs. Similarly, services payments decreased by 22.7 percent due to decline in travel payments.

1.6. Money Supply and Credit

Bank of Tanzania sustained implementation of accommodative monetary policy in the first three quarter of 2020/21, in line with the continued need to improve credit flows to the private sector. During the period under review, extended broad money supply (M3) growth averaged at 6.7 percent, broad money supply grew by 9.1 percent and narrow money supply grew by 9.3 percent compared with 9.6 percent, 11.2 percent and 13.4 percent in similar period in 2019/20 respectively. In addition, credit to the private sector grew by an average of 4.2 percent compared with 9.0 percent in the similar period in 2019/20. The subdued growth of private sector credit was mainly attributed to decrease in demand for new loans due COVID – 19 impacts in some economic activities.

1.7. Interest Rates Development

Interest rates on loans and deposits maintained a downward path in the first three quarters of 2020/21, reflecting the impact of sustained accommodative monetary policy stance. During that period, one-year and overall lending rates averaged at 15.63 percent and 16.59 percent, a decline from 16.23 percent and 16.84 percent recorded in similar period in 2019. One-year deposit rate eased to an average of 8.51 percent from 7.25 percent in corresponding period of 2019, while overall time deposits rate decreased to 6.8 percent from 7.06 percent in 2019. Given such trend, the spread between one-year lending and deposit interest rates narrowed to an average of 7.30 percentage points from 7.38 percentage points registered in the similar period in 2019/20, reflecting a gradual decrease in cost of borrowing to customers and cost of funds to banks.

1.8. Exchange Rate

The value of the shilling remained stable against the US dollar, trading at an average of shilling 2,309.89 per USD in the quarter ending March 2021, compared to shilling 2,300.52 per USD traded in the corresponding period in 2020, representing an average depreciation of 0.4 percent, owing to moderate current account deficit, low and stable domestic inflation and sustained prudent monetary and fiscal policies.

2.0 GOVERNMENT OPERATIONS

2.1 Domestic Revenue

In the period ending March 2021, the Government continued to implement various strategies to ensure the revenue target set in the financial year 2020/21 is achieved. During the third quarter, total domestic revenue collection (including LGAs own source) amounted to 4,987.2 billion shillings, which was 8 percent lower than 5,402.2 billion shillings collected in the corresponding period in 2019/20. On cumulative basis, total amount collected from July 2020 to March 2021 was 15,454.4 billion shillings against the target of 17,832.3 billion shillings, equivalent to 87 percent and a decrease of 4 percent when compared with the amount collected in the same period in 2019/20. Out of the amount, collection from Tanzania Revenue Authority (TRA) was 13,274.3 billion shillings against the target of 15,183.8 billion shillings, equivalent to 87 percent. Non tax revenue collected by MDAs was 1,622.7 billion shillings, equivalent to 80 percent of the target of 2,026.7 billion shillings and collection from LGAs own source was 557.4 billion shillings against the target of 621.8 billion shillings, equivalent to 90 percent.

2.2 Revenue by Source

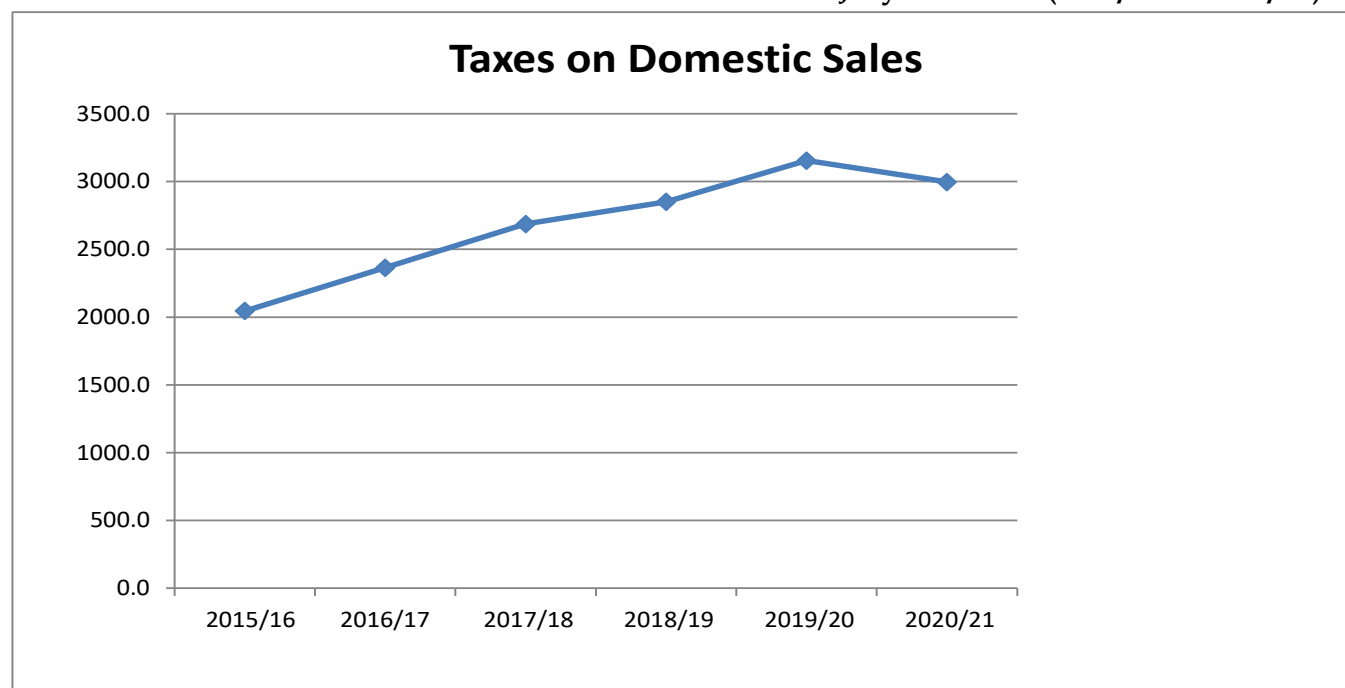
2.2.1 Taxes on Imports

Import taxes and duties collection in the third quarter, amounted to 1,247.0 billion shillings, reflecting a performance of 85 percent of estimated 1,473.0 billion shillings, and 3 percent higher when compared to collections registered in the similar period in 2019/20. Cumulatively, import taxes and duties collection amounted to 3,911.9 billion shillings, reflecting a performance of 89 percent of estimated 4,408.0 billion shillings, and 2 percent higher when compared to collections registered in the similar period in 2019/20. The excise on petroleum imports surpassed the target with total collection of 955.9 billion shillings, which was 105 percent of the planned target of 912.8 billion shillings. Excise on other imports registered performance of 95 percent of the target by collecting 157.6 billion shillings. Import duty performed below the target by collecting 977.5 billion shillings, equivalent to 82 percent of the target and VAT on non-petroleum performed at 85 percent of the target by collecting 2,139.0 billion shillings. Performance of imports taxes were attributed to a slight increase (0.7 percent) in the importation of commodities than anticipated, largely contributed by a decrease in the importation of the intermediate commodities by 9.7 percent; and a 5 percent decline in the importation of petroleum products.

