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2020-08

# The Budget Execution Report for the Fourth Quarter 2019/2020

The United Republic of Tanzania

Ministry of Finance

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**THE UNITED REPUBLIC OF TANZANIA  
MINISTRY OF FINANCE AND PLANNING**



**THE BUDGET EXECUTION REPORT FOR THE FOURTH QUARTER OF THE  
FINANCIAL YEAR 2019/20**

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LIST OF ABBREVIATIONS

BoT	-	Bank of Tanzania
ENCB	-	External Non-Concessional Borrowing
BCG	-	Budgetary Central Government
NFA	-	Net Foreign Assets
GBS	-	General Budget Support
GDP	-	Gross Domestic Product
LGA	-	Local Government Authorities
MDAs	-	Ministries Departments and Agencies
OC	-	Other Charges
PAYE	-	Pay as You Earn
REA	-	Rural Electrification Agency
RAS	-	Regional Administrative Secretary
SGR	-	Standard Gauge Railway
TACAIDS	-	Tanzania Commission for AIDS
TRA	-	Tanzania Revenue Authority
US DOLLAR	-	United State Dollar
VAT	-	Value Added Tax
EAC	-	East African Community
SADC	-	Southern Africa Development Community
COVID	-	Corona Virus Disease

## Table of Contents

<b>1.0</b>	<b>RECENT MACROECONOMIC PERFORMANCE.....</b>	<b>5</b>
1.1.	Real GDP Growth.....	5
1.2.	Inflation Development.....	7
1.3.	External Trade.....	7
1.4.	Money Supply.....	8
1.5.	Interest Rates Development.....	8
1.6.	Exchange Rate.....	9
<b>2.0</b>	<b>GOVERNMENT OPERATIONS.....</b>	<b>9</b>
<b>2.1</b>	<b>Domestic Revenue.....</b>	<b>9</b>
<b>2.2</b>	<b>Revenue by Source.....</b>	<b>9</b>
2.2.1	Taxes on Imports.....	9
2.2.2	Taxes on Domestic Sales.....	10
2.2.3	Income Tax.....	11
2.2.4	Other Taxes.....	12
2.2.5	Non Tax Revenue.....	13
<b>2.3</b>	<b>Expenditure.....</b>	<b>14</b>
2.3.1	Fourth Quarter Expenditure Performance.....	14
2.3.2	Cumulative Expenditure Performance.....	15
<b>2.4</b>	<b>Grants.....</b>	<b>18</b>
<b>2.5</b>	<b>Financing.....</b>	<b>19</b>
2.5.1	Domestic Financing.....	19
2.5.2	Foreign Financing.....	19
<b>3.0</b>	<b>PUBLIC DEBT DEVELOPMENT.....</b>	<b>21</b>
3.1	Overall Debt Stock.....	21
3.2	Central Government Domestic Stock.....	21
3.3	Central Government External Debt.....	22
3.4	Debt Sustainability Analysis.....	23
<b>4.0</b>	<b>HIGHLIGHTS OF BUDGET ACHIEVEMENTS AND CHALLENGES.....</b>	<b>24</b>

## **Executive Summary**

- *Economic growth, as measured by gross domestic product (GDP), decreased to 5.7 percent in the first quarter (January to March) in 2020 from 6.3 percent in the corresponding quarter of 2019. The slowdown in growth was attributed to the impacts of COVID-19 in different economic sectors. The growth was mainly driven by Agriculture, Mining and quarrying, Water supply and Transport, as well as storage activities.*
- *Headline inflation remained low and below the country medium-term target of 5.0 percent averaging at 3.5 percent in 2019/20 compared to 3.2 percent recorded in 2018/19. The increase in inflation was attributed to increase in food prices following a decrease in food production due to prolonged rainfall. However, during the quarter ending June, 2020, the headline inflation averaged at 3.2 percent compared to an average of 3.5 percent recorded in the corresponding quarter in 2019.*
- *In 2019/20, the Government took various measures with a view to strengthening tax and non tax revenue collection in order to finance Government operations. The total amount collected was 21,021.7 billion shillings against the annual target of 23,045.3 billion shillings, equivalent to 91 percent reflecting an increase of 13 percent when compared with the amount collected in the year 2018/19.*
- *Total Government releases for 2019/20 amounted to 27,886.9<sup>1</sup> billion shillings equivalent to 84.2 percent of the approved budget of 33,105.4 billion shillings, and 3.1 percent higher when compared to 27,049.2 billion shillings released in 2018/19. Out of the released amount, 20,175.8 billion Shillings were recurrent expenditure and 7,711.1 billion shillings were development expenditure.*
- *In 2019/20, amount of Grants received was 1,029.9 billion shillings, equivalent to 85.2 percent of the estimated amount of 1,208.5 billion shillings, and an increase of 123.3 percent when compared to the amount received in 2018/19.*
- *As at June 2020, provisional Debt stock amounted to 55,700.4 billion shillings compared to 53,056.2 billion shillings recorded in June 2019, reflecting an increase of 4.9 percent. Out of the amount, domestic debt stock amounted to 15,515.7 billion shillings and external debt stock amounted to 40,184.7 billion shillings. The increase was driven by new external disbursement for funding development projects and depreciation of shillings against USD.*
- *The budget performance during the period under review was marginally below the anticipated target due to the impacts of COVID-19 pandemic which resulted to low revenue collection in some domestic revenue sources. The effects of COVID-19 had been noticed on several sectors*

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<sup>1</sup> The figures contained in the report are tentative numbers. The final numbers portraying the actual position of the budget performance shall be reflected in the Consolidated Audited Financial Statement.

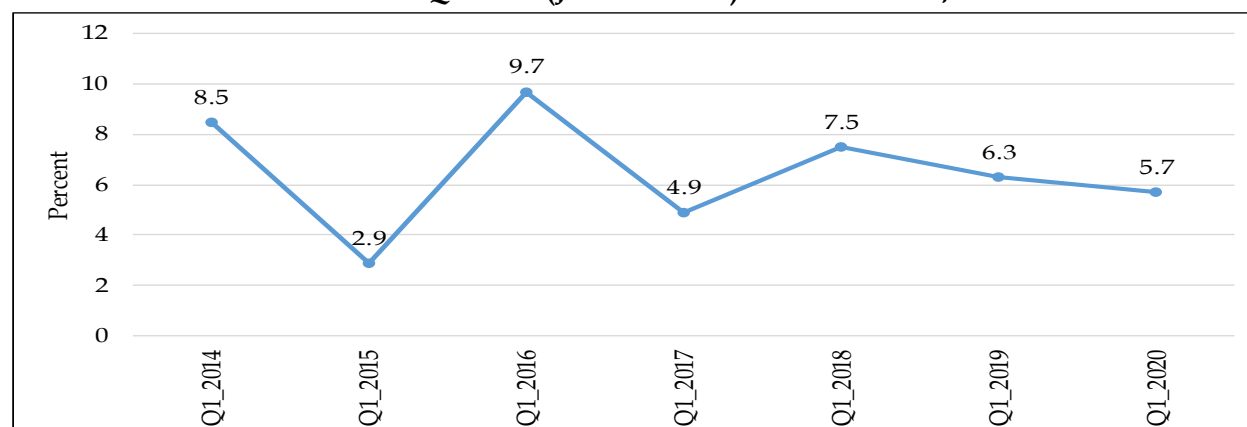
included: air transport and tourism; transport and transportation; traditional exports; sports, arts and entertainments; business; and credit to private sector. The lower than expected performance in these sectors have resulted to revenue shortfall and hence under realization of expenditure targets.

## 1.0 RECENT MACROECONOMIC PERFORMANCE

### 1.1. Real GDP Growth

During the first quarter (January - March) 2020 Gross Domestic Product (GDP) at current prices in absolute terms was 36.7 trillion shillings compared to 33.5 trillion shillings in the corresponding quarter in 2019. Meanwhile, GDP at 2015 constant prices for the first quarter of 2020 in absolute terms was 31.6 trillion shillings compared to 29.9 trillion shillings recorded in the similar quarter of 2019, equivalent to a growth of 5.7 percent compared to a growth rate of 6.3 percent observed in the corresponding quarter in 2019. The slowdown in growth was attributed to impacts of COVID-19 in different sectors of the economy. Economic activities that recorded impressive performance during the period under review were mining and quarrying (15.3 percent); human health and social work (10.2 percent); professional, scientific and technical (8.3 percent); transport and storage (8.3 percent); information and communication (8.3 percent); Construction (8.0 percent); administrative and support services (8.0 percent); and other services (7.8 percent). The first quarter GDP growth is presented in **Chart 1.1**

**Chart 1.1: Trends in the First Quarter (Jan - March) GDP Growth, 2014 - 2020**

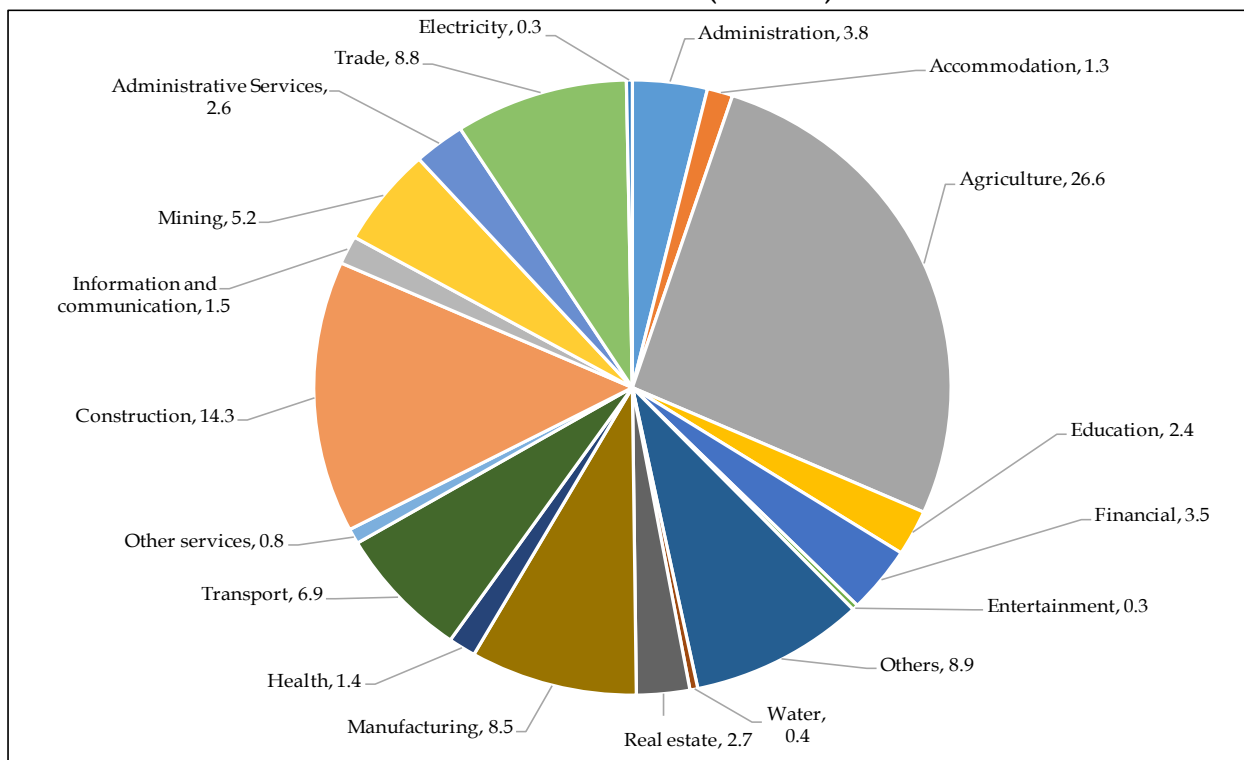


Source: Ministry of Finance and Planning

On annual basis, real GDP grew by 7.0 percent in 2019 as it was in 2018. The growth was attributed to continuous efforts to strengthen mining sector; improved transportation services; implementation of various development projects including roads, railways, airports and electric power projects; and construction and maintenance of health facilities. During the period under review, mining and quarrying activities recorded the highest growth of 17.7 percent followed by construction (14.8 percent); art,

