REPUBLIC OF KENYA

THE NATIONAL TREASURY AND ECONOMIC PLANNING

2023 BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2023

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Foreword

The 2023 Budget Review and Outlook Paper (BROP) is the first to be prepared by the Kenya Kwanza Administration. The 2023 BROP has been prepared at a time when the Government is implementing priority programmes, policies and reforms under the Bottom-Up Economic Transformation Agenda (BETA) that were outlined in the 2023 Budget Policy Statement aimed at economic turnaround and inclusive growth. The priority programmes and policies under BETA are detailed in the Fourth Medium-Term Plan for the period 2023-2027 that anchors the Kenya Vision 2030.

The Kenya Kwanza Administration took office at a time when the economy was facing three major constraints, among them, the supply constraints of major products due to conflict between Russia and Ukraine that disrupted global trade leading to increased fuel, fertiliser and food prices; the lingering effects of the COVID-19 pandemic; and a severe drought witnessed in the region and most parts of the country. The drought not only aggravated the inflationary pressures but also subjected millions of homesteads to severe food insecurity, loss of lives and livelihoods. As a result, activities in the agriculture sector contracted by 1.6 percent in 2022. The impact of climate change therefore, created urgency to refocus investments on mitigation, adaptation and firm resilience.

In order to ease the burden to Kenyans, the Government embarked on immediate interventions that included: rolling out fertiliser and seeds subsidies to farmers across the country to enhance food production; and granting of duty waiver for importation of key food products such as white maize, rice, yellow maize, soya beans, assorted protein concentrates, and feed additives in order to bridge the food stocks deficit as well as lower and stabilize food prices. The Government also rolled out the Financial Inclusion Fund, or the Hustlers Fund in November 2022 that supports individuals and Micro, Small and Medium Enterprises (MSMEs) excluded at the bottom of the pyramid and encourage savings.

Following the various Government interventions and improvement in weather conditions during the March-May planting season, the economy registered a growth of 5.3 percent in quarter 1 (Q1) of 2023. This was mainly due to a strong recovery in the agricultural activities 5.8 percent from a contraction of 1.7 percent in a similar quarter in 2022. The economy is projected to further expand by 5.5 percent in 2023 from the 4.8 percent registered in 2022, and maintain a strong momentum over the medium-term. This growth outlook will be supported by, a broad-based private sector growth, including continued strong performance of the services sector and recoveries in agriculture while the public sector consolidates. The growth outlook will be reinforced by implementation of reforms under the priority sectors of the Bottom - Up Economic Transformation Agenda.

BETA is an important strategy at present because most Kenyans overtime sunk into abject poverty mostly because markets in their segments were interfered with or not properly governed. This disrupted market development, protection and regulation but more importantly curtailed further investments in those sectors. The outcome of this is an institutional failure problem that pushed policies to fail. The interventions at the Bottom of the pyramid under this Administration, are therefore targeted to ensure markets work for the poor and also markets should work for everybody. In order to achieve economic transformation, two driving factors are important, that is, Human Capital Development and enhancement of savings. The Government will ignite a sustained economic transformation, by raising capital accumulation.

This is in addition to ongoing investments in education, health, nutrition and labour markets to boost human capital development.

The implementation of the FY2022/23 budget marked the transition from the previous Regime to the current Administration. The first half of the FY 2022/23 was marked by slow implementation of programmes and projects due to inadequate revenues. In part, revenue performance was affected by the general slowdown of economic activities occasioned by the adverse impact of shocks that hit the country. Given the realities, the Government embarked on reprioritization and cost-cutting measures to ensure smooth implementation of priority programmes for the remainder of the financial year. Consequently, the FY 2022/23 closed on a positive note with the deficit of Ksh 800.4 billion (5.6 percent of GDP) against a target of Ksh 846.2 billion (5.8 percent of GDP) despite challenges in revenue collections and constraints in raising resources from the domestic market due to tight liquidity conditions and short-term instruments becoming saturated. Total revenue collection by the year to June 2023 grew by 7.3 percent to amount to Ksh 2,360.5 billion (16.5 percent of GDP). This was a performance of 95.4 percent against the target. The positive growth in revenue was recorded in most of the tax revenue categories, an indication of continued recovery in revenue collection. Additionally, the Government purposefully reduced the fiscal deficit to 5.6 percent of GDP by June 2023, from the 6.2 percent registered in FY 2021/22 under the previous Regime. This demonstrated the Government's strong commitment to manage the expenditures, create fiscal space and signal fiscal consolidation and public debt sustainability.

The created fiscal space enabled the Government meet most of her obligations including debt repayments and releasing funds due to Government Ministries, Departments and Agencies (MDAs) and other Semi-Autonomous Government. Additionally, for the first time in seven years, the Government disbursed 100 percent of equitable share to the 47 County Governments amounting to Ksh 399.6 billion by 30th June, 2023. This included Ksh 370.0 billion equitable share and the arrears of Ksh 29.6 billion inherited from previous Regime. Further, the Government fully disbursed the entire allocation for National Government Constituency Development Fund (NGCDF) amounting to Ksh 47.2 billion by 30th June, 2023. This has supported development activities at the Constituency level especially in support of education, health and in some cases for infrastructure.

The implementation of FY 2023/24 budget has started in earnest. During the budget implementation, movements in interest rates and exchange rate have impacted on fiscal space. In order to maintain the primary balance consistent with the fiscal consolidation path, expenditures have to be maintained at the levels approved in printed estimates. In this respect, additional spending pressures will be accommodated within the approved ceilings, that is reallocation possibilities, except those of the security and education sectors. Ministries, Departments and Agencies are expected to settle the carryovers from the FY 2022/23 budget as a first charge against the budgetary allocations for the FY 2023/24 budget. The fiscal deficit including grants for the FY 2023/24 is therefore projected at 5.4 percent of GDP and will decline to 4.4 percent of GDP in the FY 2024/25 and further projected at 3.6 percent of GDP in the FY 2026/27.

As we prepare for the FY 2024/25 budget, all the spending units are therefore, expected to lay emphasis on the priority programmes under the BETA by increasing investments in Agricultural Transformation and Inclusive Growth; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry. The momentum and large impact they will create will raise economic vibrancy and tax revenues. The budgeting for the FY 2024/25, as stated in the 2023 Budget Policy Statement will strictly be developed through a value chain approach under five clusters, namely, Finance and Production Economy; Infrastructure; Land and Natural Resource; Social Sectors; and Governance and Public Administration. This will ensure adequate resources are directed towards the nine value chains, namely, (i) Leather; (ii) Cotton; (iii) Dairy; (iv) Edible Oils; (v) Tea; (vi) Rice; (vii) Blue Economy; (viii) Natural Resources Including Minerals & Forestry); and (ix) Building Materials that are under implementation in the FY 2023/24 budget.

Given the limited resources, the Sector Working Groups (SWGs) and Government Ministries, Departments and Agencies (MDAs) are therefore directed to critically review, evaluate and prioritize all budget allocations to strictly achieve the BETA priorities. The hard sector ceilings provided for the FY 2024/25 budget and the Medium Term will form the basis of allocations. This will ensure and economic performance that will form the basis of a turnaround and create a momentum for the future.

NJUGUNA S. NDUNG'U, CBS
CABINET SECRETARY

Acknowledgement

The 2023 Budget Review and Outlook Paper (BROP) has been prepared in accordance with the Public Finance Management (PFM) Act, 2012 and its Regulations. It provides the fiscal outturn for the FY 2022/23, the macro-economic projections and set sector ceilings for the FY 2023/24 and the Medium Term Budget. It also provides an overview of how the actual performance of the FY 2022/23 affected compliance in the fiscal responsibility principles and the financial objectives outlined in the PFM Act, 2012. The 2023 BROP will form the basis for the development of the 2024 Budget Policy Statement (BPS) that will detail the various programmes and initiatives that will be undertaken during the Fourth Medium Term Plan of Vision 2030.

The FY 2022/23 closed on a positive note with the deficit of Ksh 800.4 billion (5.6 percent of GDP) against a target of Ksh 846.2 billion (5.8 percent of GDP) despite challenges in revenue collections and difficulties in raising resources from the domestic market. Total revenue collection by the year to June 2023 grew by 7.3 percent to amount to Ksh 2,360.5 billion (16.5 percent of GDP). The strong outcome in revenue collection in the FY 2022/23 provides a strong base for supporting the revenue and expenditure performance in the FY 2023/24 and the medium term budget. The Government will continue to pursue its growth friendly fiscal consolidation plan that will signal debt sustainability and manageable fiscal gap.

As we embark on the preparation of the FY2024/25 and the Medium-Term budget, I wish to underscore that the 2023 BROP was prepared in a collaborative effort among various Government Agencies. We thank all the MDAs as well as other spending units for the timely provision of useful data and information on their FY 2022/23 budget execution. We are also grateful to the Macro Working Group, that reviewed this document to ensure it satisfies the PFM Act, 2012 and set out the sector ceilings contained therein to guide the rest of the sectors in the preparation of their FY 2024/25 and Medium Term Budgets. This document incorporated key inputs from various Directorates and Departments within the National Treasury and Economic Planning. I wish to thank the core team from the Macro and Fiscal Affairs Department that coordinated the finalization of this document.

Finally, allow me to thank all institutions that we consulted as well as the public for the useful comments and inputs. I wish to reiterate the importance of public participation in the FY 2024/25 and the Medium Term Budget preparation process by calling on all Sector Working Groups to ensure engagement and open public and stakeholders’ participation and incorporation in the development of sector priorities.I also urge all MDAs to avoid dismal prioritization, leading to less than optimal budgetary allocation which is often followed with requests for additional funding, and distortion of the agreed Sector Budget Proposals.

DR. CHRIS KIPTOO, CBS
PRINCIPAL SECRETARY/ THE NATIONAL TREASURY

Table of Contents

Abbreviations and Acronyms

A-i-A	Appropriation in Aid
BPS	Budget Policy Statement
BROP	Budget Review and Outlook Paper
CARB	County Allocation of Revenue Bill
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CF	Contingency Fund
CFS	Consolidated Fund Services
CG	County Government
CIT	Corporate Income Tax
DORB	Division of Revenue Bill
FISM	Financial Intermediation Services Indirectly Measured
FY	Financial Year
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GOK	Government of Kenya
ICT	Information, Communication and Technology
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
MDAs	Ministries, Departments and Agencies
MTP	Medium Term Plan
NG	National Government
NSE	Nairobi Securities Exchange
MTEF	Medium Term Expenditure Framework
NCDF	National Constituency Development Fund
NDA	Net Domestic Assets
NFA	Net Foreign Assets
OSR	Own Source Revenue
PAYE	Pay As You Earn
PFM	Public Finance Management
PV	Present Value
SGR	Standard Gauge Railway
SWGs	Sector Working Groups
WEO	World Economic Outlook
VAT	Value Added Tax

Legal Basis for the Publication of the Budget Review and Outlook Paper

The Budget Review and Outlook Paper is prepared in accordance with Section 26 of the Public Finance Management Act, 2012. The law states that:

1) The National Treasury shall prepare and submit to -Cabinet for approval, by the 30th September in each financial year, a Budget Review and Outlook Paper, which shall include:
    a. Actual fiscal performance in the previous financial year compared to the budget appropriation for that year;
    b. Updated macro-economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent Budget Policy Statement
    c. Information on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the latest Budget Policy Statement; and
    d. The reasons for any deviation from the financial objectives together with proposals to address the deviation and the time estimated to do so.
2) Cabinet shall consider the Budget Review and Outlook Paper with a view to approving it, with or without amendments, not later than fourteen days after its submission.
3) Not later than seven days after the BROP has been approved by Cabinet, the National Treasury shall:
    a. Submit the paper to the Budget Committee of the National Assembly to be laid before each house of Parliament; and
    b. Publish and publicize the paper not later than fifteen days after laying the Paper before Parliament.

Fiscal Responsibility Principles in the Public Finance Management Act

In line with the Constitution, the Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. Section 15 of the Act states that:

1) Over the medium term, a minimum of 30% of the national budget shall be allocated to development expenditure
2) The national government's expenditure on wages and benefits for public officers shall not exceed a percentage of the national government revenue as prescribed by the regulations.
3) Over the medium term, the national government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure
4) Public debt and obligations shall be maintained at a sustainable level as approved by Parliament (NG) and county assembly (CG)
5) Fiscal risks shall be managed prudently
6) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future

Executive Summary

The 2023 Budget Review and Outlook Paper (BROP) has been prepared pursuant to PFM Act, 2012 and its Regulations. It provides an overview of the Government's financial performance for the FY 2022/23 including compliance with the fiscal responsibility principles and the financial objectives spelt out in the PFM Act. It also presents macroeconomic projections and the sector ceilings for the FY 2024/25 and the medium-term budget as well as information on variations from the projections outlined in the 2023 Budget Policy Statement.

The 2023 BROP has been prepared against a backdrop of continued global uncertainties, reflecting high but easing inflationary pressures, weak global growth outlook, heightened geopolitical tensions particularly the conflict in Ukraine, concerns about financial sector stability in advanced economies, and increased food insecurity due to climate-related shocks. Global growth is projected to slow down to 3.0 percent in 2023 and 2024 from 3.5 percent in 2022, reflecting the impact of the tightening of monetary policy and escalation of geopolitical tensions particularly the ongoing war in Ukraine.

On the domestic scene, Kenya’s economic performance is projected to remain strong and resilient over the medium term. The economy recorded a strong growth of 5.3 percent in the first quarter reflecting a strong recovery in agriculture sector and buoyant services sector including financial and insurance, information and communication, wholesale and retail trade and transport and storage. The economy is expected to remain strong and expand by 5.5 percent in 2023 (5.6 percent in FY 2023/24) and 5.7 percent in 2024 (5.9 percent in FY 2024/25).

This growth will be supported by the strong recovery in agriculture and resilient services sector that both will drive the industrial sector. The adequate rainfall during the long rain season in most parts of the country and the anticipated short rains later in 2023 will continue to support activities in the agriculture, electricity, and water supply sectors. The improved availability of raw materials following the recovery in agriculture and a decline in global commodity prices will support food processing in the manufacturing sector. Additionally, activities in the construction sector will be boosted by the rollout of the affordable housing programme. Services sector will be supported by resilient activities in the financial and insurance, information and communication, wholesale and retail trade and transport and storage. The easing of global commodity prices and supply chain constraints coupled with robust private sector investment are expected to support domestic demand.

The FY 2022/23 closed on a positive note with the deficit of Ksh 800.4 billion (5.6 percent of GDP) against a target of Ksh 846.2 billion (5.8 percent of GDP) despite challenges in revenue collections and liquidity constraints in raising resources from the domestic market. Total revenue collection by the year to June 2023 grew by 7.3 percent to amount to Ksh 2,360.5 billion (16.5 percent of GDP). This was a performance of 95.4 percent against the target. The positive growth in revenue was recorded in most of the tax revenue categories, an indication of continued recovery in revenue collection. Additionally, the Government purposefully reduced the fiscal deficit to 5.6 percent of GDP by June 2023, from the 6.2 percent registered in FY 2021/22. This demonstrated the Government’s strong commitment to manage the expenditures, create fiscal space and signal fiscal consolidation and public debt sustainability. The fiscal performance was broadly in line with financial objectives and fiscal responsibility principles outlined in the PFM Act, 2012 and the 2023 Budget Policy Statement.

The strong outcome in revenue collection in the FY 2022/23 provides a strong base for supporting the revenue and expenditure performance in the FY 2023/24 and the medium term budget. Indeed, the implementation of FY 2023/24 budget has started in earnest. During the budget implementation, movements in interest rates and exchange rate have impacted on fiscal space. In order to maintain the primary balance consistent with the fiscal consolidation path, expenditures must be maintained at the levels approved in printed estimates. In this respect, additional spending pressures will be accommodated within the approved ceilings, that is reallocation possibilities, except those of the security and education sectors. Ministries, Departments and Agencies are expected to settle the carryovers from the FY 2022/23 budget as a first charge against the budgetary allocations for the FY 2023/24 budget. The fiscal deficit including grants for the FY 2023/24 is therefore projected at 5.4 percent of GDP and will decline to 4.4 percent of GDP in the FY 2024/25 and projected at 3.6 percent of GDP in the FY 2026/27. This will be supported by enhanced revenue mobilization, reprioritization and rationalization of expenditures but above all grow the tax base through an appropriate tax regime. This will ultimately reduce public debt and create fiscal space over the medium term to finance priority capital projects.

In the FY 2024/25 budget, all the spending units are expected to lay emphasis on the priority programmes under the BETA by increasing investments in Agricultural Transformation and Inclusive Growth; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry. The momentum and large impact they will create will raise economic vibrancy and tax revenues. The budgeting for the FY 2023/24, as stated in the 2023 Budget Policy Statement will strictly be developed through a value chain approach under five clusters, namely, Finance and Production Economy; Infrastructure; Land and Natural Resource; Social Sectors; and Governance and Public Administration. This will ensure adequate resources are directed towards the nine value chains, namely, (i) Leather; (ii) Cotton; (iii) Dairy; (iv) Edible Oils; (v) Tea; (vi) Rice; (vii) Blue Economy; (viii) Natural Resources Including Minerals & Forestry); and (ix) Building Materials that are under implementation in the FY 2023/24 budget.

Given the limited resources, the Sector Working Groups (SWGs) and Government Ministries, Departments and Agencies (MDAs) are therefore directed to critically review, evaluate and prioritize all budget allocations to strictly achieve the BETA priorities. The hard sector ceilings provided for the FY 2024/25 budget and the Medium Term will form the basis of allocations.

There are however risks, whose impact is being assessed. The most critical one is El nino rains that may cause devastating consequences on various areas. As information becomes concrete on possible costs, these risks will be accommodated first by budget reallocations and program support from various donors.

I. INTRODUCTION

Objective of the 2023 Budget Review and Outlook Paper

1. The 2023 BROP provides a review of the fiscal performance for the financial year 2022/23 including adherence to the objectives and principles outlined in the 2023 Budget Policy Statement (BPS) and the PFM Act, 2012. It also provides a basis for the revision of the current budget and the financial policies underpinning the medium-term plan. The 2023 BROP will form the basis of the development of the 2024 BPS that will detail programmes and projects for implementation over the medium term as outlined in the Fourth Medium Term Plan (MTP IV 2023-2027).

2. The FY 2022/23 closed on a positive note with the deficit of Ksh 800.4 billion (5.6 percent of GDP) against a target of Ksh 846.2 billion (5.8 percent of GDP) despite challenges in revenue collections and difficulties in raising resources from the domestic market. Total revenue collection by the year to June 2023 grew by 7.3 percent to amount to Ksh 2,360.5 billion (16.5 percent of GDP). This performance was below target by Ksh 118.1 billion on account of shortfalls registered in all taxes.

3. As required by the PFM Act, 2012, the annual budget process aims to improve the efficiency and effectiveness of revenue mobilisation and government spending to ensure debt sustainability and stimulate economic activity. In this regard, this BROP provides sector ceilings which will guide the budget preparation process for the FY 2024/25 and the medium term. The sector ceilings are based on the overall resource envelope that is informed by the medium-term macro-fiscal projections as presented in Sections III and IV of this document. Sector ceilings in this BROP are aligned to the priorities of the Government that enhance value chain and linkage to Bottom-Up Economic Transformation Agenda and other priority programmes outlined in MTP IV of the Vision 2030 and that support mitigation and adaptation of climate change. There may also be risks that may arise and may not, at the moment, be fully accounted for. This will become clear as information is consolidated.

4. The rest of the document is organized as follows: Section II provides a review of the fiscal performance for the FY 2022/23 and its implications on the financial objectives set out in the 2023 BPS; Section III highlights the recent economic developments and outlook; Section IV presents the proposed resource allocation framework; and Sections V presents conclusion.

II. REVIEW OF FISCAL PERFORMANCE FOR THE FY 2022/23

A. FY 2022/23 Fiscal Performance

Revenue Performance

5. Total revenue including external grants was Ksh 2,383.6 billion against a revised target of Ksh 2,520.3 billion recording a shortfall of Ksh 136.7 billion (**Table 1)**. Revenue performance, including Appropriation in Aid (A-i-A), was Ksh 2,360.5 billion in FY 2022/23 from Ksh 2199.8 billion in FY 2021/22, a growth of 7.3 percent. The growth in revenue collection was recorded in all the broad tax categories. However, the performance fell short of the target largely attributed to the uncertain operating environment related to the general elections and the negative impact of the geo-politics that led to global economic slowdown and supply chain disruptions. Ordinary revenue collection was Ksh 2,041.1 billion against a target of Ksh 2,145.4 billion.

6. Tax revenue from the broad tax categories were below their respective targets in the period under review. Excise duty recorded the highest shortfall of Ksh 29.5 billion, followed by VAT on domestic goods and services and other income tax of Ksh 24.5 billion and Ksh 24.4 billion respectively. The shortfall in excise duty is explained by the decline in oil volumes, motor vehicle imports and deliveries of domestic excisable goods such as cosmetics, beer and spirits. Domestic VAT collection was mainly affected by subdued growth in the construction, transport and manufacturing sectors owing to the high cost of inputs and increasing inflationary pressures. The decline in VAT imports is explained by non-oil imports where the volumes of containerized cargo dropped by 8.4 percent mainly influenced by changes in buying patterns given the import price pressures. On the other hand, the performance of other income tax is largely explained by the underperformance of Corporate Income Tax (CIT). Performance of Pay as you Earn was explained by delayed disbursements to various Government entities which affected the remittances from the public sector. The performance of ministerial A-i-A was Ksh 319.4 billion against a target of Ksh 333.2 billion. The shortfall of Ksh 13.8 billion was on account of shortfalls recorded in both recurrent and development A-i-A of Ksh 9.3 billion and Ksh 4.5 billion, respectively. Ministerial A-i-A recorded a growth of 13.3 percent in FY 2022/23.

Table 1: Government Revenue and External Grants, FY 2022/23 (Ksh Million)

	2021/2022 Actual	2022/2023		Deviation KSh.	% Growth
		Actual*	Target		
Total Revenue (a+b)	**2,199,808**	**2,360,510**	**2,478,622**	**(118,112)**	**7.3**
(a) Ordinary Revenue	**1,917,911**	**2,041,119**	**2,145,399**	**(104,280)**	**6.4**
Import Duty	118,280	130,123	142,676	(12,553)	10.0
Excise Duty	252,094	264,509	293,973	(29,465)	4.9
PAYE	462,357	494,904	511,104	(16,199)	7.0
Other Income Tax	414,350	446,671	471,037	(24,365)	7.8
VAT Local	244,926	272,729	297,198	(24,469)	11.4
VAT Imports	278,171	277,710	283,418	(5,707)	(0.2)
Investment Revenue	43,660	41,301	35,496	5,806	(5.4)
Traffic Revenue	4,425	4,366	4,278	88	(1.3)
Taxes on Intl. Trade & Trans.(IDF Fee)	50,337	55,966	54,796	1,170	11.2
Others [1]	49,309	52,839	51,425	1,414	7.2
(b) Appropriation In Aid [2]	**281,897**	**319,391**	**333,222**	**(13,832)**	**13.3**
o/w Railway Development Levy	36,361	39,899	36,830	3,069	9.7
(c) External Grants	**31,031**	**23,083**	**41,717**	**(18,633)**	**(25.6)**
Total Revenue and External Grants	**2,230,839**	**2,383,593**	**2,520,338**	**(136,745)**	**6.8**
Total Revenue and External Grants as a percentange of GDP	**17.6**	**16.7**	**17.4**	-	-

1/ includes rent on land/buildings, fines and forfeitures, other taxes, loan interest receipts reimbursements and other fund contributions, fees, and miscellaneous revenue.
*Provisional
Source of Data: The National Treasury

7. External grants amounted to Ksh 23.1 billion against a revised target of Ksh 41.7 billion, registering a shortfall of Ksh 18.3 billion. This is composed of programme grants of Ksh 7.0 billion, project grants revenue of Ksh 7.5 billion and Project grants (A-i-A) of Ksh 8.6 billion **(Table 4).** During the FY 2022/23, the Government collected Ksh 41.7 billion of investment income in the form of dividends, surplus funds, directors' fees and loan interest receipts against a revised target of Ksh 37.0 billion.

Expenditure Performance

8. Total expenditure and net lending in the FY 2022/23 amounted to Ksh 3,221.0 billion against a revised target of Ksh 3,366.6 billion, representing an under spending of Ksh 145.6 billion (4.4 percent deviation from the revised budget). The shortfall was attributed to low spending on both recurrent and development expenditure items (**Table 2**). There was delayed disbursement of project funds and a shortfall in domestic borrowing resulting in unfunded expenditures items. This led to a carryover of Ksh 77.5 billion during the period under review. In FY 2022/23, there was a full transfer of equitable share to County Governments while conditional allocation was below target by Ksh 20.6 billion.

