PRESENTATION ON THE MACRO-ECONOMIC DEVELOPMENTS AND OUTLOOK FOR THE MEDIUM-TERM BUDGET

LAUNCH OF THE BUDGET PREPARATION PROCESS FOR THE FY 2025/26 BUDGET AND THE MEDIUM-TERM

THE NATIONAL TREASURY

9th September 2024

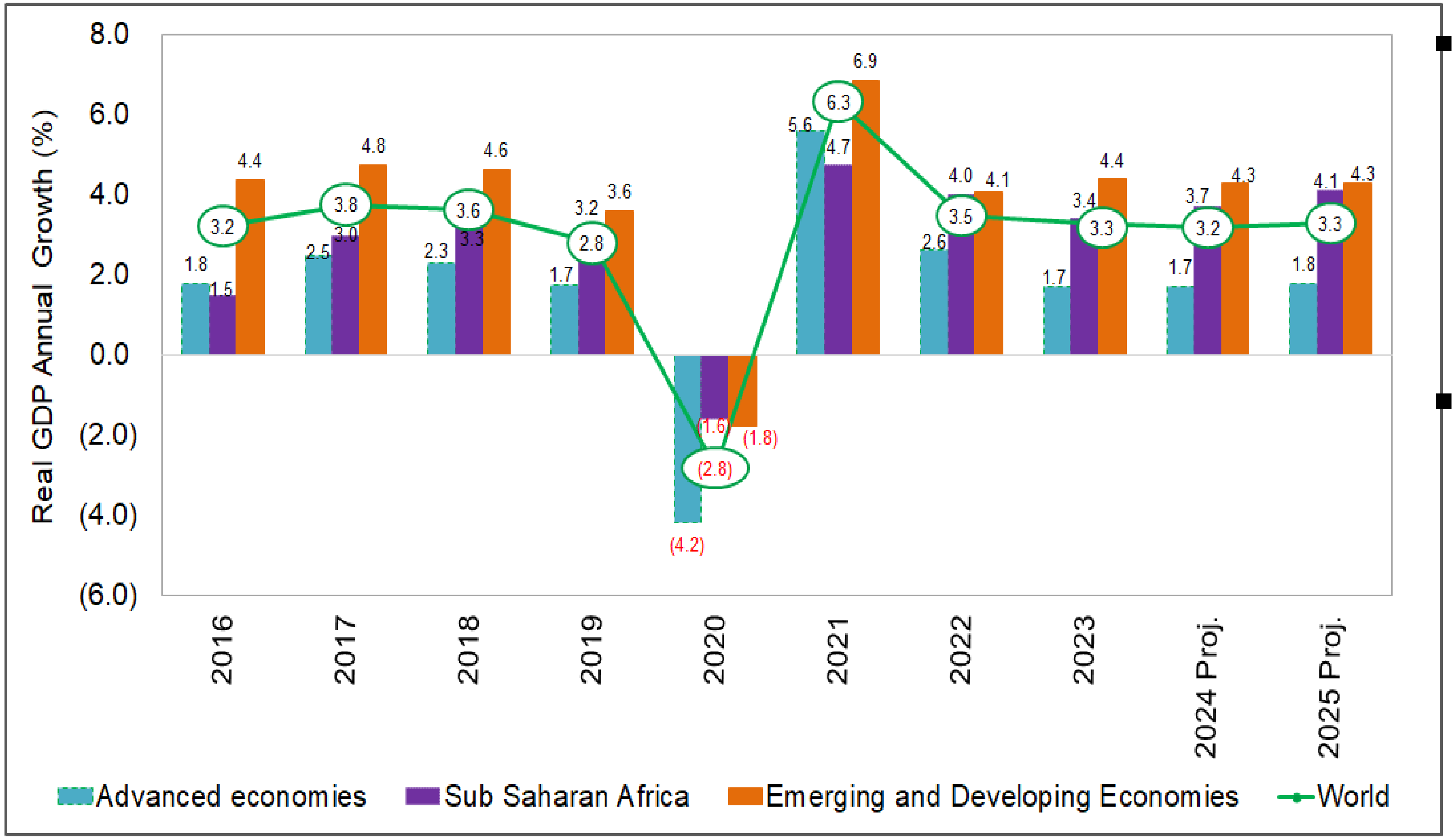
PRESENTATION OUTLINE

1. Macroeconomic Developments: Main Issues
2. FY 2023/24 Budget Implementation
3. Exchequer Performance for FY 2023/24
4. Budget for FY 2024/25: Supplementary Budget 1
5. SOE Reforms
6. Government Policy and Priorities over the Medium Term
7. Highlights of the Kenya-IMF Supported Program
8. Pending Bills

1.1: The Macroeconomic Developments: Main Issues

❑ **Global economy** has stabilized with global growth projected at **3.2% in 2024** and **3.3% in 2025** from 3.3% in 2023**.** The outlook reflects economic recovery in China, Euro area and UK, despite a slowdown in activity in the USA and Japan.

- The global outlook is being supported by easing of global inflation and supply chain constraints.



- At the regional level, growth in **Sub-Saharan Africa** is expected to rebound **3.7% in 2024 and 4.1% in 2025 from 3.4% in 2023;**
- This growth is driven by a boost in private consumption from the reduction in inflation and increasing real incomes.

1.2: The Macroeconomic Developments: Main Issues….

- The Kenyan economy is now **unwinding from layers of negative and persistent shocks** that had a structural effect on economic activities.
- The shocks:
  - escalated the cost of essential household commodities.
  - pushed up fuel prices and led to a rapid depreciation of the Kenya Shilling exchange rate, pilling pressure on public debt.
- As a result, these **shocks have reversed over 20 years of efforts** in poverty reduction and inequality, and hindered the economy from achieving its full potential.

Through focused interventions and structural reforms, the policies of the Government have started to yield some positive results.

1.3a: Macroeconomic Developments: Kenya economy grew by 5.0% in Q1 of 2024 compared to a growth of 5.5% in Q1 of 2023.