2.2.2 Taxes on Domestic Sales

In the third quarter of 2020/21, actual tax collection from domestic sales increased by one (1) percent to 981.0 billion shillings from 973.8 billion shillings collected in the corresponding period in 2019/20. This collection was equivalent to 80 percent of the target of 1,227.7 billion shillings. On cumulative basis, in the first three quarters of 2020/21 actual tax collection from domestic sales decreased by 5 percent to 2,996.0 billion shillings from 3,154.9 billion shillings collected in the same period in 2019/20 and 81 percent of the target of 3,710.2 billion shillings. Out of the total domestic sales tax, the excise duty was 946.4 billion shillings, equivalent to 80 percent of the target of 1,181.0 billion shillings while VAT on domestic sales amounted to 2,049.6 billion shillings, which was 81 percent of the target and 4 percent lower when compared to similar period in 2019/20. Under performance was due to low sales of beer, cigarettes and soft drinks as most of the customers seem to allocate less of the spending on refreshments than basic needs such as foods and shelters; high input tax claims by the cement, beer and spirits manufacturers which resulted to lower-than-expected payment of VAT and others were in repayable position, the slowdown in the tourism sector which has remained not fully re-opened due to healthy restrictions related to COVID-19 in the countries where tourists are coming from. The underperformance of the domestic excise duty was mainly due to decline in production of excisable commodities such as beer and cigarettes, wine and sprit; and declined usage of telecommunication services in the quarter compared to similar period last year. **Chart 2.1** shows the trend of tax on domestic sales for the first three quarters of the financial years (2015/16 – 2020/21).

Chart 2.1: Trend of Tax on Domestic Sales for the Period July to March (2015/16 to 2020/21)

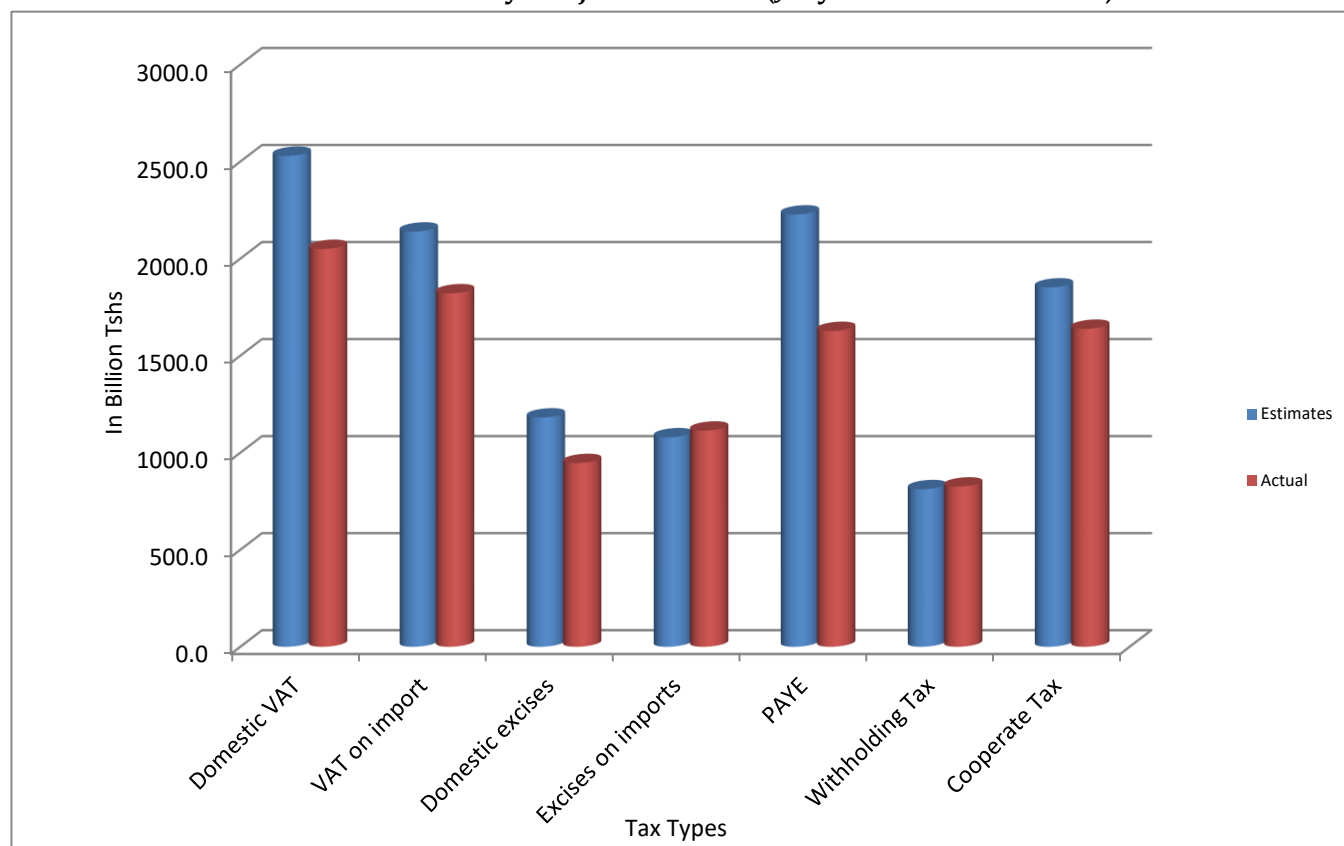


2.2.3 Income Tax

The overall income tax collection during the third quarter of 2020/21 amounted to 1,418.9 billion shillings which was 79 percent of the target of collecting 1,789.5 billion shillings, reflecting a decrease of 13 percent compared to collections registered in the same period in 2019/20. Cumulatively, up to March 2021 income tax collection was 4,534.9 billion shillings, which was 86 percent of estimates of 5,299.9 billion shillings. In the third quarter of 2020/21, PAYE collection was 560.2 billion shillings, equivalent to 76 percent of the target. Cumulatively, during the first three quarters of 2020/21, PAYE collection was 1,626.9 billion shillings against the target of 2,226.9 billion shillings, signifying the performance of 73 percent and lower by 15 percent when compared to 1,924.0 billion shillings collected in the corresponding period in 2019/20. The underperformance was due to continued impact of the freezing payroll due to number of reasons including retirement and resignations.

During the third quarter of 2020/21, revenue collection from the corporate tax was 472.5 billion shillings, which was 74 percent of the target of 639.9 billion shillings. Cumulatively, amount collected from corporate tax was 1,638.1 billion shillings equivalent to 88 percent of the target and 7 percent lower compared to amount collected in the corresponding period in 2019/20. The reasons for under performance are as follows: 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 third quarter was 228.6 billion shillings equivalent to 84 percent of the target. This performance was due to: Decrease in number of transactions that attract withholding taxes such as management fees, dividend, rent and interest and payments. During the period ending March 2021, collection from withholding taxes were 825.4 billion shillings against the target of 811.7 billion shillings, equivalent to 102 percent. Revenue performance by major tax items is shown in **Chart 2.2**.