9. The National Government's recurrent expenditure was Ksh 2,311.5 billion (including Ksh 60.9 billion spending by the Judiciary and Parliament) against a target of Ksh 2,367.7 billion, representing an under-spending of Ksh 58.9 billion. The recurrent spending was below target mainly due to lower than targeted spending on operations and maintenance by Ksh 35.4 billion and pension and other Consolidated Fund Services (CFS) by Ksh 24.3 billion. Interest payment for the period was Ksh 687.3 billion while spending on wages was Ksh 547.2 billion.

10. Development expenditure amounted to Ksh 493.7 billion against a revised target of Ksh 560.5 billion, translating to a shortfall of Ksh 66.9 billion. This was on account of lower than programmed absorption on externally funded programmes by Ksh 56.3 billion while spending on domestically financed programmes was above target by Ksh 7.1 billion.

Table 2: **Expenditure and Net Lending, FY 2022/23 (Ksh Million)**

	2021/2022 Actual	2022/2023		Deviation	% Growth
		Actual*	Targets		
1. RECURRENT	**2,086,174**	**2,250,621**	**2,300,518**	**(49,897)**	**7.9**
Domestic Interest	456,849	533,098	527,928	5,171	16.7
Foreign Interest	120,812	154,223	154,937	(714)	27.7
Pensions & Other CFS	122,432	120,425	144,676	(24,250)	(1.6)
Contribution to Civil Servants' Pension	26,377	29,573	31,895	(2,323)	12.1
Wages and Salaries	520,033	547,157	539,552	7,604	5.2
Operation and Maintenance	839,673	866,145	901,530	(35,385)	3.2
O/W: Appropriation-in-Aid	197,524	240,165	239,423	742	21.6
2. DEVELOPMENT	**540,117**	**493,663**	**560,545**	**(66,882)**	**(8.6)**
Development Projects (Net)	455,744	402,110	446,836	(44,726)	(11.8)
Payment of Guaranteed Loans	-	12,327	16,104	(3,777)	-
Appropriation-in-Aid	84,373	79,226	83,712	(4,486)	(6.1)
3. County Governments	352,414	415,774	436,345	(20,571)	18.0
4. Parliamentary Service	32,652	41,187	47,034	(5,846)	26.1
5. Judicial Service	16,160	19,755	20,119	(364)	22.2
6. Equalization Fund	-	-	13,893	(13,893)	-
7. CF	-	-	2,000	**(2,000)**	-
TOTAL EXPENDITURE	**3,027,518**	**3,221,001**	**3,366,561**	**(145,561)**	**6.4**

Wages and salaries; includes wages for teachers, civil servants and police
Source of Data: The National Treasury

Ministerial Expenditure

11. The total ministerial and other public agencies expenditure including A.I.A was Ksh 1,955.6 billion against a target of Ksh 2,091.4 billion, an absorption rate of 93.5 percent. Recurrent expenditure was Ksh 1,474.2 billion against a target of Ksh 1,508.2 billion, while development expenditure amounted to Ksh 481.3 billion against a target of Ksh 583.2 billion. The percentage of recurrent and development expenditures to the target was 97.7 percent and 82.5 percent respectively.

12. During the FY 2022/23, recurrent expenditures by the State Department for Basic Education, State Department for Higher Education and Research; Teachers Service Commission; State Department for Vocational and Technical Training; State Department for Public Health and Professional Standards; State Department for Post Training and Skills Development; State Department for implementation of Curriculum Reforms; and the Ministry of Health (Social Sector) accounted for 41.4 percent of total recurrent expenditure. In addition, the security sector accounted for 11.1 percent of total recurrent expenditure.

13. Analysis of development expenditure indicates that the State Department for Roads accounted for the largest share of the total development expenditure (18.9 percent), followed by the National Treasury (15.2 percent) and the State Department for Economic Planning (9.4 percent). **Table 3** shows the recurrent and development expenditures by Ministries, State Departments and other Government entities for the period under review**.**

Table 3: Ministerial Expenditures, Period Ending 30th June, 2023 (Ksh Millions)

MINISTRY/DEPARTMENT/COMMISSIONS	Jun-23									% of Total Exp. To Target
	Recurrent			Development			Total			
	Actual*	Target	Variance	Actual*	Target	Variance	Actual*	Target	Variance	
Office of the President	23,802	27,229	(3,426)	3,686	7,815	(4,129)	27,489	35,044	(7,556)	78.4
Office of the Deputy President	863	1,017	(154)	-	-	-	863	1,017	(154)	84.8
Office of the Prime Cabinet Secretary	678	853	(176)	-	-	-	678	853	(176)	79.4
State Department for Interior and Citizen Services	102,695	106,467	(3,773)	3,840	3,897	(57)	106,535	110,365	(3,830)	96.5
State Department for Correctional Services	26,308	31,566	(5,258)	492	505	(14)	26,800	32,072	(5,272)	83.6
State Department for Immigration and Citizen Services	1,827	1,907	(81)	125	107	18	1,952	2,014	(62)	96.9
National Police Service	24,594	25,180	(586)	-	-	-	24,594	25,180	(586)	97.7
State Department for Internal Security & National Administration	7,862	8,846	(984)	-	-	-	7,862	8,846	(984)	88.9
State Department for Devolution	1,535	1,580	(45)	100	227	(128)	1,635	1,808	(173)	90.4
State Department for Development of the ASAL	6,224	6,377	(153)	11,279	14,428	(3,149)	17,503	20,805	(3,302)	84.1
Ministry of Defence	127,430	135,615	(8,186)	-	3,365	(3,365)	127,430	138,981	(11,551)	91.7
Ministry of Foreign Affairs	12,096	14,476	(2,380)	1,087	1,096	(9)	13,184	15,572	(2,388)	84.7
State Department for Foreign Affairs	1,904	5,196	(3,293)	-	-	-	1,904	5,196	(3,293)	36.6
State Department for Diaspora Affairs	472	658	(186)	-	-	-	472	658	(186)	71.7
State Department for Technical Vocational Education and Training	20,093	20,318	(225)	2,167	4,098	(1,931)	22,260	24,416	(2,156)	91.2
State Department for Higher Education and Research	101,616	103,830	(2,214)	3,545	4,621	(1,075)	105,161	108,450	(3,289)	97.0
State Department for Basic Education	111,384	110,600	784	18,171	24,222	(6,051)	129,555	134,822	(5,267)	96.1
State Department for Post Training and Skills Development	129	129	(0)	-	-	-	129	129	(0)	100.0
State Department for Implementation of Curriculum Reforms	189	205	(16)	-	-	-	189	205	(16)	92.4
The National Treasury	59,420	61,605	(2,184)	73,044	85,958	(12,914)	132,465	147,563	(15,099)	89.8
State Department for Economic Planning	3,760	3,810	(51)	45,285	47,572	(2,287)	49,045	51,382	(2,338)	95.5
Ministry of Health	76,772	69,199	7,573	41,019	41,987	(967)	117,791	111,185	6,606	105.9
State Department for Public Health and Professional Standards	840	2,875	(2,035)	2,388	2,337	50	3,228	5,213	(1,985)	61.9
State Department for Roads	74,914	69,017	5,896	90,838	101,778	(10,940)	165,752	170,795	(5,043)	97.0
State Department for Transport	10,478	9,831	647	2,642	2,662	(19)	13,120	12,492	628	105.0
State Department for Shipping and Maritime Affairs	3,141	2,181	960	1	690	(689)	3,142	2,871	271	109.4
State Department for Housing & Urban Development	1,216	1,243	(27)	9,351	10,526	(1,175)	10,567	11,769	(1,202)	89.8
State Department for Public Works	3,129	3,072	56	485	436	49	3,614	3,508	106	103.0
State Department for Irrigation	106	193	(87)	2,090	2,389	(299)	2,196	2,582	(386)	85.1
Ministry of Environment and Forestry	9,996	9,338	658	3,777	4,367	(590)	13,773	13,705	68	100.5
State Department for Water & Sanitation	6,943	6,348	595	45,120	59,395	(14,275)	52,063	65,744	(13,680)	79.2
State Department for Lands and Physical Planning	2,859	3,022	(163)	1,349	1,272	77	4,208	4,293	(86)	98.0
State Department for Information Communication Technology & Digital Econor	2,246	2,815	(569)	9,053	11,670	(2,618)	11,299	14,485	(3,187)	78.0
State Department for Broadcasting & Telecommunications	4,502	6,278	(1,776)	267	266	0	4,769	6,544	(1,776)	72.9
State Department for Sports	1,894	1,898	(4)	10,111	12,021	(1,910)	12,005	13,919	(1,914)	86.3
State Department for Culture and Heritage	2,607	2,971	(363)	63	328	(265)	2,670	3,298	(628)	81.0
State Department for Energy	11,411	11,686	(276)	31,035	43,118	(12,083)	42,446	54,805	(12,359)	77.4
State Department for Livestock Development.	2,870	4,407	(1,537)	2,610	4,370	(1,760)	5,480	8,777	(3,297)	62.4
State Department for the Blue Economy and Fisheries	2,283	2,314	(32)	3,526	4,915	(1,389)	5,809	7,229	(1,421)	80.3
State Department for Crop Development	21,801	14,189	7,612	29,336	35,230	(5,894)	51,137	49,419	1,718	103.5
State Department for Cooperatives	3,497	2,138	1,359	12,803	20,823	(8,020)	16,300	22,960	(6,661)	71.0
State Department for Trade	2,035	2,953	(918)	795	1,265	(471)	2,829	4,218	(1,389)	67.1
State Department for Industry	3,241	2,672	569	1,005	1,279	(274)	4,246	3,951	295	107.5
State Department for Micro, Small and Medium Enterprises Development	344	588	(243)	46	46	-	390	634	(243)	61.6
State Department for Investment Promotion	448	976	(528)	1,238	1,238	-	1,686	2,214	(528)	76.1
State Department for Labour and Skills Development	2,866	2,934	(68)	278	423	(144)	3,144	3,357	(212)	93.7
State Department for Social Protection and Senior Citizens Affairs	33,369	35,197	(1,828)	2,177	3,049	(872)	35,546	38,246	(2,700)	92.9
State Department for Mining	205	238	(33)	122	131	(9)	327	369	(42)	88.6
Ministry of Petroleum and Mining	63,347	63,991	(644)	2,357	2,501	(144)	65,704	66,492	(788)	98.8
State Department for Tourism	6,686	10,055	(3,369)	13	59	(46)	6,699	10,114	(3,415)	66.2
State Department for Wildlife	9,324	9,364	(40)	172	369	(196)	9,496	9,732	(236)	97.6
State Department for Gender and Affirmative Action	995	1,193	(198)	2,418	2,753	(335)	3,412	3,946	(533)	86.5
State Department for Public Service	20,665	22,640	(1,975)	301	303	(1)	20,966	22,943	(1,977)	91.4
State Department for Youth Affairs	1,360	1,374	(15)	942	1,163	(222)	2,301	2,538	(236)	90.7
State Department for East African Community	780	776	4	-	-	-	780	776	4	100.5
State Department for Regional and Northern Corridor Development	3,426	3,336	90	3,638	3,838	(200)	7,064	7,174	(110)	98.5
The State Law Office	5,289	5,718	(429)	68	97	(29)	5,357	5,815	(458)	92.1
The Judiciary	18,925	19,232	(307)	1,310	1,900	(590)	20,235	21,132	(897)	95.8
Ethics and Anti-Corruption Commission	3,357	3,521	(164)	47	47	-	3,403	3,567	(164)	95.4
National Intelligence Service	35,985	37,628	(1,643)	-	-	-	35,985	37,628	(1,643)	95.6
Office of the Director of Public Prosecutions	3,449	3,670	(221)	21	12	9	3,470	3,682	(212)	94.2
Office of the Registrar of Political Parties	1,453	1,530	(77)	-	-	-	1,453	1,530	(77)	95.0
Witness Protection Agency	532	632	(100)	-	-	-	532	632	(100)	84.2
State Department for Forestry	2,151	2,392	(240)	602	617	(16)	2,753	3,009	(256)	91.5
Kenya National Commission on Human Rights	450	451	(1)	-	-	-	450	451	(1)	99.7
National Land Commission	1,478	1,482	(5)	-	-	-	1,478	1,482	(5)	99.7
Independent Electoral and Boundaries Commission	20,333	20,639	(306)	-	-	-	20,333	20,639	(306)	98.5
Parliamentary Service Commission	7,849	8,950	(1,101)	-	-	-	7,849	8,950	(1,101)	87.7
National Assembly	27,282	31,849	(4,567)	-	-	-	27,282	31,849	(4,567)	85.7
Parliamentary Joint Services	6,056	6,235	(179)	2,250	2,465	(215)	8,306	8,700	(394)	95.5
Judicial Service Commission	830	887	(57)	-	-	-	830	887	(57)	93.6
The Commission on Revenue Allocation	537	541	(4)	-	-	-	537	541	(4)	99.3
Public Service Commission	2,427	2,452	(26)	26	26	(0)	2,453	2,479	(26)	99.0
Salaries and Remuneration Commission	499	505	(6)	-	-	-	499	505	(6)	98.8
Teachers Service Commission	298,553	299,119	(567)	820	1,076	(256)	299,372	300,195	(823)	99.7
National Police Service Commission	958	1,007	(49)	-	-	-	958	1,007	(49)	95.2
Auditor General	5,893	6,504	(611)	2	29	(26)	5,895	6,533	(637)	90.2
Office of the Controller of Budget	601	620	(19)	-	-	-	601	620	(19)	96.9
The Commission on Administrative Justice	572	578	(6)	-	-	-	572	578	(6)	99.0
National Gender and Equality Commission	397	398	(1)	6	10	(4)	403	408	(5)	98.8
Independent Policing Oversight Authority	913	927	(14)	-	-	-	913	927	(14)	98.5
Total	**1,474,244**	**1,508,235**	**(33,991)**	**481,336**	**583,186**	**(101,850)**	**1,955,580**	**2,091,422**	**(135,841)**	**93.5**

Source of Data: The National Treasury

Overall Balance and Financing

14. In line with the performance in expenditure and revenues, the fiscal deficit (including grants, on a cash basis), amounted to Ksh 800.4 billion (5.6 percent of GDP) against a target of Ksh 846.2 billion (5.8 percent of GDP) (**Table 4**).

Table 4: Budget Outturn for the FY 2022/23 (Ksh Million)

	2021/2022	2022/2023			% growth	2022/2023as a % of GDP		2021/2022 Actual as a % of GDP
	Actual	Actual*	Targets	Deviation		Actual	Targets	
A. TOTAL REVENUE AND GRANTS	**2,230,839**	**2,383,593**	**2,520,338**	**(136,745)**	**6.8**	**16.7**	**17.4**	**17.6**
1. Revenue	**2,199,808**	**2,360,510**	**2,478,622**	**(118,112)**	7.3	16.5	17.1	17.3
Ordinary Revenue	1,917,911	2,041,119	2,145,399	(104,280)	6.4	14.3	14.8	15.1
Import Duty	118,280	130,123	142,676	(12,553)	10.0	0.9	1.0	0.9
Excise Duty	252,094	264,509	293,973	(29,465)	4.9	1.9	2.0	2.0
Income tax	876,707	941,576	982,140	(40,565)	7.4	6.6	6.8	6.9
VAT	523,098	550,440	580,616	(30,176)	5.2	3.9	4.0	4.1
Investment Revenue	43,660	41,301	35,496	5,806	(5.4)	0.3	0.2	0.3
Others	104,071	113,171	110,498	2,673	8.7	0.8	0.8	0.8
Appropriation-in-Aid	281,897	319,391	333,222	(13,832)	13.3	2.2	2.3	2.2
2. Grants	**31,031**	**23,083**	**41,717**	**(18,633)**	**(25.6)**	**0.2**	**0.3**	**0.2**
AMISOM Receipts	3,603	6,982	6,982	-	-	-	0.0	0.0
Nairobi County to NMS	9,090	0	0	-	-	-	-	-
Revenue	5,903	7,524	16,703	(9,179)	27.5	0.1	0.1	0.0
Appropriation-in-Aid	12,435	8,577	18,031	(9,455)	(31.0)	0.1	0.1	0.1
B.EXPENDITURE AND NET LENDING	**3,027,518**	**3,221,001**	**3,366,561**	**(145,561)**	**6.4**	**22.6**	**23.2**	**23.8**
1. Recurrent	**2,134,986**	**2,311,564**	**2,367,671**	**(56,107)**	**8.3**	**16.2**	**16.3**	**16.8**
Domestic Interest	456,849	533,098	527,928	5,171	16.7	3.7	3.6	3.6
Foreign Interest	120,812	154,223	154,937	(714)	27.7	1.1	1.1	1.0
Pension & Other CFS	122,432	120,425	144,676	(24,250)	(1.6)	0.8	1.0	1.0
Contribution to Civil Servants' Pension	26,377	29,573	31,895	(2,323)				
Wages and Salaries	520,033	547,157	539,552	7,604	5.2	3.8	3.7	4.1
O & M/Others	888,485	927,087	968,683	(41,596)	4.3	6.5	6.7	7.0
2. Development and Net Lending	**540,117**	**493,663**	**560,545**	**(66,882)**	**(8.6)**	**3.5**	**3.9**	**4.3**
O/W Domestically financed	378,238	343,764	336,659	7,105	(9.1)	2.4	2.3	3.0
Foreign financed	161,879	137,572	193,889	(56,317)	(15.0)	1.0	1.3	1.3
3.Net Lending	0	12,327	16,104	(3,777)				
4. Equalization Fund	0	-	13,893.3	(13,893)	-	0.0	0.1	0.0
5. County Governments	352,414	415,774	436,345	(20,571)	18.0	2.9	3.0	2.8
5. CF	-	-	2,000	(2,000)	-	**0.0**	**0.0**	**0.0**
C. DEFICIT EXCL.GRANT (Commitment basis)	**(827,710)**	**(860,491)**	**(887,940)**	**27,449**	**4.0**	**(6.0)**	**(6.1)**	**(6.5)**
D. DEFICIT INCL.GRANTS (Commitment basis)	**(796,679)**	**(837,408)**	**(846,223)**	**8,815**	**5.1**	**(5.9)**	**(5.8)**	**(6.3)**
E. ADJUSTMENT TO CASH BASIS	**11,868**	**37,031**	-	**37,031**		**0.3**	-	**0.1**
F. DEFICIT INCL.GRANTS (Cash basis)	**(784,811)**	**(800,377)**	**(846,223)**	**45,847**	**2.0**	**(5.6)**	**(5.8)**	**(6.2)**
Discrepancy	*(36,986)*	*(30,070)*	-	*(30,070)*				
G. FINANCING	**747,825**	**770,307**	**846,223**	**(75,916)**	**3.0**	**5.4**	**5.8**	**5.9**
1. Net Foreign financing	**142,524**	**310,759**	**362,665**	**(51,906)**	**118.0**	**2.2**	**2.5**	**1.1**
Disbursements	**327,059**	**548,171**	**597,178**	**(49,007)**	**67.6**	**3.8**	**4.1**	**2.6**
Programme Loans	135,019	266,885	256,825	10,061	-	1.9	1.8	1.1
Project Cash Loans	58,601	61,975	83,091	(21,116)	5.8	0.4	0.6	0.5
Project Loans AIA	92,619	74,245	105,158	(30,913)	(19.8)	0.5	0.7	0.7
Use of IMF SDR Allocation	40,820	42,847	47,285	(4,437)	5.0	0.3	0.3	0.3
Commercial Financing	0	102,218	104,819	**(2,601)**	-	**1**	**0.7**	-
Debt repayment - Principal	(184,536)	(237,412)	(234,513)	(2,899)	**28.7**	**(1.7)**	**(1.6)**	**(1.5)**
2. Net Domestic Financing	**605,301**	**459,548**	**483,558**	**(24,010)**	**(24.1)**	**3.2**	**3.3**	**4.8**
Government Securities	589,545	437,527	480,418	(42,892)	(25.8)	3.1	3.3	4.6
Government Overdraft & Others	2,673	18,819	-	18,819	-	0.1	-	0.0
Movement in Government Deposits	138,485	1,459	-	1,459	-	0.0	-	1.1
Domestic Loan Repayments (Net Receipts)	5,097	2,854	4,250	(1,396)	(44.0)	0.0	0.0	0.0
Domestic Loan Repayment	(1,110)	(1,110)	(1,110)	-	-	0.0	(0.0)	(0.0)
Other Accounts Payable	(129,389)	-	-	-	-	0.0	-	0.0
MEMO ITEM								
GDP ESTIMATE	**12,698,001**	**14,274,419**	**14,521,624**	**(247,204)**	**12.4**	**100.0**	**100.0**	**100.0**

**Provisional*
Source of Data: National Treasury

15. The fiscal deficit was financed through net external financing amounting to Ksh 310.8 billion (2.1 percent of GDP) and net domestic financing of Ksh 459.5 billion (3.2 percent of GDP). Total disbursements (inflows) including A-i-A amounted to Ksh 548.2 billion against a target of Ksh 597.2 billion. The disbursements included Ksh 74.2 billion project loans A-i-A, Ksh 61.8 billion project loans revenue, and Ksh 266.9 billion programme loans. External repayments (outflows) of principal debt amounted to Ksh 237.4 billion including principal repayments due to bilateral and multilateral organizations and commercial sources.

B. Fiscal Performance for the FY 2022/23 in relation to Financial Objectives

16. The fiscal performance in the FY 2022/23 is broadly in line with the financial objectives outlined in the PFM Act, 2012 and the 2023 BPS.

i. The performance of the main tax heads in FY 2022/23 was below the revised budget targets resulting in a shortfall of Ksh 104.3 billion in ordinary revenue. Given this revenue shortfall, the projections for FY 2023/24 have an estimated revenue risk of Ksh 133.5 billion. The National Treasury and Kenya Revenue Authority (KRA) have put administrative measures such as the full roll-out of eTIMS; integration with Telcos; revamped cargo scanning; efficient management of tax refunds; and improved debt management to mitigate the revenue risk. In addition, tax measures in the Finance Act 2023 are expected to strengthen revenue performance. The revenue projections for the FY 2023/24 and over the medium term remain largely at the 2023 BPS level for ordinary revenue. However, projections for the ministerial A-i-A have been revised upward to reflect the outturn of FY 2022/23 and to include the Housing Levy that was introduced through the Finance Act, 2023;

ii. The overall resource envelope remains largely within the 2023 BPS position. Therefore, the overall baseline expenditure ceilings for spending agencies will largely be retained at the same levels as per the 2023 BPS. Any adjustments would be to reflect changes in priority across sectors or MDAs and /or identified one-off expenditures. The increase in expenditure from the 2023 BPS position is mainly to cater for carry-over expenditures from FY 2022/23 and interest payments. The increased interest payments are due to the weakening of the Kenya Shilling and elevated interest rates in the domestic environment; and

iii. The under-spending in recurrent and development budget for the FY 2022/23 can partly be explained by below the target disbursements for externally funded projects and low revenue collection. The Government will put in place appropriate measures to increase revenue collection, improve absorption of resources from development partners and explore alternative financing strategies early in the financial year to ensure the budget is fully funded.

C. Fiscal Responsibility Principles

17. In line with the Constitution, the PFM Act, 2012, the PFM Regulations, and in keeping in line with prudent and transparent management of public resources, the Government has largely adhered to the fiscal responsibility principles as set out in the statute as follows:

i. The National Government's allocation to development expenditures over the medium term has been set above 30 percent of ministerial Government expenditures. In FY 2022/23, the allocation to development in the revised budget was 27.9 percent of the total expenditures while the actual expenditures were 25.2 percent **(Table 5)**. This performance was below the set threshold on account of the rationalization of Government expenditures to reduce the fiscal deficit in line with the Government's agenda as well as below target disbursements for externally funded projects. In FY 2023/24, the allocation for development expenditure is 34.3 percent of ministerial Government expenditure and is projected to remain above the 30 percent threshold over the medium term.

ii. The National Government's share of wages and benefits to revenues was 27.7 percent[1] in the FY 2022/23 which is within the statutory requirement of 35.0 percent of the National Government's equitable share of the revenue plus other revenues generated by the National Government **(Table 5)**.