Sectors	Annual Growth Rates		Quartely Growth Rates	
	2022	2023	2023 Q1	2024 Q1
1. Primary Industry	**(0.8)**	**5.6**	**5.3**	**5.0**
1.1. Agriculture, Forestry and Fishing	(1.5)	6.5	6.4	6.1
1.2 Mining and Quarrying	9.3	(6.5)	(11.0)	(14.8)
2. Secondary Sector (Industry)	**3.5**	**2.5**	**2.5**	**1.1**
2.1. Manufacturing	2.6	2.0	1.7	1.3
2.2. Electricity and Water supply	5.5	2.8	3.7	2.4
2.3. Construction	4.1	3.0	3.0	0.1
3. Tertiary sector (Services)	**6.6**	**6.8**	**6.5**	**6.2**
3.1. Wholesale and Retail trade	3.5	2.7	2.9	4.9
3.2. Accomodation and Restaurant	26.8	33.6	47.1	28.0
3.3. Transport and Storage	5.8	6.2	6.6	3.8
3.4. Information and Communication	9.0	9.3	9.5	7.8
3.5. Financial and Insurance	12.0	10.1	5.9	7.0
3.6. Public Administration	5.1	4.6	7.6	5.8
3.7. Others	5.3	6.1	5.7	5.9
of which: Professional, Admin & Support Services	9.4	9.4	8.6	9.9
Real Estate	4.5	7.3	7.3	6.6
Education	5.2	3.1	2.0	4.0
Health	3.4	4.9	5.1	5.5
Taxes less subsidies	6.7	2.2	3.0	4.7
Real GDP	**4.9**	**5.6**	**5.5**	**5.0**

❑ The growth was primarily buoyed by robust growths in:

- ✓ *Agriculture, Forestry and Fishing activities (6.1%);*
- ✓ *Wholesale & retail trade (4.9%)*
- ✓ *Real Estate (6.6%);*
- ✓ *Financial and Insurance (7.0%);*
- ✓ *Information and Communication (7.8%); and*
- ✓ *Accommodation & Food Services (28.0%).*

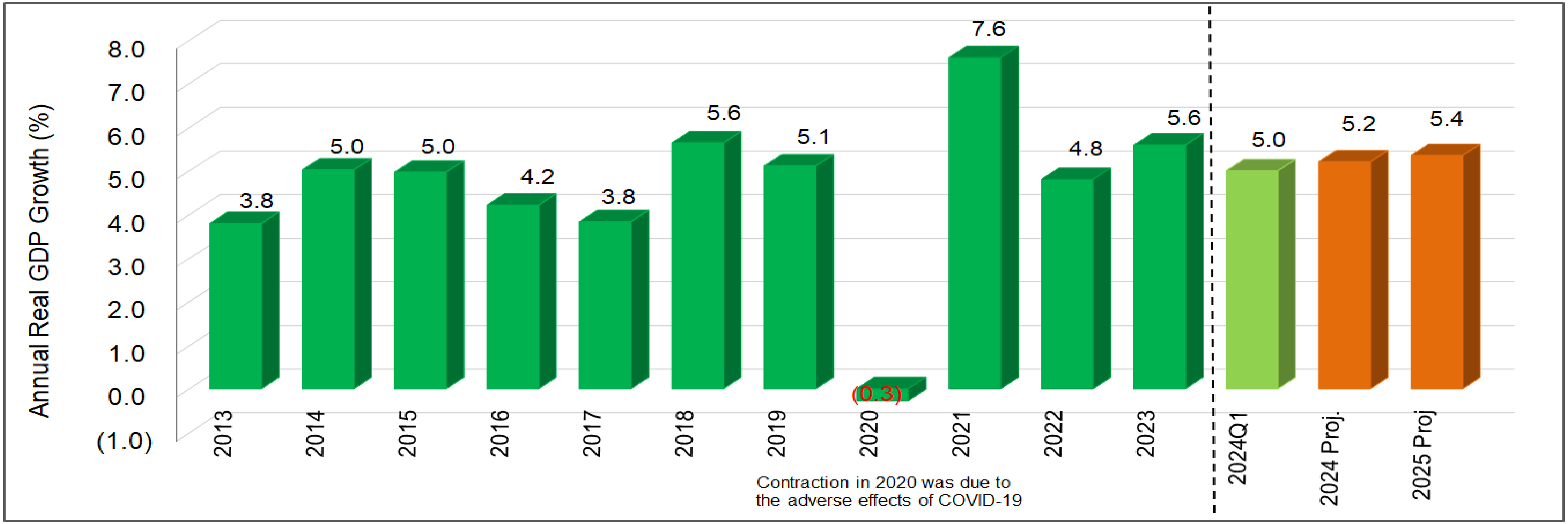
❑ However, the **industrial sector** recorded dismal growth performance during the quarter, owing to deceleration of activity across the various subsectors

1.3b: Macroeconomic Developments: Economic Vibrancy is evident…

❑ Economy grew by **5.6% in 2023 up** from 4.9% in 2022, and **5.0% in Q1 of 2024** a demonstration of resilience.

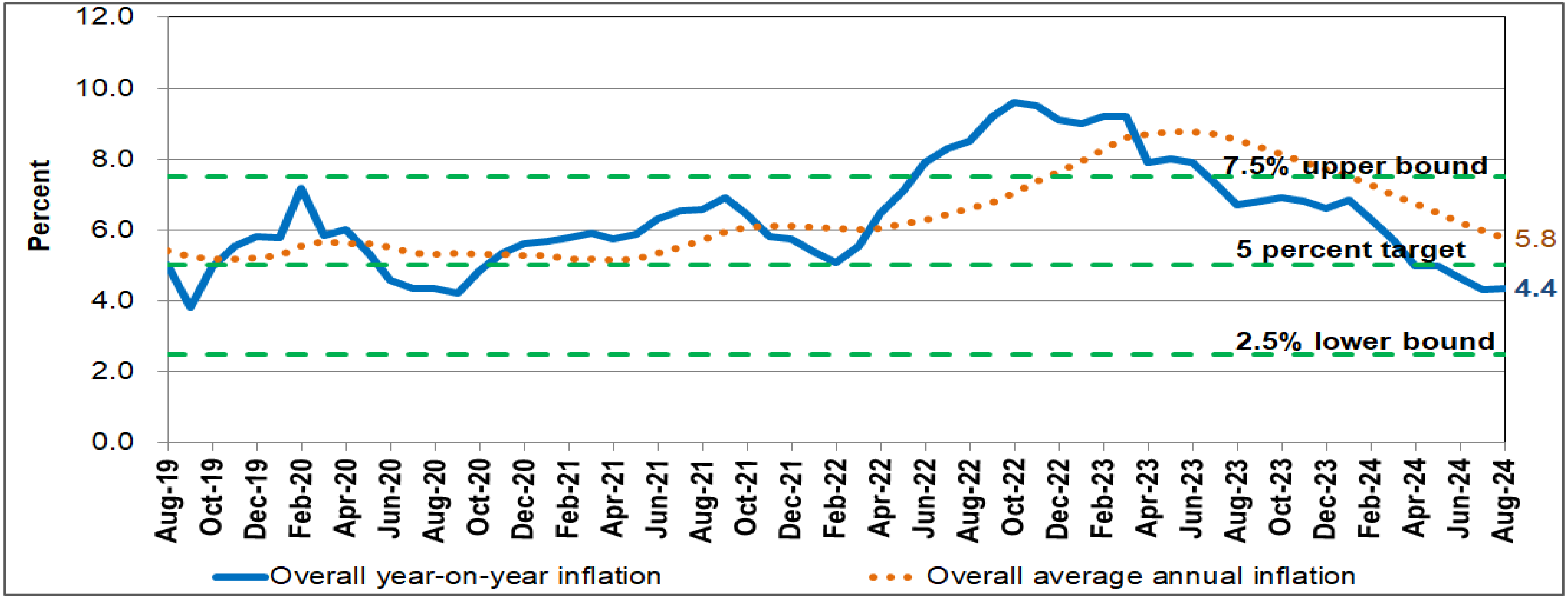
❑ Growth momentum is expected to continue with a projection of **5.2% in 2024 and 5.4% in 2025** mainly supported by:

