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2021

The Budget Execution Report for the Second Quarter of the Financial Year, 2020-2021

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THE UNITED REPUBLIC OF TANZANIA



MINISTRY OF FINANCE AND PLANNING

**THE BUDGET EXECUTION REPORT FOR THE SECOND QUARTER OF THE
FINANCIAL YEAR 2020/21**

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MARCH 2021

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

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Executive Summary

The average growth of real Gross Domestic Product (GDP) in the first three quarters of 2020 averaged at 4.7 percent from 7.3 percent recorded in the similar period in 2019. The slowdown in growth was on account of excessive rainfall which led to destruction of transportation infrastructure, delay in implementation of major projects and impact of COVID - 19 in some of economic activities including trade, hotel and restaurants. In the second quarter of 2020/21, headline inflation decreased to an average to an average of 3.1 percent from 3.7 percent recorded in 2019/20. Food inflation (consumed at home and restaurant) decreased to 4.1 percent from 6.5 percent recorded in the same period in 2019/20 and core inflation increased to an average of 2.4 percent from 2.3 percent recorded in 2019/20.

During the second quarter of 2020/21, total domestic revenue collection (including LGAs own source) amounted to 5,508.2 billion shillings, which was 2 percent lower than 5,640.7 billion shillings collected in the corresponding period in 2019/20. On cumulative basis (July to December 2020), total amount collected was 10,467.2 billion shillings against the target of 11,757.9 billion shillings, equivalent to 89 percent and a decrease of 2 percent when compared with the amount collected in the first half of 2019/20.

Total Government spending during the period under review amounted to 6,759.7 billion shillings, equivalent to 86.4 percent of the projected spending of 7,819.9 billion shillings. Out of the amount, 5,337.3 billion shillings were recurrent expenditure and 1,422.4 billion shillings were development expenditure. With regards to overall spending (from July to December 2020), the performance was reasonably good, with the total spending amounted to 13,120.9 billion shillings, which was 86.1 percent of the targeted spending of 15,239.9 billion shillings.

Grants received during the second quarter of 2020/21 were 347.9 billion shillings, equivalent to 101.5 percent of the estimated amount of 342.9 billion shillings, while the total borrowing amounted to 812.1 billion shillings against the target of 426.9 billion shillings.

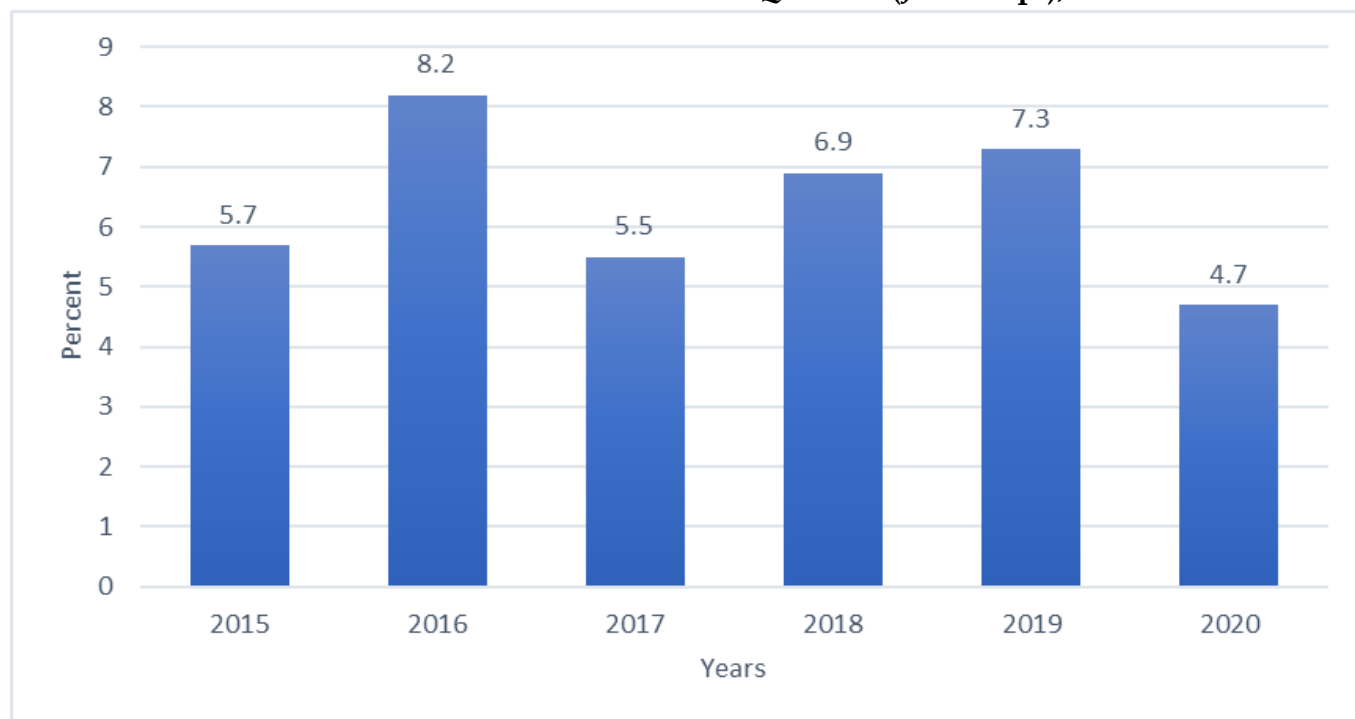
The debt stock as at December 2020 amounted to 59,009.8 billion shillings compared to 54,849.8 billion shillings recorded in December 2019, being an increase of 7.6 percent. Out of the amount, domestic debt stock was 16,179.6 billion shillings and external debt stock 42,830.2 billion shillings, equivalent to 72.6 percent of the Central Government debt.

1.0 RECENT MACROECONOMIC PERFORMANCE

1.1. GDP Performance

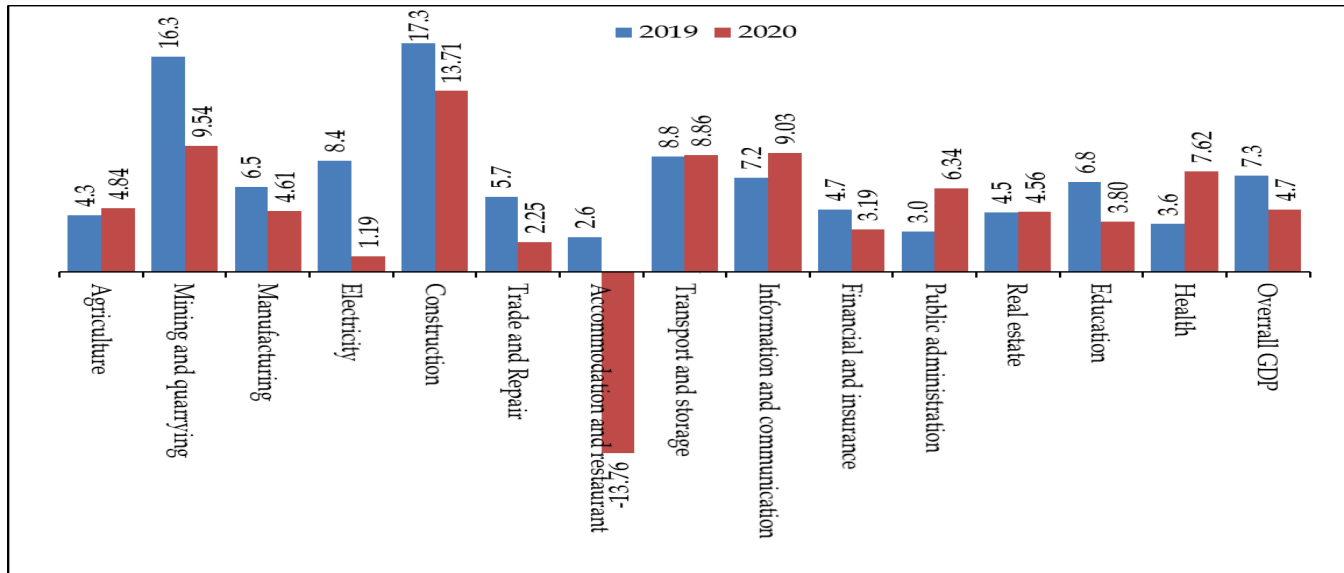
The average growth of real Domestic Product (GDP) in first three quarters of 2020 was 4.7 percent compared to 7.3 percent recorded in the similar period in 2019. The slowdown in growth was on account of excessive rainfall which led to destruction of transport infrastructure, delay in implementation of some major projects and impacts of COVID - 19 in some of economic activities including trade, hotel and restaurants as well as measures taken by our major trading partners to contain the spread of COVID - 19 which includes lockdown and suspension of international passenger flights which in turn affected trade and transportation industry. The trend of GDP growth is indicated in **Chart 1.1**.

Chart 1.1: Trend of GDP Growth for the First three Quarters (Jan - Sept), 2014-2020



During the period under review, sectors which recorded high growth rate included construction (13.7 percent); mining and quarrying (9.5 percent); information and communication (9.0 percent); and transport and storage (8.9 percent) as reflected in **Chart 1.2**. A recession was observed only in accommodation and restaurant economic activity which recorded a negative growth of 13.8 percent during the review period owing to slow down on tourism activities. In terms of GDP share, the dominant activities were agriculture (25.5 percent), construction (15.0 percent), trade and repair (8.6 percent), manufacturing (8.4 percent) and transport and storage (7.5 percent).