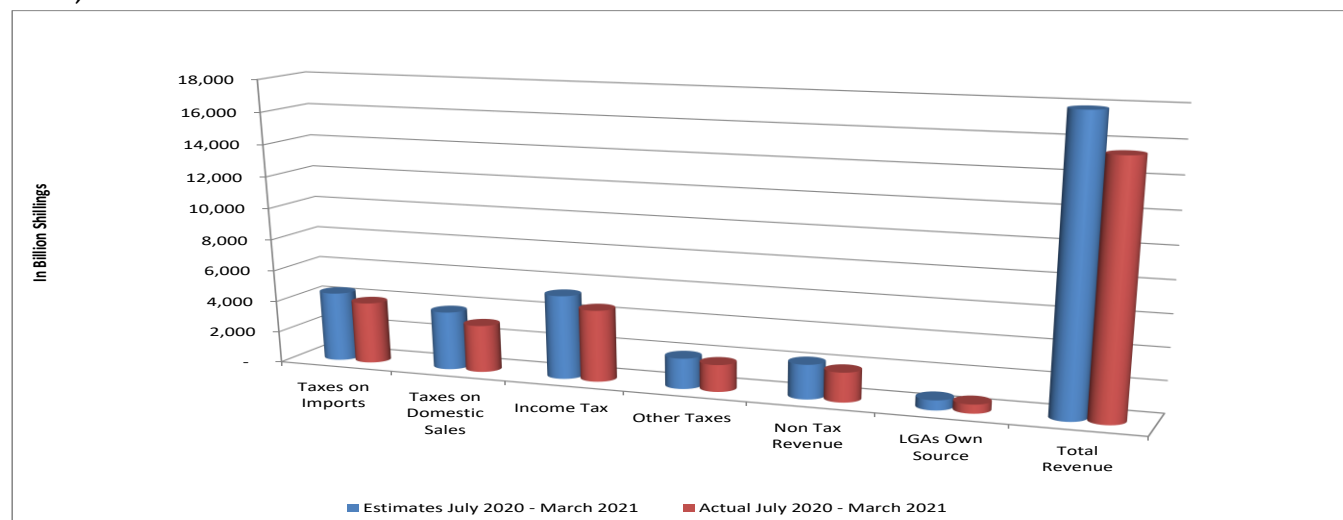
Chart 2.2: Revenue Performance by Major Tax Item (July 2020 – March 2021)



2.2.4 Other Taxes

During the period (January – March 2021), actual collections from this category amounted to 526.9 billion shillings, which was 82 percent of the period estimate of 641.6 billion shillings. On cumulative basis, amount collected from this source was 1,701.6 billion shillings, which was 88 percent of the target of 1,927.1 billion shillings, and a decrease of 5 percent when compared to the amount collected in the same period in 2019/20. Out of the amount, Fuel Levy and Transit Fee amounted to 648.9 billion shillings, equivalent to 97 percent of estimates; collections meant for National Water Development Fund was 123.3 billion shillings, which was 97 percent of estimates; and collections for Rural Energy Agency (REA) amounted to 265.8 billion shillings, or 98 percent of estimates. On the other hand, collections from other sources were below the target, which included: collections for Railway Development Fund 184.5 billion shillings, equivalent to 86 percent of estimates; Business Skill Development Levy (SDL) recorded 213.5 billion shillings, equivalent to 79 percent of estimates, and Departure Service Charges performed at 35 percent of estimates of 51.5 billion shillings. The underperformance of SDL was contributed by retirement and resignations of employees in the private sector. Underperformance of Departure Service Charges was mainly affected by international travel ban and slowdown of tourism activities resulted from COVID -19 pandemic. The trend of revenue performance is indicated in **Chart 2.3**.

Chart 2.3: Revenue Performance (July 2020 to March 2021) Compared to (July 2019 to March 2020)

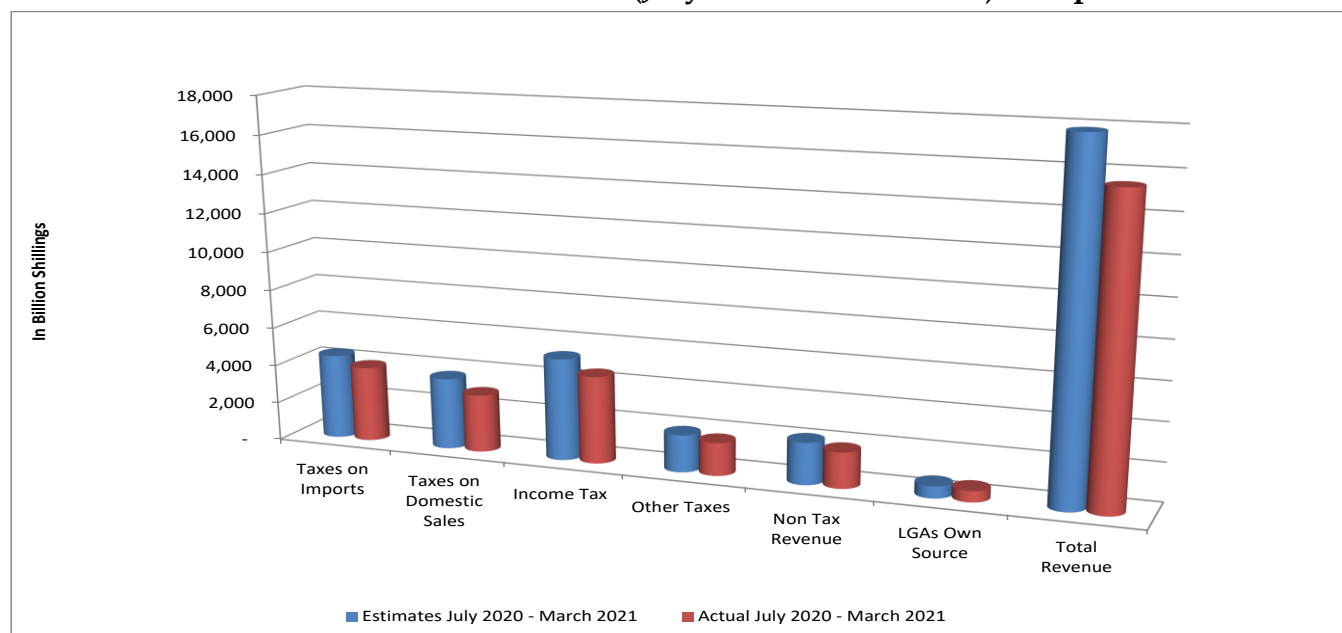


2.2.5 Non Tax Revenue

Collections of non-tax revenue in the third quarter of 2020/21 were 691.1 billion shillings, equivalent to 82 percent of quarter estimates of 846.1 billion shillings. The collections were lower by 24 percent when compared to collections registered in the same period in 2019/20. For the period of July 2020 to March 2021, collections of non-tax revenue were 1,859.8 billion shillings equivalent to 86 percent of period estimates of 2,167.9 billion shillings and lower by 15 percent when compared to collections registered in the same period in 2019/20. Out of the amount, non-tax revenues collected by ministries were 1,199.5 billion shillings, against the target of 1,436.4 billion shillings, equivalent to 84 percent, dividends and contribution from Government Institutions were 423.2 billion shillings, which was 72 percent of the target, non-tax revenues collected by TRA (billboard fee, property tax, tourist sector and others) were 237.1 billion shillings, which was 168 percent of the period estimates of 141.2 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 the Consolidated Fund timely; and other source of revenue from Ministry of Natural Resource and tourism which mainly depend on tourism.

Collections from LGAs own source in the third quarter of 2020/21, was 180.9 billion shillings, equivalent to 91 percent of estimates. For the first three quarters of 2020/21, LGAs own source recorded 557.4 billion shillings, which was 90 percent of the target, and higher by 3 percent when compared to same period in 2019/20. Domestic revenue performance up to March 2021 compared to estimates is depicted in **Chart 2.4**.

Chart 2.4: Domestic Revenue Performance (July 2020 to March 2021) Compared to Estimates



2.3 Expenditure

The approved expenditure for 2020/21 amounted to 34,879.8 billion shillings, which includes 22,100.5 billion shillings for recurrent expenditure and 12,779.3 billion shillings for development expenditure.

2.3.1 Third Quarter Expenditure Performance

During the third quarter, expenditure performance was reasonably better than the performance recorded in the similar quarter in 2019/20, mainly on account of improved revenue collection from both domestic and external sources. The total spending during the quarter under review was 8,185.8 billion shillings, equivalent to 93.0 percent of the targeted spending of 8,798.0 billion shillings. The recorded spending was 13.2 percent higher when compared to 7,233.8 billion shillings spent in the corresponding quarter in 2019/20. Notwithstanding the achievement, the performance was still below the target due to revenue shortfall from some sources including import duty, excise on other imports, VAT on non-petroleum and PAYE.