- ✓ *a robust services sector and a recovery of industry;*
- ✓ *strong agricultural productivity aided by Government policy interventions, adequate rainfall and improvement in global commodity prices*.



1.4a: Inflation is firmly under control… At 4.4% in August 2024 inflation remains below 5% in the third month running. This is a drop from 6.7% in August 2023, and a peak of 9.6% in October 2022

- ❑ The pass-through effects of the strengthening exchange rate since February 2024 and the tight monetary policy stance has supported the easing in inflation. **This eased food and energy prices**
- ❑ **Given the inflation performance, CBK on 6th July 2024 eased monetary policy by lowering the CBR from 13% to 12.75%.**



1.4b: Macroeconomic Indicators: Inflation in August 2024

- Prices of most food Items **decreased** in the month of August 2024 from July 2024. Potatoes, Oranges, Mangoes and Beef prices increased during the period.

Changes in Average Retail Prices Oo Selected Commodities in the Last One Month

Commodity Name	Change Over Last Month (July 2024 - August 2024)	Commodity Name	Change Over Last Month (July 2024 - August 2024)
FOOD ITEMS			
Potatoes (1 Kg)	7.1%	Carrots (1 Kg)	3.0%
Oranges (1 Kg)	3.2%	Sugar (1 Kg)	3.8%
Mangoes (1 Kg)	2.6%	Kale - Sukuma Wiki (1 Kg)	4.6%
Beef with Bones (1 Kg)	0.3%	Onions (1 Kg)	5.6%
Cabbages (1 Kg)	0.9%	Spinach (1 Kg)	6.7%
Wheat Flour - White (2 Kgs)	1.8%	Tomatoes (1 Kg)	12.0%

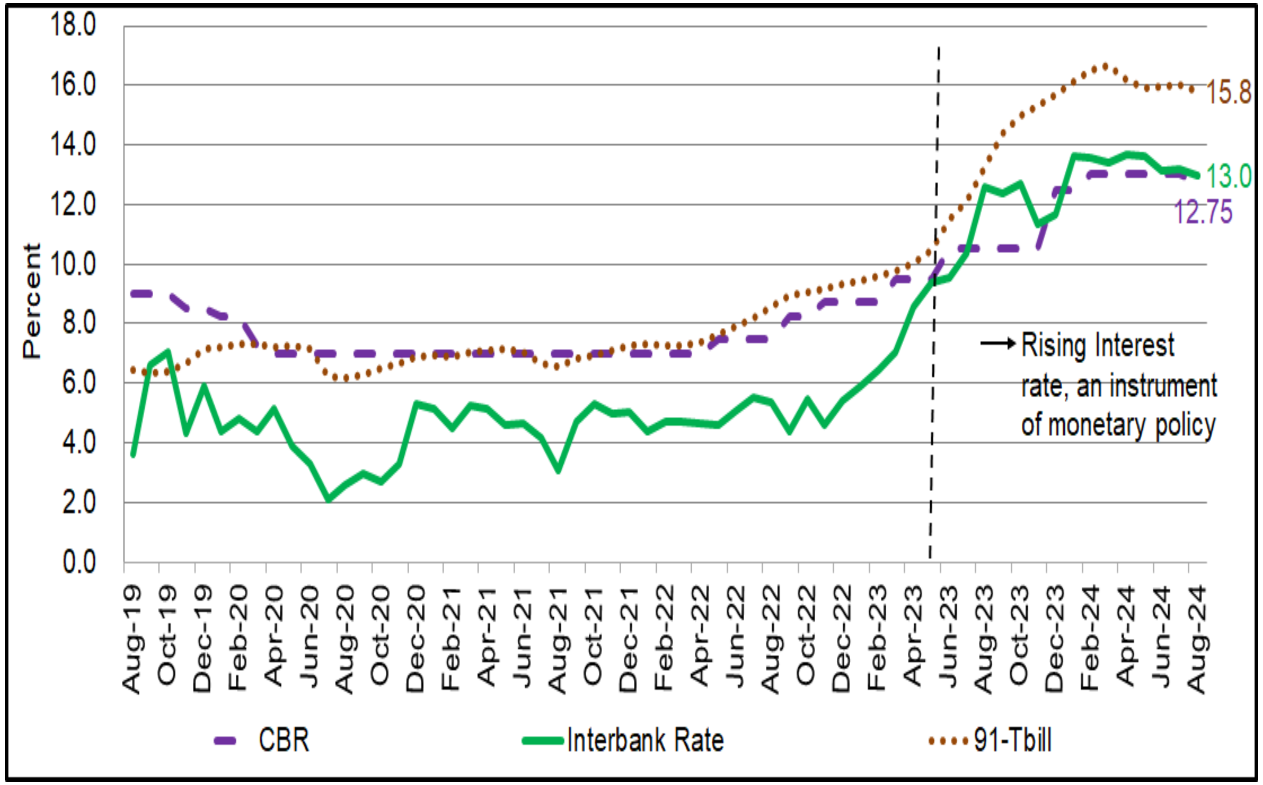
- The Housing, Water, Electricity, Gas and Other Fuels' Index increased between July 2024 and August 2024 attributable to a rise in prices of 200 kWh and 50 kWh of electricity; and a rise in Country bus fare.
- Prices of petrol and diesel remained unchanged during the period