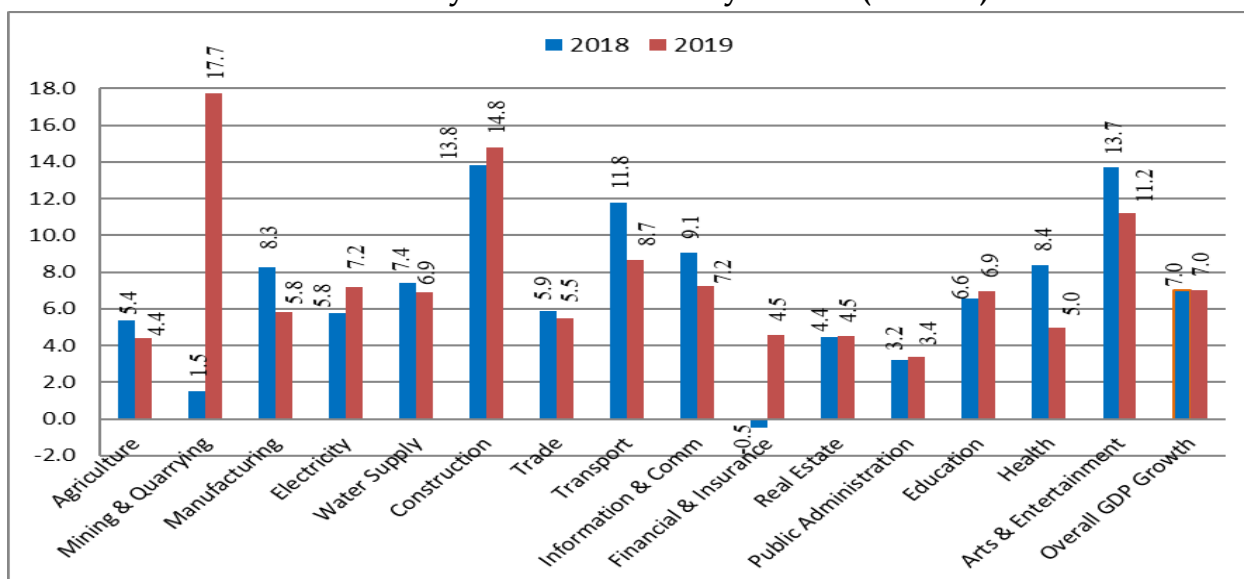
entertainment and recreation (11.2 percent); and transport and storage (8.7 percent). In addition, the growth was driven by agriculture sector by 26.6 percent followed by construction (14.3 percent). The status of sectoral contribution to GDP in 2019 and the real GDP growth by economic activity are presented in **Charts 1.2** and **Chart 1.3** respectively.

**Chart 1.2: Sectoral Contribution to GDP in 2019 (Percent)**



Source: Ministry of Finance and Planning

**Chart 1.3: Real GDP Growth by Economic Activity in 2019 (Percent)**



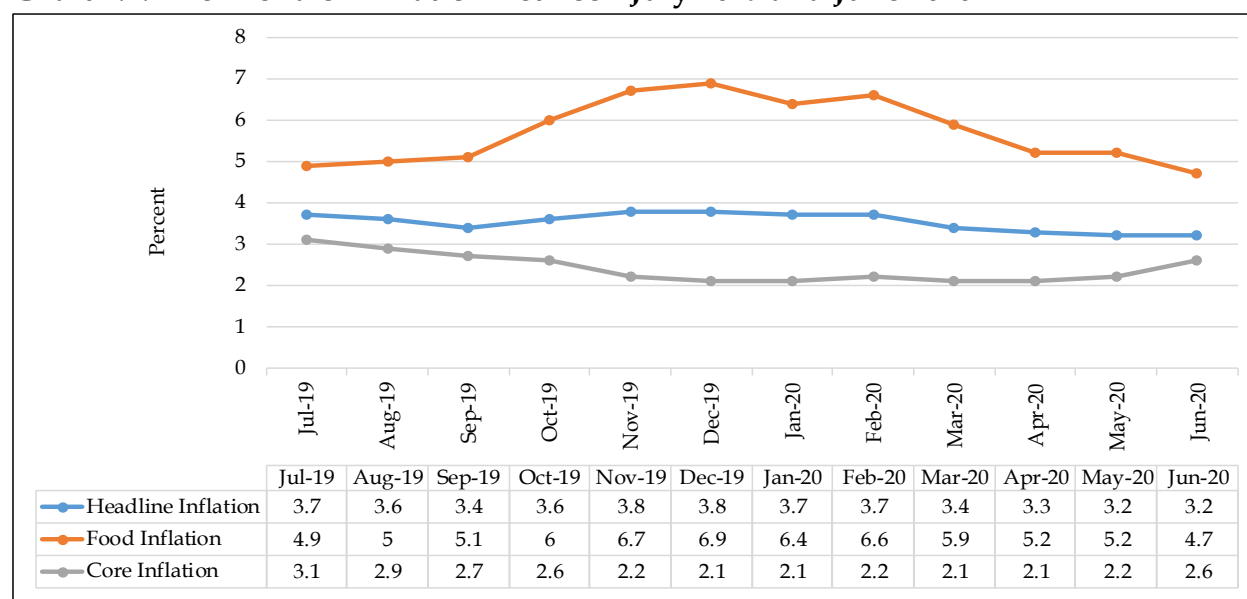
Source: Ministry of Finance and Planning

## 1.2. Inflation Development

In 2019/20, headline inflation was 3.5 percent compared to 3.2 percent in 2018/19. During the year under review, food inflation increased to an average of 5.7 percent from 2.8 percent recorded in 2018/19, while core inflation decreased to 2.4 percent compared to 2.8 percent recorded in 2018/19. The increase in inflation rate was mainly on account of increase in prices of food following shortage of food supply in the market due to prolonged rainfall. However, the inflation rate is below the country medium-term target of 5.0 percent due to effective implementation of fiscal and monetary policies and stability in exchange rate.

During the quarter ending June, 2020, the headline inflation averaged at 3.2 percent compared to an average of 3.5 percent recorded in the corresponding quarter in 2019. On monthly basis, the headline inflation for the month of June, 2020 has stagnated at 3.2 percent as it was recorded in May, 2020. The stagnation was attributed to increase and decrease of prices of some food and non-food products for the period ending June 2020 compared to prices for the similar period in 2019. During the quarter under review, food inflation edged up to an average of 5.0 percent compared to 3.6 percent recorded in similar quarter in 2019. The trend of inflation is reflected in **Chart 1.4**.

**Chart 1.4: The Trend of Inflation Between July 2019 and June 2020**



Source: Ministry of Finance and Planning

## 1.3. External Trade

During the year ending June 2020, balance of payments improved significantly to a surplus of USD 755.0 million from a deficit of USD 990.7 million in recorded in the corresponding period in 2019. This was due to improvement in current account to USD 775.0 million from a deficit of USD 2,029.7 million recorded in 2018/19, mainly driven



by an increase in export of gold and cashew nuts, coupled with a decrease in imports due to subdued demand. The current account deficit was 1.2 percent of GDP and is expected to narrow upon completion of the major infrastructure projects.

During the period under review, the value of exports of goods and services was USD 9,572.2 million compared with USD 8,716.1 million in 2018/19, equivalent to an increase of 9.8 percent. This was mainly explained by good performance in both traditional and non-traditional exports of goods and services.

Traditional goods exports increased to USD 1,020.9 million in 2019/20 from USD 518.0 million in 2018/19, equivalent to an increase of 97.1 percent. This was mainly driven by increase in exports of cashew nuts, cotton, cloves and sisal exports. Cashew nuts and sisal exports rose on account of increased in both volume and prices while export of cotton and cloves rose owing to increase in volume as a result of high production.

The value of non-traditional goods exports improved to USD 4,579.4 million in 2019/20 from USD 3,662.7 million in 2018/19, equivalent to an increase in 25.0 percent. The increase was largely contributed by the exports of gold, other minerals and horticultural products. The value of gold export grew by 48.5 percent to USD 2,591.3, and accounted for 56.6 percent of non-traditional exports and 42.1 percent of total exports of goods. The increase was largely on account of price effect, whereby the average price of gold in the world market rose to USD 1,562.5 per troy ounce in June 2020 from USD 1,263.8 per troy ounce in June 2019.

The value of imports of goods and services decreased to USD 9,812.4 million in 2019/20 from USD 10,321.3 million registered in 2018/19. This was attributed by a decrease in imports of transport equipment, machinery, oil and fertilizer. Oil imports declined by 11.0 percent to USD 1,553.5 million in 2019/20, owing to decrease in prices of crude oil in the world market from USD 68.2 per barrel recorded in 2018/19 to USD 51.4 per barrel in 2019/20.

#### **1.4. Money Supply**

Extended broad money supply (M3) grew at an annual rate of 9.5 percent in June 2020, compared to a growth of 7.7 percent recorded in June 2019. The growth in M3 was attributed to accumulation of foreign assets by the banking system and positive growth of credit to the private sector.

#### **1.5. Interest Rates Development**

The overall lending rate decreased to an average of 16.75 percent in the quarter ending June 2020, from 17.11 percent in the quarter ending June 2019. Similarly, one-year

lending decreased to 16.40 percent from 16.81 percent in the quarter ending June 2019. The 12-months deposit rate decreased to average of 8.04 percent in the quarter ending June 2020 from 8.58 percent recorded in the similar quarter in 2019.

### **1.6. Exchange Rate**

In 2019/20, the exchange rate was averaged at 2,289.86 shilling per US dollar compared to 2,281.58 shilling per US dollar in 2018/19, equivalent to a depreciation of 0.36 percent. The stability of Tanzania shilling was attributed to prudent fiscal and monetary policies, moderate current account deficit and stable inflation of below 5 percent.

## **2.0 GOVERNMENT OPERATIONS**

### **2.1 Domestic Revenue**

In 2019/20, the Government took various measures with a view to strengthening tax and non tax revenue collections in order to finance Government operations.