2.3.2 Recurrent Expenditure

Recurrent expenditure continued to register good performance consistent with the Government's commitment to honouring statutory obligations and financing of office operations. The total outlays on recurrent activities during the third quarter amounted to 5,363.7 billion shillings, signifying a performance of 98.4 percent of the projected spending of 5,443.1 billion shillings. The amount was slightly higher by 0.9 percent when compared to 5,316.9 billion shillings spent in same quarter in 2019/20. The notable performance was coupled

by good performance in majority of 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

The spending on wages and salaries in the third quarter was in line with the expenditure needs submitted by Votes as per existed employees. The total amount disbursed for wages and salaries was 1,841.8 billion shillings, equivalent to 99.5 percent of the targeted spending of 1,850.6 billion shillings, and 4.0 percent higher than the amount disbursed in the similar period in 2019/20. The increase in expenditure on wages and salaries was on account of recruitment of new employees and increased expenditure on outstanding wages and salary claims.

2.3.4 Debt Service

The debt service expenditure performance during the third quarter was consistent with the Government's commitment to timely honour statutory obligations, with total releases amounting to 1,774.7 billion shillings, reflecting a performance of 99.4 percent of estimates of 1,784.5. Out of the released amount, 1,259.5 billion shillings were directed to debt amortization and 515.2 billion shillings to interest payment. The spending on debt service was in line with the matured debt obligations during the third quarter.

2.3.5 Goods, Services and Transfers

The financing of Government operations during the quarter under review was sound and consistent with the spending institutions' action plans, thanks to positive results from domestic revenue collection measures. The total spending on goods, services and transfers amounted to 1,747.2 billion shillings, equivalent to 98.8 percent of the quarter target of 1,768.1 billion shillings. The slight mismatch between the released amount and the target was on account of revenue shortfall in some domestic revenue sources.

2.3.6 Development Expenditure

The execution of development budget during the third quarter revealed significant progress compared with the previous quarter. The funds disbursed for development activities amounted 2,822.2 billion shillings, equal to 88.3 percent of the planned target of 3,194.8 billion shillings, and 47.2 percent higher than the amount released in the same period in 2019/20. Out of the released amount, 2,668.7 billion shillings were from local sources and 153.4 billion shillings from external sources. The underperformance in execution of development budget was attributed to several factors, including lower than expected 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 third quarter of 2020/21 is presented in **Chart 2.5 and Chart 2.6**.

Chart 2.5: Expenditure Performance by Recurrent and Development Budget (January to March 2021)

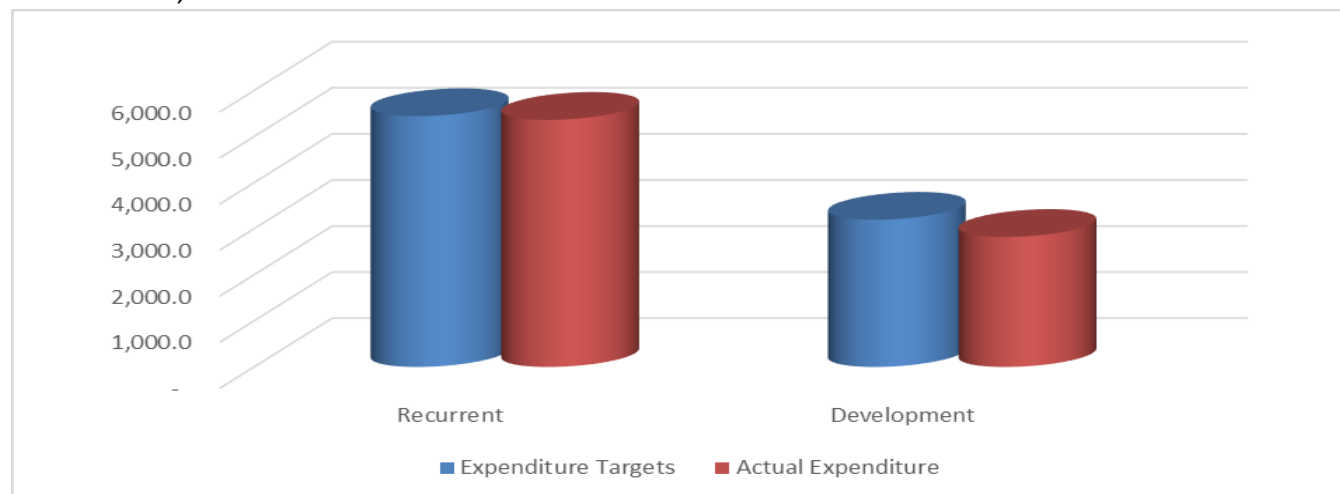
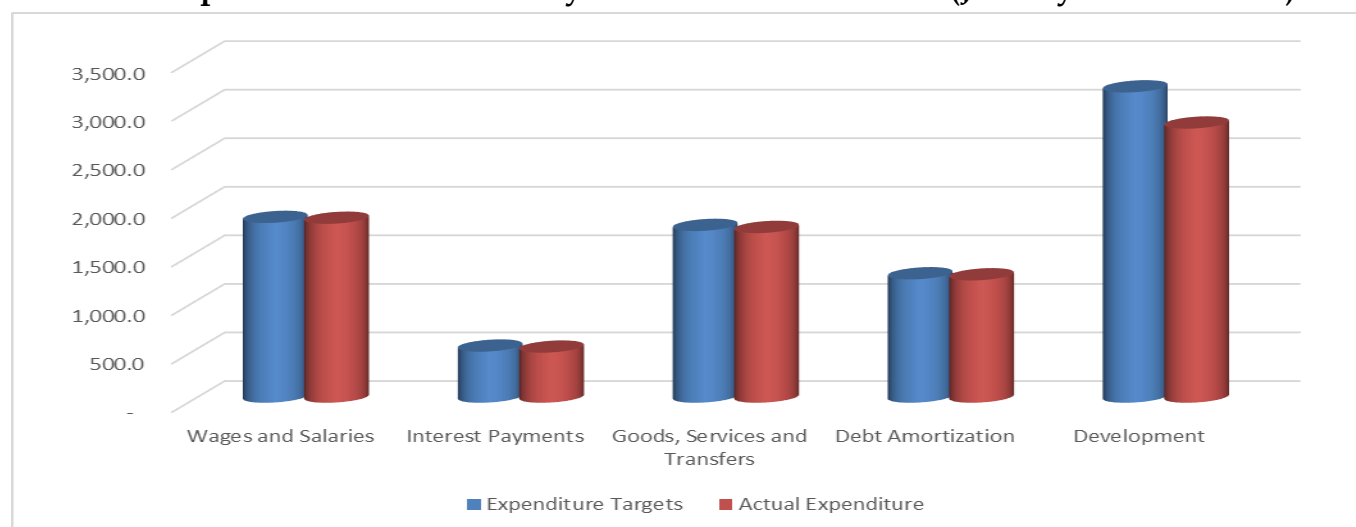


Chart 2.6: Expenditure Performance by Economic Classification (January to March 2021)