NON-FOOD ITEMS			
Country Bus/ Matatu (Mombasa to Kisumu) - One Way Ticket)	25.0%	Electricity (200 Kilowatts)	1.6%
Cigarettes (1 Packet)	14.5%	Monthly House Rent - Two Bedrooms	0.3%
Electricity (50 Kilowatts)	1.8%		

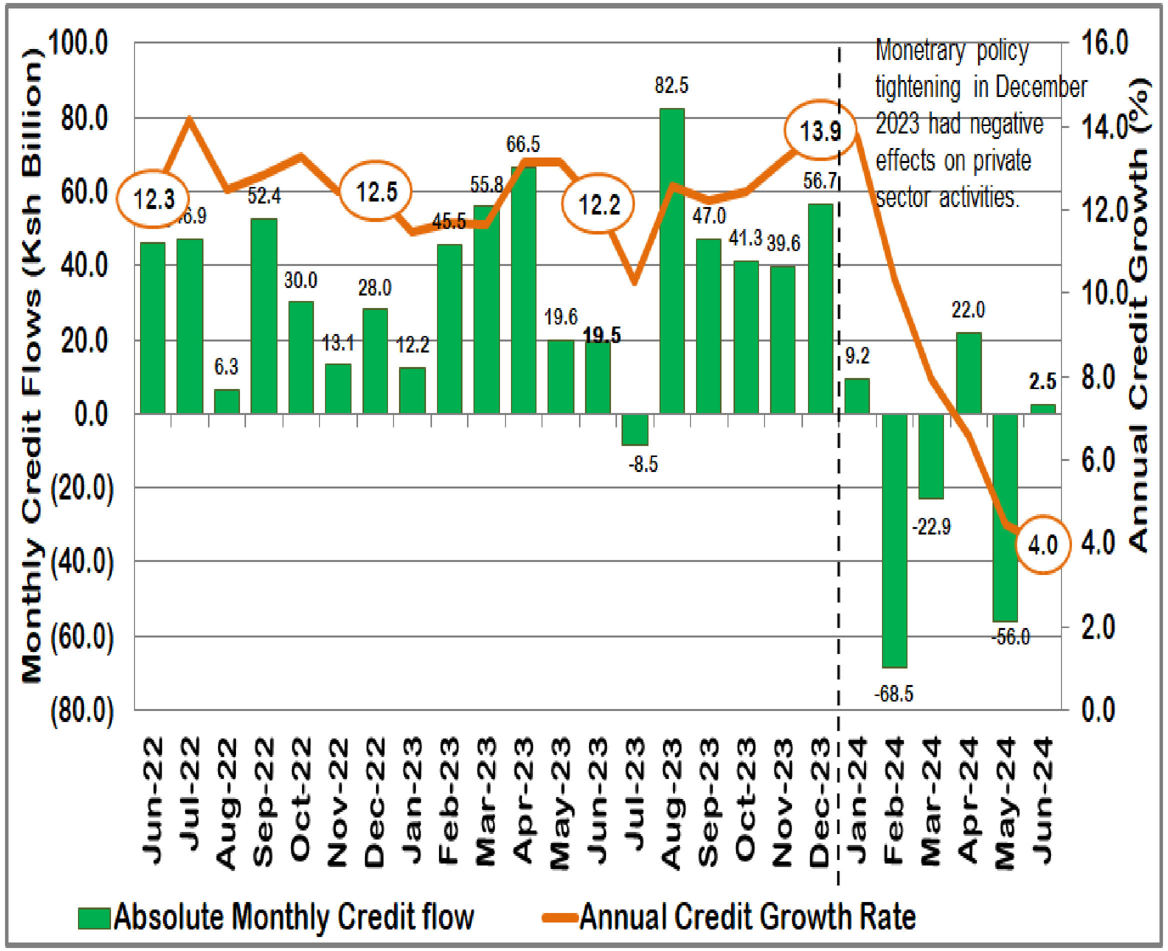
1.5: Tight monetary policy stance reduced inflation as interest rates rose and credit to the private sector credit declined

- **The interbank rate** at **13.0% in August 2024** compared to 12.6% in August 2023.

- **91-day Treasury Bills** rate at **15.8% in August 2024** from 13.3% in August 2023

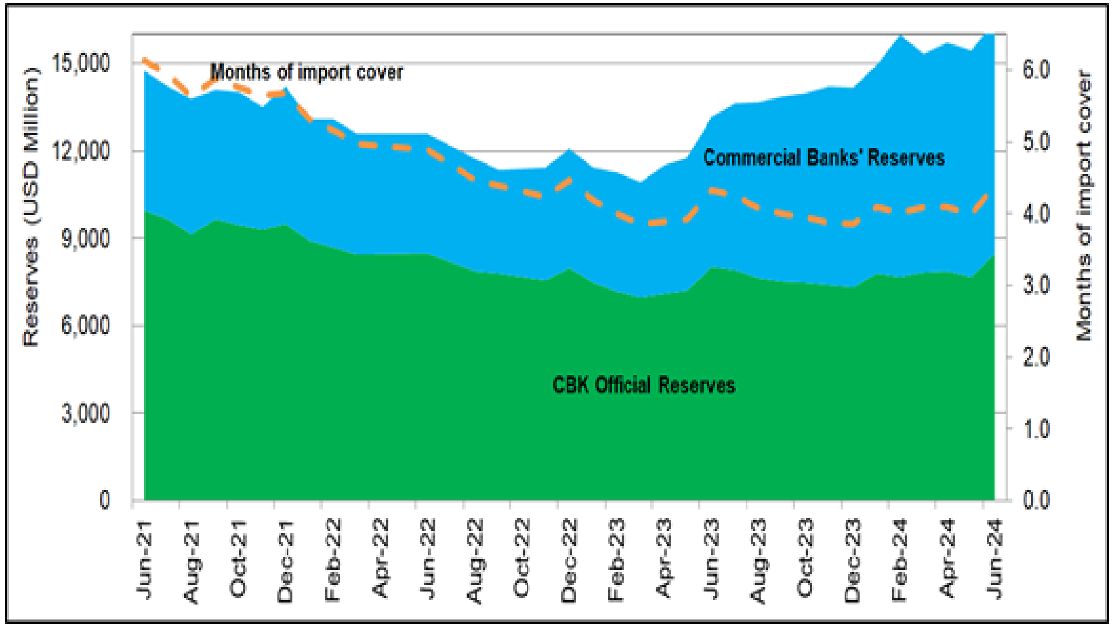


- As a result of tight monetary policy, private sector **credit declined to grow by 4.0% in June 2024** from 12.2% in June 2023.