During the fourth quarter, total domestic revenue collection (including LGAs own source) amounted to 4,956.1 billion shillings, equivalent to 83 percent of estimated collection of 6,001.5 billion shillings, and 11 percent higher when compared to 4,458.5 billion shillings collected in the corresponding period in 2018/19. The cumulative collection for July 2019 to June 2020 amounted to 21,021.7 billion shillings, reflecting 91 percent of the projected collection of 23,045.3 billion shillings, and 13 percent higher when compared to the amount collected in 2018/19. The collected amount comprised of tax revenues of 17,472.1 billion shillings, equivalent to 92 percent of the target of 18,955.2 billion shillings, reflecting an increase of 14 percent when compared to collections registered in 2018/19. The non tax revenues collection amounted to 2,850.5 billion shillings against the target of 3,324.7 billion shillings, which was 86 percent of the target and 15 percent higher compared to 2018/19 while LGAs own sources collections were 699.0 billion shillings, equivalent to 91 percent of projected estimates of 765.5 billion shillings.

### **2.2 Revenue by Source**

#### **2.2.1 Taxes on Imports**

During the fourth, collections from imports taxes and duties were 1,099.2 billion shillings reflecting a performance of 78 percent of estimated 1,413.4 billion shillings, and 8 percent lower when compared to collections registered in the similar period in 2018/19. On cumulative basis, import taxes collections amounted to 4,928.4 billion shillings, which was 89 percent of the target of 5,538.0 billion shillings. The

performance of all imports taxes was above average, whereby imports duty performed at 91 percent of the target of 1,402.3 billion shillings, excise on petroleum performed at 90 percent of the target of 1,155.7 billion shillings, VAT on non-petroleum performed at 88 percent of the target of 2,421.4 billion shillings and Excise on other import performed at 81 percent of the target of 1,582.5 billion shillings.

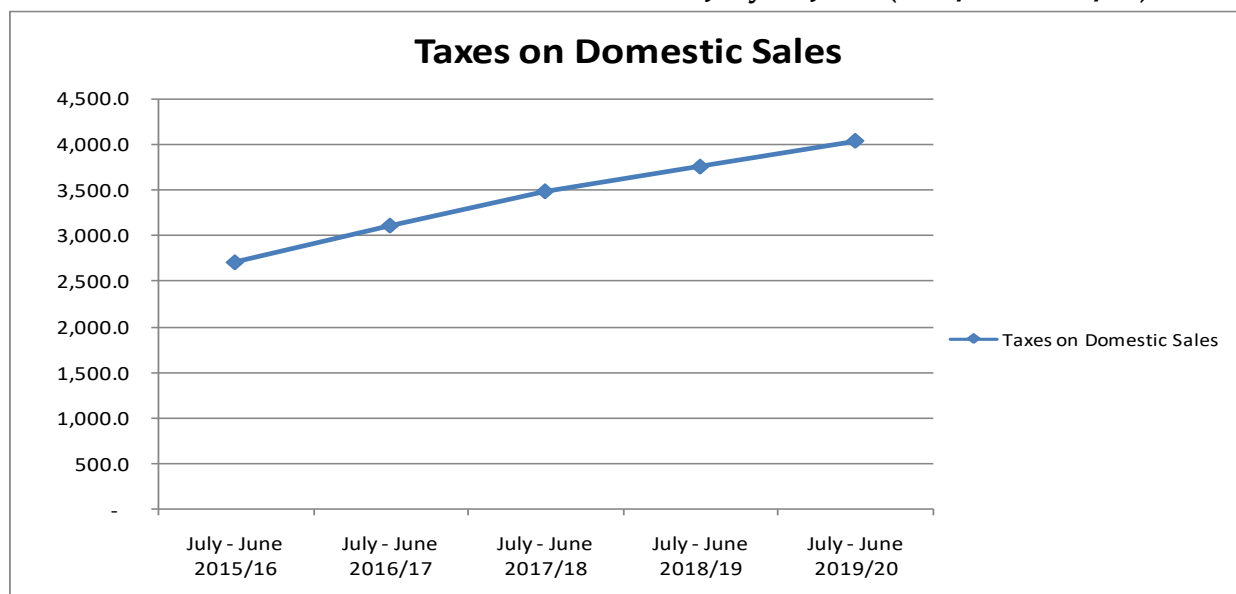
The underperformance of excise duty was due to low rate of fuel consumption resulted from slowdown of people movement, border tension among EAC partner states as well as other neighboring countries which disrupted transport operation. In addition, less than expected collection of VAT on imports was due to a decrease in importation of vatable imports mainly consumer goods as a result of changes in consumption trend in the fourth quarter of the year 2019/20 following the outbreak of Covid-19 pandemic.

### **2.2.2 Taxes on Domestic Sales**

In the fourth quarter of 2019/20, actual tax collection from domestic sales decreased by 2 percent to 882.7 billion shillings from 903.9 billion shillings collected in the corresponding period in 2018/19. This collection was equivalent to 74 percent of the target of 1,200.5 billion shillings. On cumulative basis, actual tax collection from domestic sales increased by 8 percent to 4,037.6 billion shillings from 3,754.5 billion shillings collected in the corresponding period in 2018/19 and 81 percent of the target of 4,985.1 billion shillings. Out of the total domestic sales tax, the excise duty was 1,274.6 billion shillings, equivalent to 81 percent of the target of 1,582.5 billion shillings. The underperformance of excise duty was largely attributed to the decrease in the production of beer, cigarette, soft drinks and bottled water due to decreased consumption following the outbreak of COVID 19 pandemic.

VAT on domestic sales amounted to 2,762.9 billion shillings, which was 81 percent of the projection of 3,402.6 billion shillings and 10 percent higher compared to the year 2018/19. Underperformance of VAT on domestic sales was due to reduction of sales from Tanzania Breweries and Serengeti Breweries as a result of disruption in consumption pattern following COVID-19 pandemic. Low consumption was attributed to suspension of social related events and gathering, sports activities as well as closure of hotels and bars. In addition, considerable increase in input tax due to more purchases made by telecom companies (Airtel, MIC Tanzania and Vodacom Tanzania Limited) on imported tower equipment's and system accessories. The trend of tax on domestic sales from July to June for the financial years 2015/16 - 2019/20 is presented in **Chart 2.1**.

**Chart 2.1: Trend of Tax on Domestic Sales from July to June (2015/16 – 2019/20)**



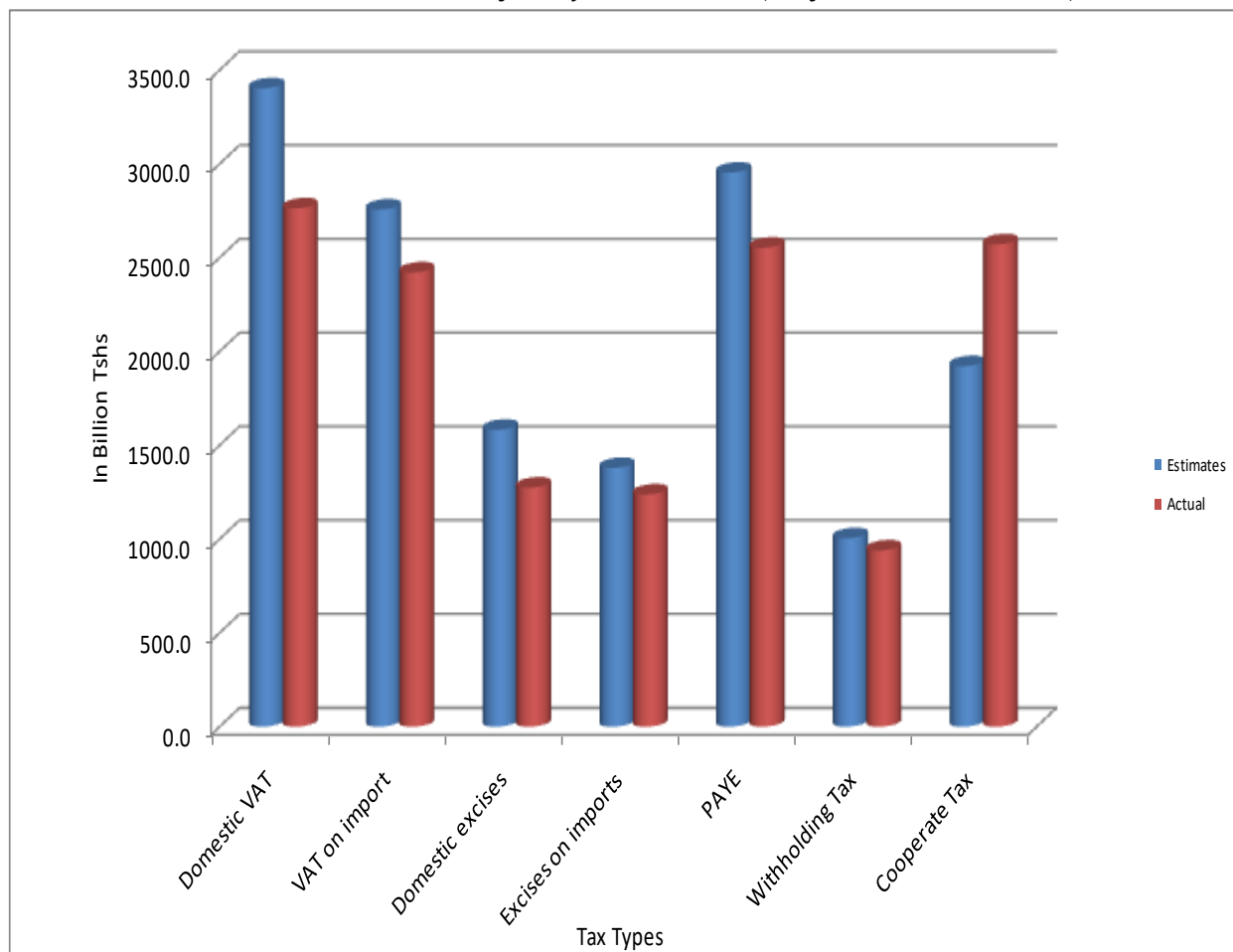
*Source: Ministry of Finance and Planning*

### **2.2.3 Income Tax**

The overall income tax collection during the fourth quarter amounted to 1,805.3 billion shillings, which was 107 percent of the target of collecting 1,691.9 billion shillings, reflecting an increase of 43 percent compared to collections registered in the same period in 2018/19. Cumulatively, collections from income tax were 6,523.8 billion shillings, or 103 percent of estimates of 6,322.8 billion shillings and 27 percent higher when compared to 2018/19. PAYE registered a total collection of 2,552.9 billion shillings against the target of 2,953.3 billion shillings, signifying the performance of 86 percent. The lower than anticipated performance in PAYE was mainly caused by retrenchment carried out by some companies and closure of some hotels and tour operations as temporary measures to mitigate COVID – 19 impacts.

The revenues realized from the corporate tax were 2,571.2 billion shillings, equivalent to 134 percent estimates of 1,921.6 billion shillings. The impressive performance was contributed by a significant collection of windfall tax from the mining sector following settlement of tax disputes and increase in the price of gold in the world market which has subsequently resulted to an increase in profitability and tax declaration by operators in the industry. The impressive performance was also noted on the withholding tax, which registered a total collection of 939.0 billion shillings, or 93 percent of the projected amount of 1,004.4 billion shillings. The main reasons for the performance were attributed to the increase in number of transactions such as dividend payments, rental charges, management fees, interest paid, services rendered to resident and/or non-resident and capital gain charges which attract withholding taxes. The Revenue performance by major tax items is shown in **Chart 2.2**.