2.3.7 Cumulative Expenditure Performance

The expenditure performance from July 2020 to March 2021 revealed encouraging trend, with the total spending amounting to 21,306.8 billion shillings, equivalent to 89.6 percent of the targeted spending of 23,777.9 billion shillings. The recurrent budget execution continued to register an upper hand with a total spending of 15,885.6 billion shillings, equal to 96.9 percent of the targeted spending of 16,393.4 billion shillings. The released amount comprised of: wages and salaries 5,486.4 billion shillings (equivalent to 97.4 percent of the target of 5,631.8 billion shillings); debt service 5,794.0 billion shillings (equivalent to 97.3 percent of estimates of 5,949.5 billion shillings); and goods, services and transfers 4,605.1 billion shillings (equivalent to 95.7 percent of the projected amount of 4,812.2 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, though not as good as recurrent budget. The funds disbursed for development activities from July 2020 to March 2021 amounted to 5,421.2 billion shillings, reflecting the performance of 73.4 percent of the planned disbursement of 7,384.5 billion shillings. Regardless of underperformance, projects financed by domestic revenues continued to enjoy the lion share of the disbursed funds, amounting to 2,668.7 billion shillings while the foreign funded projects registered the lowest share, amounting to 153.4 billion shillings. The underperformance in execution of development budget was attributed to lower-than-expected disbursement of 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 March 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 March 2021)

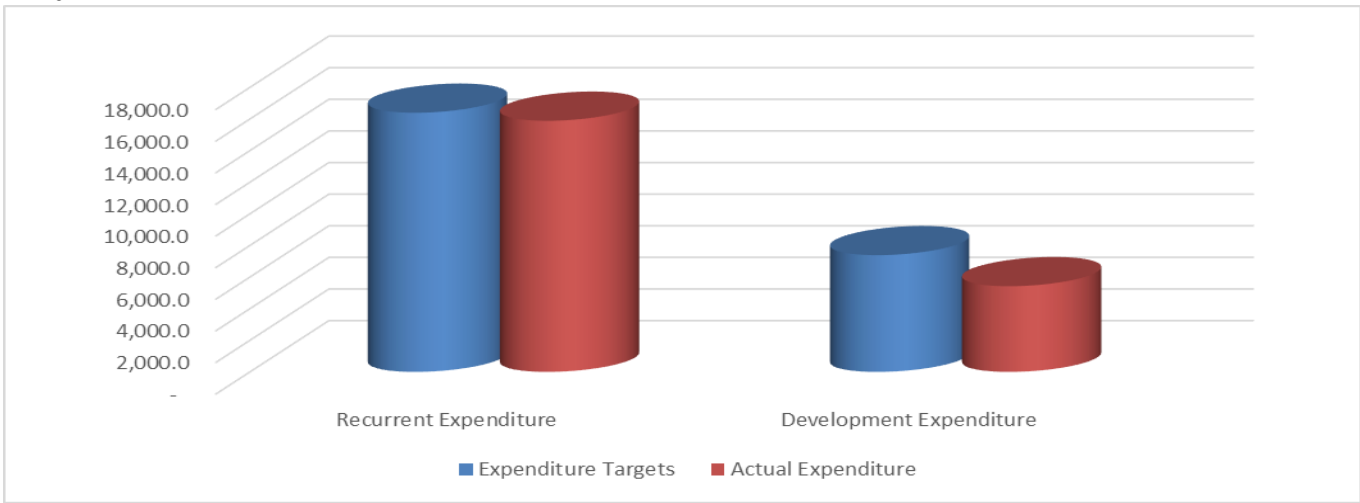
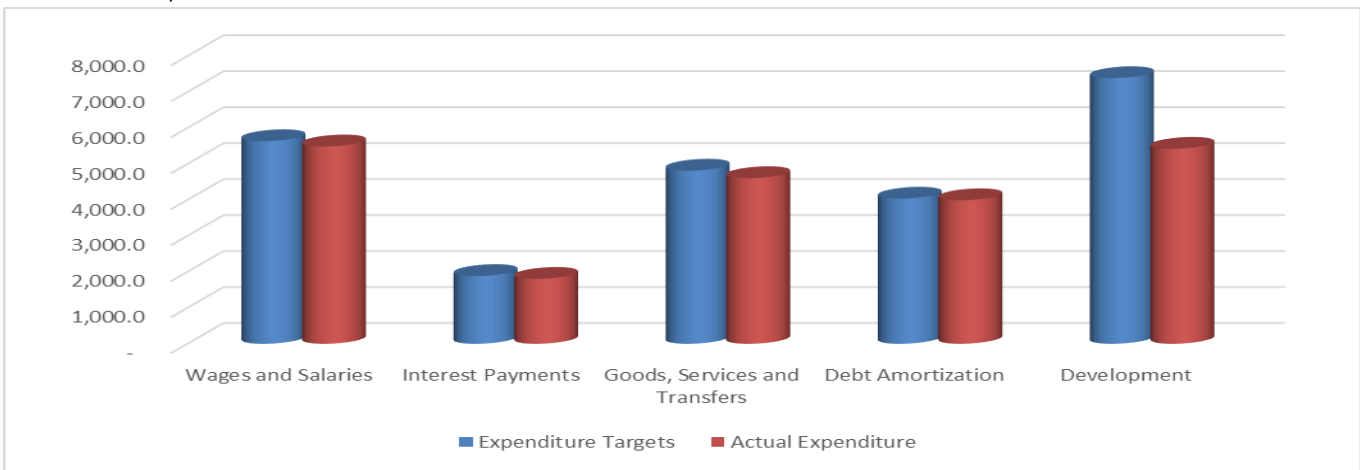


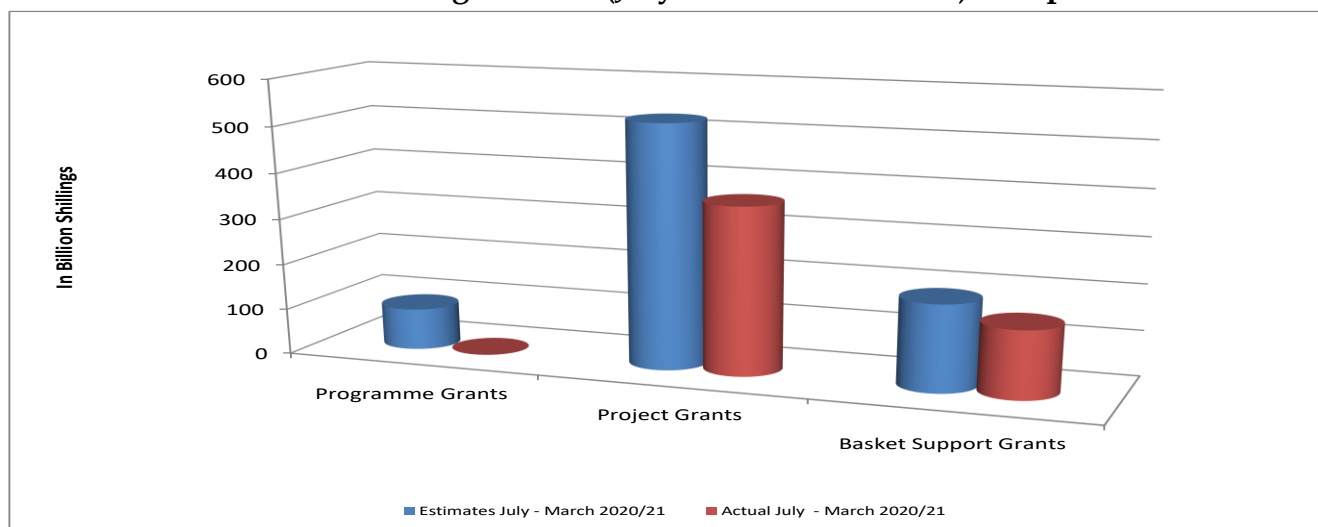
Chart 2.8: Cumulative Expenditure Performance by Economic Classification (July 2020 to March 2021)



2.4 Grants

Grants received during the third quarter of 2020/21 were 123.7 billion shillings, equivalent to 39.7 percent of the estimated amount of 311.6 billion shillings. Out of the total grants, Project Grants were 36.6 billion shillings and Basket Funds amounted to 87.2 billion shillings. Cumulatively, total grants received during the first three quarters of 2020/21 were 511.4 billion shillings, equivalent to 63.4 percent of the estimates. Out of the amount received, Project Grants were 363.9 billion shillings, which was 69.0 percent of the target and Basket Fund were 147.5 billion shillings equivalent to 78.3 percent of the target. **Chart 2.9** shows the cumulative performance of foreign grants up to March 2021.