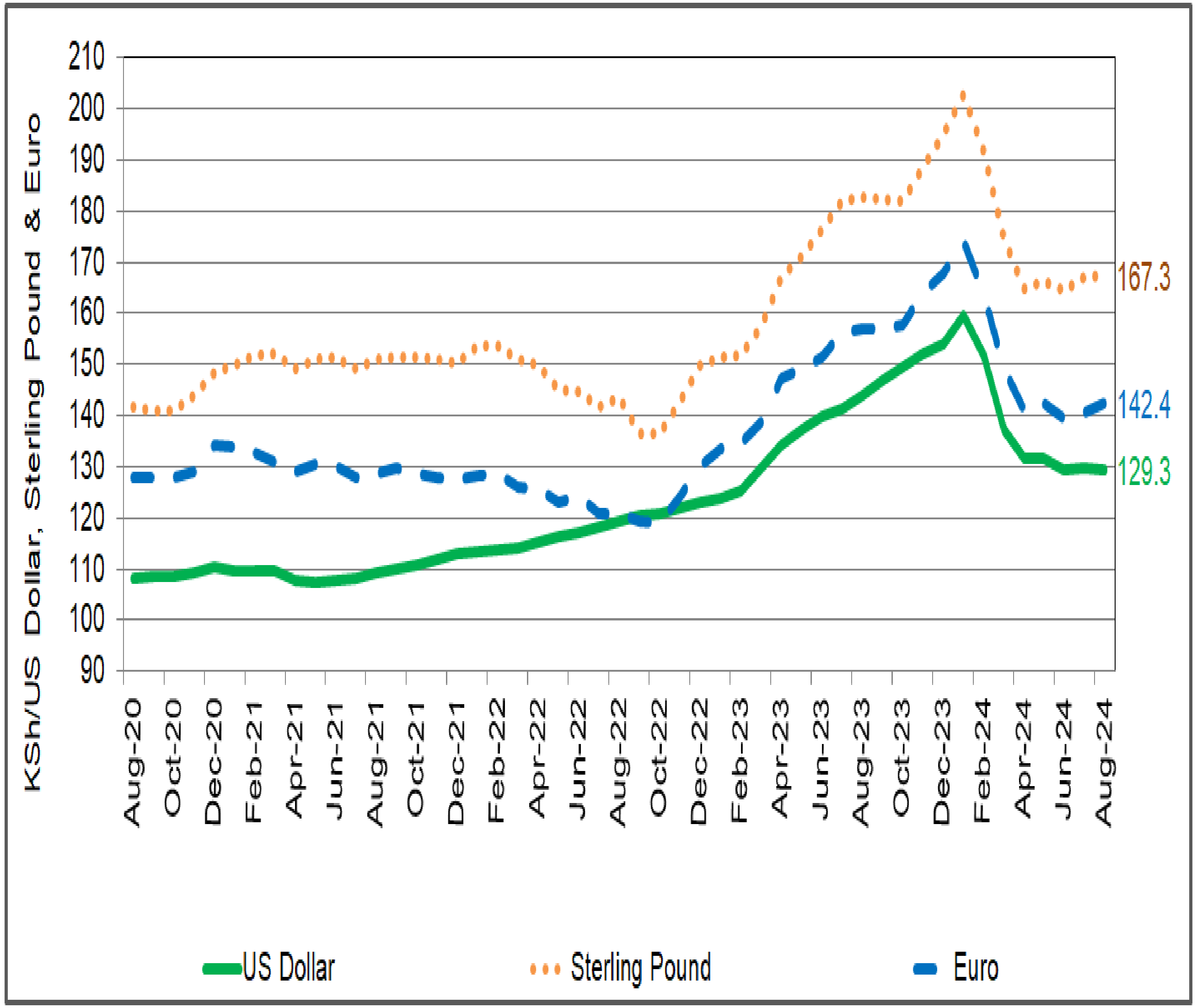


1.6: External Sector remains strong

- Current account deficit at **3.7% of GDP by June 2024** from 4.2% of GDP by June 2023;
- Remittances increased to USD 4,536 million by June 2024
- Official FX reserves was **USD USD 8,462.7 million (4.6 months of import cover**) by end June 2024



❑ **Exchange rate stabilized** and was **Ksh 129.3 in August 2024** from Ksh 160.8 in January 2024.



2.1: FY 2023/24 Budget Implementation: Summary of Budget performance for FY 2023/24

- Budget execution for the FY 2023/24 was hampered by challenges in raising resources.
- Total Revenue was below target by **Ksh 204.9 billion in June 2024. Revenues grew by 14.5%** compared to a growth of **7.3%** in FY 2022/23.
  - Ordinary revenues were below target **Ksh 172.1 billion.**
- Expenditures were below target by **Ksh 215.5 billion.**
  - Revenue mobilization and financing challenges affected our ability to execute the FY2023/24 budget in a timely manner leading to cash flow challenges and associated build-up in unpaid bills.
- Fiscal deficit **incl. grants** by June 2024 was **Ksh 809.3 billion (5.6% of GDP) against a target of Ksh 925.0 billion (5.7% of GDP).**
- **Primary surplus was Ksh 31.4 billion (0.2 percent of GDP).**

2.2: Implementation of the Finance Act, 2023

- Ksh **179.2 billion (**a performance rate of **77.1%)** was realized from the tax measures in the Finance Act 2023 against an estimate of Ksh 232.5 billion.

Category	Full Year 2023/24 Estimated Impact (Kshs million)	Full Year 2023/24 Outturn(Kshs million)	Deviation (Ksh Million)	Performance rate
Excise Duty	7,607	-4,509	-12,116	-59.3%
Tax Procedures Act	67,903	81,025	13,122	119.3%
Income Tax	16,471	9,853	-6,618	59.8%
Value Added Tax	40,134	40,278	144	100.4%
Housing Levy	59,537	54,157	-5,380	91.0%
Miscellaneous Fees & Levies	22,706	-16,811	-39,517	-74.0%
Total Finance Act Measures	**214,357**	**163,994**	**-50,363**	**76.5%**
ECCMA Customs Measures	18,181	15,203	-2,978	83.6%
Grand Total	**232,537**	**179,196**	**-53,341**	**77.1%**

3.1: Exchequer receipts and payments as at August 2024

- By August 2024, revenues and borrowing relative to estimates in Suppl. 1 was at **10,5%**.
- ✓ Tax Revenue performance was **12%** while domestic borrowing was at **10.4**%. External loans and grants were at **0.5%** during the period.