**Chart 2.2: Revenue Performance by Major Tax Item (July 2019 – June 2020)**

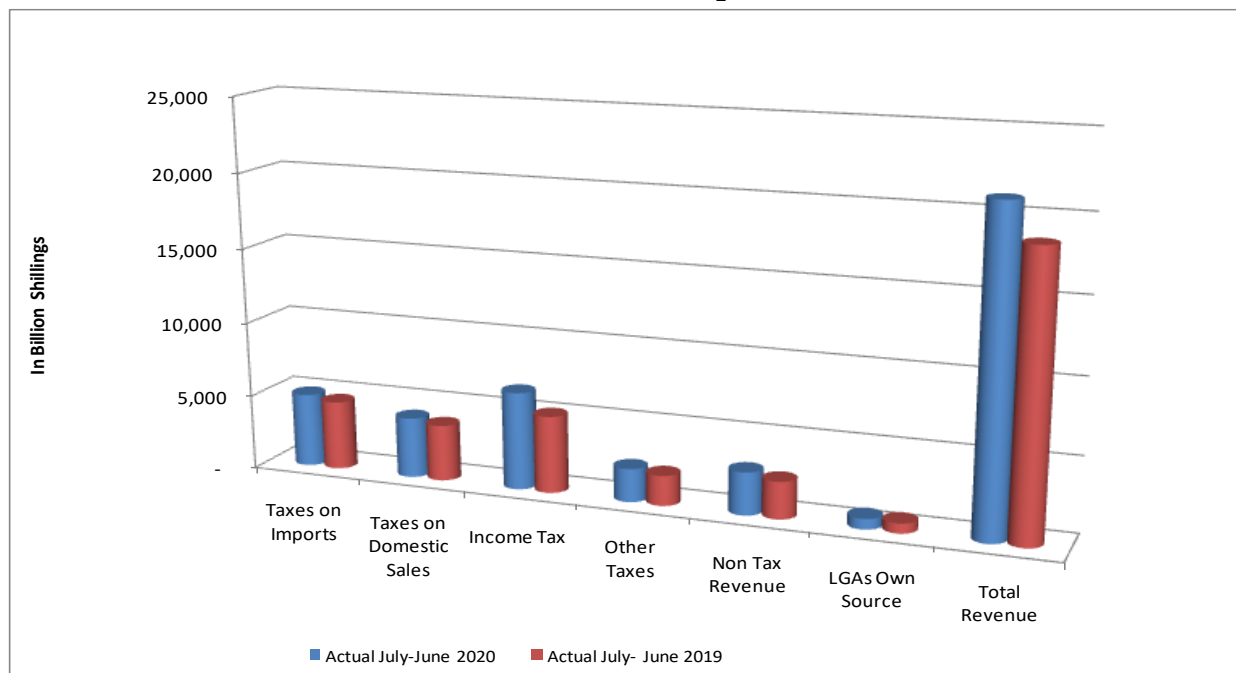


Source: Ministry of Finance and Planning

#### 2.2.4 Other Taxes

During the fourth quarter, revenues from other taxes category were below the planned target, registering a total collection of 431.2 billion shillings, equivalent to 76 percent of estimates of 564.3 billion shillings. However, on cumulative basis, total revenues collected from this category amounted to 2,228.9 billion shillings, reflecting 99 percent of the target of 2,247.2 billion shillings, and 11 percent higher when compared to collections registered in 2018/19. Out of the amount, collections from Fuel Levy and Transit Fee amounted to 772.2 billion shillings, equivalent to 92 percent of estimates, Railway Development Fund registered 249.9 billion shillings, equivalent to 90 percent of estimates; National Water Development Fund 146.6 billion shillings, or 100 percent of estimates; and Business Skill Development Levy recorded 315.4 billion shillings, which was 87 percent of estimates. On the other hand, Departure Service Charges performed at 79 percent of estimates of 69.7 billion shillings. In addition, collections for Rural Energy Agency (REA) recorded 309.6 billion shillings, which was 85 percent of estimates. The trend of revenue performance is indicated in **Chart 2.3**.

**Chart 2.3: Revenue Performance for 2019/20 Compared to 2018/19**



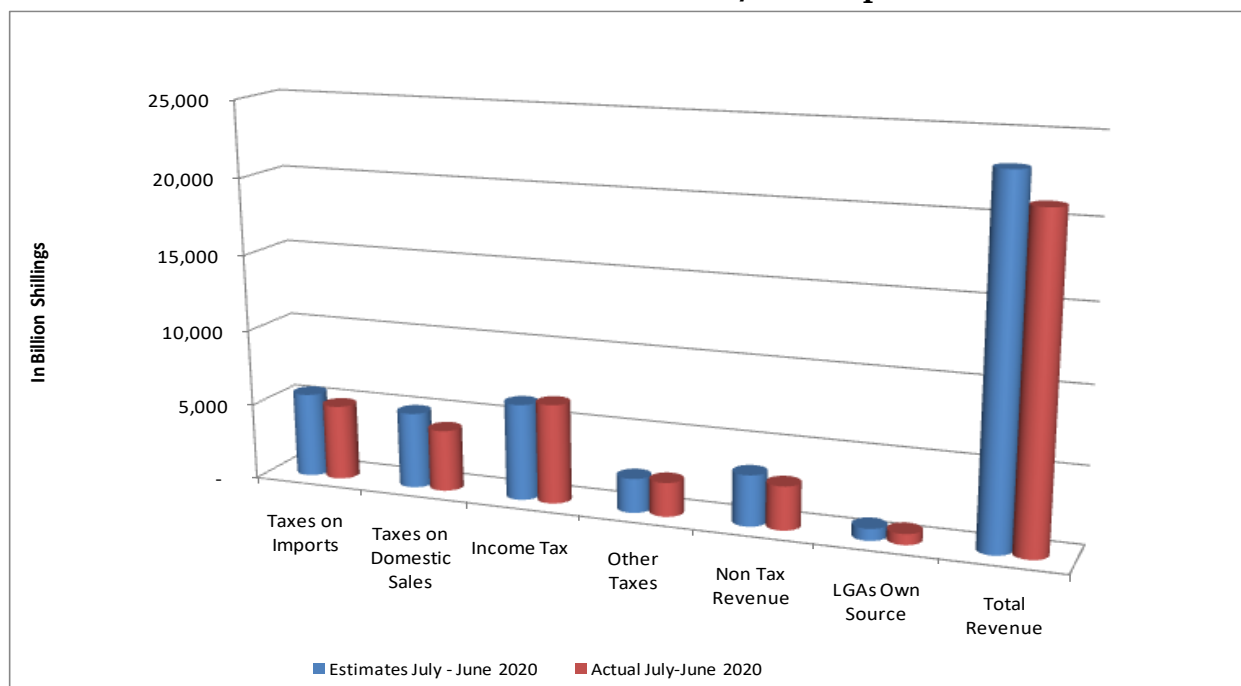
Source: Ministry of Finance and Planning

### 2.2.5 Non Tax Revenue

The non-tax revenue Collections<sup>2</sup> in the fourth quarter were 661.0 billion shillings, equivalent to 68 percent of quarter estimates of 972.4 billion shillings. The performance was 30 percent higher when compared to collections registered in the similar period in 2018/19. The cumulative collections (July 2019 to June 2020) by Ministries were 1,691.0 billion shillings against the target of 2,231.9 billion shillings, equivalent to 88 percent of projections. The underperformance was mainly due to the outbreak of COVID- 19 which affected some of the revenue generating sectors. The non tax revenues collected by the Treasury Registrar amounted to 738.8 billion shillings, equivalent to 78 percent of the projected amount of 947.0 billion shillings while the non-tax revenues collected by TRA were 150.7 billion shillings, or 103.4 percent of estimates of 145.7 billion shillings. The collections registered from LGAs own sources amounted to 699.0 billion shillings, equivalent to 91 percent of the target of 765.5 billion shillings. The domestic revenue performance for 2019/20 is depicted in **Chart 2.4**.

<sup>2</sup> Including Non-Tax revenue collected by TRA and excluding LGAs own source

**Chart 2.4: Domestic Revenue Performance for 2019/20 Compared to Estimates**



Source: Ministry of Finance and Planning

## 2.3 Expenditure

The projected spending for 2019/20 amounted to 33,105.4 billion shillings, of which 20,856.8 billion shillings were recurrent expenditure and 12,248.6 billion shillings were development expenditure.

### 2.3.1 Fourth Quarter Expenditure Performance

During the fourth quarter, total spending amounted to 7,884.4 billion shillings, equivalent to 95.2 percent of the quarter projection of 8,276.4 billion shillings. The amount comprised of 4,907.0 billion shillings recurrent expenditure (including LGAs Own Source) and 2,977.4 billion shillings development expenditure. The lower than expected execution was mainly owing to revenue shortfall from some domestic and external revenue sources contributed by the impacts of COVID-19 pandemic.

#### 2.3.1.1 Recurrent Expenditure

Execution of recurrent budget during the fourth quarter was 4,907.0, equivalent to 94.1 percent of the estimated quarter spending of 5,214.2 billion shillings. The underperformance was to a greater extent caused by lower than expected spending on debt service.

#### 2.3.1.2 Wages and Salaries

Wages and salaries execution were reasonably in line with the anticipated target, amounting to 1,854.7 billion shillings, equivalent to 98.1 percent of estimates of 1,889.7

billion shillings. The slight mismatch in expenditure target was on account of lower than expected recruitment of new employees.

#### **2.3.1.3 Debt Service**

The planned spending during the quarter under review amounted to 1,965.6 billion shillings. As of end June, 2020 total spending on debt service stood at 1,702.8 billion, reflecting 86.6 percent of projections. The spending included 1,196.2 billion shillings debt amortization and 506.7 billion shillings interest payment. The execution under this category was below the anticipated target due to lower than expected availability of short-term borrowing facilities in the domestic financial markets.

#### **2.3.1.4 Goods, Services and Transfers**

Goods, Services and Transfers execution was significantly on track, amounting to 1,349.4 billion shillings, equivalent to 99.3 percent of the quarter projection of 1,358.8 billion shillings. The impressive performance was mainly driven by the Government's decision to direct more funds to COVID-19 protective and health care interventions.

### **Development Expenditure**

Execution of development budget during the fourth quarter was broadly sound, with total outlays standing at 2,977.4 billion shillings which was 97.2 percent of the quarter spending target of 3,062.2 billion shillings. The locally financed development projects continued to enjoy the largest share of the total development funds disbursement amounting to 2,497.3 billion shillings while the funds disbursed to externally financed development projects amounted to 480.1 billion shillings. Under execution of development budget was mainly contributed by revenue shortfalls and delayed implementation of some projects due to COVID-19 pandemic.

### **2.3.2 Cumulative Expenditure Performance**

The cumulative Government expenditure (including LGAs Own sources) from July 2019 to June 2020 stood at 27,886.9 billion shillings, reflecting 84.2 percent of the projected annual spending of 33,105.4 billion shillings. The lower than expected performance was mainly attributed to revenue shortage in some domestic and external sources contributed by the impacts of COVID-19 pandemic.