Chart 2.9: Performance of Foreign Grants (July 2020 to March 2021) Compared to Estimates



2.5 Financing

Total financing during the third quarter was borrowing of 1,191.3 billion shillings against the target of 1,941.2 billion shillings. Total foreign net financing was a borrowing of 1,068.2 billion shillings against the target of 1,482.8 billion shillings. Total domestic net financing was a borrowing of 123.1 billion shillings against the target of 458.4 billion shillings. Cumulatively, total financing up to March 2021 was a borrowing of 1,707.2 billion shillings against the target of 2,797.4 billion shillings. Of the amount borrowed, foreign net financing was 796.4 billion shillings against the target of 1,375.6 billion shillings. In addition, domestic net financing was a borrowing of 910.9 billion shillings against the target of 1,421.8 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 are for financing rolling over of maturing Treasury Bills and Bonds and 1,588.2 billion shillings are new loans for financing development projects. During the third quarter of 2020/21, the Government managed to borrow 636.0 billion shillings for redemption (rollover) of

matured obligations against the target of 1,071.6 billion shillings. In addition, 439.7 billion shillings was borrowed for financing development projects against the target of 458.4 billion shillings. During the first three quarters of 2020/21, a total of 1,846.8 billion shillings were borrowed for redemption (rollover) of matured obligations against the target of 2,493.1 billion shillings and 1,611.8 billion shillings was borrowed for financing development projects against the target of 1,421.8 billion shillings.

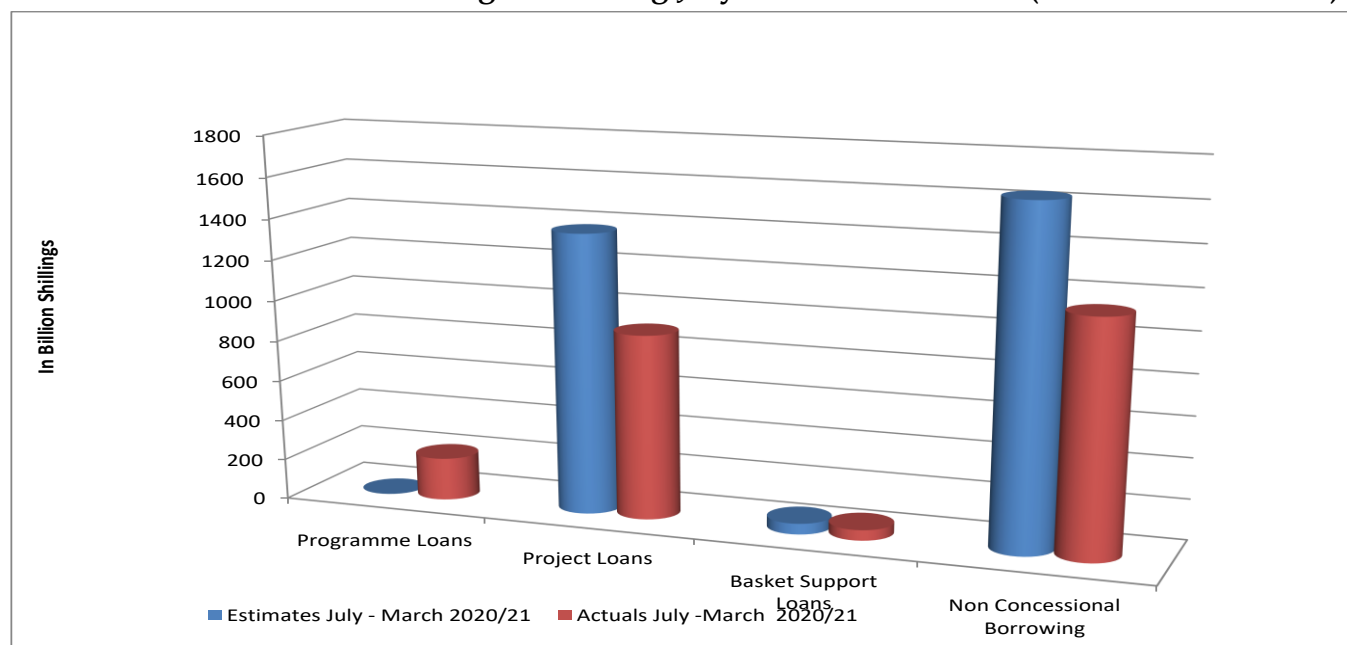
2.5.2 Foreign Financing

Net foreign financing for the third quarter was a borrowing of 1,068.2 billion shillings against the target of 1,482.8 billion shillings. During the quarter under review, disbursements of concessional loans were 272.8 billion shillings against the target of 382.7 billion shillings and disbursement of non-concessional loans were 1,138.8 billion shillings against the target of 1,634.6 billion shillings. In addition, amortization of foreign loans were 343.2 billion shillings against estimates of 534.5 billion shillings. Cumulatively, disbursement of concessional loans was 1,168.9 billion shillings against the target of 1,426.9 billion shillings, equivalent to 82 percent, disbursement of non-concessional loans was 1,138.8 billion shillings against the target of 1,634.6 billion shillings and amortization of foreign loans was 1,511.4 billion shillings, equivalent to 89.6 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 period ending March 2021 is presented in **Chart 2.10**.

Table 2.1: Trend of Grants and External Concessional Loans from July 2020 to March 2021

Summary Disbursement of First Three Quarters (All figures in millions shillings)					
AID MODALITY	Type of assistance	Annual commitment as per budget	First Three Quarters Commitment (July 2020 - March 2021)	First Three Quarters Disbursement (July 2020 - March 2021)	% of Commitment
GBS	Grants	138,323	90,654	-	0%
GBS	Concessional Loan	-	-	210,535	
Sub Total		138,323	90,654	210,535	232%
Basket Funds	Grants	196,538	188,293	147,524	78%
Basket Funds	Concessional Loan	79,005	52,945	51,563	97%
Sub Total		275,543	241,238	199,087	83%
Development Projects	Grants	614,461	527,248	363,860	69%
Development Projects	Concessional Loan	1,846,045	1,373,976	906,795	66%
Sub Total		2,460,506	1,901,224	1,270,655	67%
Grand Total		2,874,372	2,233,116	1,680,277	75%

Chart 2.10: Performance of Foreign Financing July 2020 to March 2021 (Estimates Vs Actual)