	Original Estimates	Revised Estimates SUPP I	JULY Actual	AUGUST Actual	TOTAL Actual	% Budget	% Total
	KSHS	KSHS	KSHS	KSHS	KSHS		
Opening Balance	-		**1,165,472,645.45**	**6,022,993,450.50**	**1,165,472,645.45**		
Tax Revenue	2,745,218,573,596.33	2,475,063,919,892.05	159,509,979,561.65	153,327,161,092.80	312,837,140,654.45	12.6%	70.9%
Non-Tax Revenue	171,979,175,130.02	156,354,004,023.09	13,711,226,399.75	3,914,889,842.30	17,626,116,242.05	11.3%	4.1%
Domestic Borrowing	828,384,133,205.36	978,299,192,296.17	10,417,114,084.15	91,771,509,743.70	102,188,623,827.85	10.4%	23.1%
External Loans and Grants	571,221,593,564.00	593,502,523,564.00	-	3,069,803,594.90	3,069,803,594.90	0.5%	0.8%
Other Domestic Financing	4,686,909,550.00	4,686,909,550.00	2,728,312,641.20	1,552,380,750.85	4,280,693,392.05	91.3%	1.1%
Total Exchequer Revenue	**4,321,490,385,045.71**	**4,207,906,549,325.31**	**187,532,105,332.20**	**259,658,738,475.05**	**441,167,850,356.75**	**10.5%**	**100.0%**
Issues:	**Original Estimates**	**Revised Estimates SUPP I**	**Actual**	**Actual**	**Actual**		
	KSHS	KSHS	KSHS	KSHS	KSHS		
Recurrent	1,348,449,273,960.00	1,307,942,915,648.00	52,994,415,546.35	109,359,952,125.20	162,354,367,671.55	12.4%	36.9%
Development	458,867,547,964.00	351,292,250,486.00	1,013,745,500.00	17,238,959,660.85	18,252,705,160.85	5.2%	4.2%
CFS	2,114,056,772,555.71	2,137,837,413,910.31	96,666,981,554.35	131,837,443,752.70	228,504,425,307.05	10.7%	51.9%
County Allocation	400,116,790,566.00	410,833,969,281.00	30,833,969,281.00	-	30,833,969,281.00	7.5%	7.0%
Total Exchequer Issues	**4,321,490,385,045.71**	**4,207,906,549,325.31**	**181,509,111,881.70**	**258,436,355,538.75**	**439,945,467,420.45**	**10.5%**	**100.0%**
Exchequer Balance	-	**0.00**	**6,022,993,450.50**	**1,222,382,936.30**	**1,222,382,936.30**		

3.2: FY 2023/24 Budget Implementation: Outstanding Exchequer Requests

- Outstanding Exchequer requests **as at 31st August 2024** was **Ksh 153.6 billion.**

Outstanding Exchequer Requests	30.06.2024	31.07.2024	31.08.2024
	KShs Bn	KShs Bn	KShs Bn
Recurrent	60.3	12.6	33.5
Development	101.4	-	2.1
County Governments	30.8		63.6
Pensions-Gratuities and PSSS	26		26
Others		26.1	28.4
Total	**218.5**	**38.7**	**153.6**

4.1: Supplementary Budget 1 for the FY 2024/25

- Following the rejection of the Finance Bill 2024, a Supplementary budget 1 for the FY 2024 was prepared and approved by Parliament

- The process involved budget rationalization following reduction in revenue projections by **Ksh 344.3 billion (**from the tax measures in the rejected Finance Bill, 2024).

- The expenditure rationalization targeted GoK allocations in the Recurrent and Development Budgets for MDAs including Constitutional Commissions, Independent Offices, Parliament, the Judiciary and the Sharable allocation to County Governments.

4.2: Criterial guiding Recurrent Budget Rationalization to realize Ksh 35.7 billion

S/No	Items	% cut
1	Communication, Supplies and Services	20
2	Domestic Travel and Subsistence, and Other Transportation Costs	50
3	Membership Fees, Dues and Subscriptions to Professional and Trade Bodies	100
4	Foreign Travel and Subsistence, and other transportation costs	20
5	Training Expenses	20
6	Hospitality Supplies and Services	50
7	Examination and Invigilation Fees	100
8	Confidential Expenditures	100
9	Contracted Professional Services	20
10	Contracted Technical Services	20
11	Temporary Committees Expenses	20
12	Monitoring and Evaluation Expenses	100
13	Other Operating Expenses	100
14	Maintenance of Buildings and Stations-Non-Residential	50
15	Maintenance of Buildings and Stations-Residential	50
16	Refurbishment of Buildings	100
17	Purchase of Vehicles and Other Transport Equipment	100
18	Purchase of Household Furniture and Institutional Equipment	100
19	Purchase of Office Furniture and General Equipment	100
20	Purchase of Generators	100
21	Rehabilitation & Renovation	100
23	Housing loans to public servants	100
24	Car loans to Public Servants	100

4.3: Development Budget Ring fenced in the following areas:

Hustlers Fund	3,000,000,000
Fertilizer Subsidy	10,000,000,000
NG CDF	68,278,917,681
Leather Industrial Parks - Kenanie	300,000,000
County Aggregation Industrial Parks	3,000,000,000
Passports, IDs, UPIs	1,680,000,000
Government Shared Services	328,000,000
E-Government Support	419,000,000
Mopping excess milk	1,500,000,000
EPZA	1,860,000,000
NGAAF	3,300,000,000
Equalization Fund	8,000,000,000
Contingency Fund	4,000,000,000
Airport weather observation	184,000,000
Weather Radar Surveillance	197,000,000
Roads	50,000,000,000
Water and Irrigation	12,165,180,000
Acquisition of Speciliazed Medical Equipment CHP	2,000,000,000
UHC/Medical Services	6,167,500,000

4.4: FY 2023/24 Carry-Overs

- The FY 2023/24 closed with unpaid exchequer requests (carry overs) of **Ksh.218.5 billion.**
- Out of this amount, **Ksh 68.1 billion** has been factored in the FY 2024/25 Supplementary Estimates. No.1 as follows:
  - **KSh 23.8 billion** for Pensions and Gratuities;
  - **KSh.30.8 billion** for Transfer to Counties; and
  - **KSh.13.5 billion** for the NG-CDF.
- The balance of **Ksh 150.4 billion** forms the first charge in respective MDAs Budgets

4.5 Other Policy Measures

- **Reduction in Advisors:** Reduction in the number of Advisors by 50 percent with immediate effect.