#### **2.3.2.1 Recurrent Expenditure**

The recurrent expenditure was marginally below the intended spending, amounting to 20,175.8 billion shillings, equivalent to 97.0 percent of estimates of 20,810.3 billion shillings. The major reason for underperformance was on account of under realization of revenue targets.



### **2.3.2.2 Wages and Salaries**

Wages and salaries expenditure amounted to 7,297.2 billion shillings, reflecting 99.0 percent of the revised target of 7,373.3 billion shillings, due to delayed recruitments.

### **2.3.2.3 Debt Service**

Interest payments and debt amortization was on track, recording a total expenditure of 8,109.1, equivalent to 100 percent of projections. The amount included 2,331.3 billion shillings interest payment and 5,777.8 billion shillings debt amortization. The impressive performance is consistent with Government's commitment to honor contractual obligations.

### **2.3.2.4 Goods, Services and Transfers**

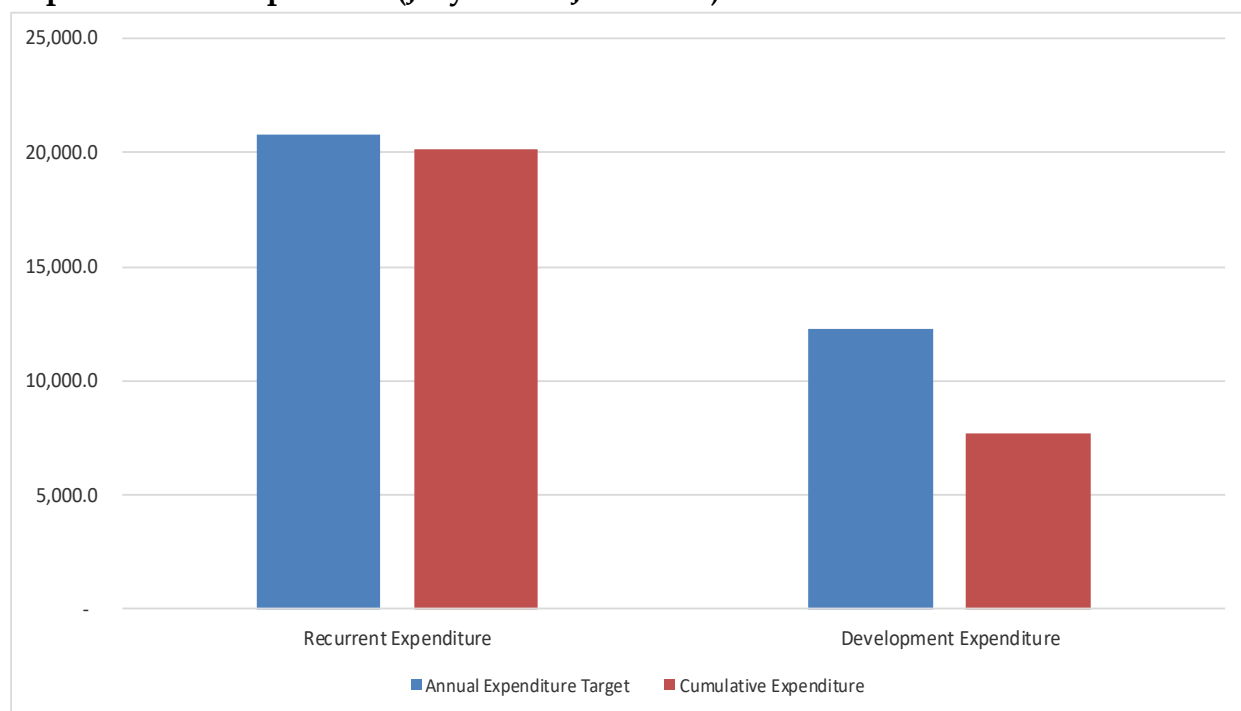
Cumulative spending on goods, services and transfers continued to improve during the period under review, with total expenditure amounting to 4,769.5 billion shillings, equivalent to 89.5 percent of the revised expenditure target of 5,328.0 billion shillings. The under realization of expenditure targets was caused by lower than expected revenue performance in some revenue sources.

### **2.3.2.5 Development Budget Performance**

Execution of development budget in 2019/20 improved, though below the anticipated target. The total spending amounted to 7,711.1 against the planned spending of 12,295.1, reflecting an overall performance of 62.7 percent. Out of the total spending, 6,793.0 billion shillings emanated from domestic revenue sources and 918.1 billion shillings from external sources. Regardless of an encouraging improvement in performance of development budget execution in recent years, there had been a slowdown in 2019/20 mainly contributed by the impacts of the COVID - 19 both domestically and globally.

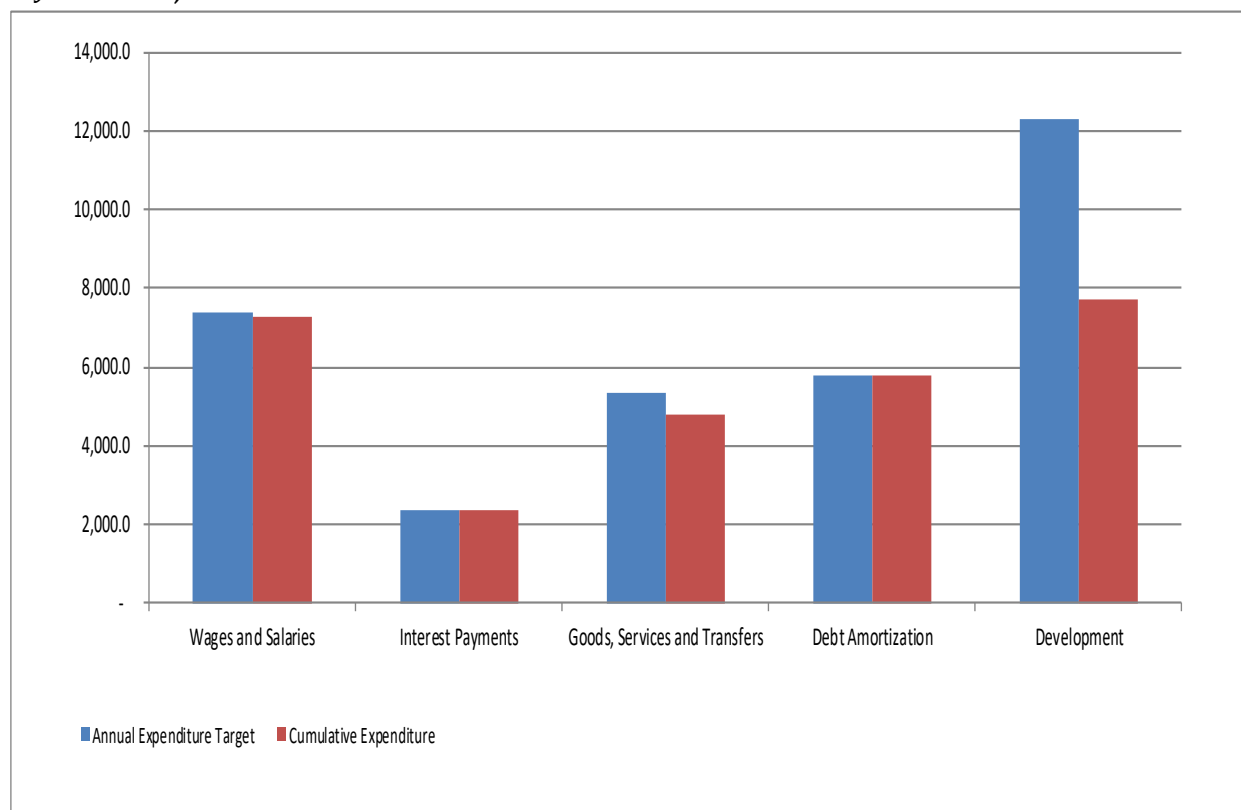
The overall performance of the budget by main budget classification and major category items is presented in **Chart 2.5** and **2.6**, respectively.

**Chart 2.5: Cumulative Expenditure Performance of Recurrent and Development Expenditure Composition (July 2019 – June 2020)**