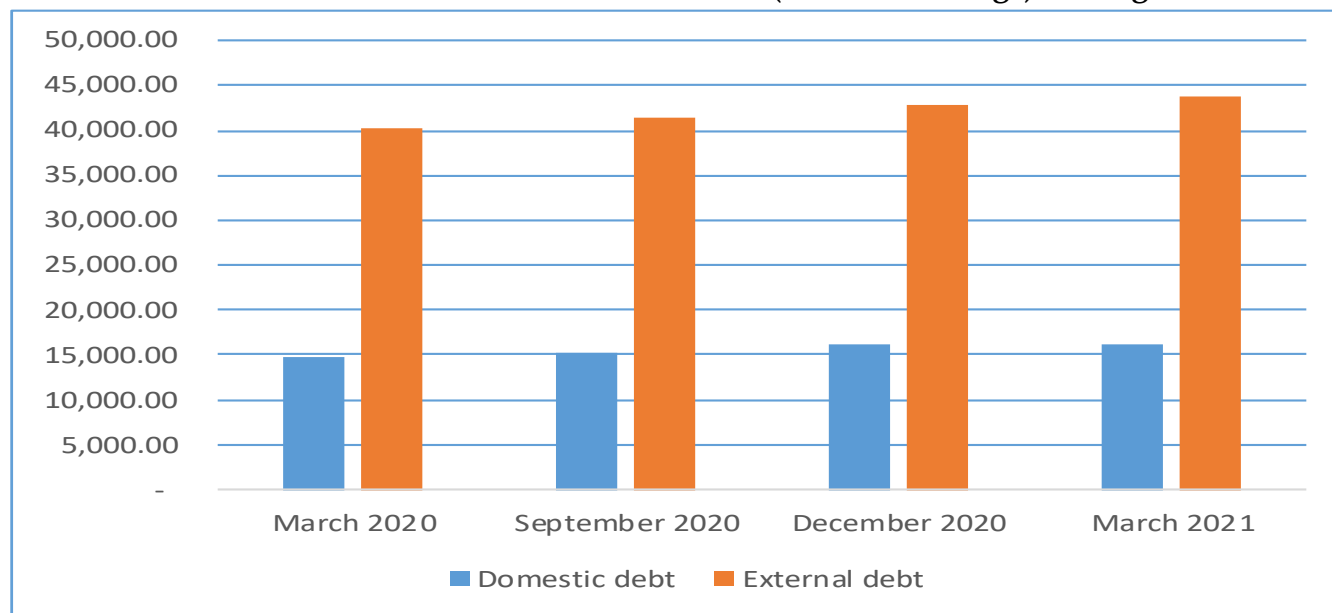


3.0 GOVERNMENT DEBT DEVELOPMENT

3.1 Overall Debt Stock

As of end March 2021, total debt stock was 59,852.63 billion shillings compared to 54,976.15 billion shillings at end March 2020 (**Chart 3.1**). Out of this amount, domestic debt stock was 16,116.53 billion shillings and external debt stock was 43,736.10 billion shillings. The increase was driven by new borrowing to finance development projects.

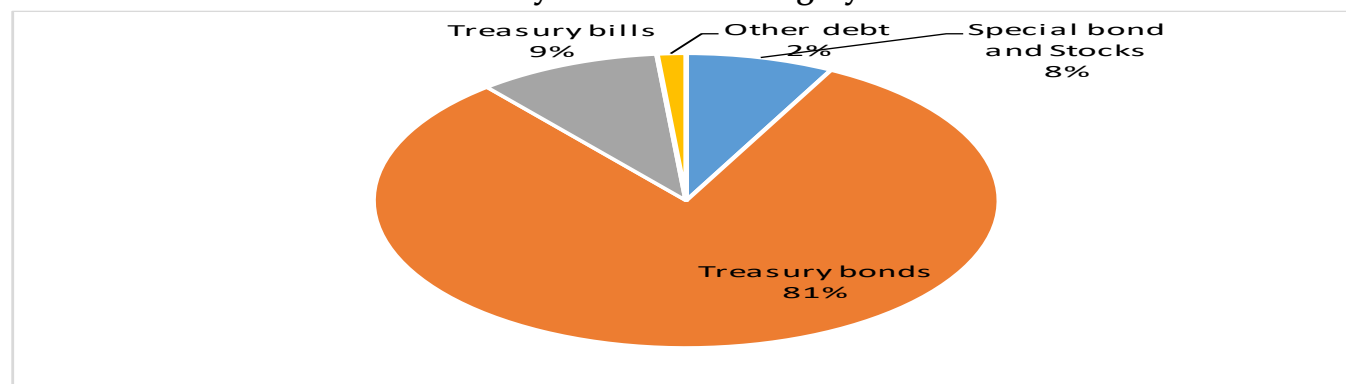
Chart 3.1: Trend of Central Government Debt Stock (Billion Shillings) Ending March 2021



3.2 Domestic Debt Stock

During the period under review, the stock of domestic debt increased to 16,116.53 billion shillings from 13,133.05 billion shillings at end March 2020, equivalent to an increase of 9.4 percent. The increase was attributed to borrowing for refinancing and financing budget deficit. Out of total domestic debt stock, share of treasury bond was 81 percent, treasury bills 9 percent, special bond and stocks 8 percent and other debt 2 percent. Share of domestic debt by instrument is depicted in **Chart 3.2**.

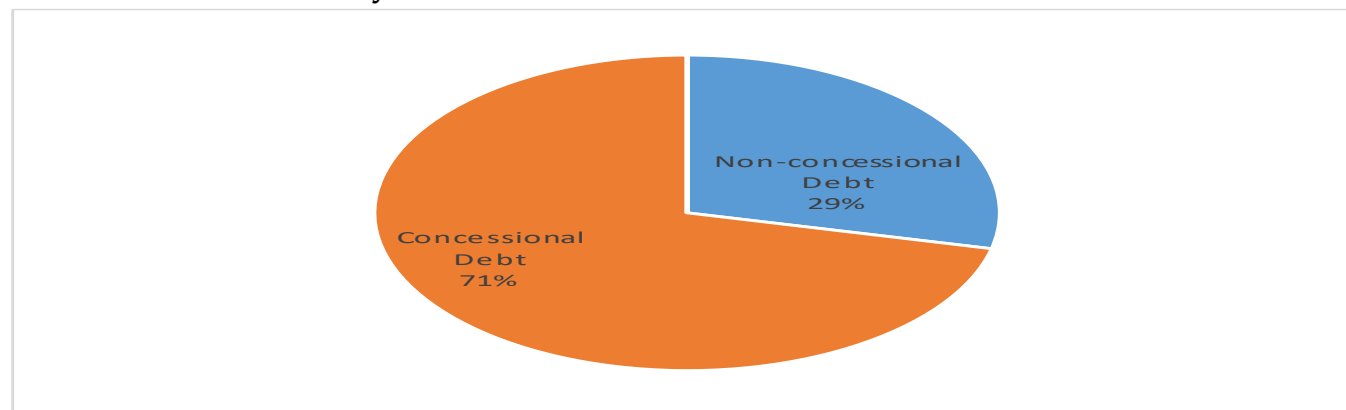
Chart 3.2: Share of Domestic Debt by Instrument Category



3.3 External Debt Stock

As at March 2021, Government external debt stock was USD 18,935.0 million compared with USD 17,488.20 million at end March 2020, equivalent to an increase of 6.9 percent. Out of this, Disbursed Outstanding Debt (DOD) was USD 17,883.0 million and USD 1,052.0 million was interest arrears. The increase of debt was due to new disbursements. The overall external debt portfolio is largely denominated by concessional loans accounting to 71.0 percent. The largest share of concessional are contracted from International Development Association and the African Development Bank. Budgetary Central Government external debt by creditor category is shown in **Chart 3.3**.