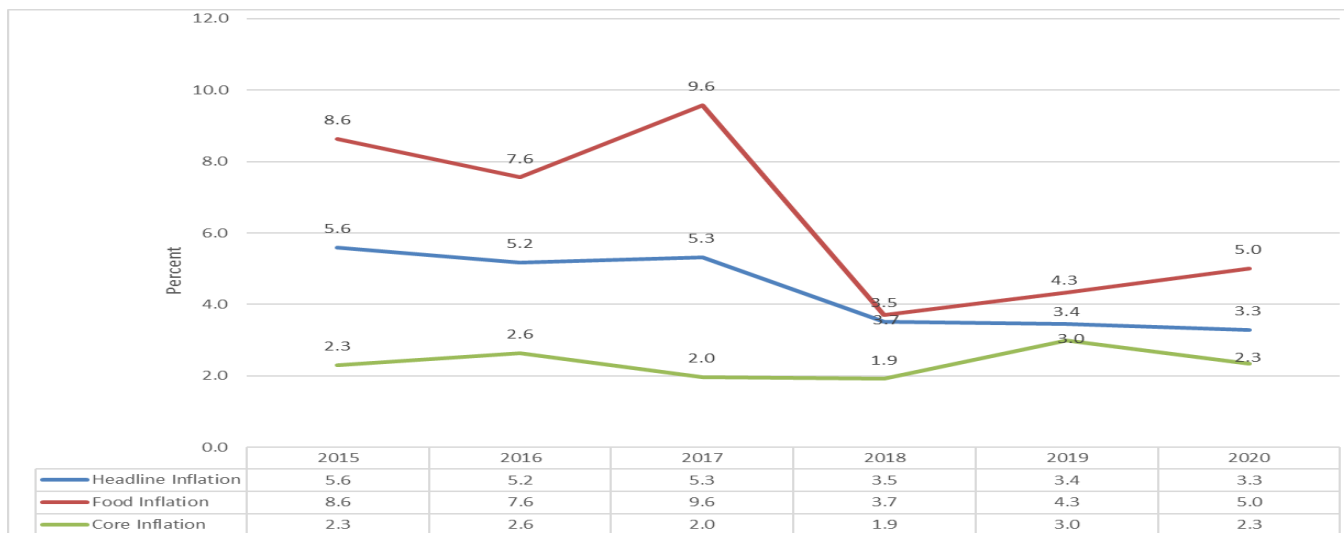
Chart 1.2: Growth Rates for the First Three Quarters by Economic Activities (2019-2020)



1.2. Inflation

In the second quarter of 2020/21, headline inflation declined to an average of 3.1 percent from 3.7 percent recorded in 2019/20 (Chart 1.3). Food inflation (consumed at home and restaurant) decreased to 4.1 percent from 6.5 percent recorded in the same period in 2019/20 and core inflation increased to an average of 2.4 percent from 2.3 percent recorded in 2019/20. The inflation rate was within the medium-term target of 5.0 percent as well as within EAC and SADC convergence criteria of 8.0 percent and 3 to 7 percent respectively. This was attributed to stability in exchange rate, adequate supply of food in the domestic and neighbouring country markets and subdued oil prices in the world market as well as implementation of prudent fiscal and monetary policy.

Chart 1.3: The Trend of Inflation From 2015 to 2020



1.3. External Trade

In the second quarter of 2020/21, the overall balance of payment recorded a deficit of USD 161.6 million compared with a surplus of USD 169.8 million recorded in the similar quarter of 2019/20, owing to relatively low official inflows. Current account balance recorded a surplus of USD 51.6 million compared with a surplus of USD 63.5 million in the similar period in 2019/20, largely driven by decline in service receipts.

The balance of goods and services recorded a surplus of USD 227.3 million in the quarter ending December 2020 compared with a surplus of USD 132.0 million in the similar period in 2019, equivalent to an increase of 126.6 percent. Export of goods increased by 13.2 percent to an average of USD 1,852.3 million from USD 1,635.8 million recorded in the similar quarter in 2019. This was attributed to the increase in non-traditional exports that amounted to USD 1,390.2 million compared to USD 1,093.5 million, largely on account of increase in export value of gold, horticultural products and manufactured goods. Imports of goods decreased to USD 1,956.82 million in the quarter ending December 2020 compared with USD 2,183.8 million registered in the same quarter in 2019, largely driven by a decline in imports of all goods except machinery and fertilizers.

Services account balance recorded a surplus of USD 331.8 million in the quarter ending December 2020 compare with a surplus of USD 680.0 million registered in the corresponding quarter in 2019. The decline in service account balance was attributed to a number of factors including a decrease in services receipts, particularly travel receipts. Travel activity was negatively affected by measures taken globally to combat the spread of COVID-19, including lockdown and suspension of international passenger flights.

Gross official reserves amounted to USD 4,767.7 million at the end of December 2020 from USD 5,567.6 million recorded in the same period in 2019. The reserves are sufficient to cover about 5.6 months of projected imports of goods and services. The import cover was above the country's benchmark of not less than 4.0 months and convergence criteria of at least 4.5 months for East African Community member states.

1.4. Money Supply and Credit

In the period ending December 2020, extended broad money supply (M3) increased to 29,918.2 billion shillings from 28,313.1 billion shillings, equivalent to an annual growth of 5.7 percent. Similarly, broad money supply (M2) increased to 23,015.2 billion shillings from 21,280.3 billion shillings, equivalent to annual growth of 8.2 percent. The growth of money supply continued to be supported by increase in domestic credit. Private sector credit maintained a positive growth rate, averaged at 4.4 percent compared to 9.9 percent registered in similar quarter in 2019. The

subdued growth of credit to the private sector was partly attributed to the adverse impact of COVID-19 on some business activities. Larger portion of the total outstanding credit were extended to personal activities (34.4 percent), followed by trade (15.4 percent) and manufacturing (9.5 percent).

1.5. Interest Rates Development

In the quarter ending December 2020, the overall lending rate decreased to 16.66 percent from 16.82 percent in the corresponding period in 2019. Likewise, one-year lending rate declined to 15.76 percent from 16.63 percent in the quarter ending December 2019. The overall time deposit interest rate and 12-months deposit rate decreased to an average of 6.78 percent and 8.35 percent in the quarter ending December 2020 compared to 7.02 percent and 9.04 percent in the corresponding period of 2019 respectively. Given such trend, the spread between one year lending and deposit interest rates narrowed to 7.31 percentage points from 7.38 percentage points registered in the quarter ending December 2019, reflecting a gradual decrease in cost of borrowing to customers and cost of funds to banks.

1.6. Exchange Rate

The value of the shilling remained stable against major currencies, trading at an average of shilling 2,297.90 per USD in the quarter ending December 2020 compared to shilling 2,288.64 per USD traded in the similar quarter in 2019, representing an annual depreciation of 0.4 percent. The stability in exchange rate was attributed to moderate current account deficit, low and stable domestic inflation, sustained prudent monetary and fiscal policies and measures implemented by the Bank to ensure transparency and orderly market operations.

2.0 GOVERNMENT OPERATIONS

2.1 Revenue

In 2020/21, the Government estimated to collect 34,879.8 billion shillings from various sources. Out of that, 24,065.5 billion shillings are from domestic sources of revenue (including LGAs own sources) and 10,814.3 billion shillings from grants, concessional borrowing and non-concessional borrowing.

2.1.1 Domestic Revenue

In the second quarter of 2020/21, the Government continued to strengthen domestic resource mobilization efforts to ensure adequate financing of Government operations, infrastructure projects, as well as social services. Total domestic revenue collection (including LGAs own source) amounted to 5,508.2 billion shillings, which was 2 percent lower than 5,640.7 billion shillings collected in the corresponding period in 2019/20. On cumulative basis (July to

December 2020), total amount collected was 10,467.2 billion shillings against the target of 11,757.9 billion shillings, equivalent to 89 percent and a decrease of 2 percent when compared with the amount collected in the first half of 2019/20. Out of the amount, collections from Tanzania Revenue Authority (TRA) were 9,063.7 billion shillings against the target of 10,106.6 billion shillings equivalent to 90 percent. Non tax revenues collected by Ministries, Departments and Agencies (MDAs) were 1,027.0 billion shillings equivalent to 84 percent of the targeted collection of 1,228.5 billion shillings and collections from LGAs own source were 376.5 billion shillings against the target of 422.8 billion shillings, equivalent to 89 percent.