Table 5: Fiscal Performance in Relation to Financial Objectives

	FY 2021/22	FY 2022/23		FY 2023/24		FY 2024/25		FY 2025/26		FY 2026/27		FY 2027/28
	Prel. Actual	Supp II	Prel. Actual	Approved Budget	BROP'23	BPS'23	BROP'23	BPS'23	BROP'23	BPS'23	BROP'23	BROP'23
	Ksh Billion											
1.0 Total Expenditure & Net Lending	3,028	3,367	3,221	3,747	3,914	3,992	4,257	4,458	4,627	5,098	5,175	5,786
1.1 Total Ministerial National Govt Expenses	1,961	2,091	1,972	2,375	2,397	2,531	2,652	2,895	2,959	3,302	3,341	3,807
Total Recurrent	2,135	2,384	2,324	2,553	2,706	2,690	2,871	2,937	3,040	3,390	3,376	3,800
CFS (Interest & Pensions)	727	876	850	986	1,132	1,080	1,199	1,157	1,233	1,280	1,318	1,426
Ministerial Recurrent	1,409	1,508	1,474	1,567	1,575	1,610	1,672	1,781	1,807	2,109	2,057	2,374
o/w Wages & Salaries	528	543	543	589	589	650	650	709	709	921	921	991
Wages as % National Government Revenues/1	**28.4%**	**26.1%**	**27.7%**	**22.7%**	**22.5%**	**22.8%**	**21.7%**	**21.7%**	**20.8%**	**25.0%**	**23.8%**	**22.4%**
Development	552	583	498	808	822	922	980	1,115	1,152	1,193	1,284	1,433
Development as % Ministerial NG expenditures	**28.2%**	**27.9%**	**25.2%**	**34.0%**	**34.3%**	**36.4%**	**36.9%**	**38.5%**	**38.9%**	**36.1%**	**38.4%**	**37.6%**
1.2 County Allocation	352	436	416	430	430	418	444	443	473	552	552	590
Equitable share	340	400	400	385	385	381	407	406	436	515	515	553
Conditional Grants	12	37	16	44	44	37	37	37	37	37	37	37
2.0 Total Revenues	2,200	2,479	2,361	2,986	3,008	3,231	3,408	3,670	3,836	4,195	4,379	4,978
3.0 Total National Government Revenues (Incl. A-I-	1,859	2,079	1,961	2,600	2,622	2,850	3,001	3,264	3,400	3,680	3,864	4,425
4.0 National Government Domestic Borrowing (net)	605	484	460	587	415	431	504	515	562	496	451	441

/1Wages: For teachers and civil servants including the police. The figure includes the funds allocated for the pension contributory scheme
Source of Data: National Treasury

iii. The fiscal responsibility principle spelled out in Section 15(2)(c) of the PFM Act, 2012 requires that over the medium term, the National Government's borrowing shall be used only for financing development expenditure. During the FY 2022/23, the National Government borrowed a total of Ksh 985.7 billion comprising project loans of Ksh 137.6 billion, programme loans of Ksh 266.9 billion, commercial borrowing of Ksh 102.2 billion, use of IMF SDR allocation of Ksh 42.8 billion and domestic securities of Ksh 437.5 billion. This borrowing was spent on loan funded projects of Ksh 136.2 billion, external redemptions of Ksh 237.4 billion and domestically funded development expenditures of Ksh 384.4 billion (inclusive of 30 percent equitable share).

iv. The PFM Act, 2012 requires that public debt and obligations remain at sustainable levels and the Government is committed to adhering to this at all times. The debt sustainability analysis shows that Kenya's public debt remains sustainable as a medium performer in terms of debt carrying capacity. Analysis of debt sustainability is as follows:

(a) The external Debt Sustainability Analysis (DSA) demonstrates that the PV of the external debt to GDP ratio is below the 40 percent sustainability threshold throughout the projection period. However, the debt service to revenue ratio

[1] The 27.7 percent is exclusive of Ministry of Defense and NIS

breaches the threshold of 18 percent in 2024, 2025 and 2026. The high debt service to revenue ratio in 2024 is due to the maturity of the international sovereign bond **(Table 6)**.

Table 6: Kenya's External Debt Sustainability

Indicators	Thresholds	2022	2023	2024	2025	2026	2027
PV of debt–to-GDP ratio	**40**	27.8	29.5	30.5	29.4	28.0	27.1
PV of debt-to-exports ratio	**180**	228.3	220.4	210.8	195.6	181.7	170.3
PPG Debt service-to-exports ratio	**15**	21.2	22.0	31.1	21.7	22.0	19.7
PPG Debt service-to-revenue ratio	**18**	14.8	16.6	24.9	18.2	19.2	17.6

Source: IMF Country Report No. 23/266-July 2023

(b) The debt service to exports ratio remains above the 15 percent threshold due to subdued growth in exports leading to debt vulnerabilities; the international sovereign bond maturing in 2024; and the rollover of external commercial loans due in 2025 **(Table 6)**. The ongoing implementation of the Government's Bottom-up Economic Transformation Agenda (BETA) will provide policies aimed at improving economic growth including growth in Kenya's export sector thus improved public debt sustainability ratios.

(c) The current upsurge in interest repayments on existing debt exacerbated by the depreciation of the Kenya Shilling to the US Dollar has narrowed the fiscal space. To reduce debt vulnerabilities, the Government has committed to a fiscal consolidation plan and optimising the financing mix in favour of concessional borrowing to finance capital investments. Additionally, a steady and strong inflow of remittances and a favourable outlook for exports will play a major role in supporting external debt sustainability.

(d) Overall, the Present Value (PV) of debt to GDP ratio is projected to remain above the 55 percent threshold in the medium term but is to decline gradually towards the threshold by 2027 **(Table 7)**. The decline in debt levels is linked to the Government's commitment to pursue a fiscal consolidation path by broadening the tax revenue base and minimizing non-priority expenditures. The PV of the debt to GDP indicator is projected to improve with the implementation of the fiscal reforms under the extended fund/extended credit facility program.

Table 7: Kenya's Public Debt Sustainability Analysis

Indicators	Benchmark	Jun-22	Jun-23	Jun-24	Jun-25	Jun-26	Jun-27
		Projections					
PV of debt–to-GDP ratio	55	63.1	64.4	61.9	60.2	58.3	56.6
PV of public debt-to-revenue and grants ratio		355.2	357.8	338.1	331.7	325.8	313.3
Debt service-to-revenue and grants ratio		54.5	55.1	65.9	56.7	56.9	52.8

Source: IMF Country Report No. 23/266-July 2023

v. On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, Kenya's tax rates have remained stable and predictable. To bolster the predictability of the tax system, the Government's National Tax Policy will enhance administrative efficiency of the tax system, provide consistency and certainty in tax legislation and management of tax expenditure. The Government is also in the process of finalizing the Medium Term Revenue Strategy, which will provide a comprehensive framework for guiding tax reforms in the medium term. Further, there is continuous effort to reform, modernize and simplify tax laws and processes to enhance compliance and expand the tax base. The Kenya Revenue Authority will continue to employ the use of technology to curb revenue leakages including the use of scanners, enhancements of iTax such as integration with Telcos, use of eTIMS, and Integrated Customs Management System (iCMS); improve efficiency in the management of tax refunds; improve taxpayer audits and implement specific measures to boost voluntary compliance.

18. The National Government fiscal projections for the 2023 BROP **(Table 8)** are largely consistent with the 2023 BPS estimates and shall inform the projections for the FY 2024/25 budget estimates and the medium term. The Government will not deviate from the fiscal responsibility principles but will make appropriate modifications to the financial objectives in the 2024 BPS to reflect changing circumstances.

Table 8: Government Fiscal Projections, Ksh Billion

	FY 2021/22	FY 2022/23		FY 2023/24		FY 2024/25		FY 2025/26		FY 2026/27		FY 2026/27
	Prel. Actual	Supp II	Prel. Actual	Approved Budget	BROP' 23	BPS'23	BROP'23	BPS'23	BROP'23	BPS'23	BROP'23	BROP'23
	Ksh. Billion											
TOTAL REVENUE	**2,200**	**2,479**	**2,361**	**2,986**	**3,008**	**3,231**	**3,408**	**3,670**	**3,836**	**4,195**	**4,379**	**4,978**
Total Revenue as a % of GDP	***17.3%***	***17.1%***	***16.5%***	***18.3%***	***18.6%***	***17.8%***	***18.9%***	***18.0%***	***19.2%***	***18.3%***	***19.7%***	***20.2%***
Ordinary revenue	1,918	2,145	2,041	2,571	2,576	2,879	2,919	3,294	3,294	3,776	3,776	4,306
Ordinary Revenue as a % of GDP	***15.1%***	***14.8%***	***14.3%***	***15.8%***	***16.0%***	***15.8%***	***16.2%***	***16.1%***	***16.5%***	***16.5%***	***17.0%***	***17.5%***
Tax Revenue	1,770	1,999	1,887	2,428	2,428	2,711	2,731	3,115	3,115	3,575	3,575	4,081
Non-Tax Revenue	148	146	154	143	149	168	188	179	179	200	201	225
AIA	282	333	319	414	431	352	489	376	541	420	603	673
Total Expenditure	**3,028**	**3,367**	**3,221**	**3,747**	**3,913**	**3,992**	**4,257**	**4,458**	**4,627**	**5,098**	**5,175**	**5,786**
Expenditure as a % of GDP	***23.8%***	***23.2%***	***22.6%***	***23.0%***	***24.3%***	***22.0%***	***23.6%***	***21.8%***	***23.1%***	***22.3%***	***23.3%***	***23.5%***
Recurrent (incl of conditional transfer to counties)	2,135	2,368	2,312	2,536	2,687	2,668	2,851	2,918	3,020	3,385	3,371	3,800
Development	552	583	510	814	827	931	983	1,120	1,153	1,178	1,269	1,413
Equalization Fund	-	14	-	8	11	8	11	10	14	14	14	14
County Transfer (Equitable share only)	340	400	400	385	385	381	407	406	436	515	515	553
Contingencies	-	2	-	3	3	5	5	5	5	5	5	5
Budget Balance (Deficit (-) excl Grants	**(828)**	**(888)**	**(860)**	**(761)**	**(906)**	**(761)**	**(850)**	**(788)**	**(792)**	**(903)**	**(796)**	**(808)**
Deficit as % of GDP	***-6.5%***	***-6.1%***	***-6.0%***	***-4.7%***	***-5.6%***	***-4.2%***	***-4.7%***	***-3.9%***	***-4.0%***	***-3.9%***	***-3.6%***	***-3.3%***
Grants	31	42	23	42	42	49	49	53	53	69	69	74
Adjustment to cash basis	12	-	37	-	-	-	-	-	-	-	-	-
Balance Incl.Grants (cash basis)	(785)	(846)	(800)	(719)	(864)	(712)	(800)	(735)	(738)	(834)	(727)	(734)
Deficit as % of GDP	***-6.2%***	***-5.8%***	***-5.6%***	***-4.4%***	***-5.4%***	***-3.9%***	***-4.4%***	***-3.6%***	***-3.7%***	***-3.6%***	***-3.3%***	***-3.0%***
Net Foreign Financing	143	363	311	131	449	281	297	219	176	338	276	293
Domestic Loan Repayments (receipts)	5	4	3	4	4	4	4	5	5	5	5	6
Domestic Borrowing (net)	600	479	458	583	411	426	499	511	558	491	446	435
Domestic Borrowing % of GDP	***4.7%***	***3.3%***	***3.2%***	***3.6%***	***2.5%***	***2.3%***	***2.8%***	***2.5%***	***2.8%***	***2.1%***	***2.0%***	***1.8%***
Public Debt (net Deposits)	8,211	9,053	9,764	10,968	10,624	10,874	11,419	11,608	12,153	12,442	12,875	13,603
Public Debt to GDP (net Deposits)	***64.7%***	***62.3%***	***68.4%***	***67.3%***	***65.9%***	***59.8%***	***63.4%***	***56.8%***	***60.8%***	***54.4%***	***58.0%***	***55.3%***
Nominal GDP (Ksh. billion)	**12,698**	**14,522**	**14,274**	**16,290**	**16,132**	**18,180**	**18,015**	**20,437**	**20,002**	**22,872**	**22,180**	**24,595**

Source of Data: National Treasury

D. County Governments' Fiscal Performance

Sources of County Governments' Revenue

19. Article 202 (1) of the Constitution provides for the equitable sharing of revenue raised nationally among the National and County Governments. In addition, Article 202 (2) provides for additional allocations to the County Governments from the National Government's share of revenue either conditionally or unconditionally. Article 209 (3) and (4) of the Constitution gives the County Governments the power to raise their own source revenue from property rates and entertainment taxes, as well as impose charges for services they provide. County Governments may also borrow in line with Article 212 (a) of the Constitution with guarantee from the National Government. However, since the advent of devolution, no County Government has leveraged on this window to borrow. Section 138 and 139 of the PFM, Act 2012 allows County Governments to also receive grants from development partners to finance development of projects or delivery of services. **Table 9** summarizes total budgeted revenue from the various sources and actual disbursements for the 47 County Governments for the FY 2022/23.

Table 9: County Government Sources of Revenue, FY 2022/23 in Billion (Ksh)

Revenue Source	Budgeted County Government Revenue	Actual Disbursement	Budgeted % of Total Revenue
Equitable Share	370.0	399.6*	80.7%
Additional Allocation of which:	22.6	16.3	4.9%
Gok	5.4	0.1	
Donor	17.2	16.2	
OSR	66.1	47.1	14.4%
Total	**458.7**	**463.0**	**100%**

Source of Data: National Treasury and Controller of Budget
**The Ksh 399.6 billion includes Ksh 370 billion Equitable Share for FY 2022/23 and Ksh 29.6 billion balances not disbursed in FY 2021/22.*

20. The main source of revenue for the County Governments in the FY 2022/23 was the Equitable Share representing 80.7 percent of total revenue Additional allocations to the County Governments from the National Government's share of revenue as well as from proceeds of loans and grants accounted for 4.9 percent of the total county revenue while the budgeted own source revenue was 14.4 percent of the total County Governments budgeted revenue **(Table 9)**.

Transfers to County Governments

21. The total transfers to counties for FY 2022/23 consisted of equitable share, conditional grants from the National Governments' share of revenue and loans and grants from development partners.

22. During the FY 2022/23 a total of Ksh 399.6 billion was disbursed to the county governments comprising of Ksh 370 billion allocated to the County Governments as equitable share in the County Allocation of Revenue Act (CARA), 2022 and Ksh 29.6 billion FY 2021/22 equitable share balances brought forward . By 23rd June 2023, all the County Governments had received their allocation for equitable share for the FY 2022/23. This reaffirms continued commitment by the National Government to support devolution and ensure efficient delivery of services to the citizens.

23. Additional allocations to the County Governments consist of allocations from the national governments share of revenue and proceeds of loans and grants from development partners. In FY 2022/23, a total of Ksh 16.2 billion was disbursed to the County Governments as additional conditional allocations from development partners and and Ksh 3.0 billion paid out for leasing

of medical equipment and construction of county headquarters from the National Government's share of revenue raised nationally.

County Governments Own Source Revenue

24. The *County Governments Budget Implementation Review Report* for the FY 2022/23 prepared by the Controller of budget provides the Own Source Revenue (OSR) for the County Governments some inclusive of Appropriation in Aid (AiA) while others are exclusive. **Table 10 and Annex 7** captures the County Governments OSR inclusive of AiA and other revenues.

Table 10: OSR Collection for the FY 2022/23

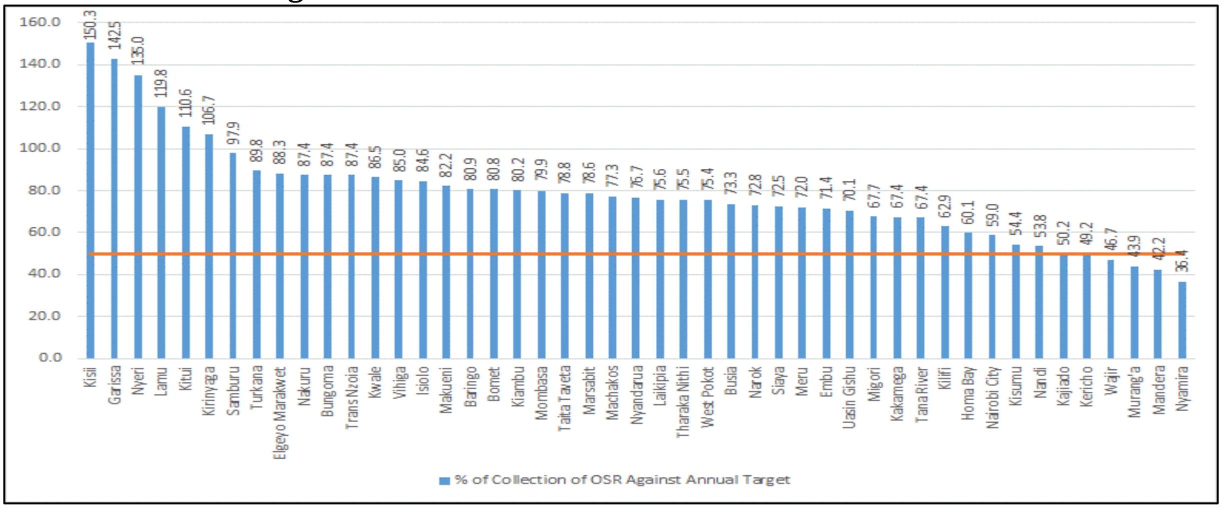
County	FY 2022/23 Actual OSR Collection (Ksh)	FY 2022/23 AIA Collection FY 2022/23	Other OSR Collection FY 2022/23	Total OSR Collection (Including A-i-A) FY 2022/23
Baringo	313,351,637	-	-	313,351,637
Bomet	242,395,023	-	-	242,395,023
Bungoma	379,716,358	797,606,548	-	1,177,322,906
Busia	201,772,364	142,150,611	-	343,922,975
Elgeyo Marakwet	217,350,490	-	-	217,350,490
Embu	383,178,337	295,460,000	-	678,638,337
Garissa	81,361,298	61,130,000	-	142,491,298
Homa Bay	491,496,550	-	-	491,496,550
Isiolo	151,805,623	894,555	-	152,700,178
Kajiado	875,281,130	-	-	875,281,130
Kakamega	1,309,679,900	-	-	1,309,679,900
Kericho	501,354,545	-	-	501,354,545
Kiambu	2,424,634,382	1,162,647,728	-	3,587,282,110
Kilifi	661,686,660	-	-	661,686,660
Kirinyaga	399,321,046	187,339,593	-	586,660,639
Kisii	413,988,597	563,229,532	-	977,218,129
Kisumu	731,449,033	422,015,272	-	1,153,464,305
Kitui	464,354,467	-	-	464,354,467
Kwale	392,952,872	-	-	392,952,872
Laikipia	504,274,788	475,888,673	-	980,163,461
Lamu	156,907,612	-	-	156,907,612
Machakos	1,429,791,260	-	-	1,429,791,260
Makueni	418,752,940	472,843,046	-	891,595,986
Mandera	122,528,934	-	-	122,528,934
Marsabit	58,565,723	74,980,000	-	133,545,723
Meru	418,801,954	317,884,152	14,300,484	750,986,590
Migori	406,364,909	-	-	406,364,909
Mombasa	3,998,628,848	-	-	3,998,628,848
Murang'a	534,416,925	123,750,039	-	658,166,964
Nairobi City	10,237,263,780	241,552,546	-	10,478,816,326
Nakuru	1,611,062,682	1,519,361,041	-	3,130,423,723
Nandi	200,737,628	-	-	200,737,628
Narok	3,061,007,640	-	-	3,061,007,640
Nyamira	113,484,901	171,113,720	-	284,598,621
Nyandarua	505,913,306	-	-	505,913,306
Nyeri	610,656,883	469,530,000	-	1,080,186,883
Samburu	226,516,961	-	429,707,684	656,224,645
Siaya	402,229,607	105,812,055	-	508,041,662
Taita Taveta	265,254,255	161,118,235	-	426,372,490
Tana River	59,173,171	-	-	59,173,171
Tharaka Nithi	164,200,787	122,536,863	-	286,737,650
Trans Nzoia	267,760,051	209,520,518	574,892,612	1,052,173,181
Turkana	177,717,811	-	-	177,717,811
Uasin Gishu	936,606,563	45,440,000	-	982,046,563
Vihiga	108,347,382	133,002,807	-	241,350,189
Wajir	46,746,101	-	-	46,746,101
West Pokot	128,195,210	-	-	128,195,210

Source of Data: Controller of Budget

Performance in OSR Against Target

25. During the FY 2022/23, the County Governments were able to raise a total of Ksh 47.1 billion from Own Source Revenue (OSR) against an annual target of Ksh 66.1 billion as shown in **(Figure 1**). This represents 71.3 percent of the annual OSR target in FY 2022/23.

Figure 1: Actual Revenue Collected by the County Governments as a Percentage of Annual Revenue Target for FY 2022/23



Source of Data: Controller of Budget

26. Analysis of OSR performance in the FY 2022/23 indicates that forty two (42) County Governments were able to collect more than fifty percent of their annual OSR target. The top performing counties as far as OSR collected as a percentage of target is concerned were Kisii (150.3 %), Garissa (142.5%), Nyeri (135.0%) and Lamu (119.8) while the least performing counties were Murang'a (43.9%), Mandera (42.2%), and Nyamira (36.4%). However comparing the OSR performance over the years in absolute terms with the performance over the target indicates that some counties are quite conservative in setting their revenue targets.

27. The National Treasury notes that a number of County Governments reported revenue collection way below their target. This could be attributed to a number of factors such as lack of proper revenue administration structures, revenue leakages, lack of internal controls or unrealistic revenue targets.

28. In the medium term , the National Treasury in collaboration with stakeholders is undertaking a number of reforms to assist counties enhance revenue collection. Some of the measures include; proposal for an establishment of a Multi-Agency Taskforce on Tax Analysis and Revenue Forecasting with an aim of developing a tool for OSR Analysis and Forecasting among County Governments; review of existing legislations on OSR and automation of revenue collection and management. In addition, the National Treasury is planning to build the capacity of County Governments to generate statistics that conform to the Government Finance Statistics 2014 Manual beginning in FY 2023/24. This will strengthen the County Government's fiscal policy making including realistic revenue forecasting.

29. The County Governments have not fully automated revenue collection. To further improve on revenue management, the National Treasury with the other stakeholders established a taskforce to develop guidelines for acquisition and implementation of an Integrated County Revenue Management System (ICRMS) for use by all County Governments.

30. To address the inadequacy of the existing legal framework to guide the imposition of property rates, the National Policy to Support Enhancement of the County Governments Own

Source Revenue proposed enactment of the National Rating Legislation. The National Rating Bill, 2022 was developed and is currently through the second reading in the National Assembly. The Bill provides for among others, standards in the way rating and valuation is conducted in the country; how to deal with properties cross-cutting in more than one County Government; procedure for claiming and payment of Contribution in Lieu of Rates (CILOR); and timely updating of valuation rolls by the County Governments. More importantly, the Bill will repeal the outdated Valuation for Rating Act, Cap 266 and Rating Act, Cap 267 and align the property rating legal regime with the devolved system of governance.

31. However, the foregoing revenue raising measures must be aligned with Article 209 (5) which requires that taxation and other revenue raising powers be exercised in a way that does not prejudice national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labour. In this regard, the National Treasury with other stakeholders developed County Governments (Revenue Raising Process) Bill, 2023 which was approved by Cabinet together with the OSR Policy., This Bill provides for a process by which the County Governments introduce revenue raising measures in conformity with Article 209 (5) of the Constitution.. The Bill was first submitted to Parliament for enactment in 2018 but lapsed before the 12th Parliament could enact it into law. However, it has now been resubmitted to the 13th Parliament for enactment.

Mineral Royalty Revenues

32. Mining Act, 2016 assigns 70 percent of mineral royalties collected from Mining companies to the National Government; 20 percent to County Governments; and, 10 percent to communities. Since 2016, County Governments and communities have not received their share of these royalties. To address this matter, Ksh 2.9 billion has been included in the County Governments Additional Allocations Bill, 2023 for sharing among 32 County Governments. In addition, disbursement of the 10 percent to the communities is awaiting the finalization of the draft Mining (Mineral Royalty Sharing) Regulations, 2023.

