



REPUBLIC OF KENYA

THE NATIONAL TREASURY AND ECONOMIC PLANNING

KEYNOTE ADDRESS BY NJUGUNA NDUNG’U, CBS THE CABINET SECRETARY FOR THE NATIONAL TREASURY & ECONOMIC PLANNING DURING THE LAUNCH OF THE FY 2023/24 AND THE MEDIUM-TERM BUDGET PREPARATION PROCESS AT THE KENYATTA INTERNATIONAL CONVENTION CENTRE ON 10TH NOVEMBER 2022

Cabinet Secretaries,

Chairperson, Budget and Appropriations Committee,

Principal Secretaries and Accounting Officers,

Development Partners,

Distinguished Guests,

1. **Ladies and Gentlemen**, good morning. It is a great pleasure to join you this morning for the official launch of the FY 2023/24 and Medium-Term Budget preparation process. The launch which was initially planned for September 2022 was deferred to allow for transition from the previous Administration to the current one to take place. We therefore need to expedite the scheduled activities to make up for lapsed time and meet the statutory deadlines.

2. **Ladies and Gentlemen**, the current year marks the 12th anniversary since the enactment of the Constitution of Kenya, 2010 and the second transition to a New Administration following the just concluded 2022 General Elections. My remarks this morning will therefore reflect on some of the pressing economic challenges we have been facing as a country and the policy options available to us to put our economy back on the growth and vibrant trajectory. It is important to note that the forthcoming budget will be the first to be prepared under the New Administration.

- **Economic Outlook**

3. **Ladies and Gentlemen**, majority of countries across the world are currently facing serious economic challenges that have dashed hopes for economic recovery agenda after COVID-19 global pandemic. The ongoing Russia-Ukraine conflict has resulted in disruption of global supply chains which in turn has caused a sharp rise in the prices of energy, food, and other commodities thereby triggering high inflation. Back home, these effects have been further amplified by the draught effects.

4. **Ladies and Gentlemen**, according to the report by the IMF in October 2022, global growth forecast is likely to slow from 6.0 percent in 2021 to 3.2 percent in 2022 and 2.7 percent in 2023. Global inflation is expected to rise from 4.7 percent in 2021 to 8.8 percent in 2022 but decline to 6.5 percent in 2023. Growth in Sub-Saharan African economies is expected to slow from 4.7 percent in 2021 to 3.6 percent in 2022 before rebounding at 3.7 percent in 2023.

5. **Ladies and Gentlemen**, domestically, the robust pace of economic recovery projected in 2021 has been derailed by the worsening drought situation which has affected over twenty Counties. Although the Kenyan economy has demonstrated some kind of resilience and recovery from COVID-19 shocks, the growth decline from 7.5 percent in 2021 to 5.3 percent in 2022 and will recover to around 6.0 percent in 2023 and the medium-term. The slowdown in growth is on account of the worst drought in the last forty years, and the impact of the Ukraine – Russia conflict. Positive growth momentum was recorded in the first quarter of 2022 with the economy expanding by a remarkable 6.8 percent compared with a growth of 2.7 percent in a similar quarter in 2021. This growth was supported by positive economic activity in all sectors of the economy except agricultural sector that contracted by 0.7 percent in the first quarter of 2022 on account +of the prolonged drought.

- **Fiscal Performance and Outlook**

6. **Ladies and Gentlemen**, the fiscal performance in the FY 2021/22 was satisfactory, largely attributed to improved operating business environment following the recovery of the economy from the adverse impact of COVID-19 pandemic. Revenue performance recorded a growth of 22.0 percent compared to a marginal growth of 0.3 percent in FY 2020/21. During the period under review, the growth in revenue collection was recorded in all broad tax categories. However, the

good performance was overshadowed by the effects of the Russia-Ukraine conflict which has put pressure on the prices of energy, food, and other commodities and pushed inflation to a high of 9.6 percent by end of October 2022. This coupled with the unfavourable conditions in the sovereign bond market that resulted to below target performance in foreign financed resources and shortfalls in domestic market affected expenditure performance during the period under review.

7. **Ladies and Gentlemen**, the above-notwithstanding, implementation of the FY 2022/23 budget has picked up smoothly even with the transition of the New Administration and we expect this to continue during the remainder of the financial year. The strong outcome in revenue collection in the FY 2021/22 offers a strong base for supporting the expenditure estimates in the FY 2023/24 and the Medium Term Budget. To enhance revenue mobilization, the National Treasury has initiated the development of the Medium-Term Revenue Strategy (MTRS).

- **Medium-Term Fiscal Framework**

8. **Ladies and Gentlemen**, as we prepare for the FY 2023/24 and the Medium Term Budget, our focus will be on aggressive revenue mobilization so as to bring on board additional revenues. In addition, we intend to contain growth in non-priority expenditures so as to reduce the fiscal deficit that will support reduction in the growth of public debt to ensure sustainability. In this regard, the Sector Working Groups are required to carefully scrutinize all proposed programmes for Ministries, Departments and Agencies (MDAs) and ensure that they are not only directed towards improving productivity but are also aligned to the achievement of the objectives.