2.1.2 Revenue by Source

2.1.3 Taxes on Imports

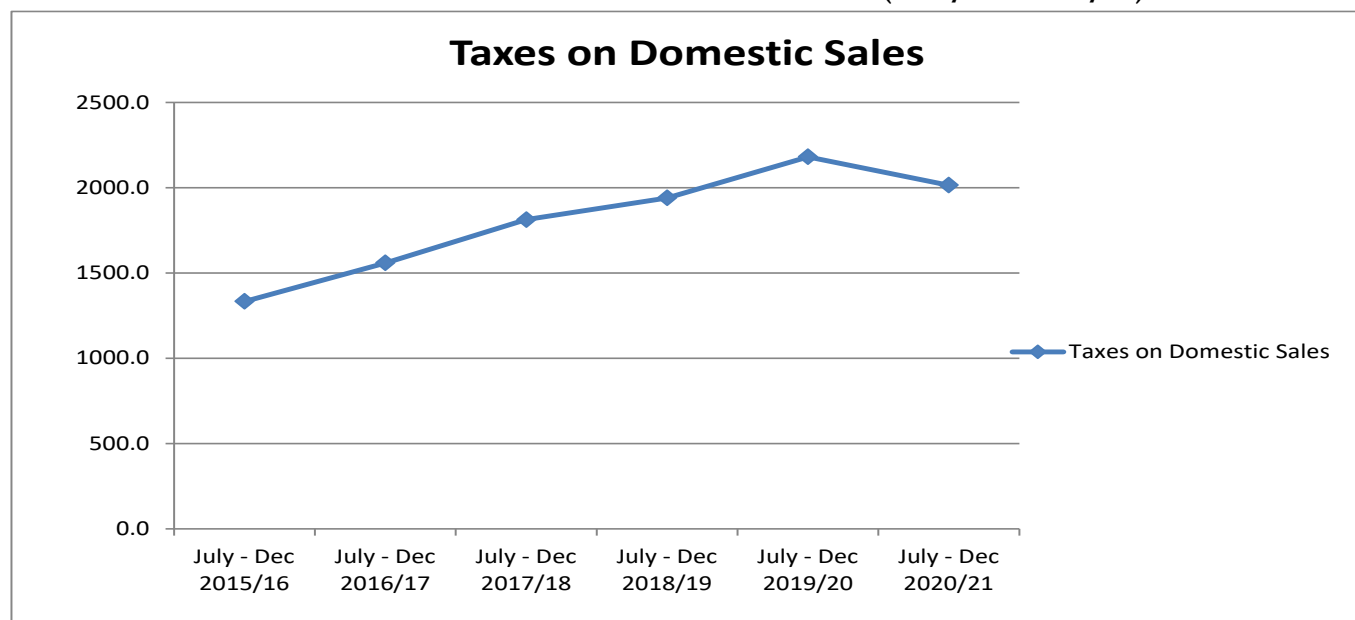
Import taxes and duties collections in the second quarter of 2020/21 amounted to 1,355.7 billion shillings, reflecting a performance of 89 percent of estimated 1,515.2 billion shillings, and 2 percent higher when compared to collections registered in the similar period in 2019/20. Cumulatively, for the first half of 2020/21, import taxes and duties collections amounted to 2,664.9 billion shillings, reflecting a performance of 91 percent of estimated 2,934.9 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 collections of 676.9 billion shillings, which was 111 percent of the planned target of 607.8 billion shillings. Excise on other imports collections were 107.2 billion shillings, registering a performance of 97 percent. Import duty performed below the target with collections amounted to 656.7 billion shillings, equivalent to 83 percent of the target and VAT on non-petroleum performed at 86 percent of the target by collecting 1,224.1 billion shillings. The underperformance was attributed to a decline in the volume and value of importation of consumer goods by 11.1 percent compared to the same period in 2019/20.

2.1.4 Taxes on Domestic Sales

In the second quarter of 2020/21, actual tax collection from domestic sales decreased to 969.8 billion shillings from 1,187.5 billion shillings, reflecting a decrease of 18 percent when compared to the corresponding period in 2019/20. The amount collected was equivalent to 75 percent of the targeted collection of 1,300.6 billion shillings. On cumulative basis, during the first half of 2020/21, actual tax collection from domestic sales decreased by 8 percent to 2,015.0 billion shillings from 2,181.1 billion shillings collected in the first half of 2019/20 and 81 percent of the target of 2,482.5 billion shillings. Out of the total domestic sales tax, the excise duty was 631.4 billion shillings, equivalent to 80 percent of the target of 787.4 billion shillings while VAT on domestic sales amounted to 1,383.6 billion shillings, which was 82 percent and 7 percent lower when compared to the first half of 2019/20. The underperformance of VAT on domestic

sales was mainly attributed to the following: low sales by the sugar and cement manufacturers; and reduction in consumption for beer, soft drinks and cigarettes. The underperformance of the domestic excise duty was mainly due to a decrease in production and consumption of some excisable goods like beer and cigarettes. **Chart 2.1** shows the trend of tax on domestic sales for the first half of the financial years (2015/16 – 2020/21).

Chart 2.1: Trend of Tax on Domestic Sales for the First Half (2015/16 – 2020/21)



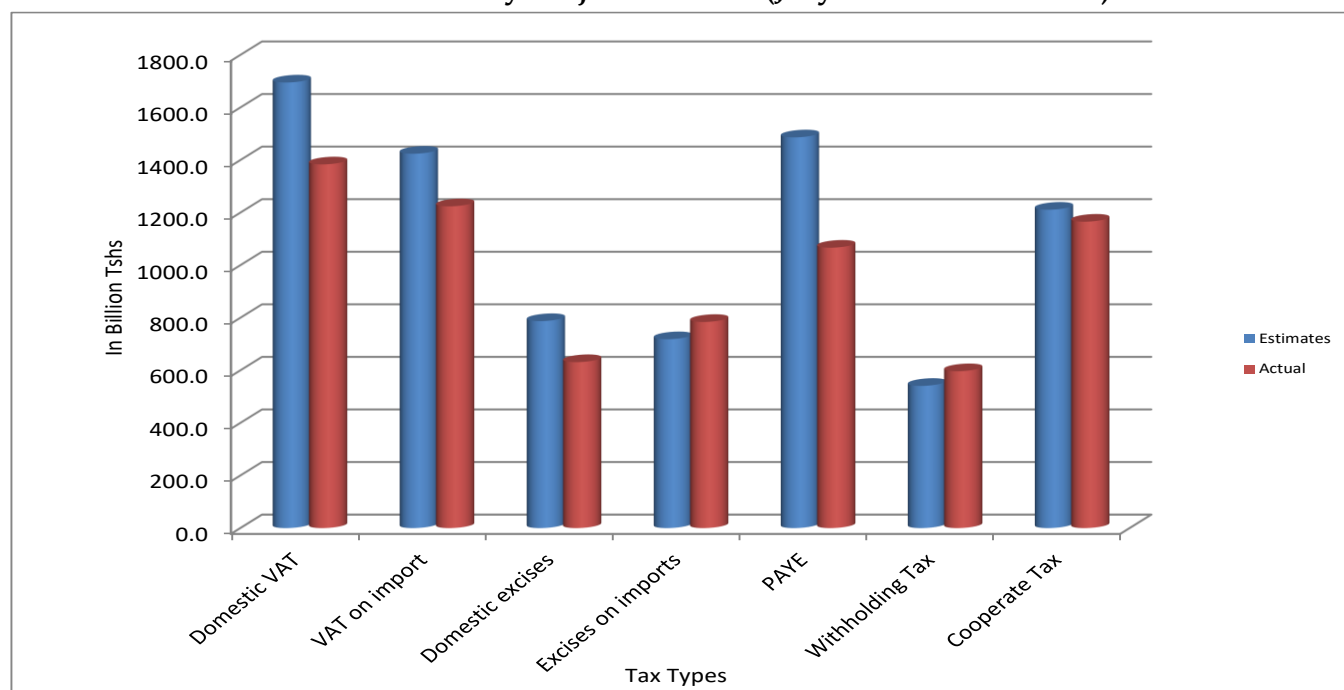
2.1.5 Income Tax

Income tax collections during the second quarter of 2020/21 amounted to 1,759.3 billion shillings, equal to 98 percent of the target of collecting 1,797.3 billion shillings, reflecting an increase of 7 percent when compared to collections registered in the same period in 2019/20. Cumulatively, income tax collections for the first half of 2020/21 were 3,116.1 billion shillings, equal to 89 percent of estimates of 3,510.4 billion shillings. In the second quarter of 2020/21, PAYE collections were 549.4 billion shillings, equivalent to 73 percent of the target. Cumulatively, during the first half of 2020/21, PAYE collections were 1,066.7 billion shillings against the target of 1,486.3 billion shillings, signifying performance of 72 percent and 15 percent lower when compared to 1,262.2 billion shillings collected in the first half of 2019/20. The underperformance was due to the continued impact of COVID -19 pandemic which resulted to a slowdown in business activities especially in tourism, transportation, hotel and restaurants.

During the second quarter of 2020/21, revenue collections from the corporate tax were 764.6 billion shillings, which was 121 percent of the target of 630.1 billion shillings. Cumulatively, the

amount collected from corporate tax was 1,165.6 billion shillings, equivalent to 96 percent of the target and 3 percent higher when compared to the amount collected in the corresponding period in 2019/20. The performance was mainly contributed by the continuous increase in gold prices in the world market thus increasing the profitability of the mining sector actors who amended upwards their quarterly instalments. Collections from withholding taxes for the second quarter were 299.1 billion shillings, equivalent to 110 percent of the target. The cumulative collections for the first half of 2020/21, from withholding taxes were 596.7 billion shillings against the target of 541.0 billion shillings, equivalent to 110 percent. The main reasons for the performance in the period under review were attributed to the increase in the number of transactions that attracts withholding taxes such as interest on deposits, rental, insurance premium and royalties. Revenue performance by major tax items is shown in **Chart 2.2**.