County Governments Expenditure

Legal Framework

33. Section 130 (1) (b) (v) of the PFM Act, 2012 requires the County Executive Committee Member for Finance to submit to the County Assembly budget estimates that include all expenditure by vote and by program clearly identifying both recurrent and development expenditure. Further, the PFM Act provides for fiscal rules which are provided as fiscal responsibility principles to be observed by County Governments in management of public finances. Specifically, PFM Act, 2012 and the PFM (County Government) Regulations, 2015 require county governments to enforce the following fiscal responsibility principles, among others:

i. The County Governments' recurrent expenditure shall not exceed the County Government total revenue;
ii. In the Medium Term, a minimum of 30 percent of the County Governments budget shall be allocated to the development expenditure; and
iii. The County Government expenditure on wages shall not exceed 35 percent of County Governments total revenue as prescribed by the County Executive Committee Member for Finance.

Overall Performance of Expenditures

34. The total budget for the county governments in the FY 2022/23 was Ksh 515.2 billion comprising Ksh 160.5 billion for development (31 percent) and Ksh 354.6 billion for recurrent expenditure (69 percent).

35. The total actual expenditure by the County Governments in the FY 2022/23 was Ksh 428.9 billion of which actual expenditure on development was Ksh 98.0 billion while on recurrent was Ksh 330.9 billion On the other hand, the expenditure on wages was Ksh 195.1 billion. The expenditures were against actual revenue amounting to Ksh 475.4.0 billion **(Table 11)**.

Table 11: County Governments Total Actual Expenditure for FY 2022/23

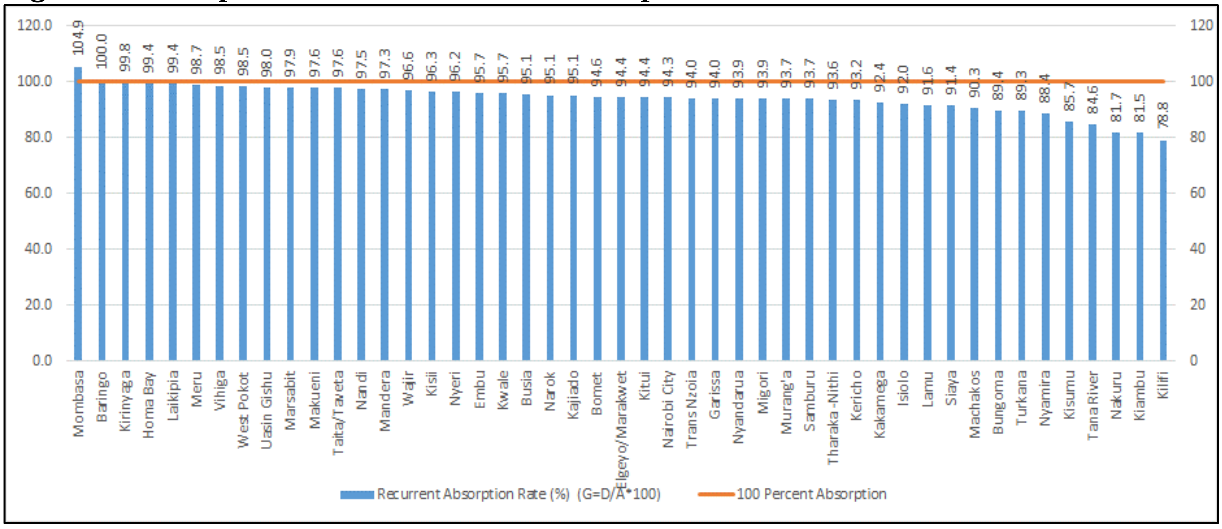
Item	Ksh 'Billion'	% of Expenditure to Total Revenue
Total actual Revenue	475.4*	100.0
Total actual Expenditure	428.9	90.2
Recurrent expenditure	330.9	69.6
Wages	195.1	41.0
Operations & Maintenance	135.8	28.6
Development Expenditure	98.0	20.6

Source of Data: Controller of Budget
**The total revenue includes equitable share, additional allocations, cash balances carried forward and OSR inclusive of AiA and other revenues.*

Absorption rates of the Recurrent Expenditure

36. The absorption rate measures the performance of actual expenditure against the approved budget. During the period, analysis of recurrent absorption rate shows that only eight Counties had an absorption rate lower than 90%. Mombasa County Government absorbed more than its budgeted recurrent amount (**Figure 2**).

Figure 2: Absorption Rate of the Recurrent Expenditure for FY 2022/23

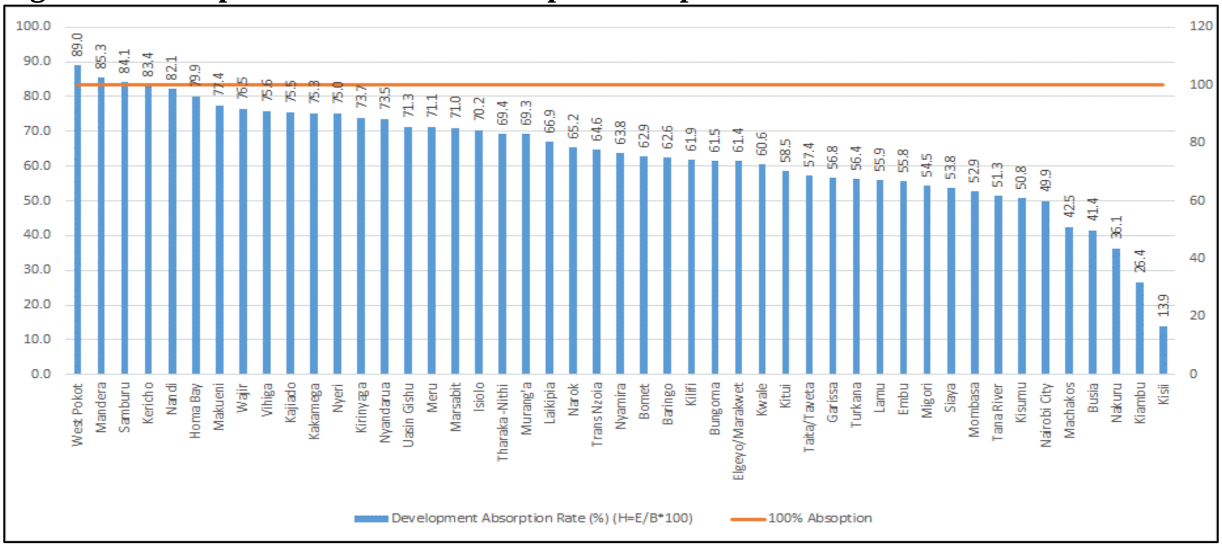


Source: Controller of Budget

Absorption rates of the Development Expenditure

37. The County Governments spent Ksh 98.0 billion on development activities, representing an absorption rate of 61.0 per cent of the annual development budget of Ksh 160.5 billion. The absorption rates of development budget per county government are indicated in **Figure 3**.

Figure 3: Absorption Rate of the Development Expenditure for FY 2022/23



Source: Controller of Budget

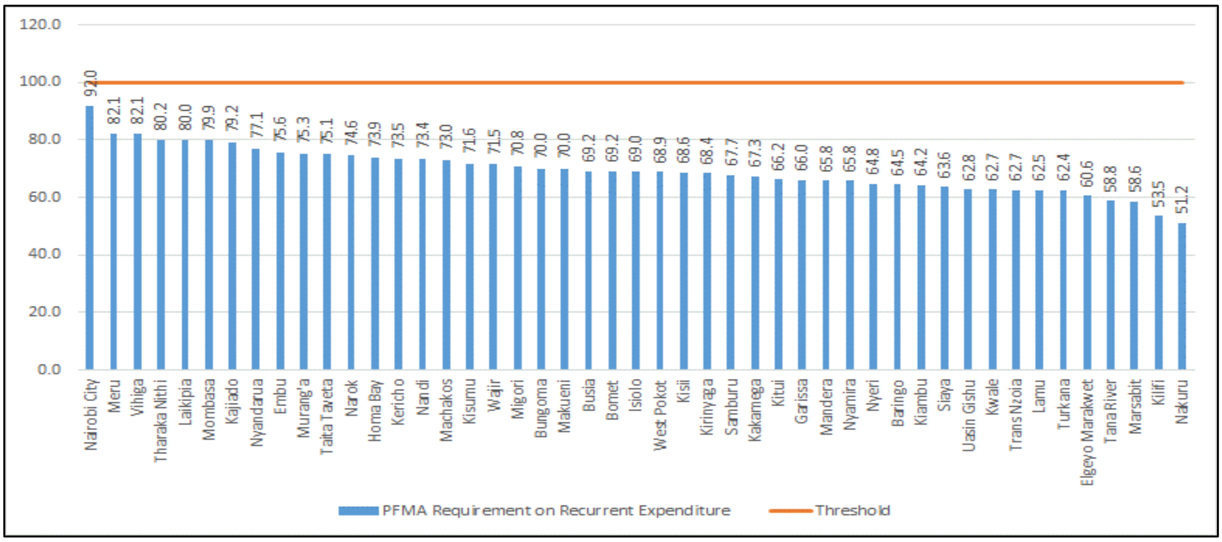
38. Analysis of development expenditure as a proportion of the development budget for FY 2022/23 shows that there was no county government that attained an absorption rate above 90 per cent. The County Governments of Nairobi City, Machakos, Busia, Nakuru, Kiambu and Kisii reported below 50 per cent absorption rate on development budget while West Pokot, Mandera and Samburu performed well as shown in **Figure 3** above.

E. County Governments' Compliance with Fiscal Responsibility Principles

Recurrent Expenditure as a Percentage of Total Revenue

39. The PFM Act, 2012 requires that a County Government's recurrent expenditure shall not exceed the County Government's total revenue. In the FY 2022/23, the total recurrent expenditure for the County Governments was Ksh 330.9 billion, while the total revenue available for the County Governments was Ksh 475.4 billion, representing 69.6 percent of the total revenue **(Figure 4)**. In this regard, the total recurrent expenditure was within the PFM threshold as at the end of the FY 2022/23.

Figure 4: Actual Recurrent Expenditure as a Percentage of the Total Revenue for the FY 2022/23

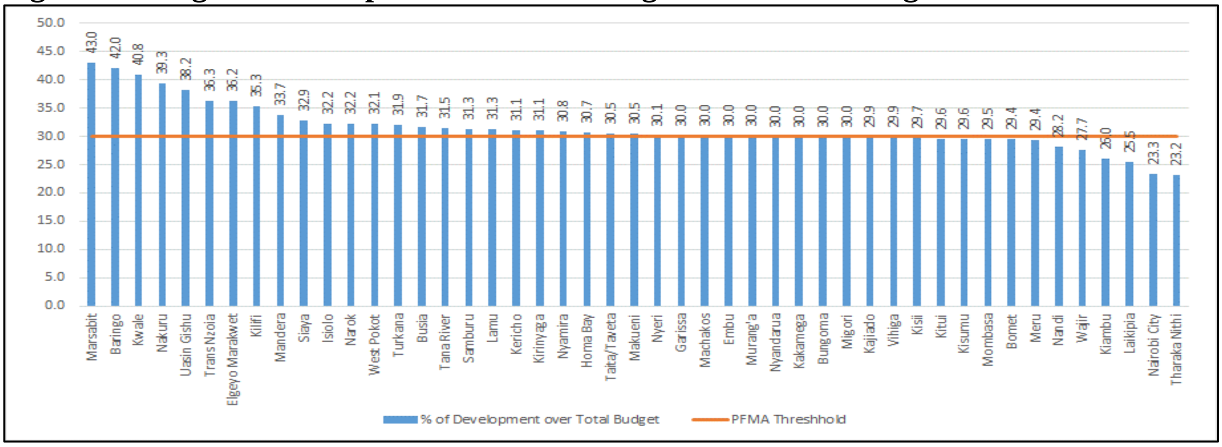


Source: Controller of Budget

Development Budget as a Percentage of the Total Budget

40. The Development Budget of County Governments' approved by the County Assemblies for FY 2022/23 amounted to Ksh 160.5 billion (31.2 percent) against total budget of Ksh 515.2 billion. However, the approved budget of 14 counties, namely Kajiado, Vihiga, Kisii, Kitui, Kisumu, Mombasa, Bomet, Meru, Nandi, Wajir, Kiambu, Laikipia, Nairobi and Tharaka Nithi did not conform with the PFM Act as shown in **Figure 5**.

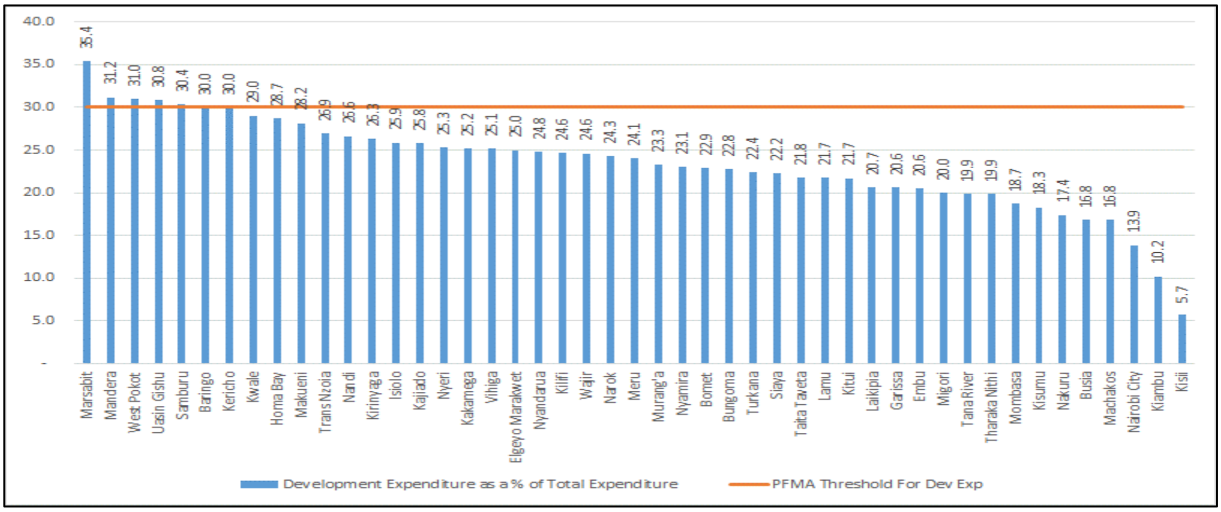
Figure 5: Budgeted Development as a Percentage of the Total Budget for the FY 2022/23



Source of data: Controller of Budget

41. The total actual development expenditure in the FY 2022/23 amounted to Ksh 98.0 billion against a total expenditure of Ksh 428.8 billion representing 22.8 percent of the total budget. The Public Finance Management Act, 2012 Section 107(b) requires that over the medium term, a minimum of 30 percent of each County Government's budget shall be allocated to development expenditure. Even though a number of County Governments meet this requirement as far as the approved budget is concerned, in terms of actual expenditure, only seven County Governments meet this requirement. These counties are Marsabit (35.4%), Mandera (31.2%), West Pokot (31.0%), Uasin Gishu (30.8%), Samburu (30.4%), Baringo (30.0%) and Kericho (30%). On other hand, Busia (16.8%), Machakos (16.8%), Nairobi City (13.9%), Kiambu (10.2%) and Kisii (5.7) spent the lowest budgets on development in the reporting period **(Figure 6).**

Figure 6: Actual Development Expenditures as a Percentage of Actual Total Expenditure for FY 2022/23

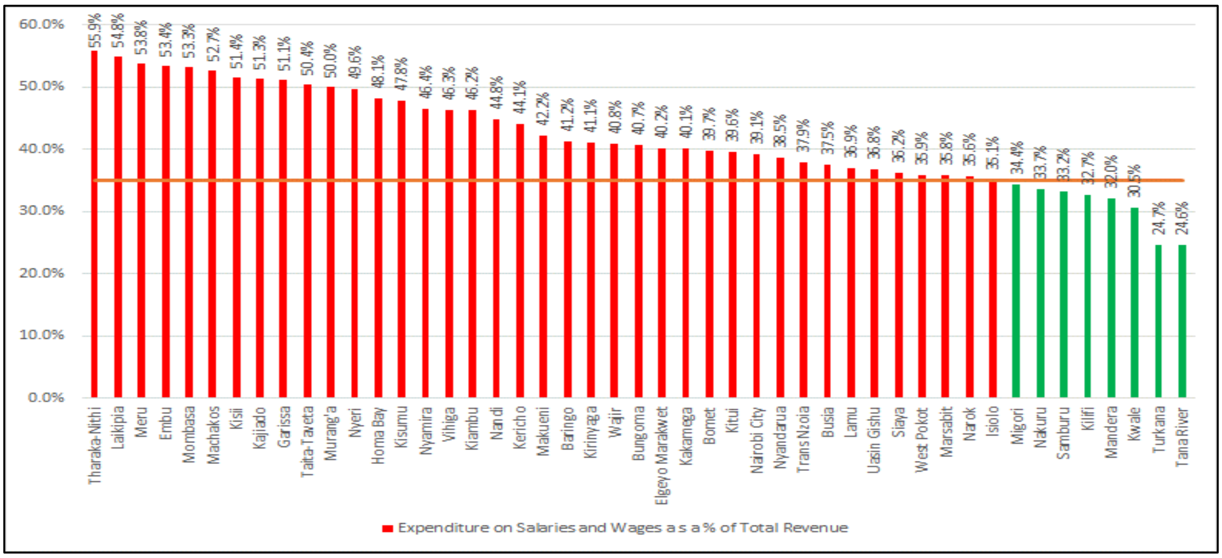


Source of Data: Controller of Budget

Expenditure on Wage Bill

42. The total expenditure on wages reported by County Governments amounted to Ksh 195.1 billion in the FY 2022/2023. During the same period, the total revenue available to the County Governments was Ksh 475.4 billion. The Public Finance Management (County Government) Regulations, 2015 requires that expenditure on wages and benefits for public officers shall not exceed 35 percent of the total revenues. This means that on average County Governments spent 41.7 percent of their total revenue on wages which is higher than the threshold of 35 percent provided by the PFM Act, 2012. Within this period, only eight Counties (Migori, Nakuru, Samburu, Kilifi, Mandera, Kwale, Turkana and Tana River) were able to maintain their allocation to wages and salaries below the 35 percent threshold. It is worth noting that a lower expenditure on the wage bill does not necessarily mean that the county government has committed the expenditure to development. Only Kwale, Mandera and Kilifi of the five counties had a development expenditure of over 30 percent **(Figure 7)**.

Figure 7: Actual Expenditures on Wages and Salaries as a Percentage of Total Revenue for the FY 2022/23



Source of Data: Controller of Budget

Pending Bills of County Governments

43. As at 30th June, 2023, County Governments reported pending bills of Ksh 164.76 billion as stated by the Controller of Budget. The County Executive reported a total of Ksh 163.1 billion while the County Assemblies reported a total of Ksh 1.7 billion as their pending bills as shown in **Table 12**.

Table 12: Pending Bills of the County Governments' as at 30th June, 2023

	Development (Ksh) (A)	Recurrent (Ksh) (B)	Total (Ksh) (C= A+B)
County Executive	31,904,907,894	131,201,401,193	163,106,309,087
County Assembly	639,429,699	1,018,933,772	1,658,363,471
Total	**32,544,337,593**	**132,220,334,965**	**164,764,672,558**

Source of Data: Controller of Budget

44. There is need for a comprehensive study to determine the causes of pending bills by the County Governments given that at the end of the financial year all counties received 100% of their equitable share and most of their conditional grants.

45. Based on the County Governments' fiscal performance in the FY 2022/23 outlined in the section above, County Governments are expected to put measures in place to address the several challenges noted. This include measures to address optimization of Own Source Revenue collection; adherence to fiscal responsibility principles; and clearance of pending bills and follow due procurement processes to ensure issues on ineligible pending bills do not arise.

Equalisation Fund

46. During the year under review, the Equalisation Fund loaded Ksh 3,009,998,064.6 into the IFMIS system to facilitate utilisation of unspent balances by implementing Ministry Departmental Agencies (MDAs) to fast-track payment of pending bills and completion of First Marginalization Policy projects in the 14 beneficiary counties as appropriated in the Equalisation Fund Appropriation Act, 2018 which does not lapse. Ksh 10.4 billion being allocation for FY 2021/22 and FY 2022/23 was appropriated through the Equalisation Fund Appropriation Bill 2023 which was approved and enacted on 30th June, 2023. The Equalisation Fund Appropriation Act, 2023 will be utilized for implementation of projects for Second Marginalisation Policy which have commenced in the 34 beneficiary counties.

County Governments Public Finance Management Challenges

47. A Multi-Agency Taskforce established in 2022/23 identified challenges faced by County Governments in the management of public finance. These challenges include weak linkage between planning and budget formulation, inability of county governments to adhere to the Public Procurement Act resulting in high outstanding pending bills, low development budget absorption, under-performance in own-source revenue, failure to use the prescribed financial systems (such as IFMIS, IPPD among others), non-adherence to fiscal responsibility principles, pilferage of public resources due to manual systems, inadequate understanding of the Office of the Controller of Budget's role in approval of county requisitions, high wage bill, weaknesses in human resource management, weak oversight by County Assembly and a weakened internal audit function among others. Some of the solutions to address these challenges include; capacity building of county governments on planning, budgeting and revenue forecasting; adherence to the disbursement schedule on equitable share transfers by the National Government and actualization of the Integrated County Revenue Management System (ICRMS).

III. MACROECONOMIC DEVELOPMENTS AND OUTLOOK

A. World Economic Outlook

48. World economic growth slowed to 3.5 percent in 2022 from a growth of 6.3 percent in 2021 as high global inflation, energy and value chain disruptions, and impact of monetary policy tightening in most world economies weighed on economic activity **(Table 13).** The growth is projected to slow down further to 3.0 percent in 2023 and 2024 due to the impact of ongoing monetary policy tightening to address inflationary pressures. Global inflationary pressures have responded to policy tightening but inflation exceeds central bank targets in most countries. Recent actions by authorities to contain banking sector challenges in the United States and Swiss Banking have reduced the immediate risk of financial sector instability. However, intensification of the conflict in Ukraine, volatility in the global oil prices and extreme weather related shocks could weigh on the global economic outlook.

Table 13: Global Economic Performance

	Growth (%)			
	Actual		Projected	
Economy	2021	2022	2023	2024
World	6.3	3.5	3.0	3.0
Advanced Economies	5.4	2.7	1.5	1.4
Of which: USA	*5.9*	*2.1*	*1.8*	*1.0*
Euro Area	*5.3*	*3.5*	*0.9*	*1.5*
Emerging and Developing Economies	6.8	4.0	4.0	4.1
Of which: China	*8.4*	*3.0*	*5.2*	*4.5*
India	*9.1*	*7.2*	*6.1*	*6.3*
Sub-Saharan Africa	4.7	3.9	3.5	4.1
Of which: South Africa	4.7	1.9	0.3	1.7
Nigeria	3.6	3.3	3.2	3.0
Kenya*	7.6	4.8	5.5	5.6

*Source: IMF World Economic Outlook, July 2023. *National Treasury Projection*

49. Advanced economies are projected to record a slower growth of 1.5 percent in 2023 and 1.4 percent in 2024 from 2.7 percent in 2022. About 93 percent of the countries in the advanced economies are projected to have a lower growth in 2023 and 2024. This slowdown is largely driven by aggressive monetary policy tightening in advanced economies that have increased concerns about escalating financial markets uncertainty, particularly persistent high interest rates and vulnerability of the banking sector.

50. Growth in the emerging market and developing economies, is projected to be broadly stable at 4.0 percent in 2023 and 4.1 percent in 2024, although with notable shifts across regions. The sluggish global growth, high inflation rates and the challenging global and domestic financial conditions continue to weigh on the growth for sub-Saharan Africa region. The region economic growth is projected to slow down to 3.5 percent in 2023 from 3.9 percent in 2022, before picking up to 4.1 percent in 2024.

B. Kenya's Economic Performance and Outlook

51. In the 10 years pre-COVID-19 pandemic, the economic growth averaged 5.0 percent whereas in the two years post COVID-19 pandemic the growth momentum picked up to average

6.2 percent. The Kenyan economy in 2022 demonstrated resilience in the face of severe multiple shocks that included the adverse impact of climate change, lingering effects of COVID-19, global supply chain disruption and the impact of Russia-Ukraine conflict. As such, the economic growth slowed down to 4.8 percent in 2022 from 7.6 percent in 2021.

52. In 2020, the economy received adequate rainfall that resulted in increased production in the agriculture sector growing by 4.6 percent. However, the country subsequently, experienced a severe climate related shock in the form of a severe drought that was also experienced in the Horn of Africa and the East African regions. The drought not only aggravated the inflationary pressures but also subjected millions of people to severe food insecurity, loss of lives, livelihoods and led to loss of livestock. This resulted in the contraction of the agriculture sector by 0.4 percent 2021 and 1.6 percent in 2022.