Source: Ministry of Finance and Planning

**Chart 2.6: Cumulative Expenditure Performance by Major Category Items (July 2019 – June 2020)**

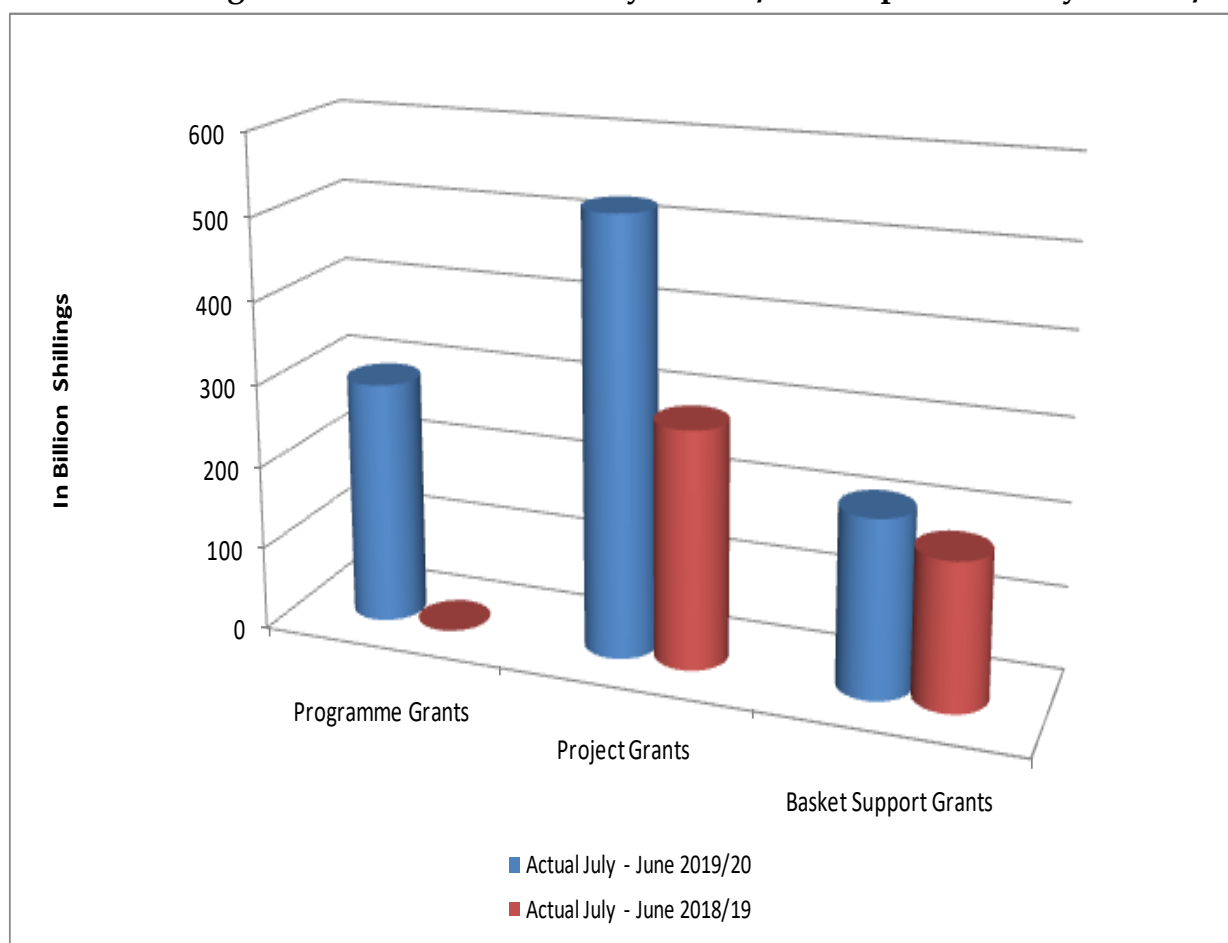


Source: Ministry of Finance and Planning

## 2.4 Grants

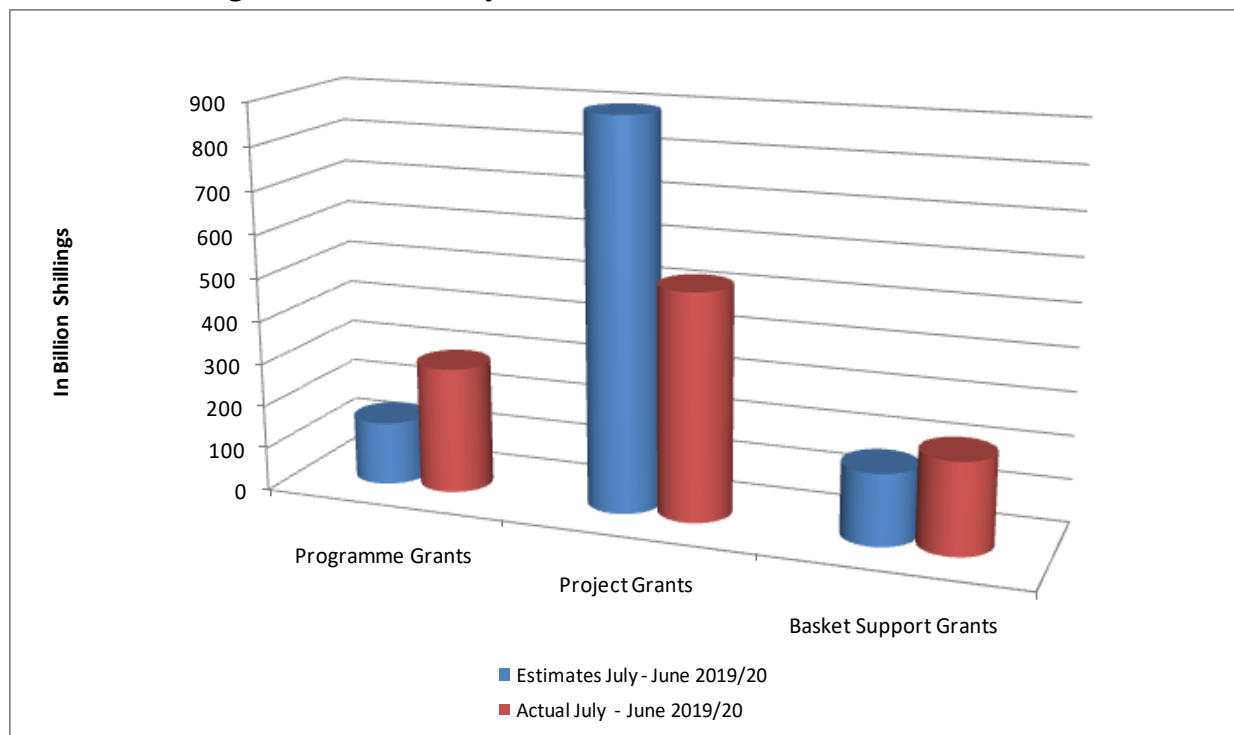
Grants received for the fourth quarter of 2019/20 was 176.8 billion shillings, equivalent to 101.0 percent of the estimated amount of 175.1 billion shillings, and an increase of 117.0 percent when compared to the same period in 2018/19. For the year 2019/20, amount of Grants received was 1,029.9 billion shillings, equivalent to 85.2 percent of the estimated amount of 1,208.5 billion shillings, and an increase of 123.3 percent when compared to the year 2018/19. Out of the total grants received for the year 2019/20, General Budget Support was 293.5 billion shillings which was 199.9 percent of the estimates of 146.8 billion shillings, project grants were 524.4 billion shillings, equivalent to 58.5 percent of the estimates of 897.0 billion shillings and basket funds amounted to 212.0 billion shillings, or 128.7 percent of estimates of 164.7 billion shillings. The performance of foreign grants is shown in **Chart 2.7**.

**Chart 2.7: Foreign Grants Received for the year 2019/20 Compared to the year 2018/19**



Source: Ministry of Finance and Planning

**Chart 2.8: Foreign Grants for the year 2019/20 Estimates Vs Actual**



*Source: Ministry of Finance and Planning*

## **2.5 Financing**

For the year 2019/20, total financing was 1,988.9 billion shillings against the borrowing target of 3,415.2 billion shillings. Total foreign net financing was 1,612.0 billion shillings against the target of 1,915.5 billion shillings which was 84.2 percent of the target. Total domestic net financing was 376.9 billion shillings against 1,499.8 billion shillings equivalent to 25.1 percent.

### **2.5.1 Domestic Financing**

Domestic borrowing in the year 2019/20 was expected at 4,960.0 billion shillings, whereas 3,460.2 billion shillings was for financing rolling over of maturing Treasury Bills and Bonds and 1,499.8 billion shillings were new loans for financing development projects. As of end June 2020, the Government managed to borrow 4,960.0 billion shillings (equivalent to 100 percent of estimates) for redemption (rollover) of maturing obligations as well as for financing Government Budget.

### **2.5.2 Foreign Financing**

Net Foreign financing was 1,612.0 billion shillings against the target of 1,915.5 billion shillings. During the year 2019/20, disbursement of concessional loans was 1,818.2 billion shillings, which was 115.4 percent of the target of 1,575.2 billion shillings. In addition, the Government managed to raise 1,822.1 as external non concessional loans against the target of 2,316.4 billion shillings equivalent to 78.7 percent of the annual

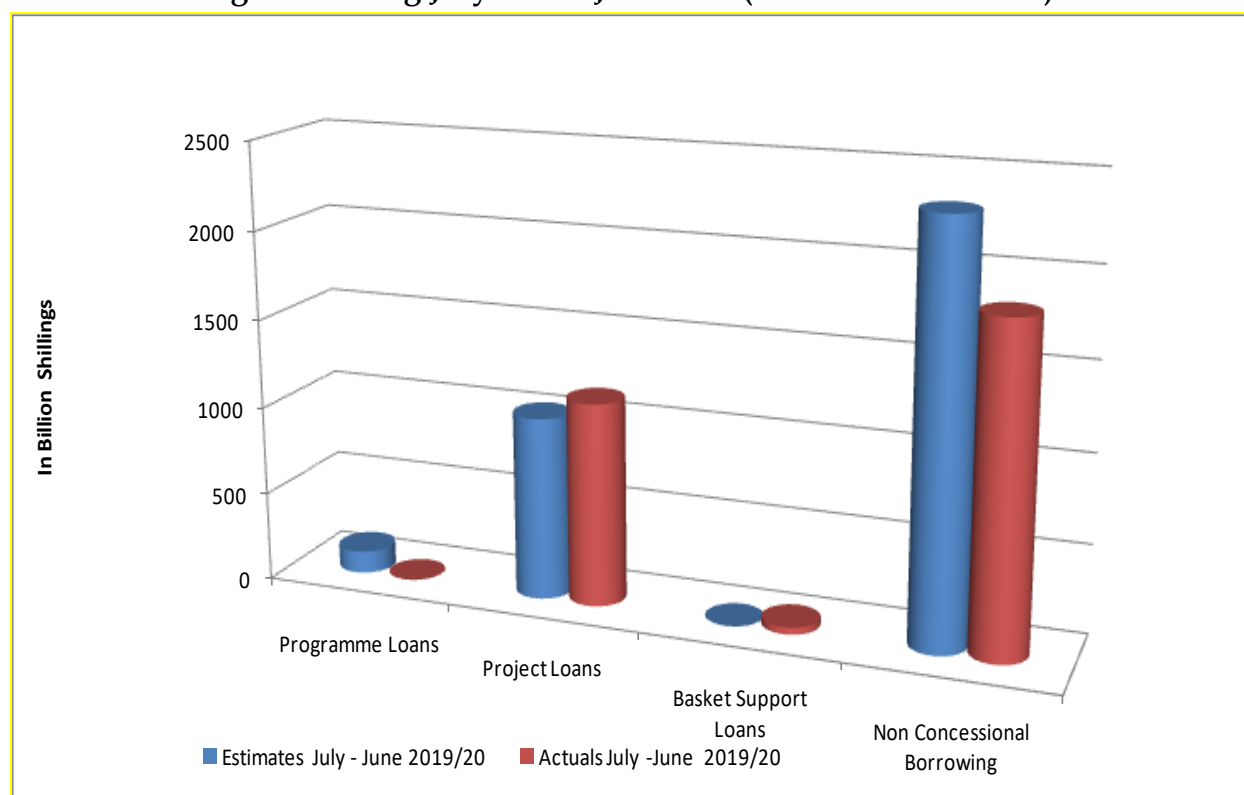
estimates. Amortization of foreign loans was 2,028.3 billion shillings against the estimates of 1,976.1 billion shillings. **Table 1** and **Chart 2.9** indicates the trend of grants and external concessional loans.