Chart 2.2: Revenue Performance by Major Tax Item (July to December 2020)

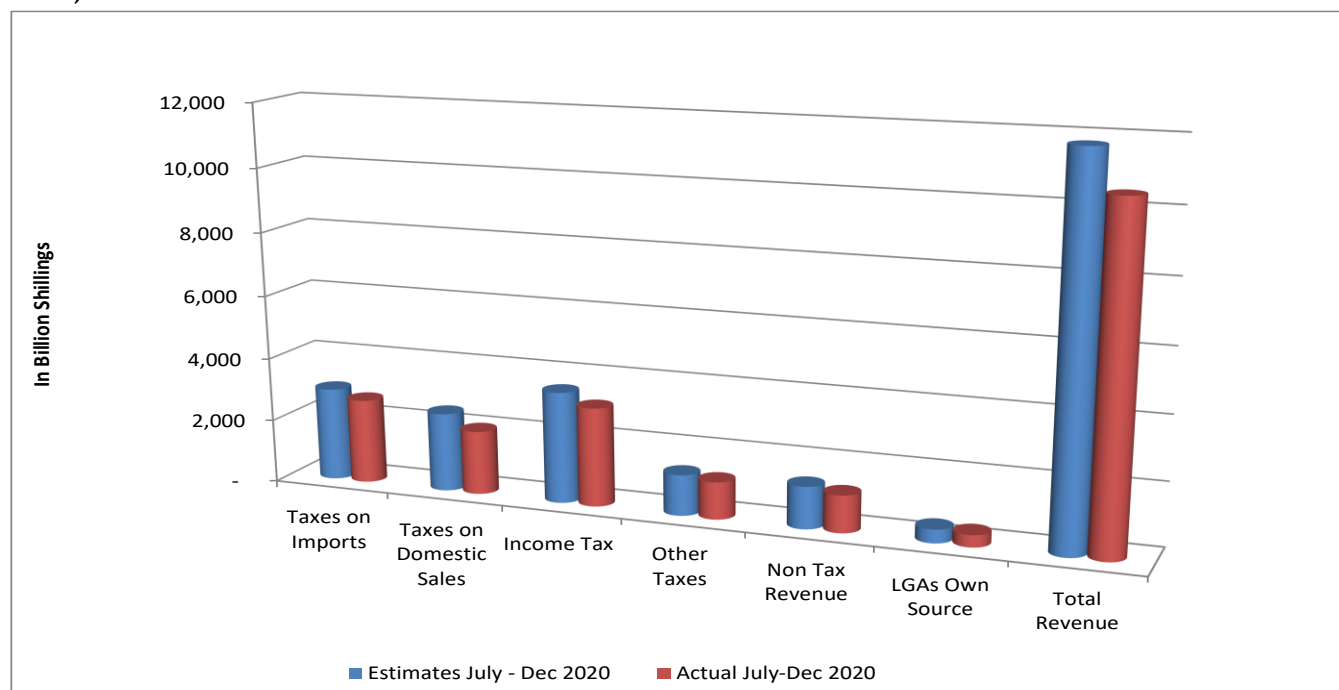


2.1.6 Other Taxes

During the quarter ended December 2020, actual collections from other taxes category amounted to 599.6 billion shillings, which was 90 percent of the period estimate of 668.2 billion shillings. On cumulative basis, the amount collected was 1,174.7 billion shillings, which was 91 percent of estimates of 1,285.5 billion shillings, and a decrease of 5 percent when compared to the amount collected in the same period in 2019/20. Out of the collected amount, Fuel Levy and Transit Fee amounted to 450.3 billion shillings, equivalent to 101 percent of estimates; collections meant for National Water Development Fund were 85.6 billion shillings, which was 101 percent of estimates; and collections for Rural Energy Agency (REA) amounted to 185.0

billion shillings, equivalent to 103 percent of estimates. In addition, collections from other sources were below the target, which included: collections for Railway Development Fund were 122.7 billion shillings, equivalent to 86 percent of estimates; Business Skill Development Levy (SDL) recorded 140.6 billion shillings, equivalent to 78 percent of estimates, and Departure Service Charges performed at 26 percent of estimates of 34.5 billion shillings. The 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 to December, 2020) Compared to (July to December, 2019)



2.1.7 Non Tax Revenue

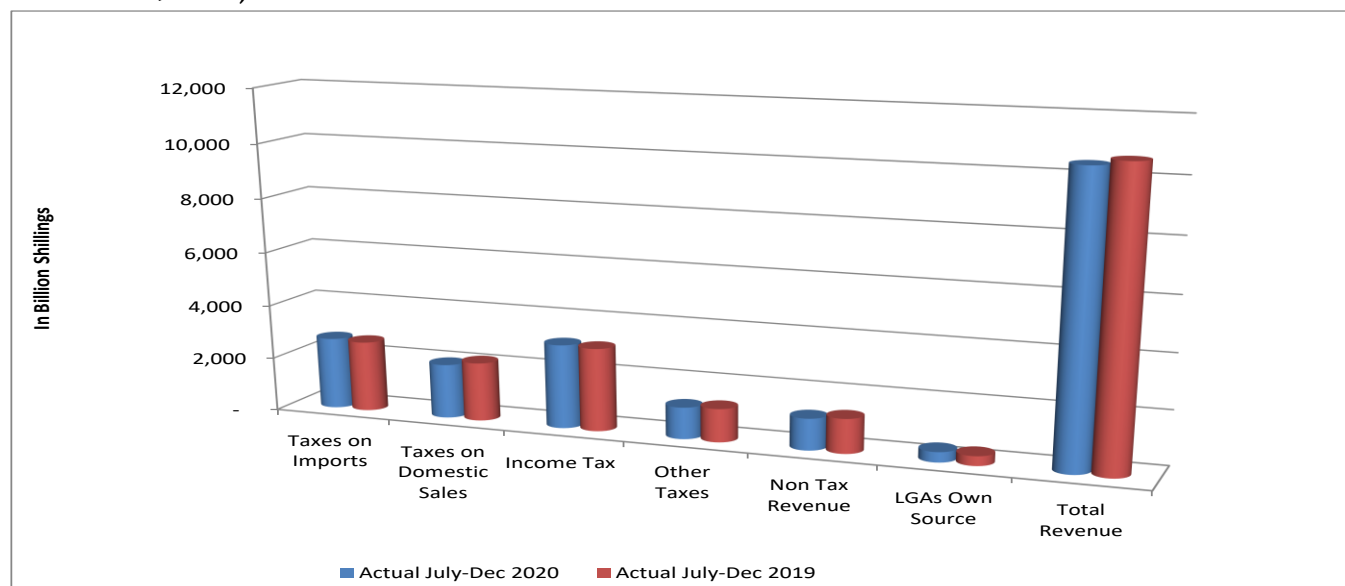
Collections of non-tax revenue in the second quarter of 2020/21 were 669.8 billion shillings, equivalent to 98 percent of quarter estimates of 685.5 billion shillings. The collections were higher by 3 percent when compared to collections registered in the same period in 2019/20. For the period of July to December 2020, collections of non-tax revenue were 1,168.8 billion shillings, equivalent to 88 percent of period estimates of 1,321.8 billion shillings and 9 percent lower when compared to collections registered in the same period in 2019/20. Out of the amount, non-tax revenues collected by Ministries were 822.2 billion shillings, against the target of 964.8 billion shillings, equivalent to 85 percent, dividends and contribution from Government Institutions were 204.7 billion shillings which was 78 percent of the target, non-tax revenues collected by TRA (billboard fee, property tax, tourist sector and others) were 141.8

billion shillings, which was 152 percent of the period estimates of 93.3 billion shillings. The underperformance of non-tax revenue was largely attributed to lockdown in some countries resulted from COVID -19 pandemic which affected revenue collection from work permit, resident permit and visa.

The Local Government Authorities (LGAs) own sources collections in the second quarter were 202.8 billion shillings, equivalent to 101 percent of estimates while the collections recorded for the first half of 2020/21 amounted to 376.5 billion shillings, which was 89 percent of the target, and 6 percent higher when compared to the same period in 2019/20.

The Domestic revenue performance for the first half of 2020/21 compared to the first half of 2019/20 is depicted in **Chart 2.4**.

Chart 2.4: Domestic Revenue Performance (July to December, 2020) Compared to (July to December, 2019)



2.2 Expenditure

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

2.2.1 Second Quarter Expenditure Performance

The budget execution during the second quarter, registered reasonably good performance, thanks to continued efforts to improve domestic revenue collection albeit the impacts of COVID-19 pandemic. Total expenditure during the period under review amounted to 6,759.7

billion shillings, equivalent to 86.4 percent of the projected spending of 7,819.9 billion shillings. The under realization of expenditure targets was mainly attributed to low revenue collection in some revenue sources particularly from non-concessional borrowing.

2.2.2 Recurrent Expenditure

The recurrent expenditure which is largely financed by domestic revenues continued to register good performance compared to other expenditure categories. The total spending on recurrent activities during the quarter under review amounted to 5,337.3 billion shillings, which was 98.4 percent of the planned target of 5,425.1 billion shillings. The notable performance was coupled by good performance in majority of domestic revenue sources during the second quarter, as well as continued commitment by the Government in honouring statutory obligations in wages and salaries and debt service.