53. The performance of the industry sector slowed down to 3.5 percent in 2022 compared to a growth of 6.8 percent in 2021 on account of a slowdown in activities in the manufacturing, electricity and water supply and construction sub-sectors. In the year, services sector remained strong growing at 6.7 percent, with improved performance in information and communication, financial and insurance and professional, administrative and support services sub-sectors. There were also substantial growths in accommodation and food services, and transport and storage sub-sectors.

54. In the first quarter of 2023, real GDP growth was at 5.3 percent mainly due to a 5.8 percent recovery in the agricultural activities that reflected improved rainfall conditions and the impact of fertilizer and seed subsidies provided to the farmers by the Government **(Table 14).** The recovery in agriculture was reflected in enhanced production, especially of food crops that led to significant increase in export of vegetables and fruits.

Table 14: Sectoral GDP Performance

Sectors	2021	2022	2022 Q1	2023 Q1
1. Primary Industry	**0.5**	**(1.0)**	**(0.4)**	**5.6**
1.1. Agriculture, Forestry and Fishing	(0.4)	(1.6)	(1.7)	5.8
1.2 Mining and Quarrying	18.0	9.3	23.8	3.3
2. Secondary Sector (Industry)	**6.8**	**3.5**	**4.4**	**2.4**
2.1. Manufacturing	7.3	2.7	3.8	2.0
2.2. Electricity and Water supply	5.6	4.9	3.2	2.3
2.3. Construction	6.7	4.1	6.0	3.1
3. Tertiary sector (Services)	**9.6**	**6.7**	**8.5**	**6.0**
3.1. Wholesale and Retail trade	8.0	3.8	4.9	5.7
3.2. Accomodation and Restaurant	52.6	26.2	40.1	21.5
3.3. Transport and Storage	7.4	5.6	7.7	6.2
3.4. Information and Communication	6.1	9.9	9.0	8.7
3.5. Financial and Insurance	11.5	12.8	17.0	5.8
3.6. Public Administration	6.0	4.5	6.2	6.6
3.7. Others	10.8	5.2	6.7	4.9
of which: Professional, Admin & Support Services	7.1	9.4	13.1	7.3
Real Estate	6.7	4.5	6.0	5.2
Education	22.8	4.8	4.6	3.6
Health	8.9	4.5	5.7	5.4
Taxes less subsidies	11.9	7.0	9.5	4.4
Real GDP	**7.6**	**4.8**	**6.2**	**5.3**

Source of Data: Kenya National Bureau of Statistics

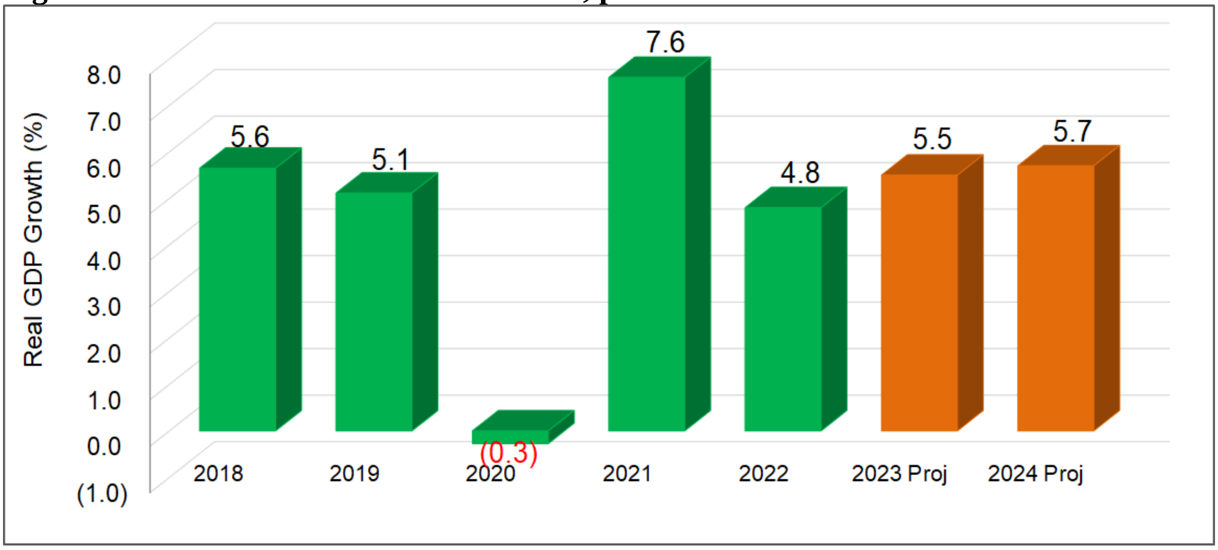
55. Manufacturing sub-sector expanded by 2.0 percent in the first quarter of 2023 mainly supported by the manufacture of food products that included bakery products and processing and preservation of fish. In the non-food manufacturing the growth performance was supported by substantial growth in the manufacture of basic metals and fabricated metal products. Electricity and Water Supply sub-sector expanded by 2.3 percent supported by increased

generation of electricity from renewable sources such as geothermal and wind that more than offset the decline in generation from hydroelectric sources. However, construction activities slowed down due to the decline in the volume of cement consumption and imports of various construction materials such as bitumen and iron and steel.

56. The activities in the services sector remained strong in the first quarter of 2023 growing by 6.0 percent largely characterized by significant growths in accommodation and food Service; information and communication technology; transportation and storage; financial and insurance; and wholesale and retail trade sub-sectors.

57. Available economic indicators in the first three quarters of 2023 remain strong with the continued recovery in the agricultural sector and sustained performance of the services sector. In this respect, economic growth is projected at 5.5 percent in 2023 and 5.7 percent in 2024 supported by broad-based private sector growth and sustained government investment in the nine priority value chains (Leather, Cotton, Dairy, Edible Oils, Tea, Rice, Blue economy, Natural Resources (including Minerals and Forestry), and Building Materials). Additionally, public sector investments in infrastructure and implementation of prudent fiscal and monetary policies will continue to support economic activity **(Figure 8).**

Figure 8: Annual Real GDP Growth Rates, percent



Source of Data: Kenya National Bureau of Statistics

Inflation Outcomes

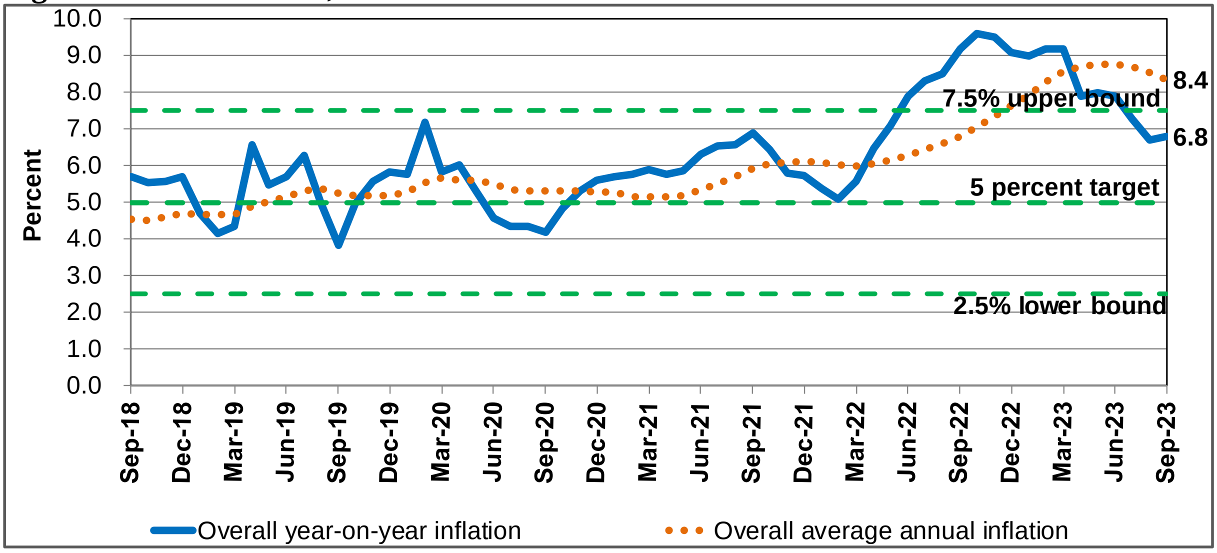
58. Inflation remained above the Government target range of 5±2.5 percent from June 2022 to June 2023. In order to anchor inflation expectations and reduce inflation to be within the target range, the Monetary Policy Committee (MPC) gradually raised the policy rate (Central Bank Rate (CBR)) from 7.50 percent in May 2022 to 10.50 percent in June 2023. The MPC retained the 10.50 percent in August 2023. Consequently, inflation declined significantly to 6.8 percent in September 2023, from a peak of 9.6 percent in October 2022. The decline largely reflects the easing of food prices and impact of monetary policy tightening **(Figure 9).**

59. Food inflation remained the dominant driver of overall inflation in August 2023. However, it declined to 7.5 percent in August 2023 from a peak of 15.0 percent in August 2022. Several factors explain this outcome: the easing of food prices arising from increased supply due to ongoing harvests; seasonal factors; international developments and Government measures on zero rated imports. Nonetheless, sugar prices remained elevated driven by domestic and global factors.

60. Fuel inflation remained elevated reflecting the impact of the rise in international oil prices. It increased to 13.1 percent in September 2023 from 11.7 percent in September 2022. The increase reflects gradual withdraw of the fuel subsidize from September 2022 and the upward adjustment of electricity tariff from April 2023. In addition, the upward adjustment of VAT on petroleum product in July 2023 from 8.0 percent to 16.0 percent to eliminate tax credits from the sector exacted upward pressures on prices. However, prices of cooking gas continued to decline and moderated inflation reflecting the impact of the zero-rating of VAT on liquefied petroleum gas (LPG).

61. Core (non-food non-fuel) inflation remained stable at 3.7 percent in both August and September 2023, from a peak of 4.4 percent in March 2023. The decline is attributed to the tight monetary policy and muted demand pressures.

Figure 9: Inflation Rate, Percent



Source of Data: Kenya National Bureau of Statistics

Monetary and Credit Developments

62. Broad money supply, M3, grew by 14.3 percent in the year to July 2023 compared to a growth of 7.6 percent in the year to July 2022 (**Table 15)**. The primary source of the increase in M3 was an improvement in the Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system. the NFA of the banking system in the year to July 2023 expanded by 56.6 percent compared to a contraction of 46.8 percent in the year to July 2022. The increase in net foreign assets, mainly reflected increase in commercial banks' foreign assets.

63. Net Domestic Assets (NDA) registered a growth of 10.2 percent in the year to July 2023, compared to a growth of 19.5 percent over a similar period in 2022. The growth in NDA was mainly supported by increase in domestic credit particularly resilient private sector credit and net lending to government. Growth of domestic credit extended by the banking system to the Government declined to a growth of 16.1 percent in the year to July 2023 compared to a growth of 25.4 percent in the year to July 2022. Lending to other public sector grew by 16.7 percent in the year to July 2023 mainly due to advances to parastatals.

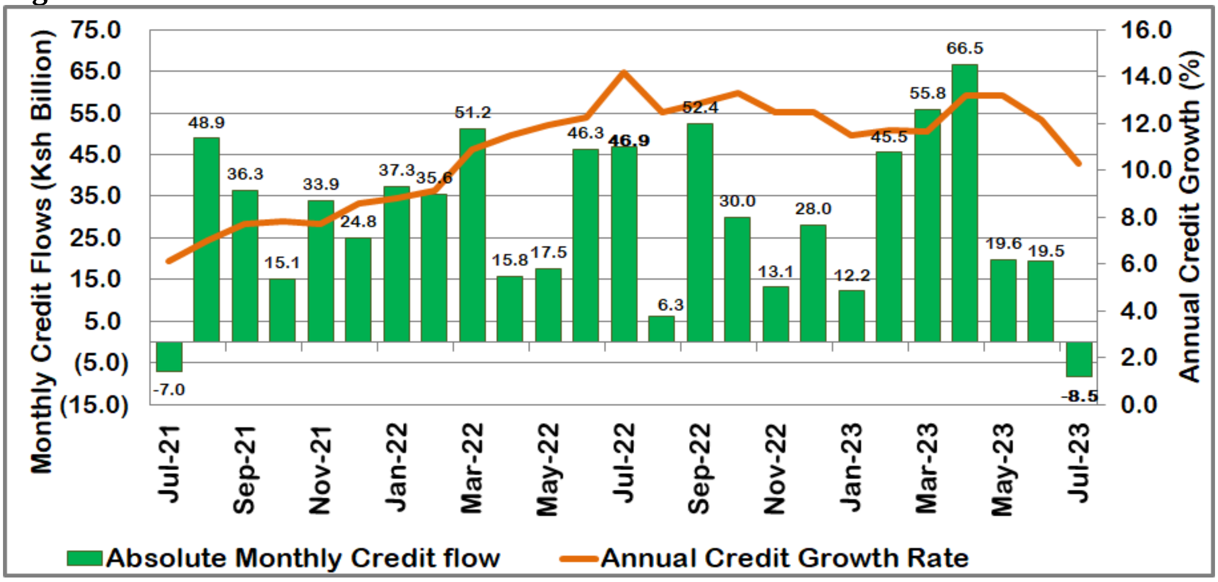
Table 15: Money and Credit Developments (12 Months to July 2023, Ksh billion)

				Change		Percent Change	
	2021 July	2022 July	2023 July	2021-2022 July	2022-2023 July	2021-2022 July	2022-2023 July
COMPONENTS OF M3							
1. Money supply, M1 (1.1+1.2+1.3)	1,788.0	2,010.1	2,126.4	222.0	116.4	12.4	5.8
1.1 currency outside banks (M0)	242.8	267.7	273.4	24.9	5.7	10.3	2.1
1.2 Demand deposits	1,458.8	1,658.4	1,719.6	199.6	61.3	13.7	3.7
1.3 Other deposits at CBK	86.4	84.0	133.4	(2.4)	49.4	(2.8)	58.9
2. Money supply, M2 (1+2.1)	3,416.9	3,587.2	3,886.7	170.3	299.6	5.0	8.4
2.1 Time and savings deposits	1,628.9	1,577.1	1,760.3	(51.8)	183.2	(3.2)	11.6
Money supply, M3 (2+3.1)	**4,174.6**	**4,491.5**	**5,133.1**	**316.8**	**641.6**	**7.6**	**14.3**
3.1 Foreign currency deposits	757.7	904.3	1,246.3	146.5	342.1	19.3	37.8
SOURCES OF M3							
1. Net foreign assets (1.1+1.2)	**751.2**	**400.0**	**626.2**	**(351.3)**	**226.3**	**(46.8)**	**56.6**
1.1 Central Bank	824.0	592.7	563.0	(231.2)	(29.8)	(28.1)	(5.0)
1.2 Banking Institutions	(72.8)	(192.8)	63.3	(120.0)	256.1	(165.0)	132.8
2. Net domestic assets (2.1+2.2)	**3,423.4**	**4,091.5**	**4,506.8**	**668.1**	**415.4**	**19.5**	**10.2**
2.1 Domestic credit (2.1.1+2.1.2+2.1.3)	4,499.8	5,296.7	5,958.0	796.9	661.3	17.7	12.5
2.1.1 Government (net)	1,522.7	1,909.8	2,216.9	387.1	307.1	25.4	16.1
2.1.2 Other public sector	83.0	83.1	97.0	0.1	13.9	0.1	16.7
2.1.3 Private sector	**2,894.1**	**3,303.8**	**3,644.1**	**409.7**	**340.3**	**14.2**	**10.3**
2.2 Other assets net	(1,076.4)	(1,205.2)	(1,451.2)	(128.8)	(246.0)	(12.0)	(20.4)

Source of Data: Central Bank of Kenya

64. Growth in private sector credit from the banking system remained resilient as business activities improved and grew by 10.3 percent in the year to July 2023 compared to a growth of 14.2 percent in the year to July 2022 **(Figure 8).** Improved credit expansion was registered in various sub-sectors that include finance and insurance, mining, transport and communication, agriculture and manufacturing. On a monthly basis, credit extension contracted by 8.5 percent in the year to July 2023 reflecting further tightening of the monetary policy in June 2023.

Figure 10: Private Sector Credit



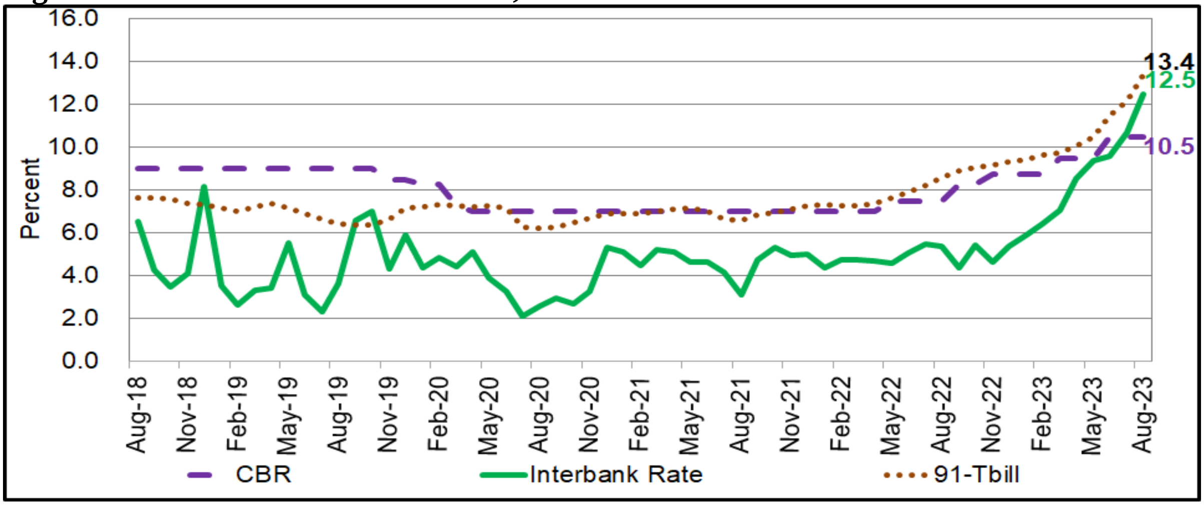
Source of Data: Central Bank of Kenya

Interest Rates Developments

65. Reflecting the tight monetary policy stance, interest rates increased in the year to August 2023. The interbank rate increased to 12.5 percent in August 2023 compared to 5.4 percent in August 2022 while the 91-day Treasury Bills rate increased to 13.4 percent compared to 8.6

percent over the same period (**Figure 9**). The 182-day Treasury Bills rate increased to 13.4 percent in August 2023 from 9.5 percent in August 2022 while the 364-day also increased to 13.6 percent from 9.9 percent over the same period. The introduction of the interest rate corridor, in August 2023, is expected to align the interbank rate to the Central Bank Rate and thereby improve the transmission of the monetary policy.

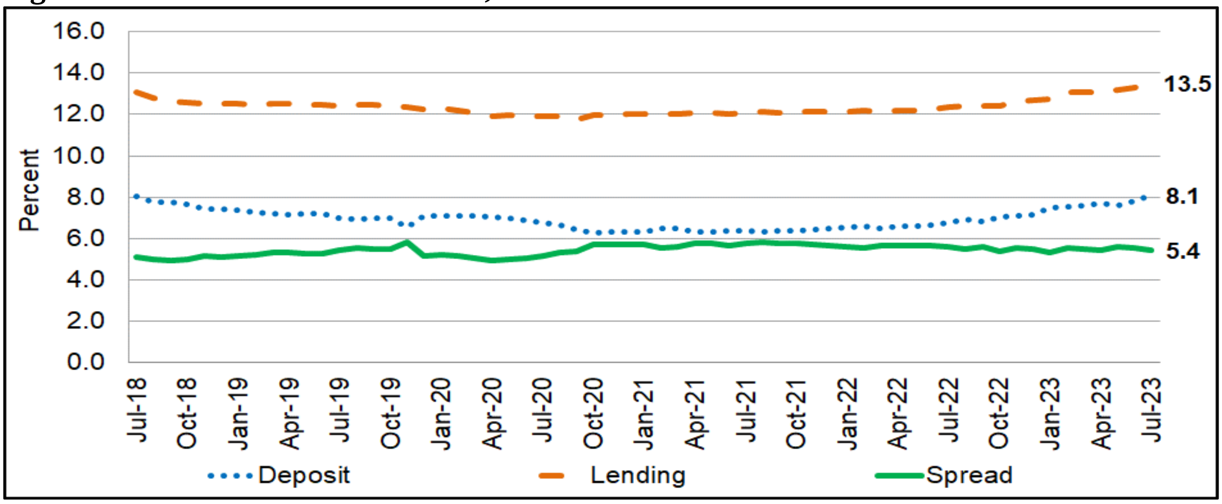
Figure 11: Short Term Interest Rates, Percent



Source of Data: Central Bank of Kenya

66. Commercial banks average lending and deposit rates increased in the year to July 2023 in tandem with the tightening of the monetary policy stance. The average lending rate increased to 13.5 percent in July 2023 from 12.4 percent in July 2022 while the average deposit rate increased to 8.1 percent from 6.7 percent over the same period. Consequently, the average interest rate spread declined to 5.4 percent in July 2023 from 5.6 percent in July 2022 **(Figure 12)**.

Figure 12: Commercial Bank Rates, Percent



Source of Data: Central Bank of Kenya

External Sector Developments

67. The current account balance narrowed by 20.6 percent to US$ 4,629.4 million (4.4 percent of GDP) in June 2023 from US$5,833.9 million (5.1 percent of GDP) in June 2022, reflecting lower imports, strong performance of export of goods and services as well as increased remittances (**Table 16**). Improvement in trade and the continued recovery in tourism continues

to boost export revenues in 2023. In the year to June 2023, exports grew by 2.1 percent primarily driven by improved receipts from tea and manufactured goods. The increase in receipts from tea exports reflects higher prices attributed to lower global supply due to drought amid resilient demand from traditional markets.

68. The continued recovery in tourism sector recorded a tourists increase by 25.2 percent in the year to June 2023 and travel and transportation services receipts increased by 24.2 percent during the same period. Growth in imports declined by 6.1 percent in the 12 months to June 2023, as oil prices moderated and reduced imports for infrastructure related equipment. In this respect, the balance in the merchandise account improved by USD 1,316.3 million to a deficit of USD 10,678.0 million in June 2023. Receipts from remittances remained resilient and amounted to USD 4,017 million in the 12 months to June 2023, and were 0.1 percent higher compared to a similar period in 2022.