**Table 1: Trend of Grants and External Concessional Loans**

SUMMARY OF EXTERNAL GRANTS AND CONCESSIONAL LOANS FOR THE YEAR 2019/20				
Particulars	Type of assistance	Annual commitment as per budget	Cummulative disbursement	% of disb
GBS	Grants	146,823	266,592	
GBS	Concessional Loan	125,990	126,918	
<b>Sub Total</b>		<b>272,813</b>	<b>393,510</b>	<b>144%</b>
Basket Funds	Grants	164,714	211,972	
Basket Funds	Concessional Loan	34,746	58,565	
<b>Sub Total</b>		<b>199,460</b>	<b>270,538</b>	<b>136%</b>
Development Projects	Grants	896,987	565,386	
Development Projects	Concessional Loan	1,414,416	1,632,756	
<b>Sub Total</b>		<b>2,311,403</b>	<b>2,198,142</b>	<b>95%</b>
<b>Grand Total</b>		<b>2,783,676</b>	<b>2,862,190</b>	<b>103%</b>

Source: Ministry of Finance and Planning

**Chart 2.9: Foreign Financing July 2019 - June 2020 (Estimates Vs Actual)**



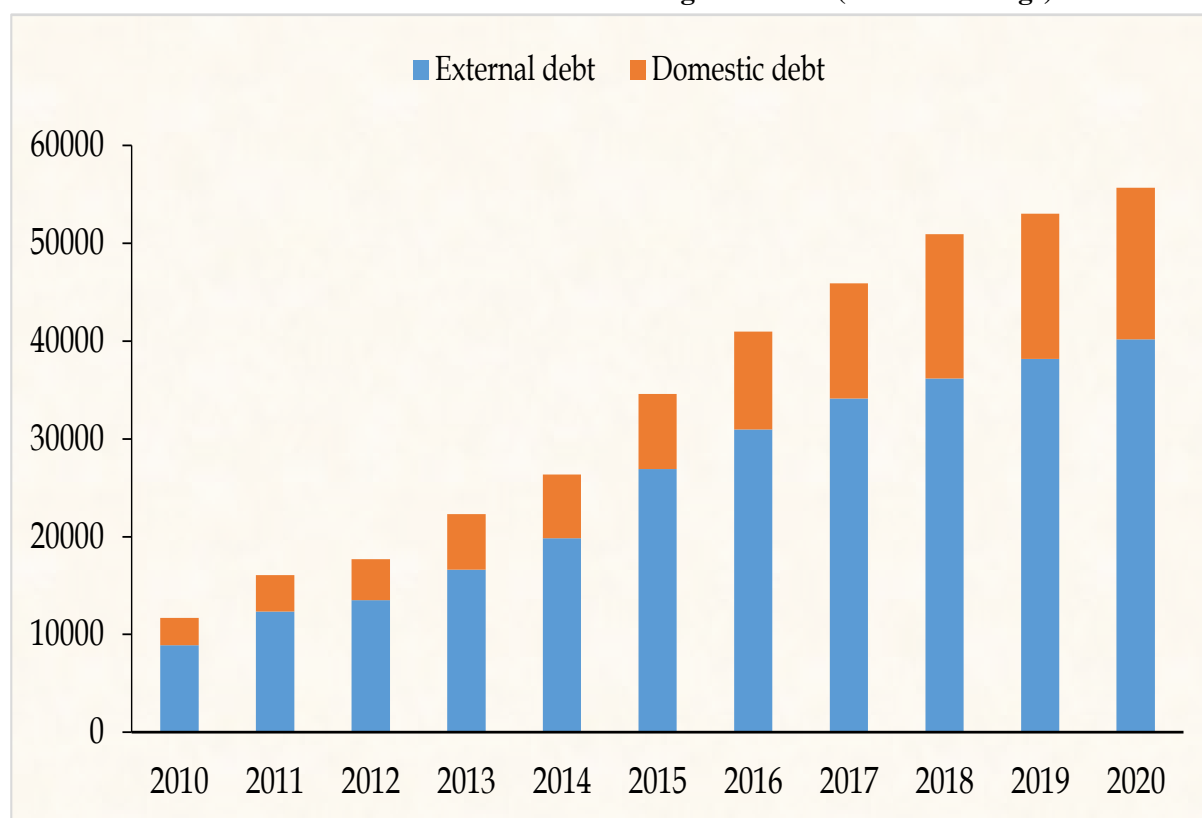
Source: Ministry of Finance and Planning

### 3.0 PUBLIC DEBT DEVELOPMENT

#### 3.1 Overall Debt Stock

As of end June 2020, Debt stock amounted to 55,700.44<sup>3</sup> billion shillings compared to 53,056.22 billion shillings recorded at June 2019, being an increase of 4.9 percent (**Chart 3.1**). Out of the amount, domestic debt stock amounted to 15,515.74 billion shillings and external debt stock amounted to 40,184.70 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 2020 (Billion Shillings)**



Source: Ministry of Finance and Planning

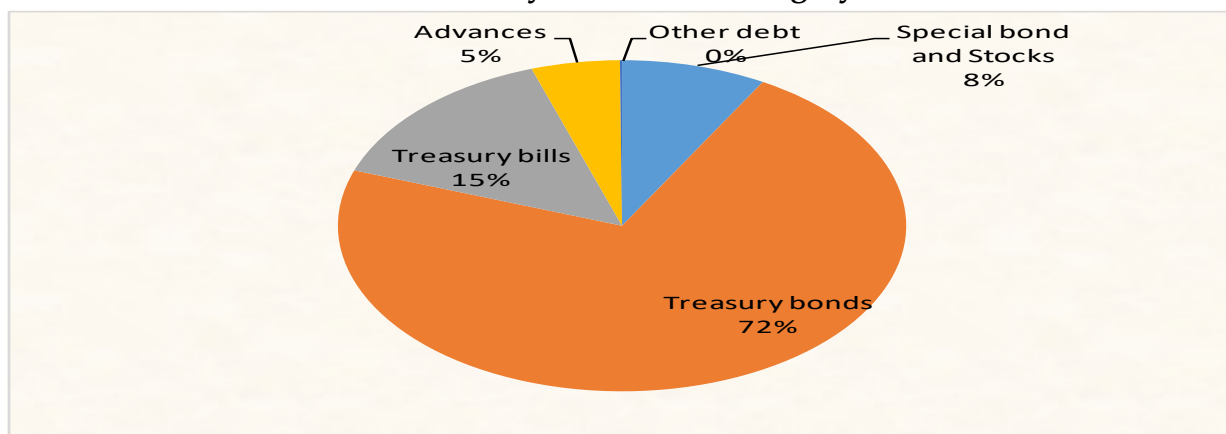
#### 3.2 Central Government Domestic Stock

As of end June 2020, domestic debt stock was 15,515.74 billion shillings compared to 14,863.1 billion shillings at end June 2019 being an increase of 4.4 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 75.3 percent of total domestic debt stock, followed by treasury bills 15.0 percent, special bond and stocks 8.6 percent,

<sup>3</sup> Provisional number as the final number will be after finalization of financial account in Sept. 2020

advances to Government 5.3 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**

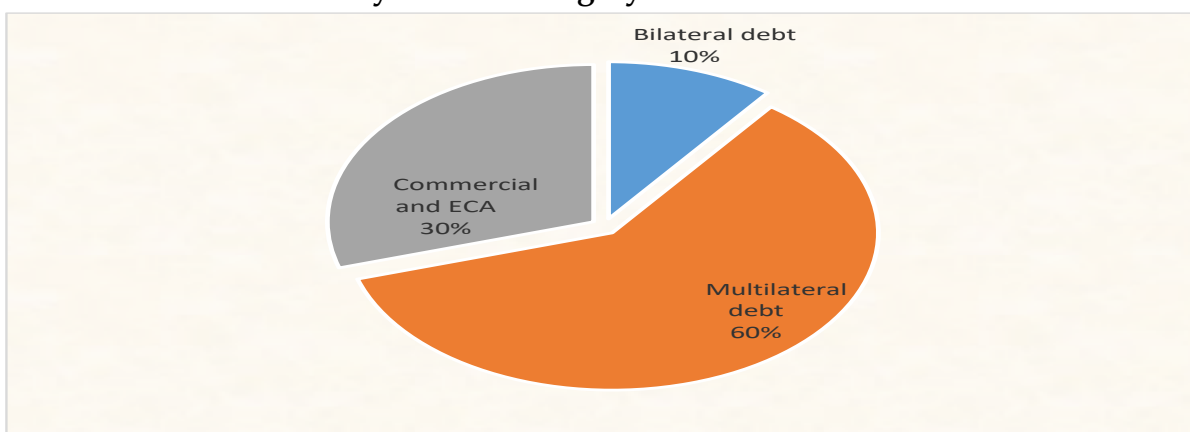


Source: Ministry of Finance and Planning

### 3.3 Central Government External Debt

Central Government External debt stock increased to USD 17,411.5 million at the end of June 2020 from USD 16,681.8 million at the end of June 2019 equivalent to an increase of 4.4 per cent. Out of this, Disbursed Outstanding Debt (DOD) was USD 16,441.6 million and USD 969.9 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 60 percent of the total external debt portfolio, Commercial banks and Export Credit Agency (ECA) 30 percent and Bilateral 10 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: External debt by creditor category**



Source: Ministry of Finance and Planning

### 3.4 Debt Sustainability Analysis

The Debt Sustainability Analysis (DSA) conducted in December 2019 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	2019/20	2020/21	2021/22	2022/23	2023/24	2029/2030	2039/40
PV of debt-to GDP ratio	55	16.3	16.8	17.6	18.2	18.0	13.7	9.1
PV of debt-to-exports ratio	240	103.9	105.5	110.9	116.7	115.4	83.9	53.5
Debt service-to-exports ratio	21	11.9	11.1	9.5	10.3	11.2	11.7	8.1
Debt service-to-revenue ratio	23	11.9	11.9	10.1	10.7	11.6	11.8	7.9

Source: Ministry of Finance and Planning

**Table 3: Projected Overall Public Debt burden indicators**

Public DSA	Benchmark	2019/20	2020/21	2021/22	2022/23	2023/24	2029/2030	2039/40
PV of debt-to GDP ratio	70	27.1	27.5	28.1	29.2	29.6	33.2	28.2
PV of debt-to-Revenue and grant	N/A	163.7	175.6	178.4	185.3	187.8	202.5	160.9
Debt service-to-revenue ratio	N/A	33.4	29.7	27.5	29.3	29.9	46.8	44.8



*Source: Ministry of Finance and Planning*

#### **4.0 HIGHLIGHTS OF BUDGET ACHIEVEMENTS AND CHALLENGES**

The budget performance in 2019/20 showed an encouraging trend, though there was a slight mismatch between revenue and expenditure. The performance of both tax and non tax revenues were reasonably good compared to the performance recorded in 2018/19. Domestic revenue collection increased to 21,021.7 billion shillings from 18,527.3 billion shillings in 2018/19, equivalent to an increase of 13.5 percent. Real GDP grew at 5.7 percent in the first quarter of 2020 and inflation was contained at single digit throughout 2019/20, whereby in June 2020 inflation was 3.2 percent. Total Government expenditure increased to 27,886.9 billion shillings from 27,049.2 billion shillings recorded in 2018/19 , reflecting an increase of 3.1 percent.

Despite the aforementioned achievements, the major challenge faced during the implementation of the 2019/20 budget was the outbreak of COVID - 19 pandemic which affected revenue collection in some sectors particularly tourism, transport and transportation, and trade.