2.2.3 Wages and Salaries

Wages and salaries budget execution continued to register remarkable performance during the second quarter, consistent with the Government's commitment to pay wages and salaries on time in order to boost employees' morale and avoid accumulation of arrears. Total spending on wages and salaries was 1,771.2 billion shillings, equivalent to 96.2 percent of the targeted spending of 1,840.6 billion shillings. The slight under performance was contributed by unexpected delays in implementation of recruitment of new employees planned for the second quarter.

2.2.4 Debt Service

The amount of funds released during the second quarter for debt service outlays amounted to 1,981.2 billion shillings, signifying the performance of 98.4 percent of the planned quarter spending of 2,002.5 billion shillings. Out of the released amount, 1,355.4 billion shillings were directed to debt amortization and 625.8 billion shillings to interest payment. The spending on debt service was consistent with the matured debt obligations during the second quarter.

2.2.5 Goods, Services and Transfers

The execution of goods, services and transfers budget which is financed by domestic revenues performed reasonably well, with total releases amounting to 1,584.9 billion shillings, which was 97.7 percent of the targeted spending of 1,622.1 billion shillings. The slight mismatch between the released amount and the target was on account of revenue shortfall in some domestic revenue sources.

2.2.6 Development Expenditure

The funds disbursed for development projects during the quarter under review amounted

1,422.4 billion shillings, reflecting performance of 59.4 percent of the planned target of 2,394.8 billion shillings. The released amount comprised of 1,382.7 billion shillings from local sources and 39.8 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 second quarter of 2020/21 is presented in Chart 2.5 and Chart 2.6.

Chart 2.5: Expenditure Performance by Recurrent and Development Budget (October to December 2020)

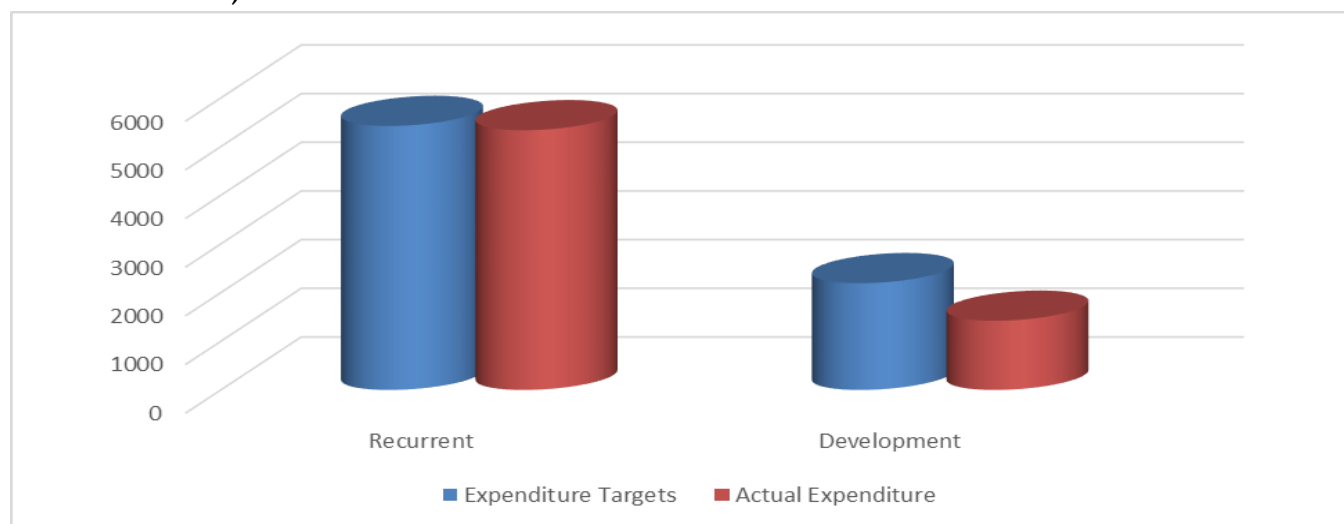


Chart 2.6: Expenditure Performance by Economic Classification (October to December 2020)



2.2.7 Cumulative Expenditure Performance

The overall performance of Government spending from July to December 2020 was reasonably good, with the total spending amounting to 13,120.9 billion shillings, which was 86.1 percent of

the targeted spending of 15,239.9 billion shillings. On recurrent budget, total disbursement amounted to 10,521.9 billion shillings, equivalent to 95.2 percent of estimated amount of 10,050.3 billion shillings. The released amount comprises of: wages and salaries 3,644.6 billion shillings (equivalent to 97.7 percent of the target of 3,730.4 billion shillings); debt service 4,019.3 billion shillings (equivalent to 92.9 percent of estimates of 4,325.0 billion shillings); and goods, services and transfers 2,858.0 billion shillings (equivalent to 95.4 percent of the projected amount of 2,994.9 billion shillings). The impressive performance in recurrent expenditure was on account of good performance registered by majority of the domestic sources of revenue.

With regards to development expenditure, the performance was below expectations. The total funds disbursed during the period under review amounted to 2,599.0 billion shillings, reflecting the performance of 62.0 percent of the planned disbursement of 4,189.7 billion shillings. Notwithstanding the underperformance, the projects financed through local sources enjoyed the largest share which was 96.7 percent of the disbursed development funds while the foreign funded projects registered the lowest share at 3.3 percent of the disbursed funds. 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 to December 2020/21 is presented in **Chart 2.7 and Chart 2.8**.

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

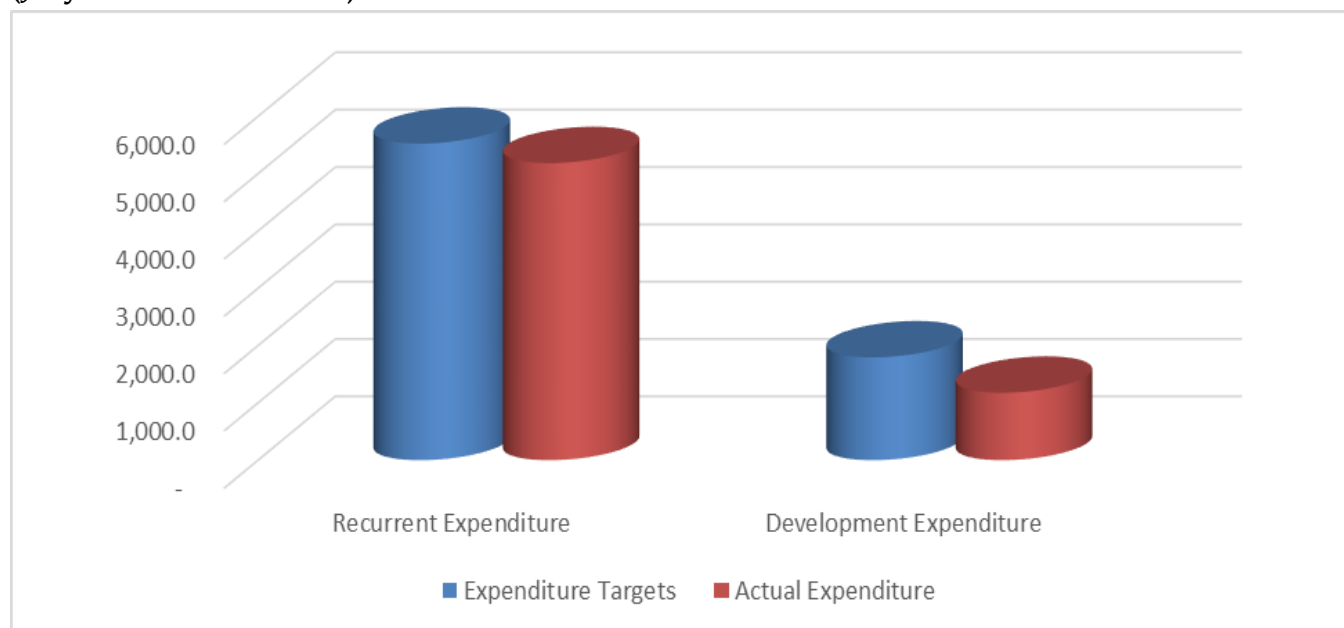
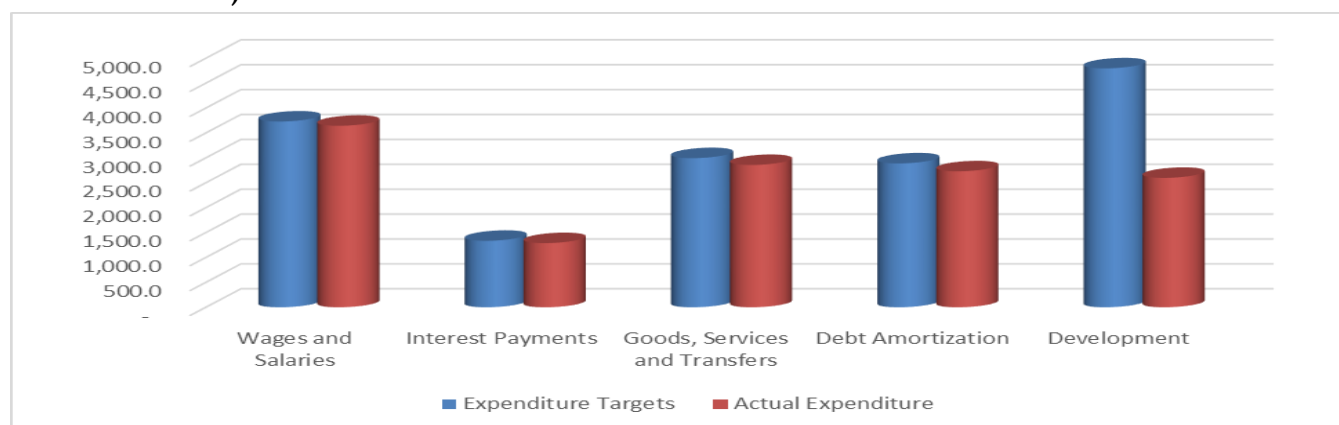