Table 16: Balance of Payments (USD Million)

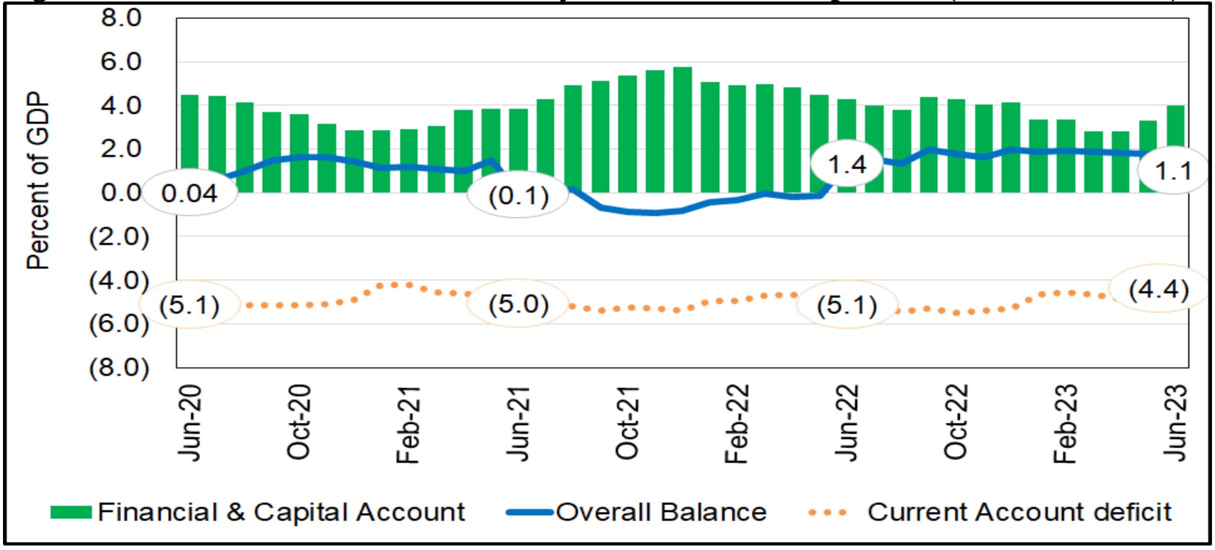
				Year to June 2023		**Percent of GDP**	
	Jun-21	**Jun-22**	**Jun-23**	**Change**	**Percent Change**	**Jun-22**	**Jun-23**
Overall Balance	**(59.8)**	**1,555.5**	**1,113.5**	**(442.0)**	**28.4**	**1.4**	**1.1**
A) Current Account	**(5,610.0)**	**(5,833.9)**	**(4,629.4)**	**1,204.5**	**20.6**	**(5.1)**	**(4.4)**
Merchandise Account (a-b)	(9,519.0)	(11,994.2)	(10,678.0)	1,316.3	11.0	(10.5)	(10.1)
a) Goods: exports	6,411.9	7,153.6	7,305.9	152.4	2.1	6.3	6.9
b) Goods: imports	15,930.9	19,147.8	17,983.9	(1,163.9)	(6.1)	16.7	17.0
Net Services (c-d)	352.1	1,484.4	1,049.7	(434.7)	(29.3)	1.3	1.0
c) Services: credit	3,916.4	6,135.6	6,181.3	45.7	0.7	5.4	5.8
d) Services: debit	3,564.3	4,651.2	5,131.6	480.4	10.3	4.1	4.8
Net Primary Income (e-f)	(1,833.7)	(1,713.7)	(1,789.4)	(75.7)	(4.4)	(1.5)	(1.7)
e) Primary income: credit	54.6	58.3	65.2	6.9	11.8	0.1	0.1
f) Primary income: debit	1,888.3	1,772.0	1,854.6	82.6	4.7	1.5	1.8
Net Secondary Income	5,390.6	6,389.7	6,788.3	398.7	6.2	5.6	6.4
g) Secondary income: credit	5,499.8	6,512.4	6,894.5	382.0	5.9	5.7	6.5
h) Secondary income: debit	109.2	122.8	106.2	(16.6)	(13.5)	0.1	0.1
B) Capital Account	**205.6**	**161.6**	**189.7**	**28.1**	**17.4**	**0.1**	**0.2**
C) Financial Account	**(4,069.5)**	**(4,746.6)**	**(4,061.5)**	**685.1**	**14.4**	**(4.1)**	**(3.8)**

Source of Data: Central Bank of Kenya

69. The capital account balance improved by USD 28.1 million to register a surplus of USD 189.7 million in June 2023 compared to a surplus of USD 161.6 million in the similar period in 2022. Net financial inflows slowed down but remained vibrant at USD 4,061.5 million in June 2023 compared to USD 4,746.6 million in June 2022. The net financial inflows were mainly in the form of other investments, financial derivatives and direct investments. Portfolio investments registered a net outflow during the period.

70. The overall balance of payments was a surplus of USD 1,113.5 million (1.1 percent of GDP) in June 2023 from a surplus of USD 1,555.5 million (1.4 percent of GDP) in June 2022 **(Figure 13).**

Figure 13: Performance of Balance of Payments and its Components (Percent of GDP)



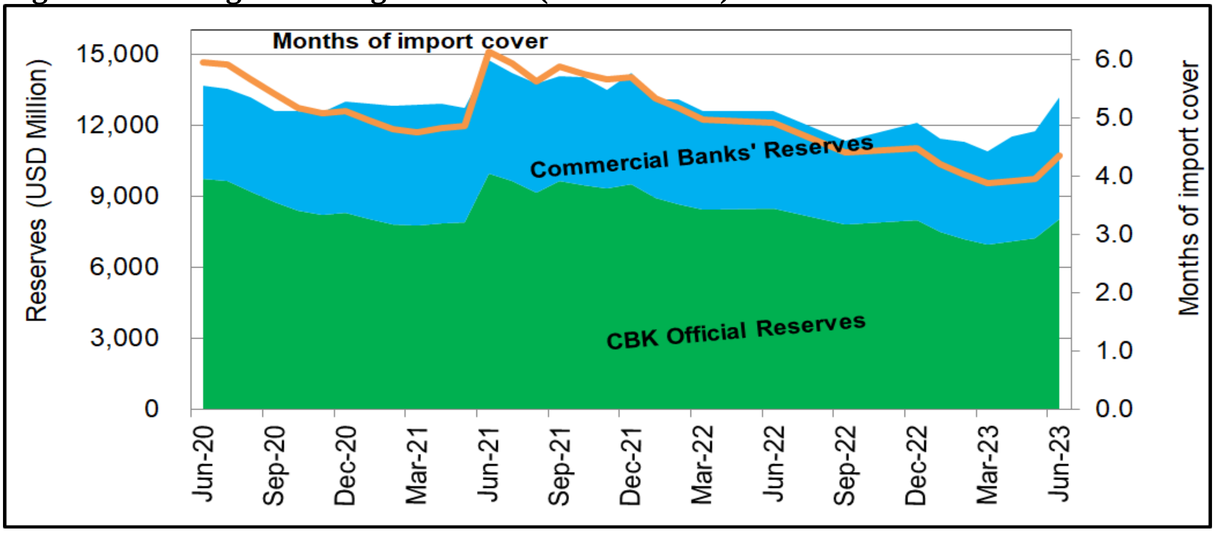
Source of Data: Central Bank of Kenya

Foreign Exchange Reserves

71. The banking system's foreign exchange holdings remained strong at USD 13,165.6 million in June 2023, an improvement from USD 12,580.6 million in June 2022. The official foreign exchange reserves held by the Central Bank stood at USD 8,036.7 million compared to USD 8,494.9 million over the same period **(Figure 14).** Commercial banks holdings improved to USD 5,128.8 million in June 2023 from USD 4,085.6 million in June 2022.

72. The official reserves in June 2023 represented 4.4 months of import cover as compared to the 4.9 months of import cover in June 2022. These reserves were above the minimum of 4.0 months of imports cover and provides adequate buffer against short-term shocks in the foreign exchange market.

Figure 14: Foreign Exchange Reserves (USD Million)



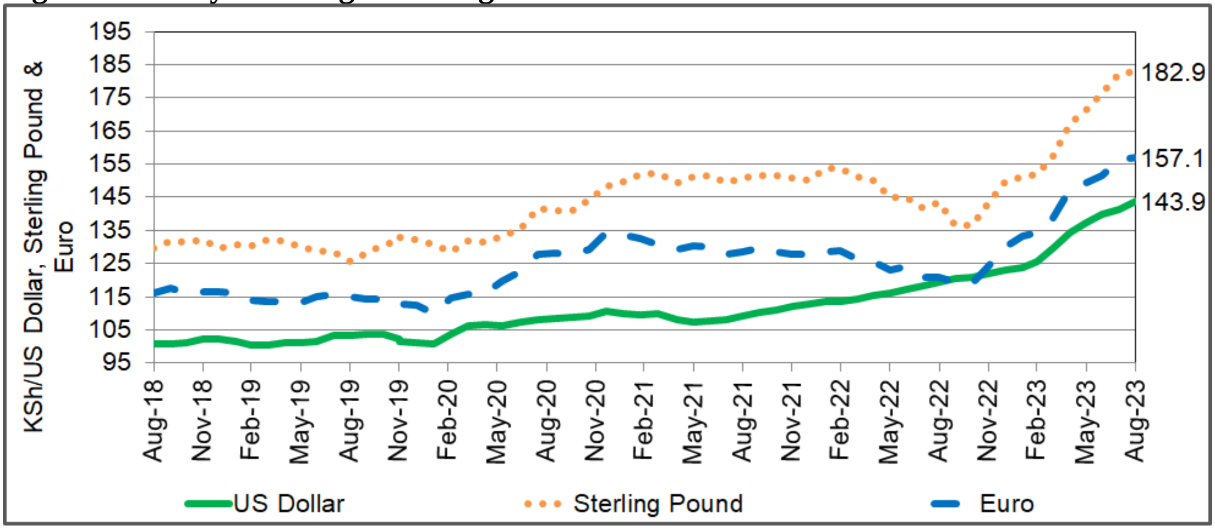
Source of Data: Central Bank of Kenya

Exchange Rate Developments

73. The Kenyan foreign exchange market remained under pressure as global economic uncertainty regarding the ongoing Russian-Ukraine conflict as well as increase in interest rates in advanced economies in response to inflationary pressures weighed in the exchange rate.

Specifically, the headwind from a strengthening dollar, boosted by rising US interest rates and elevated commodity prices, the exchange rate to the Kenya Shilling weakened at a rate of 20.5 percent in the 12 months to August 2023 compared to 9.3 percent in the 12 months to August 2022. The Kenya Shilling exchanged at an average of Ksh 143.9 in August 2023 compared to an average of Ksh 119.5 in August 2022. Against the Euro, the Kenya shilling weakened to exchange at Ksh 157.1 in August 2023 compared to Ksh 121.0 in August 2022 while against the Sterling Pound the Kenyan Shilling weakened to exchange at Ksh 182.9 compared to Ksh 143.5, over the same period **(Figure 15).** The Kenyan Shilling was supported by increased remittances, adequate foreign exchange reserves and improved exports receipts.

Figure 15: Kenya Shillings Exchange Rate

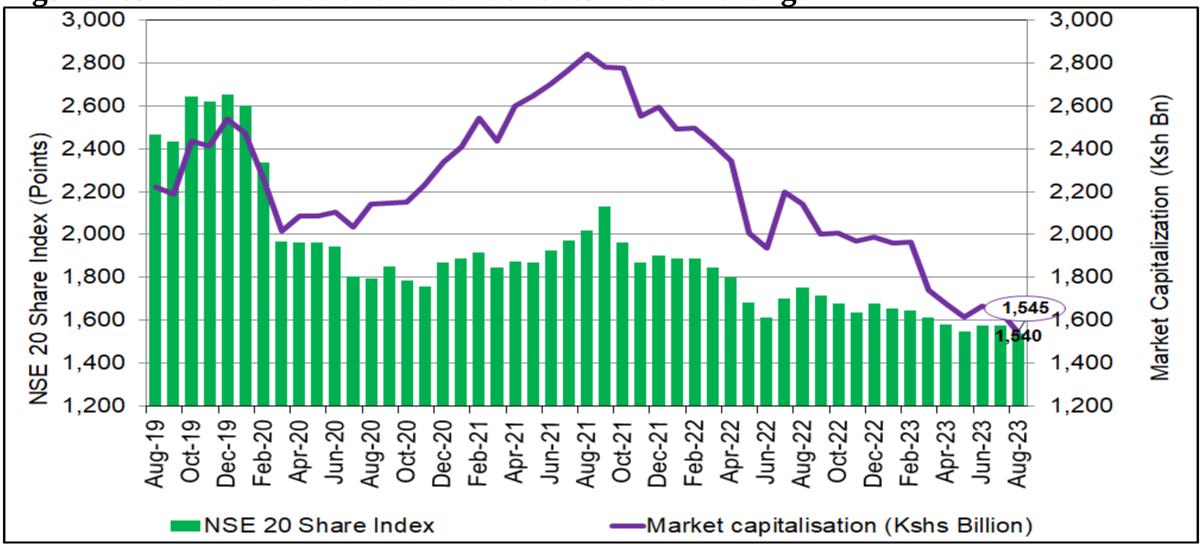


Source of Data: Central Bank of Kenya

Capital Markets Developments

74. Activity in the capital markets slowed down in August 2023 compared to August 2022 as advanced economies tightened their monetary policy amid inflationary pressures. The NSE 20 Share Index declined to 1,540 points in August 2023 compared to 1,751 points in August 2022 while Market capitalization declined to Ksh 1,545 billion from Ksh 2,142 billion over the same period **(Figure 16).**

Figure 16: Performance of the Nairobi Securities Exchange



Source of Data: Nairobi Securities Exchange

C. Kenya's Macroeconomic Outlook

75. Kenya's economic performance is projected to remain strong and resilient over the medium term **(Table 17 in calendar years and Annex Table 1 in fiscal years).** The economy recorded a strong growth of 5.3 percent in the first quarter reflecting a strong recovery in agriculture sector and buoyant services sector including financial and insurance, information and communication, wholesale and retail trade and transport and storage. The economy is expected to remain strong and expand by 5.5 percent in 2023 (5.6 percent in FY 2023/24) and 5.7 percent in 2024 (5.9 percent in FY 2024/25).

76. This growth will be supported by the strong recovery in agriculture and resilient services sector that both drive the industrial sector. The adequate rainfall during the long rain season in most parts of the country and the anticipated short rains later in 2023 will continue to support activities in the agriculture, electricity, and water supply sectors. The improved availability of raw materials following the recovery in agriculture and a decline in global commodity prices will support food processing in the manufacturing sector. Additionally, activities in the construction sector will be boosted by the affordable housing programme. Services sector will be supported by resilient activities in the financial and insurance, information and communication, wholesale and retail trade and transport and storage, among others. The easing of global commodity prices and supply chain constraints coupled with robust private sector investment are expected to support domestic demand.

77. On the demand side, private consumption is expected to remain on a robust growth path in the near term. The easing of inflationary pressures will result in strong household disposable income, which in turn will support household consumption. The interventions by the Government through the Financial inclusion initiative popularly known as the Hustlers' Fund will strengthen MSMEs thereby correcting market failures for the vast majority of Kenya's at the bottom of the pyramid. This will strengthen the private sector led growth opportunities. The multi-year fiscal consolidation program by the Government has been incorporated in the projections and is expected to lower the fiscal deficit and achieve a positive primary balance over the medium term. This will reduce debt vulnerabilities and strengthen debt sustainability and provide the needed confidence for investors. This will boost private investment and economic vibrancy over the medium term. The lower domestic financing needs of the Government, will enable the expanded lending to the private sector by the banking sector.

78. The development spending in the budget will be retained at an average of 5.6 percent of GDP so as not to impact on growth momentum. This will support capacity for future growth. The spending will enhance Government investment in the nine priority value chains (Leather, Cotton, Dairy, Edible Oils, Tea, Rice, Blue economy, Natural Resources (including Minerals and Forestry), and Building Materials). Additionally, it will support investments in key projects under the Bottom-Up Economic Transformation Agenda (BETA) including construction of dams, improvement of road networks and ports and laying of additional National Fiber Optic network. Enhanced digitalization, is expected to improve efficiency and productivity in the economy. In particular, investment in digital superhighway will result in enhanced connectivity and access to broadband services which will lower the cost of doing business, enhance efficiency and create employment opportunity.

79. Kenya's exports of goods and services is expected to continue strengthening supported by receipts from tourism and implementation of crops and livestock value chains, specifically, exports of tea, coffee, vegetables and fresh horticultural produce, among others. The expected recovery of Kenya's trading partners and the implementation of Africa Continental Free Trade Area (AfCFTA) will enhance demand for exports of Kenyan manufactured products. Current

account deficit will average 5.4 percent of GDP between 2023 and 2027. The projected robust domestic demand sustained by private investment, will sustain imports of raw materials, machinery and equipment for private construction, and household consumption. In addition, global oil prices are expected to stabilize. In the Balance of Payments Statement, external financing needs will be met mainly by equity inflows and foreign direct investment given the conducive business climate that Government has created particularly the fiscal policy predictability. Improvement in the current account, boosted by robust export earnings and strong remittance inflows will continue to support stability in the foreign exchange market.

Monetary Policy Management

80. The monetary policy stance is aimed at achieving price stability and providing adequate credit to support economic activity. Consequently, overall inflation is expected to remain within the Government target range of 5±2.5 percent in the medium term. This will be supported by muted demand pressures consistent with prudent monetary policy and easing domestic and global food prices. In addition, Government measures to support sufficient supply of staple food items through zero rated imports and lower the cost of production through the ongoing fertilizer and seeds subsidy program will exact downward pressure on inflation.

81. The Central Bank has continued to implement reforms to Modernize its Monetary Policy Framework and Operations in Kenya, designed to enhance monetary policy transmission. In particular, CBK has implemented a new monetary policy framework based on inflation targeting. This will facilitate alignment of the short term rates with the Central Bank Rate (CBR), reduce volatility in the interbank rate and improve monetary policy transmission, CBK has implemented an interest rate corridor. The interest rate corridor is set at ± 250 basis points around the CBR. In addition, the CBK has reduced the applicable interest rate to the Discount Window from 600 basis points to 400 basis points above CBR to improve access to the Window.

82. The Central Bank has also introduced DhowCSD, an upgraded Central Securities Depository infrastructure, that offers a simple, efficient, and secure portal by the Central Bank of Kenya (CBK) to enable the public to invest in Government of Kenya securities. The platform enables investors to participate and trade in Government securities market (Treasury Bills and Bonds) on their mobile phones and on web based devices. The DhowCSD will transform Kenya’s financial markets through enhanced operational efficiency and expansion of digital access, market deepening for broader financial inclusion, and improved monetary policy operations. Additionally, the DhowCSD will also improve the functioning of the interbank market by facilitating collateralized lending amongst commercial banks and further reduce segmentation in the interbank market.

83. The Central Bank will require a re-look at the Payments System and why preferences of cash is rising and cash outside the banking sector is rising. This weakens the transmission of monetary policy in the market.

Table 17: Kenya's Macroeconomic Indicators and Projections

	2020	2021	2022	2023	2024	2025	2026	2027
	Act	Prel. Act	Prel. Act	Proj.	BROP 2023	BROP 2023	BROP 2023	BROP 2023
annual percentage change, unless otherwise indicated								
National Account and Prices								
Real GDP	-0.3	7.6	4.8	5.5	5.7	6.0	6.2	6.3
Agriculture	4.6	-0.4	-1.6	5.0	4.2	4.1	4.2	4.3
Industry	3.2	6.8	3.5	3.2	3.8	4.2	4.5	4.9
Services	-1.8	9.6	6.7	5.9	6.3	6.5	6.8	6.9
GDP deflator	4.9	4.3	6.0	7.6	4.7	4.7	4.8	4.6
CPI Index (eop)	5.6	5.7	9.1	6.3	5.0	5.0	5.0	5.0
CPI Index (avg)	5.3	6.1	7.6	7.6	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	-5.3	-2.2	0.7	-8.3	1.6	1.2	1.4	2.4
Money and Credit (end of period)								
Net domestic assets	15.9	15.2	13.0	9.6	10.3	10.8	10.0	10.8
Net domestic credit to the Government	26.7	18.9	10.5	8.8	9.4	8.2	6.6	5.9
Credit to the rest of the economy	10.1	12.2	10.9	11.0	14.6	15.9	15.2	16.4
Broad Money, M3 (percent change)	6.9	10.5	13.2	12.3	11.3	11.0	10.9	11.3
Reserve money (percent change)	10.5	4.0	3.2	12.2	11.2	10.8	10.8	11.1
in percentage of GDP, unless otherwise indicated								
Investment and Saving								
Consumption	**88.3**	**88.7**	**90.1**	**89.5**	**90.1**	**86.5**	**84.4**	**84.0**
Central Government	12.5	12.1	12.3	10.2	9.9	9.4	9.2	9.3
Private	75.4	74.6	75.6	79.3	80.3	77.1	75.2	74.7
Gross Fixed Capital Investment	**19.7**	**20.4**	**19.2**	**19.4**	**20.2**	**21.9**	**22.9**	**23.6**
Central Government	5.5	4.5	3.8	3.9	4.5	5.0	5.1	5.1
Private	14.2	15.9	15.4	15.5	15.7	16.9	17.7	18.5
Gross National Saving	**14.9**	**15.6**	**14.1**	**14.3**	**14.9**	**16.3**	**17.4**	**17.9**
Central Government	-3.3	-4.4	-4.1	-4.1	-3.4	-2.4	-1.5	-1.2
Private	**18.1**	20.0	18.2	18.4	18.4	18.7	18.9	19.1
Exports value, goods and services	9.7	10.8	12.2	13.9	14.6	13.7	12.8	11.7
Imports value, goods and services	17.7	19.9	21.5	23.5	24.1	22.6	20.6	20.0
Current external balance, including official transfers	-4.8	-4.8	-5.1	-5.1	-5.3	-5.6	-5.4	-5.6
Gross reserves in months of next yr's imports	4.5	5.0	5.5	4.7	5.4	5.6	5.2	5.4
Gross reserves in months of this yr's imports	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
fiscal years, in percentage of GDP, unless otherwise indicated								
Central Government Budget								
Total revenue	16.5	16.0	17.3	16.5	18.6	18.9	19.2	19.7
Total expenditure and net lending	24.4	24.6	23.8	22.6	24.3	23.6	23.1	23.3
Overall Fiscal balance excl. grants	-7.9	-8.6	-6.5	-6.0	-5.6	-4.7	-4.0	-3.6
Overall Fiscal balance, incl. grants	-7.7	-8.3	-6.3	-5.9	-5.4	-4.4	-3.7	-3.3
Overall Fiscal balance, incl. grants, cash basis	-7.6	-8.3	-6.2	-5.6	-5.4	-4.4	-3.7	-3.3
Primary budget balance	-3.4	-3.9	-1.6	-0.8	0.3	0.9	1.2	1.3
Public debt								
Nominal central government debt (eop), gross	68.4	68.0	71.4	68.5	65.8	63.0	60.0	57.1
Nominal debt (eop), net of deposits	63.4	64.7	68.0	65.5	63.1	60.5	57.9	55.2
Domestic (gross)	32.8	34.1	33.9	32.5	31.9	31.6	30.5	29.3
Domestic (net)	27.9	30.8	30.5	29.5	29.2	29.1	28.3	27.3
External	35.5	33.9	37.5	36.0	33.9	31.4	29.6	27.8
Memorandum Items:								
Nominal GDP (in Ksh Billion)	10,715	12,028	13,368	15,180	17,083	18,948	21,057	23,304
Nominal GDP (in US$ Million)	100,658	109,697	113,421	104,840	122,633	134,142	146,928	161,581

Source: The National Treasury

Risks to the economic outlook

84. There are down side risks to this macroeconomic outlook emanating from domestic as well as external sources. On the domestic front, risks relate to unpredictable weather conditions due to the impact of climate change which could adversely affect agricultural production and result to domestic inflationary pressures and food insecurity. This supply shocks are thus unpredictable and cannot be contained effectively and efficiently by monetary policy instruments.

85. On the external front, uncertainties in the global economic outlook stemming from the current geopolitical tension could result in higher commodity prices and slowdown the global economic recovery that could impact on the domestic economy. Weaker global demand could adversely affect the Kenya’s exports, foreign direct investments and remittances. Additionally, high international commodity prices pose a risk to global and domestic inflation outcomes which could lead to further tightening of financial conditions. Continued strengthening of US dollar against other global currencies arising from aggressive monetary policy tightening present significant risks to financial flows and puts pressures on the exchange rate with implication to growth and inflation.

86. Upside risks are mostly linked to early easing of global financing conditions and lower international fuel and food prices, which would strengthen Kenya’s external balances. This will be reinforced by faster than projected rebound in economic activities that would result in higher Government revenues providing fiscal space that would support fiscal consolidation. Optimal coordination between monetary and fiscal policies are expected to result to a stable macroeconomic conditions which is a necessary condition for investment and savings thereby promoting economic growth.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Implementation of the FY 2023/24 Budget

87. Budget implementation during the first two months of the FY 2023/24 has progressed well. Total revenues amounted to Ksh 351.3 billion (2.2 percent of GDP) in August 2023 against a target of Ksh 410 billion implying a performance rate of 85.6 percent. Total expenditure for August 2023 was Ksh 415.9 billion and was below target of Ksh 546.7 billion by Ksh 130.8 billion. There are expenditure pressures arising from FY 2022/23 carryovers amounting to Ksh 77.5 billion which may necessitate revision of the budget. During the implementation process, movement in interest rates and exchange rate have impacted on fiscal space. In order to maintain the primary balance consistent with the fiscal consolidation path, expenditures have to be maintained at the levels approved in printed estimates. In this respect, additional spending pressures will be accommodated within the approved ceilings, that is reallocation possibilities, except those of the security and education sectors. Ministries, Departments and Agencies are expected to settle the carryovers from the FY 2022/23 budget as a first charge against the budgetary allocations for the FY 2023/24 budget. The fiscal deficit including grants for the FY 2023/24 is therefore projected at 5.4 percent of GDP and will decline to 4.4 percent of GDP in the FY 2024/25 and projected at 3.6 percent of GDP in the FY 2026/27.