9. **Ladies and Gentlemen**, the Medium-Term Fiscal Framework will be anchored on the following:

- (i) Real GDP growth above 6.0 percent over the medium-term;
- (ii) Inflation being maintained within the range of $\pm 2.5\%$ of the target 5% after the current shocks are resolved.
- (iii) Protecting competitiveness so that interest rate and exchange rate are stable and predictable over the medium-term;

- (iv) Gradual improvement in revenue collection to over 18.0 percent of the GDP over the medium-term; and
- (v) Gradual reduction in expenditures to about 22.7% of GDP over the Medium-Term in line with the fiscal consolidation policy.

- **Living within our means**

10. **Ladies and Gentlemen**, the Government will pursue fiscal consolidation policy in pursuit of attaining debt sustainability. The policy's main objective is to free resources to growth-enhancing programmes by gradually reducing the overall fiscal deficit and the pace of debt accumulation. Fiscal consolidation will be supported by enhanced and innovative revenue mobilization, sustained rationalization of non-priority recurrent expenditures, and redirecting resources to finance priority growth-supporting capital projects with high return on investment. The Sector Working Groups are therefore expected to play a leading role in guiding the prioritization process.

- **Building an all-inclusive economy using the Bottom-UP Approach**

11. **Ladies and Gentlemen**, The government is committed to pursuing an all-inclusive growth model using the bottom-up approach. The bottom-up approach will involve supporting appropriate market, governance, regulation and protection that will support increased production and productivity downstream and increased income upstream. The government will develop interventions to correct market and institution failure problems through schemes that will ensure that benefits of growth are distributed and shared fairly across all clusters of the society by creating opportunities for all. During prioritization and resources allocation process, we expect The Sector Working Groups to prioritize bottom-up economic interventions including:

- Support the working of markets in all segments through proper governance, regulation and protection;
- Agricultural transformation and inclusive growth interventions to increase agricultural production and productivity that is dependent on the functioning of market;

- Support to Micro Small and Medium Enterprises (MSMEs) economy by increasing access to credit in order to support MSMEs through interventions that correct market failure like the Hustler Fund;
- Housing and settlements by supporting construction of affordable/social housing;
- Rural housing and settlement and establishment of a Settlement Fund;
- Strengthening health care systems through National Health Insurance Fund ('Leaving No One Behind' and recruitment of additional health workers);
- Digital superhighway & creative economy through universal broadband availability throughout the country;
- Automation of Government Service Delivery;
- Promotion of the creative economy through art and culture infrastructure development;
- Development of Arts and Craft portal and Film (Creation of Film Fund);
- Infrastructure development including completion of all roads under construction and upgrading and maintenance of rural access roads & informal settlement; - They are critical to lowering transaction costs and thus enhance profitability of private investment.
- Development of the energy and petroleum sector;
- Increasing access to water for irrigation domestic use;
- Tourism promotion;
- Strengthen the aviation sector;
- Promoting the Sports Sector through expanding the National Youth Talent Academy;
- Strengthen the Education Sector;
- Focus on the women agenda;

- Enhanced social protection;
- Improvements in the Governance Sector; and
- Strengthening Security Services.

- **Efficiency and Effectiveness in Public Spending**

12. **Ladies and Gentlemen**, the Government is committed to ensuring that there is value for money in public spending. In this regard, the principles of efficiency, effectiveness and economy of public spending will be strictly enforced by ensuring that low-priority expenditures gives way to high-priority service-delivery programmes. The Government will strengthen institutions that will set outright targets and goals of the legal framework and appropriate incentives that will support the fight against corruption to eliminate pilferage of public resources.

- **Public Participation**

13. **Ladies and Gentlemen**, the Sector Working Group process provides an excellent opportunity to interact with stakeholders and reflect on how best to design and implement effective and sustainable policies that not only answer to their needs, but also support medium and long-term development goals.

14. **Ladies and Gentlemen**, as we embark on the preparation of the next Financial Year and the Medium-Term Budget, we should be alive to the provisions of Article 201 of the Constitution and Section 35 (2) of the PFMA, 2012 which require for public participation in all financial matters. Active engagement of the public in the budget process is essential in promoting transparency, accountability and good governance. The Sector Working Groups will therefore be required to identify and engage stakeholders to obtain their input during the budget preparation process.

- **Way Forward**

15. **Ladies and Gentlemen**, the output of the Sector Working Group process will be an important input to the 2023 Budget Policy Statement (BPS), that will provide the framework for finalizing the FY 2023/24 and the Medium-Term Budget.

16. **Ladies and Gentlemen**, as outlined in the Public Finance Management Act, 2012 and its attendant regulations, the budget process involves timely preparation of

key policy documents for approval by Cabinet and Parliament. In view of the delay in the Budget process occasioned by the transition after the 2022 General Elections, and to facilitate timely finalization and approval of the policy documents and Bills, Accounting Officers will be required to fast track the schedule of activities outlined in the Budget Calendar.

Conclusion

17. **Ladies and Gentlemen**, I look forward to successful completion of the planned activities within the stated timelines. With those remarks, it is now my pleasure and humble duty to officially launch the budget preparation process for the Medium-Term period 2023/24 – 2025/26.

THANK YOU AND GOD BLESS YOU