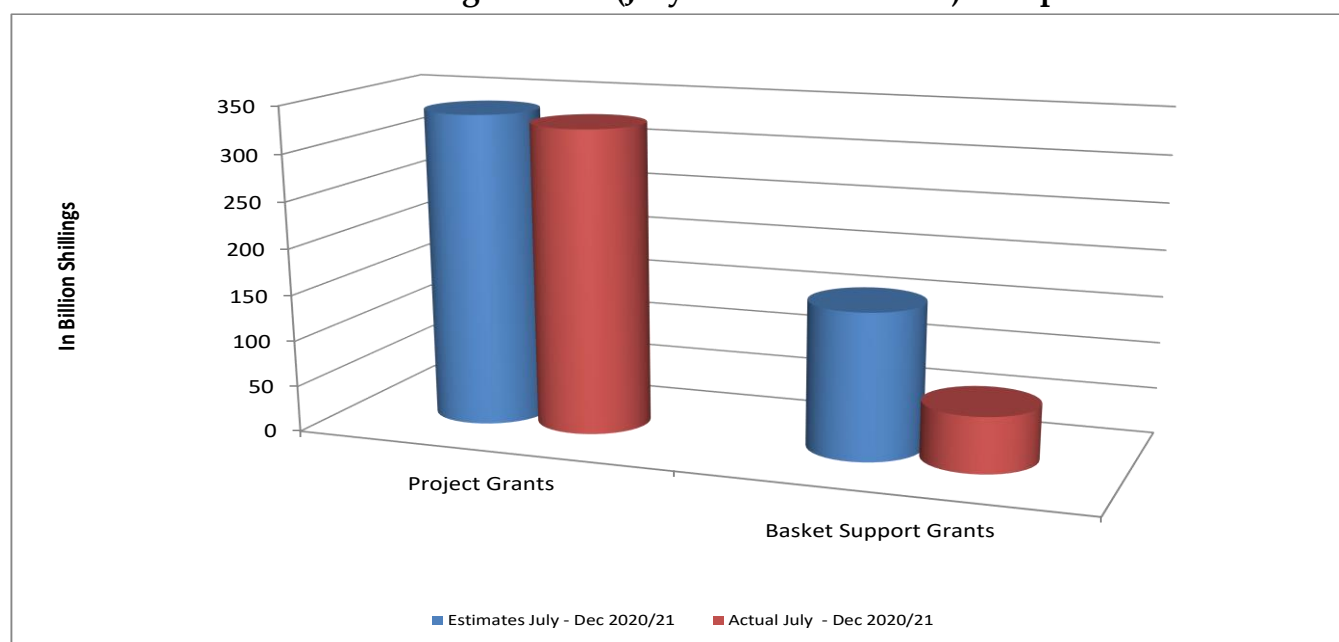
Chart 2.8: Cumulative Expenditure Performance by Economic Classification (July to December 2020)



2.3 Grants

Grants received during the second quarter of 2020/21 were 347.9 billion shillings, equivalent to 101.5 percent of the estimated amount of 342.9 billion shillings. Out of the total grants, Project Grants were 294.0 billion shillings, equivalent to 131.3 percent of estimates and Basket Funds amounted to 53.9 billion shillings, which was 45.3 percent of estimates. Cumulatively, total grants received during the first half of 2020/21 were 387.7 billion shillings, equivalent to 78.4 percent of estimates. Out of the amount received, Project grants were 327.3 billion shillings, which was 97.2 percent of the target and Basket Fund were 60.4 billion shillings, equivalent to 38.2 percent of the target. **Chart 2.7** shows the performance of foreign grants in the first half of 2020/21.

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



2.4 Financing

Total financing during the second quarter was 812.1 billion shillings against the borrowing target of 426.9 billion shillings. Total foreign net financing was a buildup of Government deposit amounted to 291.2 billion shillings against the borrowing target of 19.2 billion shillings. Total domestic net financing was 1,103.3 billion shillings against the borrowing target of 407.6 billion shillings. Cumulatively, total financing for the first half of 2020/21 was 485.3 billion shillings against the borrowing target of 856.2 billion shillings. Out of the amount borrowed, foreign net financing was a buildup of Government deposit amounting to 302.5 billion shillings and domestic net financing was 787.8 billion shillings.

2.4.1 Domestic Financing

During the second quarter, the Government managed to borrow 1,000.4 billion shillings for redemption (rollover) of maturing obligations against the target of 642.4 billion shillings. In addition, 752.5 billion shillings were borrowed for financing development projects against the target of 362.8 billion shillings. During the first half of 2020/21, a total of 1,676.6 billion shillings were borrowed for redemption (rollover) of maturing obligations against the target of 1,421.5 billion shillings and 787.8 billion shillings were borrowed for financing development projects against the target of 963.4 billion shillings.

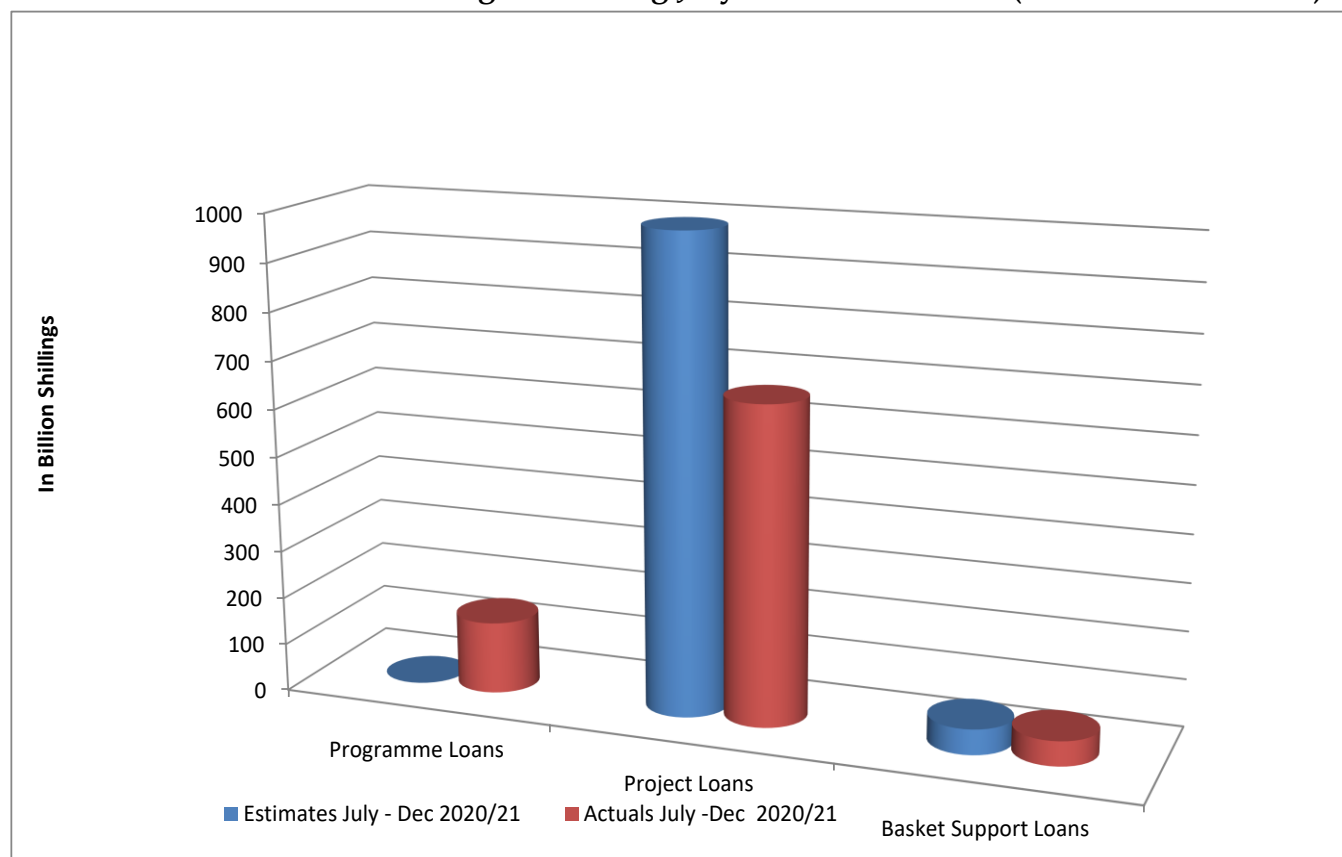
2.4.2 Foreign Financing

Net foreign financing for the second quarter was a buildup of 291.2 billion shillings against the borrowing target of 19.2 billion shillings. During the quarter under review, disbursement of concessional loan were 457.6 billion shillings against the target of 753.2 billion shillings. In addition, amortization of foreign loans was 748.8 billion shillings against the estimates of 733.9 billion shillings. Cumulatively, during the first half of 2020/21, disbursement of concessional loans was 865.7 billion shillings against the target of 1,044.2 billion shillings and amortization of foreign loans was 1,168.2 billion shillings, equivalent to 101.5 percent of the target. The trend of grants and external concessional loans is shown in **Table 2.1** and the performance of foreign financing for the first half of 2020/21 is presented in **Chart 2.10**.