- **Reduction in non-essential expenditures:** Containment of non-essential expenditures within their respective MDAs and direct spending to priority government interventions.

- **Efficiency Measures:** Achievement of Government objectives within the constrained resources.

4.6: Summary of FY 2024/25 Supplementary Estimates 1.

- **Overall revenues** in Supplementary I for FY 2024/25 projected at **Ksh 3,060.0 billion (16.9% of GDP).** Ordinary revenues projected at **Ksh 2,631.4 billion (14.6% of GDP)**

- **Total expenditures** projected at **Ksh 3,880.8 billion (21.5% of GDP)** from the Budgeted Ksh 3,992.0 billion (22.1% of GDP) reflecting overall expenditure cuts of Ksh 111.2 billion

- Arising from the adjustments in expenditures and revenues, the overall fiscal deficit is now **Ksh 768.6 billion (4.3% of GDP)** in Supplementary Estimates I from the Budget Estimates of **Ksh 597.0 billion (3.3% of GDP)**.

5.1: State Corporations Reforms

Objectives of the Reforms:

i. Improving the governance environment
ii. Improving the financial and operational performance
iii. Minimizing fiscal risks and pressure to the Exchequer.

The Reforms Include:

i. The Ownership Policy
ii. Viability assessment
iii. Financial Evaluation

5.2: Policy Measures Issued to SOEs

- **All State Corporations** to rationalize budgets by 30% based on the FY 2023/2024 approved budgets.
- **All commercial State Corporations** to commit **80% of profit after tax** for payment of dividends leaving 20% retained earnings.
- **All regulatory authorities** to remit **90% of surplus funds** of last audited accounts as provided for in law.
- **All monies generated or received in excess of approved recurrent revenue budget** should not be utilized without the approval of National Treasury.
- **No State Corporation** should fund operations or purchase of capital item for Ministries, Department and Agencies (MDAs).

6.1 Government Policy and Priorities over the Medium Term

- To strengthen economic recovery, the Government will accelerate implementation of policies, programs, projects and interventions in **the Bottom Up Economic Transformation Agenda (BETA) to**:
  a) enhance agricultural transformation;
  b) support Micro, Small and Medium Enterprises;
  c) provide affordable housing and settlement;
  d) achieve universal healthcare; and
  e) support growth of digital superhighway and creative economy

- Government will **accelerate investments in**:
  - human capital development and capital accumulation;
  - market development, protection and regulation;
  - domestic resource mobilization;
  - reforming and restructuring of Government institutions; and
  - digitization to usher an era of efficiency in economic management.

6.2 Government Policy and Priorities over the medium term cont….

- Focus on priorities in the **Fourth Medium Term Plan (MTP IV) for the period 2023-2027**.
- **Value chain approach -** targeting sectors with the highest impact to drive and sustain economic recovery and growth.
- Value chains: i) leather and leather products, ii) textile and apparel, iii) dairy, iv) tea, v) rice, vi) edible oils, vii) blue economy, viii) natural resources (including minerals & forestry); and, ix) construction and building materials.
- Target is to operationalize County Aggregation and Industrial Parks and diversification of export markets and market access of goods and services from Micro, Small and Medium Enterprises

6.3 Fiscal Policy and Priorities over the medium term

- The fiscal policy over the Medium Term seeks to support **BETA**, through continued implementation of the **fiscal consolidation plan** designed to slow down growth in public debt.

  - **By broadening the revenue base and containing non-priority expenditures** while **enhancing social safety nets**

- The focus of our fiscal policy thus remains to **reduce the fiscal deficit** from **5.0% of GDP in the FY 2023/24 to 2.5% of GDP over the medium term**.

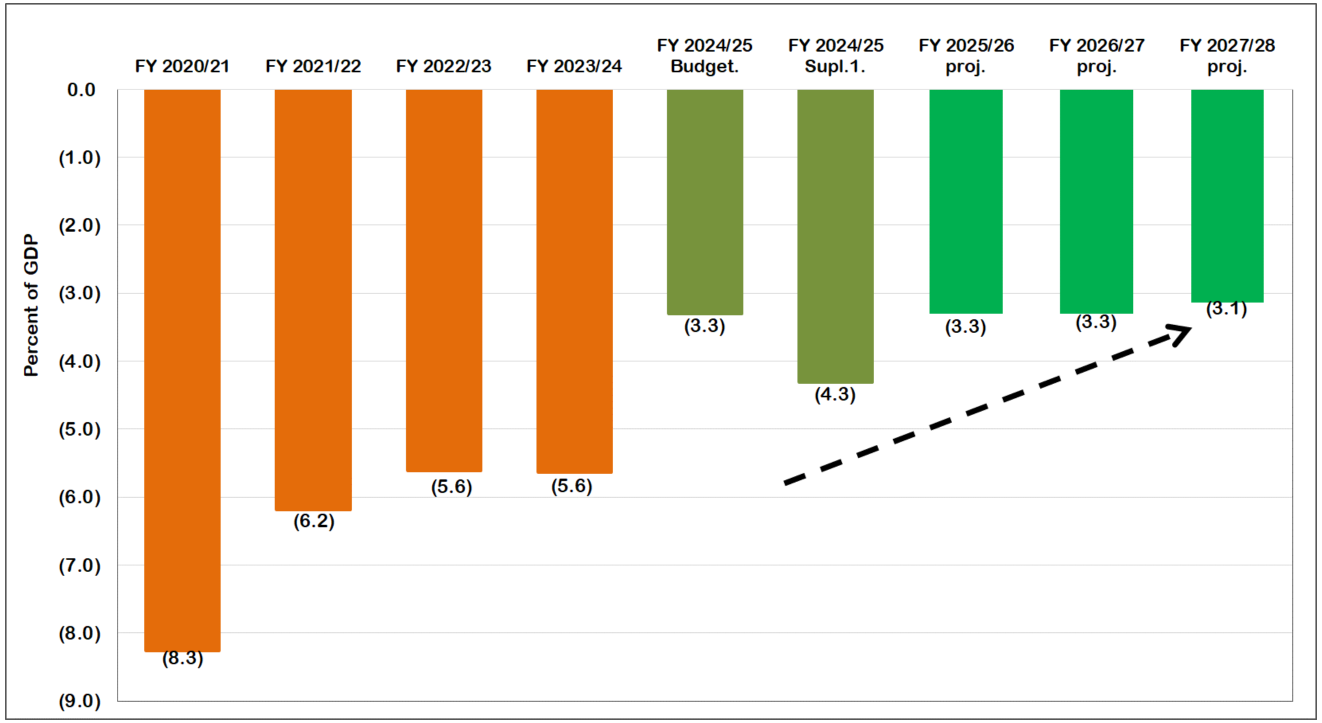
- This will improve the **primary surplus** to **2.6% of GDP from 1.4% of GDP** over the same period.