88. Total revenues for the FY 2023/24 are projected at Ksh 3,007.5 billion (18.6 percent GDP) with ordinary revenues projected at Ksh 2,576.4 billion (16.0 percent of GDP). Total expenditures are projected at Ksh 3,913.5 billion (24.3 percent of GDP) with recurrent expenditures projected at Ksh 2,687.2 billion (16.7 percent of GDP), development expenditures are projected at Ksh 793.8 billion (4.9 percent of GDP) and an allocation of Ksh 2.8 billion to Contingency Fund. Transfer to County Governments is projected at Ksh 429.7 billion (2.7 percent of GDP). The resulting fiscal deficit inclusive of grants of Ksh 863.8 billion (5.4 percent of GDP) will be financed by a net external financing of Ksh 448.7 billion and a net domestic financing of Ksh 415.1 billion **(Annex Table 2 and 3)**.

B. Fiscal Policy for FY 2024/25 and Medium Term Budget

89. The fiscal policy stance in the FY 2024/25 and over the medium term aims at supporting the priority programmes of the Government under the Bottom - Up Economic Transformation Agenda (BETA) and the MTP IV through a growth friendly fiscal consolidation plan designed to slow down the annual growth in public debt and implement an effective liability management strategy, without compromising service delivery to citizens. This is expected to boost the country's debt sustainability position and ensure that Kenya's development agenda honors the principle of inter-generational equity.

90. Towards this end, emphasis will be placed on aggressive revenue mobilization through a combination of tax administrative and tax policy reforms. In this regard, the Government will implement the National Tax Policy which will guide taxation process in Kenya. The Government will also finalize development of the Medium Term Revenue Strategy for the period 2023/24 to 2026/27 which will provide a comprehensive framework for guiding tax reforms in the medium term. Further, there is continuous effort to reform, modernize and simplify tax laws and processes to enhance compliance and expand the tax base. The Kenya Revenue Authority will continue to employ the use of technology to curb revenue leakages including use of scanners; enhancements of iTax and Integrated Customs Management System (iCMS); and full roll out of e-TIMS.

91. On the other hand, the Government will sustain efforts to improve efficiency in public spending and ensure value for money by: eliminating non priority expenditures; rationalizing

tax expenditures; scaling up the use of Public Private Partnerships financing for commercially viable projects; and rolling out an end-to-end e-procurement system.

92. The above reforms on the revenue and expenditure, will result in a gradual decline in the overall fiscal deficit from 5.6 percent of GDP in FY 2022/23 to 5.4 percent of GDP in FY 2023/24 and projected at 4.4 percent of GDP in FY 2024/25 **(Annex Table 2 and 3)**. This will boost the country's debt position and ensure the country's development agenda is sustainably funded.

FY 2024/25 Fiscal Projections

93. In the FY 2024/25 total revenue including Appropriation-in-Aid (A-i-A) is projected at Ksh 3,407.8 billion (18.9 percent of GDP). Of this, ordinary revenue is projected at Ksh 2,918.9 billion (16.2 percent of GDP). This revenue performance will be underpinned by the on-going reforms in policy and revenue administration. The overall expenditure and net lending is projected at Ksh 4,257.3 billion (23.6 percent of GDP) comprising: recurrent expenditure of Ksh 2,851.0 billion (15.8 percent of GDP); development expenditure of Ksh 957.3 billion (5.3 percent of GDP); transfer to Counties of Ksh 444.0 billion and Contingency Fund of Ksh 5.0 billion, respectively.

94. The resulting fiscal deficit of Ksh 800.2 billion (4.4 percent of GDP) in FY 2024/25 will be financed by a net external financing of Ksh 296.5 billion (1.6 percent of GDP) and a net domestic financing of Ksh 503.7 billion (2.8 percent of GDP).

Medium Term Fiscal Projections

95. Over the medium term, the Government's total revenue including A-i-A is projected to rise from 18.9 percent of GDP in the FY 2024/25 to 19.2 percent of GDP in FY 2025/26 and further to 19.7 percent of GDP in the FY 2026/27. Total expenditure is projected at 23.6 percent of GDP in the FY 2024/25; 23.1 percent of GDP in FY 2025/26 to ; and 23.3 percent of GDP in the FY 2026/27. Of the total expenditures, recurrent expenditure is projected at 15.8 percent of GDP in the FY 2024/25; 15.1 percent of GDP in the FY 2025/26 and 15.2 percent of GDP in the FY 2026/27. Development and net lending expenditures are expected to remain stable at around 5.0 percent of GDP over the medium term.

96. In line with the fiscal consolidation plan, the overall fiscal deficit is projected to decline from 4.4 percent of GDP in the FY2024/25 to 3.7 percent of GDP in the FY 2025/26 and further to 3.3 percent of GDP in the FY 2026/27 **(Annex Table 2 and 3).** This is intended to significantly improve Kenya's debt sustainability position.

C. FY 2024/25 and Medium-Term Budget Framework

97. The FY 2024/25 and the Medium Term Framework will focus on the implementation of the Bottom-up Economic Transformation Agenda (BETA) as prioritized in the Medium Term Plan (MTP) IV. The Agenda is geared towards economic turnaround and inclusive growth, and aims to increase investments in the five core pillars envisaged to have the largest impact to the economy as well as on household welfare. These include: Agricultural Transformation and Inclusive Growth; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry. Implementation of these priority programmes aims at bringing down the cost of living; eradicating hunger; creating jobs; and provide the greater majority of our citizens with much needed social security while expanding the tax revenue base and improving foreign exchange balance.

98. To achieve the pillars, the Government will implement strategic interventions under the following key enablers: Infrastructure; Manufacturing; Blue Economy; the Services Economy, Environment and Climate Change; Education and Training; Women Agenda; Youth

Empowerment and Development Agenda; Social Protection; Sports, Culture and Arts; and Governance.

Criteria for Resource Allocation

99. The resource allocation for the priority programmes will be developed through a value chain approach under five clusters namely: Finance and Production Economy; Infrastructure; Land and Natural Resources; Social Sectors; and Governance and Public Administration. The nine (9) identified key value chain areas for implementation include: Leather; Cotton; Dairy; Edible Oils; Tea; Rice; Blue Economy; Natural Resources (including Minerals and Forestry); and Building Materials. This process ensures there is no break in the cycle in the resource allocations for a value chain. The process also ensures adequate resources are allocated to any entity along the value chain and helps to eliminate duplication of roles and budgeting of resources. Spending in these critical needs are aimed at achieving quality outputs and outcomes with optimum utilization of resources. The momentum and large impact they will create will raise economic vibrancy and tax revenues.

100. Further, the MDAs will be encouraged to adopt efficiency in allocation of resources through cost budgeting and reviewing the portfolio of externally funded projects. The MDAs will also encouraged to restructure and re-align with the Government priority programmes. Realization of these objectives will be achieved within the budget ceilings provided in this BROP. The following criteria will serve as a guide for allocating resources:

i. Linkage of programmes with the value chains of the Bottom-Up Economic Transformation Agenda priorities;
ii. Linkage of the programme with the priorities of Medium-Term Plan IV of the Vision 2030;
iii. Linkage of programmes that support mitigation and adaptation of climate change;
iv. Completion of ongoing projects, viable stalled projects and payment of verified pending bills;
v. Degree to which a programme addresses job creation and poverty reduction;
vi. Degree to which a programme addresses the core mandate of the MDAs;
vii. Cost effectiveness, efficiency and sustainability of the programme; and
viii. Requirements for furtherance and implementation of the Constitution.

101. Reflecting on the above, the Medium-Term Expenditure Framework provided in **Table 18 and Annex Table 4 and 5** will guide resource allocation into the medium term.

102. To facilitate the finalization and approval of the 2023 BROP and other policy documents within the stipulated timelines, MDAs are required to strictly undertake the activities outlined in the Budget Calendar within the set timeframes. The Budget Calendar provided in **Annex Table 6** outlines the timeframes for delivery of policy documents, reports and relevant Bills.

Table 18: Medium Term Sector Ceilings, FY 2024/25 – FY 2026/27 (Ksh Million)

Code	Sector		Approved Budget	BROP Projection			%Share In Total Ministerial Expenditure			
			2023/24	2024/25	2025/26	2026/27	2023/24	2024/25	2025/26	2026/27
010	AGRICULTURE, RURAL & URBAN DEVELOPMENT (ARUD)	**Sub_Total**	**87,941.5**	**85,794.1**	**93,615.7**	**97,423.0**	**3.71**	**3.37**	**3.41**	**3.25**
		Rec_Gross	32,970.2	28,156.0	29,175.1	30,439.4	2.11	1.71	1.67	1.55
		Dev_Gross	54,971.3	57,638.1	64,440.6	66,983.6	6.81	6.38	6.47	6.50
020	ENERGY, INFRASTRUCTURE AND ICT	**Sub_Total**	**532,363.7**	**541,120.0**	**567,133.5**	**580,050.3**	**22.44**	**21.24**	**20.66**	**19.36**
		Rec_Gross	148,004.6	148,380.9	151,683.8	152,653.3	9.46	9.02	8.68	7.77
		Dev_Gross	384,359.1	392,739.1	415,449.7	427,397.0	47.59	43.47	41.69	41.47
030	GENERAL ECONOMIC AND COMMERCIAL AFFAIRS (GECA)	**Sub_Total**	**61,419.8**	**57,339.8**	**62,534.3**	**54,668.0**	**2.59**	**2.25**	**2.28**	**1.82**
		Rec_Gross	30,044.5	30,299.8	31,050.8	32,949.3	1.92	1.84	1.78	1.68
		Dev_Gross	31,375.3	27,040.0	31,483.6	21,718.8	3.88	2.99	3.16	2.11
040	HEALTH	**Sub_Total**	**141,186.5**	**143,120.8**	**151,362.7**	**156,724.1**	**5.95**	**5.62**	**5.52**	**5.23**
		Rec_Gross	80,627.1	82,343.4	87,785.3	91,946.7	5.15	5.01	5.02	4.68
		Dev_Gross	60,559.4	60,777.4	63,577.4	64,777.4	7.50	6.73	6.38	6.29
050	EDUCATION	**Sub_Total**	**628,580.2**	**669,953.0**	**730,238.6**	**790,003.3**	**26.49**	**26.30**	**26.61**	**26.37**
		Rec_Gross	595,480.7	640,408.7	688,108.5	747,854.3	38.05	38.95	39.36	38.06
		Dev_Gross	33,099.4	29,544.3	42,130.0	42,149.0	4.10	3.27	4.23	4.09
060	GOVERNANCE, JUSTICE, LAW AND ORDER (GJLO)	**Sub_Total**	**230,401.2**	**250,175.5**	**271,758.9**	**306,670.5**	**9.71**	**9.82**	**9.90**	**10.24**
		Rec_Gross	220,529.5	232,657.7	249,167.4	280,489.2	14.09	14.15	14.25	14.27
		Dev_Gross	9,871.6	17,517.8	22,591.5	26,181.3	1.22	1.94	2.27	2.54
070	PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS (PAIR)	**Sub_Total**	**310,191.1**	**332,890.9**	**404,132.0**	**533,296.8**	**13.07**	**13.07**	**14.73**	**17.80**
		Rec_Gross	194,209.8	197,958.2	220,140.8	328,936.6	12.41	12.04	12.59	16.74
		Dev_Gross	115,981.3	134,932.7	183,991.2	204,360.2	14.36	14.93	18.47	19.83
080	NATIONAL SECURITY	**Sub_Total**	**189,244.2**	**253,635.6**	**237,632.5**	**244,276.8**	**7.98**	**9.96**	**8.66**	**8.15**
		Rec_Gross	184,990.2	204,026.6	207,293.5	213,937.8	11.82	12.41	11.86	10.89
		Dev_Gross	4,254.0	49,609.0	30,339.0	30,339.0	0.53	5.49	3.04	2.94
090	SOCIAL PROTECTION, CULTURE AND RECREATION	**Sub_Total**	**70,642.9**	**72,619.2**	**73,873.4**	**75,815.3**	**2.98**	**2.85**	**2.69**	**2.53**
		Rec_Gross	45,681.9	47,828.1	48,502.2	49,144.3	2.92	2.91	2.77	2.50
		Dev_Gross	24,961.0	24,791.1	25,371.2	26,671.0	3.09	2.74	2.55	2.59
0100	ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	**Sub_Total**	**120,559.7**	**141,126.4**	**152,176.2**	**156,735.3**	**5.08**	**5.54**	**5.54**	**5.23**
		Rec_Gross	32,348.7	32,211.4	35,143.2	36,689.3	2.07	1.96	2.01	1.87
		Dev_Gross	88,211.0	108,915.0	117,033.0	120,046.0	10.92	12.05	11.75	11.65
	GRAND TOTAL	**Sub_Total**	**2,372,530.7**	**2,547,775.2**	**2,744,457.8**	**2,995,663.5**	**100.0**	**100.0**	**100.0**	**100.0**
		Rec_Gross	1,564,887.2	1,644,270.7	1,748,050.6	1,965,040.2	65.96	64.54	63.69	65.60
		Dev_Gross	807,643.5	903,504.6	996,407.2	1,030,623.3	34.04	35.46	36.31	34.40

D. Public Participation and Involvement of Stakeholders

103. As required by the Public Finance Management (PFM) Act, 2012 this Budget Review and Outlook Paper has been shared with various stakeholders and the public for comments before its finalization. Specifically, the document has been reviewed and finalized during a retreat of the Macro Working Group in Naivasha from 6th to 13th September, 2023 that brought together 36 Officers of the Macro Working Group from the following institutions: various Departments of The National Treasury, the State Department of Economic Planning, the Central Bank of Kenya, the Kenya Revenue Authority, the Kenya Institute of Public Policy Research Analysis and the Commission on Revenue Allocation. **Annex Table 8** provides a list of officers from the Macro Working who attended the retreat. A summary of the comments received from the Macro Working Group, various Stakeholders and the Public and the responses or actions taken are summarized in **Annex Table 9**.

V. CONCLUSION AND NEXT STEPS

104. Global economic outlook remains uncertain reflecting the impact of the tightening of monetary policy and escalation of geopolitical tensions particularly the ongoing war in Ukraine. Consequently, the global growth is projected to slow down to 3.0 percent in 2023 and 2024 from 3.5 percent in 2022. Kenya's economic performance is projected to remain strong and resilient over the medium term. The economy recorded a strong growth of 5.3 percent in the first quarter reflecting a strong recovery in agriculture sector and buoyant services sector including financial and insurance, information and communication, wholesale and retail trade and transport and storage. The economy is expected to remain strong and expand by 5.5 percent in 2023 (5.6 percent in FY 2023/24) and 5.7 percent in 2024 (5.9 percent in FY 2024/25). The growth outlook will be supported by broad-based private sector growth, resilient services sector, the rebound in agriculture. The growth outlook will be reinforced by implementation of policies and reforms under the priority sectors of the Bottom - Up Economic Transformation Agenda geared towards economic turnaround and inclusive growth.

105. The fiscal performance in the FY 2022/23 was positive with total revenue collection growing by 7.3 percent and amounting to Ksh 2,360.5 billion. This was a performance of 95.4 percent against the target. The positive growth in revenue was recorded in all tax revenue categories, an indication of continued recovery in revenue collection. The implementation of FY 2023/24 has started in earnest and we are looking forward to the smooth implementation of planned programmes during the remainder of the financial year. Towards this end, the Government will continue to pursue its growth friendly fiscal consolidation plan that will signal debt sustainability and manageable fiscal gap. The plan will see a gradual decline in the fiscal deficit from 5.4 percent of GDP in the FY 2023/24 to 4.4 percent of GDP in the FY 2024/25 and further to 3.6 percent of GDP in the FY 2026/27. This will be supported by enhanced revenue mobilization, reprioritization and rationalization of expenditures but above all grow the tax base through an appropriate tax regime. This will ultimately reduce public debt and create fiscal space over the medium term to finance priority capital projects.

106. In the FY 2024/25 budget, all the spending units are expected to lay emphasis on the priority programmes under the BETA by increasing investments in Agricultural Transformation and Inclusive Growth; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry. The budgeting for the FY 2023/24, as stated in the 2023 Budget Policy Statement will strictly be through a value chain under five clusters, namely, Finance and Production Economy; Infrastructure; Land and Natural Resource; Social Sectors; and Governance and Public Administration. This will ensure adequate resources are directed towards the nine value chains, namely, (i) Leather; (ii)Cotton; (iii) Dairy; (iv) Edible Oils; (v) Tea; (vi) Rice; (vii) Blue Economy; (viii) Natural Resources Including Minerals & Forestry); and (ix) Building Materials that are under implementation in the FY 2023/24 budget.

107. Given the limited resources, the Sector Working Groups (SWGs) and Government Ministries, Departments and Agencies (MDAs) are therefore directed to critically review, evaluate and prioritize all budget allocations to strictly achieve the BETA priorities. The hard sector ceilings provided for the FY 2024/25 budget and the Medium Term will form the basis of allocations. The sector ceilings will guide the development of sector budget proposal which will form inputs into the 2024 Budget Policy Statement

Annex Table 1: Macroeconomic Indicators for the FY 2021/22- 2027/28 Period

	2021/22	2022/23	2023/24			2024/25		2025/26		2026/27		2027/28
	Prel. Act	Prel. Act	Budget Estimates	Budget Estimates (Adj. Fin. & Int.)	Proj.	BPS'23	BROP 2023	BPS'23	BROP 2023	BPS'23	BROP 2023	BROP 2023
				annual percentage change, unless otherwise indicated								
National Account and Prices												
Real GDP	6.2	5.2	5.5	5.5	5.6	6.2	5.9	6.1	6.1	6.2	6.2	6.3
GDP deflator	5.2	6.8	7.6	7.6	6.1	4.8	5.6	5.9	5.4	6.0	5.4	5.6
CPI Index (eop)	7.3	7.0	6.6	6.6	5.7	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	6.9	7.6	7.2	7.2	6.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	1.1	-4.0	-3.4	-3.4	-3.3	-1.8	1.4	-0.7	1.3	0.6	1.9	3.1
Money and Credit (end of period)												
Net domestic assets	18.8	11.5	12.5	12.5	10.1	10.6	9.2	11.9	11.3	10.6	10.3	9.7
Net domestic credit to the Government	26.3	13.0	10.9	10.9	8.3	11.3	9.3	10.1	9.5	9.9	6.9	6.3
Credit to the rest of the economy	12.3	12.2	14.0	14.0	9.9	14.8	12.0	17.3	17.0	12.8	15.0	15.3
Broad Money, M3 (percent change)	7.4	13.4	13.3	13.3	13.0	11.6	11.7	12.4	11.0	11.9	10.9	10.9
Reserve money (percent change)	15.4	-5.9	13.2	13.2	12.9	11.5	11.6	12.3	10.9	11.8	10.8	10.8
				in percentage of GDP, unless otherwise indicated								
Investment and Saving												
Investment	19.7	19.3	16.3	16.3	19.8	18.9	21.1	18.6	22.4	18.6	23.3	23.7
Central Government	4.2	3.3	4.1	4.1	4.3	4.8	4.7	5.3	5.2	4.9	5.1	5.1
Other	15.6	16.0	12.2	12.2	15.5	14.1	16.4	13.3	17.2	13.6	18.2	18.6
Gross National Saving	14.7	14.2	8.7	8.7	14.6	13.5	15.5	13.3	17.0	13.2	17.6	18.1
Central Government	-1.5	-1.8	0.8	0.8	0.1	1.4	1.3	2.1	2.4	1.7	2.7	3.0
Other	16.2	16.0	7.9	7.9	14.4	12.0	14.2	11.2	14.6	11.5	14.9	15.1
Central Government Budget												
Total revenue	17.3	16.5	18.3	18.3	18.6	17.8	18.9	18.0	19.2	18.3	19.7	20.2
Total expenditure and net lending	23.8	22.6	23.0	23.4	24.3	22.0	23.6	21.8	23.1	22.3	23.3	23.5
Overall Fiscal balance excl. grants	-6.5	-6.0	-4.7	-5.1	-5.6	-4.2	-4.7	-3.9	-4.0	-3.9	-3.6	-3.3
Overall Fiscal balance, incl. grants, cash basis	-6.2	-5.6	-4.4	-4.8	-5.4	-3.9	-4.4	-3.6	-3.7	-3.6	-3.3	-3.0
Statistical discrepancy	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Fiscal balance, incl. grants, cash basis- adj. descrepancy	-6.2	-5.6	-4.4	-4.8	-5.4	-3.9	-4.4	-3.6	-3.7	-3.6	-3.3	-3.0
Primary budget balance	-1.6	-0.8	0.3	0.3	0.3	0.7	0.9	0.7	1.2	0.7	1.3	1.4
Net domestic borrowing	4.8	3.2	3.6	1.9	2.6	3.4	2.8	3.0	2.8	2.9	2.0	1.8
External Sector												
Exports value, goods and services	11.5	13.1	12.1	12.1	14.3	12.9	14.1	12.4	13.2	12.1	12.3	11.6
Imports value, goods and services	20.7	22.5	20.6	20.6	23.8	18.6	23.3	17.7	21.5	17.2	20.3	19.3
Current external balance, including official transfers	-5.1	-5.1	-7.6	-7.6	-5.3	-5.4	-5.6	-5.3	-5.4	-5.4	-5.6	-5.6
Gross reserves in months of next yr's imports	5.5	5.3	5.5	5.5	5.3	5.7	5.8	5.6	5.7	5.5	5.7	5.9
Gross reserves in months of this yr's imports	5.8	5.8	5.8	5.8	5.8	5.9	5.9	5.9	5.9	6.0	6.0	6.1
Public debt												
Nominal central government debt (eop), gross	68.0	71.4	62.0	62.0	68.5	59.7	65.8	56.7	63.0	54.2	60.0	57.1
Nominal debt (eop), net of deposits	64.7	68.0	58.7	58.7	65.5	56.7	63.1	54.0	60.5	51.9	57.9	55.2
Domestic (gross)	34.1	33.9	32.3	32.3	32.5	32.2	31.9	31.7	31.6	31.2	30.5	29.3
Domestic (net)	30.8	30.5	29.0	29.0	29.5	29.2	29.2	29.0	29.1	28.8	28.3	27.3
External	33.9	37.5	29.7	29.7	36.0	27.4	33.9	25.0	31.4	23.1	29.6	27.8
Memorandum Items:												
Nominal GDP (in Ksh Billion)	12,698	14,274	16,290	16,290	16,132	18,180	18,015	20,437	20,002	22,872	22,180	24,595
Nominal GDP (in US$ Million)	111,626	108,691	122,057	122,057	113,565	136,689	128,428	148,463	140,581	159,922	154,278	170,410

Source: The National Treasury

Annex Table 2: Government Operations for the FY 2021/22 - 2027/28 Period, Ksh Billion