Table 2.1: Trend of Grants and External Concessional Loans During the First Half of 2020/21

Summary of Semi Annual Disbursement (All figures in millions shillings)					
AID MODALITY	Type of assistance	Annual commitment as per budget	Semi annual Commitment (July - Dec 2020/21)	Semi Annual Disbursement (July - Dec 2020/21)	% of Commitment
GBS	Grants	138,323	-	-	0%
GBS	Concessional Loan	-	-	150,925	
Sub Total		138,323	-	150,925	
Basket Funds	Grants	196,538	157,905	60,372	38%
Basket Funds	Concessional Loan	79,005	52,945	51,563	97%
Sub Total		275,543	210,850	111,935	53%
Development Projects	Grants	614,461	336,690	327,295	97%
Development Projects	Concessional Loan	1,846,045	991,235	663,230	67%
Sub Total		2,460,506	1,327,926	990,525	75%
Grand Total		2,874,372	1,538,776	1,253,385	81%

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

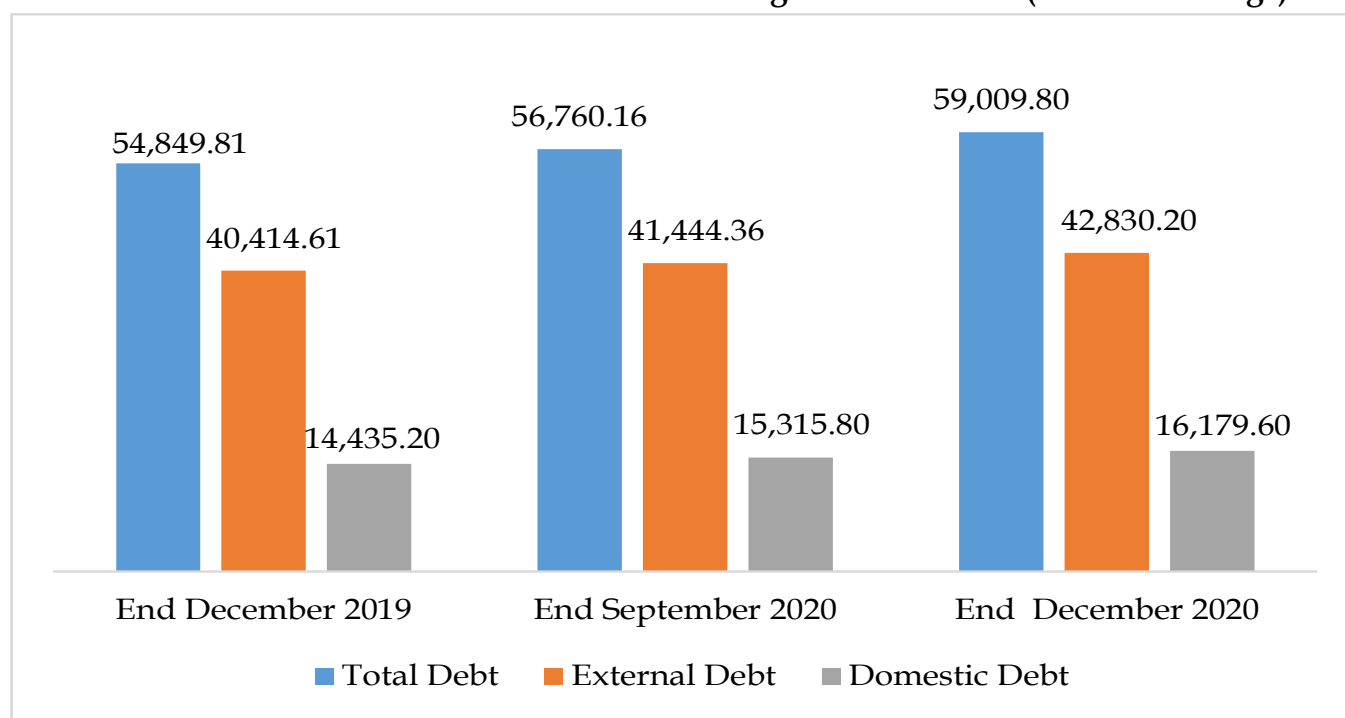


3.0 PUBLIC DEBT DEVELOPMENT

3.1 Central Government Debt Stock

As of end December 2020, debt stock amounted to 59,009.8 billion shillings compared to 54,849.8 billion shillings recorded at December 2019, being an increase of 7.6 percent. Out of the amount, domestic debt stock amounted to 16,179.6 billion shillings and external debt stock amounted to 42,830.2 billion shillings, equivalent to 72.6 percent of the Central Government debt. The increase was due to external disbursement for funding development projects. **Chart 3.1** shows the trend of Central Government Debt ending December 2020.

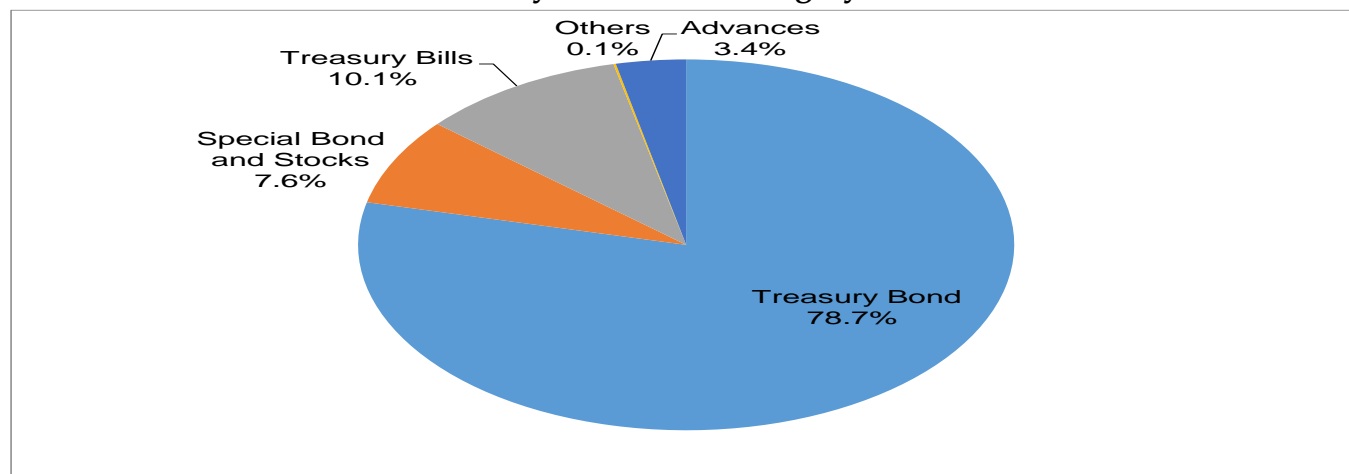
Chart 3.1: Trend of Central Government Debt Ending December 2020 (Billion Shillings)



3.2 Central Government Domestic Stock

As of end December 2020, domestic debt stock was 16,179.6 billion shillings compared to 14,435.2 billion shillings in June 2019, reflecting an increase of 12.1 percent. The increased new borrowing was for financing development projects and rolling over matured debt. Out of total domestic borrowing, Government treasury bills and bonds amounted to 14,373.60 billion shilling, advances 557.13 billion shillings while other domestic liabilities were 18.45 billion shillings. **Chart 3.2** shows the share of domestic debt by instrument category.