Chart 3.3: Concessionalities of Government External Debt



3.4 The Result of Debt Sustainability Analysis

The Debt Sustainability Analysis (DSA) conducted in November 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 (**Table 3.1**). 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 3.1: Projected External Public Debt Burden Indicators

External DSA	Threshold	2019/20	2020/21	2021/22	2022/23	2023/24	2024/2025
PV of debt-to GDP ratio	55	16.3	17.3	17.5	17.9	17.9	17.2
PV of debt-to-exports ratio	240	103.9	113.2	109.7	103.5	94.3	87.9
Debt service-to-exports ratio	21	11.9	14.0	13.4	10.6	10.3	10.7
Debt service-to-revenue ratio	23	11.9	13.7	13.8	11.8	12.5	13.3

Table 3.2: Projected Overall Public Debt Burden Indicators

Public DSA	Benchmark	2019/20	2020/21	2021/22	2022/23	2023/24	2024/2025
PV of debt-to GDP ratio	70	27.1	27.9	27.7	27.9	28.0	27.8
PV of debt-to-Revenue and grant	N/A	163.7	171.1	172.0	173.6	174.7	173.7
Debt service-to-revenue ratio	N/A	33.4	34.5	31.6	29.4	27.6	29

4.0 BUDGET LIKELY OUTTURN TO JUNE 2021

The cumulative budget performance up to March 2021 showed considerable achievement in terms of performance of key macroeconomic variables despite the impact of COVID-19. The performance of tax revenue and non-tax revenue were slightly below the anticipated target which resulted to under realization of expenditure targets. The Government will continue to make efforts to ensure that the budget is executed as planned to achieve the desired outputs. The Government has set various strategies to ensure revenue and expenditure targets for the remaining period of 2020/21 are achieved. Some of the strategies to meet annual revenue target include: to continue monitoring taxpayers' compliance behavior including close follow up of normal remittances, numerous visits to taxpayers and early confirmation from taxpayers; effective use of internal electronic systems to monitor taxpayers' declaration and payment behavior; and continue to closely manage usage of Electronic Tax Stamps (ETS) to ensure it is used appropriately and deliver results as envisaged.

ANNEX A

Revenue Performance July - March 2021

Billion Shillings

	Budget Estimates	January - March 2021			Jan-March 2019/20 Actual	Year on year % change	July 2020 - March 2021			July-March 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	6,074.4	4,987.2	82%	5,402.2	-8%	17,832.3	15,454.4	87%	16,065.6	-4%
Revenue (Excluding LGAs own sources)	23,250.6	5,875.4	4,806.3	82%	5,217.3	-8%	17,210.5	14,897.0	87%	15,527.0	-4%
Tax Revenue	20,136.0	5,029.3	4,115.3	82%	4,305.5	-4%	15,042.6	13,037.2	87%	13,337.5	-2%
Taxes on Imports	5,925.2	1,473.0	1,247.0	85%	1,207.0	3%	4,408.0	3,911.9	89%	3,829.2	2%
Import Duty	1,599.5	397.6	320.8	81%	309.2	4%	1,189.9	977.5	82%	981.9	0%
Petroleum	1,227.0	305.0	279.0	91%	247.0	13%	912.8	955.9	105%	843.9	13%
Excise	1,227.0	305.0	279.0	91%	247.0	13%	912.8	955.9	105%	843.9	13%
Others	3,098.7	770.3	647.2	84%	650.7	-1%	2,305.2	1,978.5	86%	2,003.4	-1%
Excise	223.4	55.5	50.3	91%	52.0	-3%	166.2	157.6	95%	153.4	3%
VAT on Non-Petroleum imports	2,875.3	714.8	596.9	84%	598.7	0%	2,139.0	1,820.9	85%	1,850.0	-2%
Taxes on Domestic Sales	4,834.8	1,227.7	981.0	80%	973.8	1%	3,710.2	2,996.0	81%	3,154.9	-5%
Excise	1,563.7	393.7	315.0	80%	326.0	-3%	1,181.0	946.4	80%	1,016.0	-7%
Value Added Tax (VAT)	3,271.1	834.0	666.0	80%	647.8	3%	2,529.1	2,049.6	81%	2,138.8	-4%
Income Tax	7,200.2	1,789.5	1,418.9	79%	1,637.2	-13%	5,299.9	4,534.9	86%	4,718.5	-4%
PAYE	2,979.9	740.6	560.2	76%	661.8	-15%	2,226.9	1,626.9	73%	1,924.0	-15%
Corporate and Parastatals	2,553.1	639.9	472.5	74%	616.2	-23%	1,851.0	1,638.1	88%	1,752.7	-7%
Individuals	261.9	63.5	65.8	103%	63.5	4%	188.4	195.5	104%	168.6	16%
Withholding Taxes	1,098.2	270.7	228.6	84%	236.3	-3%	811.7	825.4	102%	688.2	20%
Rental Tax	125.8	30.8	23.9	78%	27.1	-12%	91.4	69.4	76%	78.9	-12%
Other Income	181.2	44.0	67.9	154%	32.4	110%	130.4	179.7	138%	105.9	70%
Other Taxes	2,583.5	641.6	526.9	82%	562.6	-6%	1,927.1	1,701.6	88%	1,797.6	-5%
Business Skill Development Levy	367.7	90.0	72.9	81%	82.7	-12%	270.8	213.5	79%	240.2	-11%
Fuel Levy and transit fee	900.6	223.9	198.5	89%	181.8	9%	670.0	648.9	97%	616.5	5%
Stamp Duty	20.7	5.2	3.8	73%	4.0	-5%	16.1	16.7	103%	14.4	15%
Departure Service Charges	66.5	17.0	8.9	52%	16.7	-47%	51.5	17.8	35%	51.0	-65%
Processing Fee-dry cargo-TRA	74.7	18.6	16.8	91%	16.7	1%	55.6	51.4	92%	49.9	3%
Export Duty	202.7	50.4	13.6	27%	55.3	-75%	150.8	87.6	58%	171.9	-49%
Railway Development Fund	289.0	71.8	61.8	86%	63.3	-2%	215.0	184.5	86%	194.6	-5%
National Water Development Fund	171.0	42.5	37.7	89%	34.5	9%	127.2	123.3	97%	117.1	5%
Motor vehicle taxes	127.0	31.8	32.1	101%	29.5	9%	99.7	92.2	93%	87.0	6%
Treasury Voucher Cheque	0.7	0.2	0.0	1%	1.3	-100%	0.5	0.0	0%	6.4	-100%
Transfer to REA	362.8	90.2	80.8	90%	76.9	5%	269.9	265.8	98%	248.6	7%
Refunds	-407.7	-102.5	-58.5	57%	-75.0	-22%	-302.5	-107.2	35%	-162.6	-34%
Refunds - VAT	-361.4	-90.9	-30.3	33%	-67.7	-55%	-268.0	-77.0	29%	-134.9	-43%
Refunds - other	-46.3	-11.6	-28.2	243%	-7.3	285%	-34.5	-30.3	88%	-27.7	9%
Non Tax Revenue	3,114.6	846.1	691.1	82%	911.8	-24%	2,167.9	1,859.8	86%	2,189.5	-15%
Parastatal Dividends	931.1	326.5	218.5	67%	386.4	-43%	590.3	423.2	72%	613.8	-31%
Ministries and Regions	1,993.7	471.7	377.3	80%	475.8	-21%	1,436.4	1,199.5	84%	1,457.6	-18%
TRA Non Tax	145.6	36.2	89.9	248%	35.6	152%	108.5	213.9	197%	94.0	128%
Property tax	21.7	5.4	1.5	27%	2.3	-35%	16.3	5.2	32%	8.7	-40%
Billboard Fee Collections	22.6	6.3	3.9	62%	11.6	-66%	16.4	18.0	110%	15.4	17%
LGAs own source	815.0	199.0	180.9	91%	184.9	-2%	621.8	557.4	90%	538.6	3%

Source: Ministry of Finance and Planning