6.4: Revenue Mobilization over the Medium Term

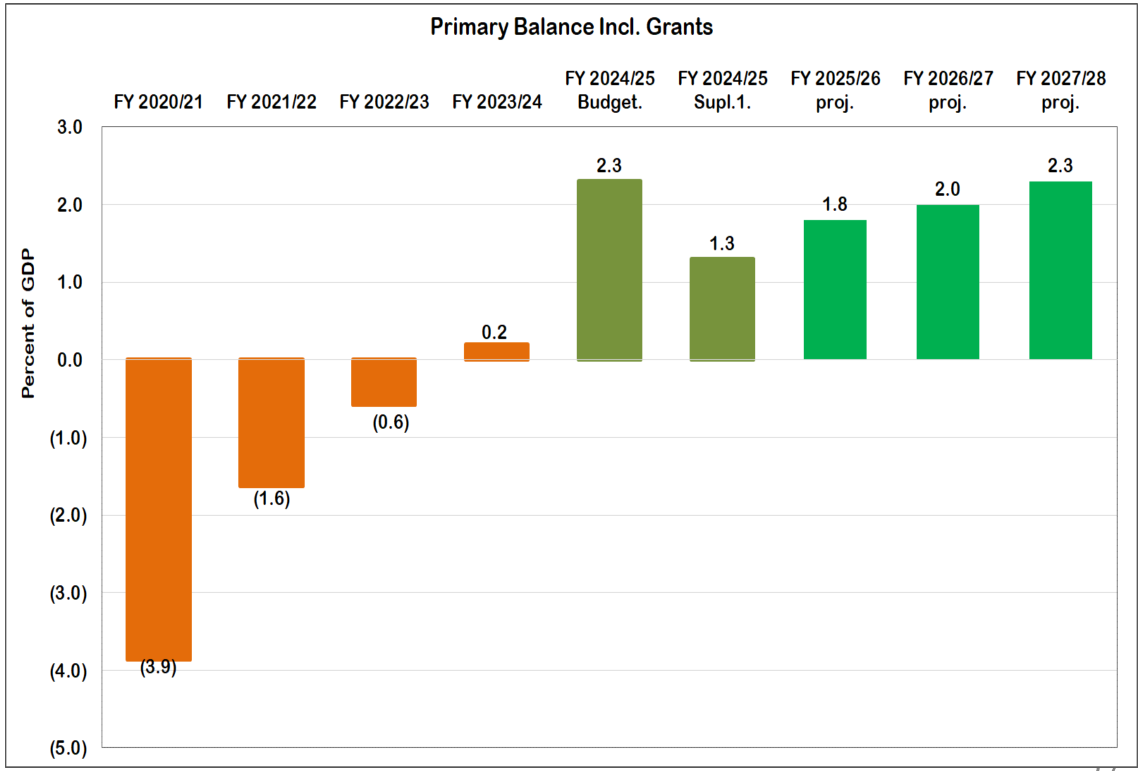
- Reforms include:
  - Implementation of **National Tax Policy**;
  - Implementation of the **Medium-Term Revenue Strategy (MTRS)** that will further strengthen tax revenue mobilization efforts to 20.0% of GDP over the medium term;
  - **Focus on non-tax measures** that MDAs can raise through the services they offer to the public e.g. Ministry of Lands, Immigration and citizen services among others;
  - **Strengthening Tax Administration for enhanced compliance** through **scaling up use of technology** to seal leakages
  - **SOE Reforms** to generate savings
  - **Use of PPP** to take out commercially viable projects from exchequer

6.5: Fiscal Consolidation Plan: To reduce fiscal deficit and stabilize public debt

- The implementation of the revenue and expenditure measures will continue to reduce the fiscal deficit from 5.6% of GDP in the FY 2023/24 to 3.0% of GDP over the medium term.



- The reduction in fiscal deficit will enhance primary surplus, thereby stabilizing public debt over the medium term.



7.1: Highlights of the Kenya-IMF Supported Program

- The Executive Board of the IMF **on April 2, 2021** approved a **US $2.34 billion a** 38-month program for Kenya.
- The broad policy objectives of this program was to secure a strong post-COVID-19 recovery with robust and inclusive growth.
- The economic policy plans placed a special focus on:
  - promoting good macroeconomic management through prudent debt policies and reforms to improve the efficiency of public spending and
  - fostering good governance in the management of public resources.
  - Address weaknesses in State Owned Enterprises (SOEs)
  - Strengthen Monetary Policy and ensure Financial Stability

7.2: Highlights of the Kenya – IMF Program: …….Cont’d

- At the request of Kenya in July 2023, the IMF Board approved **a 20-month Resilience and Sustainability Facility (RSF)** arrangement as part of the existing Program with the IMF.

    - This RSF was for an amount of **SDR 407.1 million (about US$ 551.4 million)** to support Kenya’s ambitious efforts to build resilience to climate change and catalyze further private climate financing.

- The program has successfully gone through **six reviews** and the **first review under the RSF** which were approved by the IMF Executive Board on **17th January, 2024.**

- Discussions to conclude the 7th Review are ongoing.

8.0: Pending Bills

The total outstanding National Government pending bills as at **30th June, 2024** amounted to **Ksh 516.3 billion**.

- These comprise of:
  - **Ksh 379.8 billion (73.6 percent)** for the State Corporations (SCs) and
  - **Ksh 136.5 billion (26.4 percent)** for Ministries/State Departments/other Government Entities
- Counties reported outstanding pending bills of **Ksh 152.4 billion** as of **end April 2024.** These comprised **Ksh 150.9 billion** by the County Executive and **Ksh 1.52 billion** by County Assemblies.
- **The Pending Bills Verification Committee** was inaugurated on **7th November, 2023**

- The **Committee** has so far received Pending Bills claims valued at **Ksh 664.7 billion** from **114,376** claimants and verification is ongoing.
- **The Committee** is expected to release its interim report in **October 2024**

THANK YOU