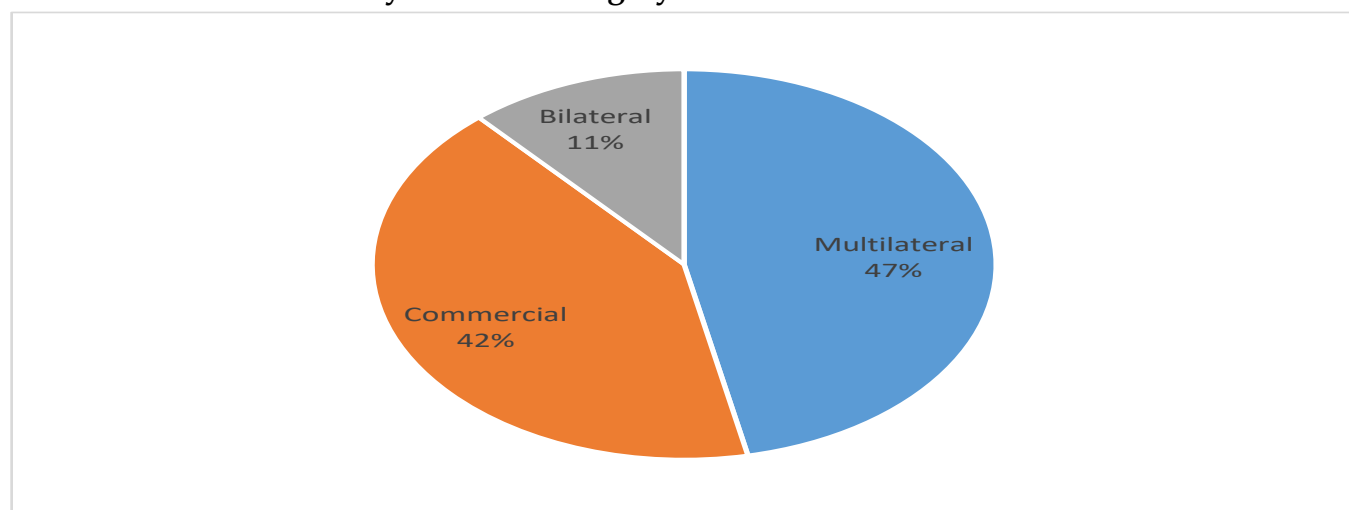
Chart 3.2: Share of Domestic Debt by Instrument Category



3.3 Central Government External Debt

The stock of external Central Government debt as of end December 2020 stood at USD 18,542.1 million from USD 17,571.9 million as of end December 2019, which is an increase of 5.2 percent. The proportion of debt owed to multilateral institutions remained dominant of all creditor categories at the quarter ending December 2020, accounting for 47 percent of the external debt stock, followed by commercial creditors and export credit (42 percent) while bilateral accounted for 11 percent. **Chart 3.3** shows the Central Government External Debt by creditor category.

Chart 3.3: External Debt by Creditor Category



3.4 Debt Sustainability Analysis

The Debt Sustainability Analysis (DSA) conducted in December 2020 revealed that, the debt is sustainable in the short, medium and long run as the debt burden indicators were below the

international agreed thresholds (see **Table 3.1 & 3.2**). 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	2020/21	2021/22	2022/23	2023/24	2024/25
PV of debt-to GDP ratio	55	17.3	17.5	17.9	17.9	17.2
PV of debt-to-exports ratio	240	113.2	109.7	103.5	94.3	87.9
Debt service-to-exports ratio	21	14.0	13.4	10.6	10.3	10.7
Debt service-to-revenue ratio	23	13.7	13.8	11.8	12.5	13.3

Table 3.2: Projected Overall Public Debt Burden Indicators

Public DSA	Benchmark	2020/21	2021/22	2022/23	2023/24	2024/25
PV of debt-to GDP ratio	70	27.9	27.7	27.9	28.0	27.8
PV of debt-to-Revenue and grant	N/A	171.1	172.0	173.6	174.7	173.7
Debt service-to-revenue ratio	N/A	34.5	31.6	29.4	27.6	29.0

4.0 BUDGET OUT TURN TO JUNE 2021

The budget performance in the first half of 2021 showed considerable achievement in terms of performance of key macroeconomic variables, except for GDP growth due to excessive rainfall which led to destruction of transportation infrastructure, delay in implementation of major projects and impacts of COVID - 19 in some of the economic activities. 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 set for 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 bore results as envisaged.

ANNEX A

Revenue Performance July - December 2020											
Billion Shillings											
	Budget Estimates	October - December 2020			Oct-Dec 2019/20 Actual	Year on year % change	July - December 2020			July-Dec 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	6,064.7	5,508.2	91%	5,640.7	-2%	11,757.9	10,467.2	89%	10,663.4	-2%
Revenue (Excluding LGAs own sources)	23,250.6	5,863.7	5,305.5	90%	5,457.1	-3%	11,335.1	10,090.7	89%	10,309.7	-2%
Tax Revenue	20,136.0	5,178.2	4,635.6	90%	4,803.9	-4%	10,013.3	8,921.9	89%	9,032.0	-1%
Taxes on Imports	5,925.2	1,515.2	1,355.7	89%	1,333.7	2%	2,934.9	2,664.9	91%	2,622.2	2%
Import Duty	1,599.5	409.0	332.2	81%	331.0	0%	792.3	656.7	83%	672.7	-2%
Petroleum	1,227.0	313.8	355.0	113%	324.0	10%	607.8	676.9	111%	596.8	13%
Excise	1,227.0	313.8	355.0	113%	324.0	10%	607.8	676.9	111%	596.8	13%
Others	3,098.7	792.4	668.5	84%	678.7	-1%	1,534.9	1,331.3	87%	1,352.7	-2%
Excise	223.4	57.1	55.0	96%	51.5	7%	110.6	107.2	97%	101.4	6%
VAT on Non-Petroleum imports	2,875.3	735.3	613.5	83%	627.1	-2%	1,424.2	1,224.1	86%	1,251.3	-2%
Taxes on Domestic Sales	4,834.8	1,300.6	969.8	75%	1,187.5	-18%	2,482.5	2,015.0	81%	2,181.1	-8%
Excise	1,563.7	405.5	313.8	77%	356.3	-12%	787.4	631.4	80%	690.1	-9%
Value Added Tax (VAT)	3,271.1	895.1	656.0	73%	831.2	-21%	1,695.1	1,383.6	82%	1,491.0	-7%
Income Tax	7,200.2	1,797.3	1,759.3	98%	1,636.8	7%	3,510.4	3,116.1	89%	3,081.2	1%
PAYE	2,979.9	756.6	549.4	73%	646.1	-15%	1,486.3	1,066.7	72%	1,262.2	-15%
Corporate and Parastatals	2,553.1	630.1	764.6	121%	638.9	20%	1,211.1	1,165.6	96%	1,136.5	3%
Individuals	261.9	64.1	62.3	97%	53.3	17%	124.8	129.8	104%	105.1	23%
Withholding Taxes	1,098.2	271.2	299.1	110%	234.0	28%	541.0	596.7	110%	451.9	32%
Rental Tax	125.8	30.9	24.2	78%	27.2	-11%	60.7	45.4	75%	51.9	-12%
Other Income	181.2	44.4	59.8	135%	37.4	60%	86.5	111.9	129%	73.6	52%
Other Taxes	2,583.5	668.2	599.6	90%	690.9	-13%	1,285.5	1,174.7	91%	1,235.0	-5%
Business Skill Development Levy	367.7	93.1	72.3	78%	80.9	-11%	180.8	140.6	78%	157.5	-11%
Fuel Levy and transit fee	900.6	230.3	206.4	90%	239.3	-14%	446.1	450.3	101%	434.7	4%
Stamp Duty	20.7	6.0	9.1	152%	3.8	141%	10.9	12.9	118%	10.5	23%
Departure Service Charges	66.5	19.7	5.8	29%	16.4	-65%	34.5	9.0	26%	34.3	-74%
Processing Fee-dry cargo-TRA	74.7	19.1	17.7	93%	15.8	12%	37.0	34.5	93%	33.2	4%
Export Duty	202.7	51.8	72.6	140%	90.2	-19%	100.4	74.0	74%	116.6	-37%
Railway Development Fund	289.0	73.9	61.9	84%	65.9	-6%	143.1	122.7	86%	131.3	-7%
National Water Development Fund	171.0	43.7	39.2	90%	45.5	-14%	84.7	85.6	101%	82.6	4%
Motor vehicle taxes	127.0	37.6	30.9	82%	28.1	10%	67.9	60.1	89%	57.6	4%
Treasury Voucher Cheque	0.7	0.2	0.0	0%	2.5	-100%	0.4	0.0	0%	5.1	-100%
Transfer to REA	362.8	92.8	83.7	90%	102.6	-18%	179.7	185.0	103%	171.7	8%
Refunds	-407.7	-103.1	-48.7	47%	-45.0	8%	-200.0	-48.7	24%	-87.6	-44%
Refunds - VAT	-361.4	-91.4	-46.7	51%	-35.0	34%	-177.1	-46.7	26%	-67.3	-31%
Refunds - other	-46.3	-11.7	-2.0	17%	-10.0	-80%	-22.9	-2.0	9%	-20.3	-90%
Non Tax Revenue	3,114.6	685.5	669.8	98%	653.2	3%	1,321.8	1,168.8	88%	1,277.7	-9%
Parastatal Dividends	931.1	141.1	153.5	109%	113.9	35%	263.7	204.7	78%	227.4	-10%
Ministries and Regions	1,993.7	491.5	413.6	84%	502.5	-18%	964.8	822.2	85%	981.8	-16%
TRA Non Tax	145.6	37.0	94.3	255%	32.0	195%	72.3	124.0	172%	58.4	112%
Property tax	21.7	6.4	1.7	26%	3.2	-48%	10.9	3.7	34%	6.4	-42%
Billboard Fee Collections	22.6	9.4	6.8	72%	1.6	335%	10.1	14.1	140%	3.8	272%
LGAs own source	815.0	201.0	202.8	101%	183.7	10%	422.8	376.5	89%	353.7	6%

Source: Ministry of Finance and Planning