# ANNEX A

## Revenue Performance July -June 2020

Billion Shillings

	Budget Estimates	April - June 2020			April - June 2018/19 Actual	Year on year % change	July - June 2020			July-June 2018/19 Actual	Year on year % change
		Estimates	Actual	Percent of estimate			Estimates	Actual	Percent of estimate		
<b>Revenue ( Including LGAs own sources)</b>	<b>23,045.3</b>	<b>6,001.5</b>	<b>4,956.1</b>	<b>83%</b>	<b>4,458.5</b>	<b>11%</b>	<b>23,045.3</b>	<b>21,021.7</b>	<b>91%</b>	<b>18,529.6</b>	<b>13%</b>
<b>Revenue (Excluding LGAs own sources)</b>	<b>22,279.9</b>	<b>5,811.3</b>	<b>4,795.6</b>	<b>83%</b>	<b>4,267.1</b>	<b>12%</b>	<b>22,279.9</b>	<b>20,322.7</b>	<b>91%</b>	<b>17,868.2</b>	<b>14%</b>
<b>Tax Revenue</b>	<b>18,955.2</b>	<b>4,838.9</b>	<b>4,134.6</b>	<b>85%</b>	<b>3,759.2</b>	<b>10%</b>	<b>18,955.2</b>	<b>17,472.1</b>	<b>92%</b>	<b>15,387.3</b>	<b>14%</b>
<b>Taxes on Imports</b>	<b>5,538.0</b>	<b>1,413.4</b>	<b>1,099.2</b>	<b>78%</b>	<b>1,194.3</b>	<b>-8%</b>	<b>5,538.0</b>	<b>4,928.4</b>	<b>89%</b>	<b>4,612.6</b>	<b>7%</b>
Import Duty	1,402.3	359.1	287.3	80%	320.9	-10%	1,402.3	1,269.2	91%	1,201.0	6%
Petroleum	1,155.7	295.9	198.6	67%	241.7	-18%	1,155.7	1,042.5	90%	981.7	6%
Excise	1,155.7	295.9	198.6	67%	241.7	-18%	1,155.7	1,042.5	90%	981.7	6%
Others	2,979.9	758.4	613.3	81%	631.8	-3%	2,979.9	2,616.7	88%	2,429.9	8%
Excise	223.2	52.5	41.9	80%	43.7	-4%	223.2	195.3	88%	170.1	15%
VAT on Non-Petroleum imports	2,756.7	705.9	571.4	81%	588.1	-3%	2,756.7	2,421.4	88%	2,259.8	7%
<b>Taxes on Domestic Sales</b>	<b>4,985.1</b>	<b>1,200.5</b>	<b>882.7</b>	<b>74%</b>	<b>903.9</b>	<b>-2%</b>	<b>4,985.1</b>	<b>4,037.6</b>	<b>81%</b>	<b>3,754.5</b>	<b>8%</b>
Excise	1,582.5	400.6	258.6	65%	305.7	-15%	1,582.5	1,274.6	81%	1,232.7	3%
Value Added Tax (VAT)	3,402.6	799.9	624.1	78%	598.2	4%	3,402.6	2,762.9	81%	2,521.8	10%
<b>Income Tax</b>	<b>6,322.8</b>	<b>1,691.9</b>	<b>1,805.3</b>	<b>107%</b>	<b>1,264.5</b>	<b>43%</b>	<b>6,322.8</b>	<b>6,523.8</b>	<b>103%</b>	<b>5,148.2</b>	<b>27%</b>
PAYE	2,953.3	767.7	628.8	82%	611.6	3%	2,953.3	2,552.9	86%	2,415.4	6%
Corporate and Parastatals	1,921.6	539.6	818.4	152%	341.6	140%	1,921.6	2,571.2	134%	1,563.4	64%
Individuals	257.6	72.3	58.5	81%	56.2	4%	257.6	227.2	88%	216.8	5%
Withholding Taxes	1,004.4	262.7	250.8	95%	185.7	35%	1,004.4	939.0	93%	693.2	35%
Rental Tax	38.4	10.0	22.8	229%	28.1	-19%	38.4	101.7	265%	108.8	-6%
Other Income	147.5	39.7	25.9	65%	41.3	-37%	147.5	131.8	89%	150.6	-12%
<b>Other Taxes</b>	<b>2,247.2</b>	<b>564.3</b>	<b>431.2</b>	<b>76%</b>	<b>501.2</b>	<b>-14%</b>	<b>2,247.2</b>	<b>2,228.9</b>	<b>99%</b>	<b>2,006.6</b>	<b>11%</b>
Business Skill Development Levy	362.8	96.1	75.2	78%	62.2	21%	362.8	315.4	87%	281.9	12%
Fuel Levy and transit fee	838.1	214.6	155.6	73%	186.8	-17%	838.1	772.2	92%	747.2	3%
Stamp Duty	17.9	4.0	5.6	139%	3.1	80%	17.9	20.0	112%	14.5	38%
Departure Service Charges	69.7	15.3	4.0	26%	28.3	-86%	69.7	55.0	79%	75.0	-27%
Processing Fee-dry cargo-TRA	67.7	17.3	16.0	92%	15.6	2%	67.7	65.9	97%	59.9	10%
Export Duty	26.8	6.9	3.1	46%	1.0	206%	26.8	175.0	652%	7.1	2372%
Railway Development Fund	276.9	70.9	55.3	78%	63.8	-13%	276.9	249.9	90%	247.9	1%
National Water Development Fund	146.2	28.1	29.6	105%	35.5	-17%	146.2	146.6	100%	141.9	3%
Motor vehicle taxes	39.1	8.4	24.9	295%	23.6	6%	39.1	111.9	286%	96.8	16%
Treasury Voucher Cheque	39.7	9.9	1.0	10%	2.8	-64%	39.7	7.4	19%	11.8	-37%
Transfer to REA	362.3	92.8	61.0	66%	78.5	-22%	362.3	309.6	85%	322.5	-4%
<b>Refunds</b>	<b>-137.9</b>	<b>-31.2</b>	<b>-83.9</b>	<b>269%</b>	<b>-104.7</b>	<b>-20%</b>	<b>-137.9</b>	<b>-246.5</b>	<b>179%</b>	<b>-134.6</b>	<b>83%</b>
Refunds - VAT	-121.3	-29.3	-60.7	207%	-18.7	225%	-121.3	-195.6	161%	-35.3	453%
Refunds - other	-16.6	-1.9	-23.2	1209%	-86.1	-73%	-16.6	-50.9	306%	-99.3	-49%
<b>Non Tax Revenue</b>	<b>3,324.7</b>	<b>972.4</b>	<b>661.0</b>	<b>68%</b>	<b>507.8</b>	<b>30%</b>	<b>3,324.7</b>	<b>2,850.5</b>	<b>86%</b>	<b>2,480.9</b>	<b>15%</b>
Parastatal Dividends	947.0	201.5	125.0	62%	90.3	38%	947.0	738.8	78%	682.3	8%
Ministries and Regions	2,231.9	733.4	503.4	69%	386.3	30%	2,231.9	1,961.0	88%	1,674.5	17%
TRA Non Tax (Customs)	103.8	26.6	22.0	83%	24.1	-9%	103.8	116.0	112%	107.3	8%
Property tax (TRA)	21.5	5.3	4.2	79%	6.2	-32%	21.5	12.9	60%	12.3	5%
Billboard Fee Collections (TRA)	20.5	5.6	6.3	112%	0.9	569%	20.5	21.8	106%	4.4	393%
<b>LGAs own source</b>	<b>765.5</b>	<b>190.2</b>	<b>160.4</b>	<b>84%</b>	<b>191.4</b>	<b>-16%</b>	<b>765.5</b>	<b>699.0</b>	<b>91%</b>	<b>661.4</b>	<b>6%</b>

Source: Ministry of Finance and Planning

## ANNEX B

### Foreign Grants and Financing July - June 2020

*Billion Shillings*

	Budget Estimates	April - June 2020			April - June 2018/19 Actual	Year on year % change	July - June 2020			July - June 2018/19 Actual	Year on year % change
		Estimate	Actual	Percent of estimate			Estimate	Actual	Percent of estimate		
<b>Overall deficit before grants</b>	<b>(4,623.8)</b>	<b>(2,081.7)</b>	<b>(629.7)</b>	<b>30.3%</b>	<b>(2,122.9)</b>	-70.3%	<b>(4,623.8)</b>	<b>(2,440.0)</b>	<b>52.8%</b>	<b>(3,771.1)</b>	-35.3%
<b>Grants</b>	1,208.5	175.1	176.8	<b>101.0%</b>	81.5	117.0%	1,208.5	1,029.9	<b>85.2%</b>	461.2	123.3%
Programme	146.8	0.0	95.8	<b>0.0%</b>	0.0		146.8	293.5	<b>199.9%</b>	0.0	
Project	897.0	149.4	72.0	<b>48.2%</b>	58.4	23.4%	897.0	524.4	<b>58.5%</b>	285.3	83.8%
Basket Support	164.7	25.7	9.0	<b>35.0%</b>	23.1	-61.1%	164.7	212.0	<b>128.7%</b>	175.9	20.5%
<b>Overall deficit after grants</b>	<b>(3,415.2)</b>	<b>(1,906.5)</b>	<b>(452.9)</b>	<b>23.8%</b>	<b>(2,041.4)</b>	-77.8%	<b>(3,415.2)</b>	<b>(1,410.1)</b>	<b>41.3%</b>	<b>(3,309.9)</b>	-57.4%
<b>Expenditure Float</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		<b>0.0</b>		<b>0.0</b>	<b>0.0</b>		<b>-10.2</b>	-100.0%
<b>Overall Balance</b>	<b>(3,415.2)</b>	<b>(1,906.5)</b>	<b>(452.9)</b>	<b>23.8%</b>	<b>(2,041.4)</b>	-77.8%	<b>(3,415.2)</b>	<b>(1,410.1)</b>	<b>41.3%</b>	<b>(3,320.1)</b>	-57.5%
<b>Financing</b>	<b>3,415.2</b>	<b>1,906.5</b>	<b>2,244.7</b>	<b>117.7%</b>	<b>3,667.9</b>	-38.8%	<b>3,415.2</b>	<b>1,988.9</b>	<b>58.2%</b>	<b>4,229.0</b>	-53.0%
Foreign (net)	1,915.5	66.6	100.2	<b>150.6%</b>	1,096.9	-90.9%	1,915.5	1,612.0	<b>84.2%</b>	1,191.8	35.3%
Programme (Loans)	126.0	0.0	126.9		0.0		126.0	126.9	<b>100.7%</b>	125.4	1.2%
Project (Loans)	1,414.4	383.1	485.8	<b>126.8%</b>	761.1	-36.2%	1,414.4	1,632.8	<b>115.4%</b>	1,452.5	12.4%
Basket Support	34.7	34.7	19.2	<b>55.1%</b>	26.9	-28.7%	34.7	58.6		44.3	32.3%
Non-Concessional Borrowing	2,316.4	0.0	0.0	<b>0.0%</b>	689.3	-100.0%	2,316.4	1,822.1	<b>78.7%</b>	1,144.8	59.2%
Amortisation Foreign (outflow)	-1,976.1	-351.2	-531.6	<b>151.4%</b>	-380.3	39.8%	-1,976.1	-2,028.3	<b>102.6%</b>	-1,575.2	28.8%
Domestic (net)	1,499.8	1,840.0	2,144.5	<b>116.6%</b>	2,571.0	-16.6%	1,499.8	376.9	<b>25.1%</b>	3,037.2	-87.6%
Bank Borrowing	1,043.5	1,280.2	1,492.1	<b>116.6%</b>	2,359.2	-36.8%	1,043.5	262.3	<b>25.1%</b>	2,383.4	-89.0%
Non-Bank Borrowing	456.2	559.7	652.4	<b>116.6%</b>	211.7	208.1%	456.2	114.7	<b>25.1%</b>	653.8	-82.5%
Borrowing/Roll over	3,460.2	671.8	1,043.1	<b>155.3%</b>	1,123.9	-7.2%	3,460.2	3,976.8	<b>114.9%</b>	3,718.0	7.0%
Amortisation of contingent debt	0.0	0.0	0.0		0.0		0.0	0.0		0.0	
Domestic amortisation/Rollover	-3,460.2	-671.8	-1,043.1	<b>155.3%</b>	-1,123.9	-7.2%	-3,460.2	-3,976.8	<b>114.9%</b>	-3,718.0	7.0%

**Source: Ministry of Finance and Planning**