	2021/22	2022/23	2023/24			2024/25		2025/26		2026/27		2027/28
	Prel. Act	Prel. Act	Budget Estimates	Budget Estimates (Adj. Fin. & Int.)	Proj.	BPS'23	BROP 2023	BPS'23	BROP 2023	BPS'23	BROP 2023	BROP 2023
TOTAL REVENUE	**2,199.8**	**2,360.5**	**2,985.6**	**2,985.6**	**3,007.5**	**3,231.1**	**3,407.8**	**3,670.0**	**3,835.5**	**4,195.2**	**4,379.2**	**4,978.4**
Ordinary Revenue	1,917.9	2,041.1	2,571.2	2,571.2	2,576.4	2,878.6	2,918.9	3,294.2	3,294.4	3,775.7	3,776.0	4,305.8
Income Tax	876.7	941.6	1,198.5	1,198.5	1,198.5	1,305.7	1,325.7	1,500.1	1,500.1	1,734.5	1,734.5	1,979.0
Import duty (net)	118.3	130.1	173.3	173.3	173.3	199.4	199.4	229.0	229.0	258.1	258.1	290.8
Excise duty	252.1	264.5	352.7	352.7	352.7	401.1	401.1	460.0	460.0	521.5	521.5	591.2
Value Added Tax	523.1	550.4	703.3	703.3	703.3	804.7	804.7	926.2	926.2	1,061.3	1,061.3	1,220.0
Investment income	43.7	41.3	33.1	33.1	38.1	34.7	39.7	38.1	38.1	42.3	42.3	46.9
Other	104.1	113.2	110.3	110.3	110.5	133.1	148.3	140.8	141.0	158.1	158.3	177.8
Ministerial Appropriation in Aid	**281.9**	**319.4**	**414.4**	**414.4**	**431.2**	**352.5**	**488.9**	**375.8**	**541.1**	**419.5**	**603.2**	**672.6**
Railway Development Levy	36.4	39.9	*37.4*	*37.4*	51.7	*43.5*	56.4	*48.6*	*61.5*	*54.7*	*67.1*	*75.6*
African Union & Int't Subscription Fund	5.6	6.2	*6.9*	*6.9*	7.5	*6.5*	8.3	*7.2*	*9.2*	*8.1*	*10.2*	*11.4*
Road Maintenance Levy Transfer to Counties	0.0	0.0	*0.0*	*0.0*	0.0	*10.9*	0.0	*11.3*	*0.0*	*12.8*	*0.0*	*0.0*
Recurrent	169.8	213.5	232.8	232.8	232.8	*197.6*	258.4	*207.4*	*286.8*	*232.5*	*318.3*	*353.3*
Export Promotion Levy (AIA)			0.0	0.0	1.8		2.0		*2.2*		*2.4*	*2.7*
PDL - Recurrent	22.1	20.5	24.9	24.9	24.9	23.3	23.3	*24.9*	*24.9*	*26.2*	*26.2*	*27.5*
Development/NMS	43.3	33.9	46.4	46.4	46.4	64.9	64.9	70.1	*70.1*	78.5	*78.5*	88.0
PDL - Development	4.7	5.5	2.8	2.8	2.8	5.8	5.8	6.2	6.2	6.6	6.6	7.1
Housing Development Levy			63.2	63.2	63.2		69.8		*80.2*		*93.8*	106.9
EXPENDITURE AND NET LENDING	**3,027.8**	**3,221.0**	**3,746.6**	**3,808.8**	**3,913.5**	**3,991.9**	**4,257.3**	**4,457.9**	**4,627.2**	**5,089.9**	**5,174.8**	**5,786.0**
Recurrent expenditure	2,135.3	2,311.6	2,536.3	2,596.8	2,687.2	2,667.5	2,851.0	2,917.9	3,020.0	3,385.2	3,371.2	3,799.9
Interest payments	578.0	687.3	775.1	835.7	918.9	833.6	966.1	885.2	979.4	980.0	1,018.1	1,089.0
Domestic interest	456.8	533.1	628.3	628.3	646.4	680.9	716.1	730.8	739.9	787.9	791.4	854.5
Foreign Interest	121.1	154.2	146.9	207.4	272.5	152.7	250.0	154.4	239.5	192.1	226.6	234.5
Pensions & Other CFS	122.4	120.4	165.4	165.4	165.4	192.9	181.4	217.6	199.3	250.3	250.3	287.8
Pensions	119.3	117.1	160.6	160.6	160.6	188.1	176.5	212.5	194.2	244.4	244.4	281.0
Other CFS	3.2	3.3	4.7	4.7	4.7	4.9	4.9	5.1	5.1	5.9	5.9	6.8
Contribution to Civil Service Pension Fund	26.4	29.6	28.5	28.5	28.5	31.3	31.3	34.4	34.4	45.7	45.7	49.2
Net Issues/Net Expenditure	1,211.0	1,234.1	1,302.7	1,302.7	1,307.5	1,382.3	1,382.2	1,541.0	1,486.0	1,842.4	1,702.4	1,981.6
O/W: Wages & Salaries	525.1	539.6	584.6	584.6	584.6	645.3	645.3	703.4	703.4	914.9	914.9	983.8
Free Secondary education	62.4	67.6	68.6	68.6	68.6	110.1	110.1	110.1	110.1	116.7	116.7	123.7
Free Primary Education	12.0	14.5	14.4	14.4	14.4	23.4	23.4	23.4	23.4	24.8	24.8	26.3
IEBC	14.2	19.9	4.6	4.6	4.6	6.9	6.9	6.9	6.9	7.3	7.3	7.7
Defense and NIS	175.8	172.2	183.3	183.3	183.3	170.0	170.0	170.0	170.0	176.8	176.8	183.9
Others	399.2	388.6	422.4	422.4	427.2	390.5	390.4	491.1	436.1	555.4	415.4	606.9
Ministerial Recurrent AIA	197.5	240.2	264.6	264.6	267.0	227.3	290.0	239.6	320.9	266.8	354.7	392.3
Development and Net lending	**540.1**	**493.7**	**777.8**	**779.4**	**793.8**	**901.5**	**957.3**	**1,092.1**	**1,129.3**	**1,147.7**	**1,246.6**	**1,390.8**
Domestically financed (Gross)	378.2	343.8	472.2	472.2	483.5	481.5	536.2	631.2	664.4	624.1	715.3	822.3
O/W Domestically Financed (Net)/NMS	290.4	264.5	322.3	322.3	319.3	367.3	339.3	506.4	446.4	484.2	469.2	544.6
Ministerial Development AIA	79.6	73.8	83.8	83.8	98.1	110.6	123.5	141.9	154.8	133.3	145.7	163.7
Foreign financed	161.9	137.6	280.6	280.6	280.6	390.0	390.0	431.7	431.7	512.7	512.7	554.0
Net lending	0.0	12.3	17.2	18.8	18.8	22.2	19.7	19.6	19.7	0.0	4.4	0.0
Equalization Fund	0.0	0.0	7.9	7.9	10.9	7.9	11.4	9.6	13.6	11.0	14.2	14.4
County Tranfers	**352.4**	**415.8**	**429.7**	**429.7**	**429.7**	**417.9**	**444.0**	**442.9**	**472.9**	**552.0**	**552.0**	**590.3**
Equitable Share	340.4	399.6	385.4	385.4	385.4	380.6	406.7	405.6	435.6	515.1	515.1	553.4
Conditional Allocation	12.0	16.2	44.3	44.3	44.3	37.3	37.3	37.3	37.3	37.0	37.0	37.0
Contingency Fund	**0.0**	**0.0**	**2.8**	**2.8**	**2.8**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**
Fiscal Balance *(commitment basis excl. grants)*	**-828.0**	**-860.5**	**-761.1**	**-823.2**	**-906.0**	**-760.8**	**-849.5**	**-787.9**	**-791.6**	**-894.7**	**-795.5**	**-807.6**
Grants	**31.0**	**23.1**	**42.2**	**42.2**	**42.2**	**49.3**	**49.3**	**53.2**	**53.2**	**68.6**	**68.6**	**73.8**
Fiscal Balance *(incl. grants)*	**-797.0**	**-837.4**	**-718.9**	**-781.0**	**-863.8**	**-711.5**	**-800.2**	**-734.6**	**-738.4**	**-826.1**	**-726.9**	**-733.8**
Adjustment to Cash Basis	11.9	37.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Balance *(incl. grants) Cash Basis*	**-785.1**	**-800.4**	**-718.9**	**-781.0**	**-863.8**	**-711.5**	**-800.2**	**-734.6**	**-738.4**	**-826.1**	**-726.9**	**-733.8**
Statistical discrepancy	-37.3	-30.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL FINANCING	**747.8**	**770.3**	**718.9**	**781.0**	**863.8**	**711.5**	**800.2**	**734.6**	**738.4**	**826.1**	**726.9**	**733.8**
Net Foreign Financing	**142.5**	**310.8**	**131.5**	**464.2**	**448.7**	**99.7**	**296.5**	**125.9**	**176.0**	**169.7**	**276.1**	**292.9**
Disbuserments	**327.1**	**548.2**	**607.1**	**1,005.0**	**1,016.6**	**381.1**	**626.2**	**415.4**	**602.8**	**481.0**	**663.7**	**717.2**
Commercial Financing	0.0	102.2	270.0	467.0	467.0	0.0	151.0	0.0	166.1	0.0	182.7	200.0
O/W Export Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sovereign Bond & Other Commercial Financing	0.0	102.2	270	467.0	467.0	0	151.0	0.0	166.1	0.0	182.7	200.0
Total Project loans (AIA + Revenue)	192.0	136.2	271.6	271.6	271.6	377.6	377.6	415.4	415.4	481.0	481.0	517.2
o/w: Project loans (AIA)	92.6	74.2	149.1	149.1	149.1	263.0	263.0	289.3	289.3	307.6	307.6	330.8
Project Loans Revenue	58.6	62.0	122.5	122.5	122.5	114.6	114.6	126.1	126.1	173.4	173.4	186.4
Use of IMF SDR Allocation	40.8	42.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Programme Loans	135.0	266.9	65.4	266.4	278.0	3.5	97.6	0.0	21.3	0.0	0.0	0.0
Debt repayment - Principal	-184.5	-237.4	-475.6	-540.9	-567.9	-281.5	-329.7	-289.5	-426.8	-311.3	-387.7	-424.3
Net Domestic Financing	**605.3**	**459.5**	**587.4**	**316.9**	**415.1**	**611.8**	**503.7**	**608.7**	**562.4**	**656.4**	**450.9**	**440.9**
Memo items												
Gross Debt (Stock)	8,629.0	10,189.5	10,130.4	10,130.4	11,053.4	10,844.6	11,853.6	11,579.2	12,592.0	12,405.3	13,318.9	14,052.7
External Debt	4,299.9	5,357.4	5,065.6	5,065.6	5,806.1	4,984.8	6,102.6	5,110.7	6,278.6	5,280.4	6,554.7	6,847.6
Domestic Debt (gross)	4,329.1	4,832.1	5,064.7	5,064.7	5,247.3	5,859.8	5,750.9	6,468.5	6,313.3	7,124.9	6,764.2	7,205.1
Domestic Debt (net)	3,910.8	4,347.5	4,522.4	4,522.4	4,762.7	5,317.4	5,266.4	5,926.1	5,828.7	6,582.5	6,279.6	6,720.5
Financing gap	-49.2	-67.1			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	**12,698.0**	**14,274.4**	**16,290.3**	**16,290.3**	**16,131.5**	**18,180.2**	**18,015.2**	**20,436.9**	**20,002.3**	**22,872.3**	**22,180.5**	**24,594.5**

Source: The National Treasury

Annex Table 3: Government Operations for the FY 2021/22 - 2027/28 Period (% of GDP)

	2021/22	2022/23	2023/24			2024/25		2025/26		2026/27		2027/28
	Prel. Act	Prel. Act	Budget Estimates	Budget Estimates (Adj. Fin. & Int.)	Proj.	BPS'23	BROP 2023	BPS'23	BROP 2023	BPS'23	BROP 2023	BROP 2023
TOTAL REVENUE	**17.3**	**16.5**	**18.3**	**18.3**	**18.6**	**17.8**	**18.9**	**18.0**	**19.2**	**18.3**	**19.7**	**20.2**
Ordinary Revenue	**15.1**	**14.3**	**15.8**	**15.8**	**16.0**	**15.8**	**16.2**	**16.1**	**16.5**	**16.5**	**17.0**	**17.5**
Income Tax	6.9	6.6	7.4	7.4	7.4	7.2	7.4	7.3	7.5	7.6	7.8	8.0
Import duty (net)	0.9	0.9	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.2	1.2
Excise duty	2.0	1.9	2.2	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.4	2.4
Value Added Tax	4.1	3.9	4.3	4.3	4.4	4.4	4.5	4.5	4.6	4.6	4.8	5.0
Investment income	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	0.8	0.8	0.7	0.7	0.7	0.7	0.8	0.7	0.7	0.7	0.7	0.7
Ministerial Appropriation in Aid	**2.2**	**2.2**	**2.5**	**2.5**	**2.7**	**1.9**	**2.7**	**1.8**	**2.7**	**1.8**	**2.7**	**2.7**
EXPENDITURE AND NET LENDING	**23.8**	**22.6**	**23.0**	**23.4**	**24.3**	**22.0**	**23.6**	**21.8**	**23.1**	**22.3**	**23.3**	**23.5**
Recurrent expenditure	**16.8**	**16.2**	**15.6**	**15.9**	**16.7**	**14.7**	**15.8**	**14.3**	**15.1**	**14.8**	**15.2**	**15.5**
Interest payments	4.6	4.8	4.8	5.1	5.7	4.6	5.4	4.3	4.9	4.3	4.6	4.4
Domestic interest	3.6	3.7	3.9	3.9	4.0	3.7	4.0	3.6	3.7	3.4	3.6	3.5
Foreign Interest	1.0	1.1	0.9	1.3	1.7	0.8	1.4	0.8	1.2	0.8	1.0	1.0
Pensions & Other CFS	1.0	0.8	1.0	1.0	1.0	1.1	1.0	1.1	1.0	1.1	1.1	1.2
Pensions	0.9	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1
Other CFS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution to Civil Service Pension Fund	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net Issues/Net Expenditure	9.5	8.6	8.0	8.0	8.1	7.6	7.7	7.5	7.4	8.1	7.7	8.1
O/W: Wages & Salaries	4.1	3.8	3.6	3.6	3.6	3.5	3.6	3.4	3.5	4.0	4.1	4.0
Free Secondary education	0.5	0.5	0.4	0.4	0.4	0.6	0.6	0.5	0.6	0.5	0.5	0.5
Free Primary Education	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Defense and NIS	1.4	1.2	1.1	1.1	1.1	0.9	0.9	0.8	0.8	0.8	0.8	0.7
Others	3.1	2.7	2.6	2.6	2.6	2.1	2.2	2.4	2.2	2.4	1.9	2.5
Ministerial Recurrent AIA	1.6	1.7	1.6	1.6	1.7	1.3	1.6	1.2	1.6	1.2	1.6	1.6
Ministerial Recurrent AIA - NMS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development and Net lending	**4.3**	**3.5**	**4.8**	**4.8**	**4.9**	**5.0**	**5.3**	**5.3**	**5.6**	**5.0**	**5.6**	**5.7**
Domestically financed (Gross)	3.0	2.4	2.9	2.9	3.0	2.6	3.0	3.1	3.3	2.7	3.2	3.3
O/W Domestically Financed (Net)/NMS	2.3	1.9	2.0	2.0	2.0	2.0	1.9	2.5	2.2	2.1	2.1	2.2
Ministerial Development AIA	0.6	0.5	0.5	0.5	0.6	0.6	0.7	0.7	0.8	0.6	0.7	0.7
Foreign financed	1.3	1.0	1.7	1.7	1.7	2.1	2.2	2.1	2.2	2.2	2.3	2.3
Net lending	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Equalization Fund	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.1
County Tranfers	**2.8**	**2.9**	**2.6**	**2.6**	**2.7**	**2.3**	**2.5**	**2.2**	**2.4**	**2.4**	**2.5**	**2.4**
Equitable Share	**2.7**	**2.8**	**2.4**	**2.4**	**2.4**	**2.1**	**2.3**	**2.0**	**2.2**	**2.3**	**2.3**	**2.3**
Conditional Allocation	0.1	0.1	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Contingency Fund	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Fiscal Balance (commitment basis excl. grants)	**-6.5**	**-6.0**	**-4.7**	**-5.1**	**-5.6**	**-4.2**	**-4.7**	**-3.9**	**-4.0**	**-3.9**	**-3.6**	**-3.3**
Grants	**0.2**	**0.2**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Fiscal Balance (incl. grants)	**-6.3**	**-5.9**	**-4.4**	**-4.8**	**-5.4**	**-3.9**	**-4.4**	**-3.6**	**-3.7**	**-3.6**	**-3.3**	**-3.0**
Adjustment to Cash Basis	0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Balance (incl. grants) Cash Basis	-6.2	-5.6	-4.4	-4.8	-5.4	-3.9	-4.4	-3.6	-3.7	-3.6	-3.3	-3.0
Statistical discrepancy	-0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL FINANCING	**5.9**	**5.4**	**4.4**	**4.8**	**5.4**	**3.9**	**4.4**	**3.6**	**3.7**	**3.6**	**3.3**	**3.0**
Net Foreign Financing	**1.1**	**2.2**	**0.8**	**2.8**	**2.8**	**0.5**	**1.6**	**0.6**	**0.9**	**0.7**	**1.2**	**1.2**
Disbuserments	**2.6**	**3.8**	**3.7**	**6.2**	**6.3**	**2.1**	**3.5**	**2.0**	**3.0**	**2.1**	**3.0**	**2.9**
Commercial Financing	**0.0**	**0.7**	**1.7**	**2.9**	**2.9**	**0.0**	**0.8**	**0.0**	**0.8**	**0.0**	**0.8**	**0.8**
O/W Export Credit	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sovereign Bond & Other Commercial Financing	0.0	0.7	1.7	2.9	2.9	0.0	0.8	0.0	0.8	0.0	0.8	0.8
Total Project loans (AIA + Revenue)	1.5	1.0	1.7	1.7	1.7	2.1	2.1	2.0	2.1	2.1	2.2	2.1
o/w: Project loans (AIA)	0.7	0.5	0.9	0.9	0.9	1.4	1.5	1.4	1.4	1.3	1.4	1.3
Project Loans Revenue	0.5	0.4	0.8	0.8	0.8	0.6	0.6	0.6	0.6	0.8	0.8	0.8
Project Loans SGR _Phase I_ AIA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans SGR _ Phase 2A_AIA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of IMF SDR Allocation	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Programme Loans	1.1	1.9	0.4	1.6	1.7	0.0	0.5	0.0	0.1	0.0	0.0	0.0
Debt repayment - Principal	**-1.5**	**-1.7**	**-2.9**	**-3.3**	**-3.5**	**-1.5**	**-1.8**	**-1.4**	**-2.1**	**-1.4**	**-1.7**	**-1.7**
Net Domestic Financing	**4.8**	**3.2**	**3.6**	**1.9**	**2.6**	**3.4**	**2.8**	**3.0**	**2.8**	**2.9**	**2.0**	**1.8**
Memo items												
Gross Debt (Stock)	68.0	71.4	62.2	62.2	68.5	59.7	65.8	56.7	63.0	54.2	60.0	57.1
External Debt	33.9	37.5	31.1	31.1	36.0	27.4	33.9	25.0	31.4	23.1	29.6	27.8
Domestic Debt (gross)	34.1	33.9	31.1	31.1	32.5	32.2	31.9	31.7	31.6	31.2	30.5	29.3
Domestic Debt (net)	30.8	30.5	27.8	27.8	29.5	29.2	29.2	29.0	29.1	28.8	28.3	27.3
Financing gap	-0.4	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: The National Treasury

Annex Table 4: Development Sector Ceilings for the FY 2024/25-2026/27 MTEF Period (Ksh Million)

CODE	SECTOR	ECONOMIC CLASSIFICATION	Approved Budget 2023/24	BROP Projection 2024/25	2025/26	2026/27
010	AGRICULTURE, RURAL & URBAN DEVELOPMENT (ARUD)	Gross	54,971.3	57,638.1	64,440.6	66,983.6
		GOK	6,029.1	6,146.9	7,337.0	9,759.0
		Loans	32,205.6	31,132.2	30,652.1	30,652.1
		Grants	2,181.5	2,412.5	2,110.5	2,110.5
		Local AIA	635.0	795.0	815.0	815.0
		BETA(GoK)	13,830.1	17,151.5	23,526.0	23,647.0
		Public Participation Proj.	90.0	-	-	-
020	ENERGY, INFRASTRUCTURE AND ICT	Gross	384,359.1	392,739.1	415,449.7	427,397.0
		GOK	105,273.7	93,226.7	111,585.7	115,431.0
		Loans	131,163.0	144,386.0	138,269.0	134,181.0
		Grants	7,882.1	7,321.0	6,597.0	6,547.0
		Local AIA	131,857.0	139,871.0	150,244.0	163,526.0
		Strategic Interventions				
		BETA(GoK)	6,917.3	7,934.4	8,754.0	7,712.0
		Public Participation Proj.	1,266.0			
030	GENERAL ECONOMIC AND COMMERCIAL AFFAIRS (GECA)	Gross	31,375.3	27,040.0	31,483.6	21,718.8
		GOK	4,162.7	2,630.6	4,444.4	4,622.6
		Loans	2,475.5	2,288.9	1,949.9	1,949.9
		Grants	1,522.0	1,522.0	1,522.0	1,522.0
		Local AIA				
		Strategic Interventions	300.0	800.0	1,500.0	1,500.0
		BETA(GoK)	22,915.1	19,798.5	22,067.3	12,124.3
		PFR(GOK)				
040	HEALTH	Gross	60,559.4	60,777.4	63,577.4	64,777.4
		GOK	11,958.3	11,958.3	13,958.3	15,458.3
		Loans	13,291.6	13,291.6	13,291.6	13,291.6
		Grants	8,167.5	8,167.5	8,167.5	8,167.5
		Local AIA				
		Strategic Interventions	14,360.0	14,360.0	14,760.0	14,260.0
		BETA(GoK)	12,752.0	13,000.0	13,400.0	13,600.0
		Public Participation Proj.	30.0			
050	EDUCATION	Gross	33,099.4	29,544.3	42,130.0	42,149.0
		GOK	8,505.0	8,708.0	18,050.0	18,539.0
		Loans	18,940.0	15,497.0	13,627.0	13,627.0
		Grants	880.4	965.0	965.0	965.0
		Local AIA	43.0	43.0	43.0	43.0
		BETA(GoK)	4,412.0	4,331.3	9,445.0	8,975.0
		Public Participation Proj.	319.0			
060	GOVERNANCE, JUSTICE, LAW AND ORDER (GJLO)	Gross	9,871.6	17,517.8	22,591.5	26,181.3
		GOK	4,185.8	4,344.3	6,190.2	9,780.0
		Loans	-	-	-	-
		Grants	134.9	232.1	232.1	232.1
		Local AIA	750.0	750.0	750.0	750.0
		Strategic Interventions	4,701.0	5,691.4	8,919.2	8,919.2
		BETA(GoK)	-	6,500.0	6,500.0	6,500.0
		Public Participation Proj.	100.0			

Note : CF_ Contigency Fund, EF_Equalization Fund, NG-CDF_National Government Constituency Development Fund

PFR : Perfomance for Results

BETA: Bottom Up Economic Transformation Agenda

Annex Table 4: Development Sector Ceilings for the FY 2024/25-2026/27 MTEF Period (Ksh Million)…Contd

CODE	SECTOR	ECONOMIC CLASSIFICATION	Approved Budget 2023/24	BROP Projection 2024/25	2025/26	2026/27
070	PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS (PAIR)	Gross	115,981.3	134,932.7	183,991.2	204,360.2
		GOK	8,790.8	9,568.8	10,590.0	11,574.6
		Loans	17,052.6	19,721.3	19,721.3	19,721.3
		Grants	16,315.3	16,380.1	16,480.8	16,480.8
		Local AIA	-	-	-	-
		Strategic Interventions	5,606.7	7,963.1	42,512.1	51,244.0
		CF & EF	12,067.4	16,400.0	18,600.0	19,100.0
		NG-CDF	53,531.5	62,282.5	71,470.0	81,522.5
		PFR(GoK)	2,617.0	2,617.0	4,617.0	4,717.0
080	NATIONAL SECURITY	Gross	4,254.0	49,609.0	30,339.0	30,339.0
		GOK	3,720.0	5,320.0	5,320.0	5,320.0
		Loans	-	43,755.0	24,485.0	24,485.0
		Grants	-	-	-	-
		Local AIA	534.0	534.0	534.0	534.0
090	SOCIAL PROTECTION, CULTURE AND RECREATION	Gross	24,961.0	24,791.1	25,371.2	26,671.0
		GOK	1,147.7	1,711.3	2,406.8	2,706.5
		Loans	2,415.2	2,173.7	2,173.7	2,173.7
		Grants	595.0	623.4	308.0	308.0
		Local AIA	16,000.0	16,800.0	17,000.0	18,000.0
		Strategic Interventions	3,000.0	3,000.0	3,000.0	3,000.0
		PFR(GOK)	1,320.4	-	-	-
		BETA(GoK)	482.8	482.8	482.8	482.8
0100	ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	Gross	88,211.0	108,915.0	117,033.0	120,046.0
		GOK	28,978.0	29,638.0	35,275.0	37,300.0
		Loans	54,091.0	72,594.0	75,037.0	75,966.0
		Grants	4,493.0	6,254.0	6,145.0	6,145.0
		Local AIA	-	-	-	-
		Strategic Interventions				
		BETA (GoK)	649.0	429.0	576.0	635.0
	TOTAL	**Gross**	807,643.5	903,504.6	996,407.2	1,030,623.3
		GOK	182,751.1	173,252.8	215,157.5	230,491.1
		Loans	271,634.5	344,839.7	319,206.5	316,047.5
		Grants	42,171.7	43,877.6	42,527.9	42,477.9
		Local AIA	149,819.0	158,793.0	169,386.0	183,668.0
		Strategic Interventions	27,967.7	31,814.5	70,691.3	78,923.2
		CF & Equalization Fund	12,067.4	16,400.0	18,600.0	19,100.0
		NGCDF	53,531.5	62,282.5	71,470.0	81,522.5
		BETA(GoK)	61,958.3	69,627.5	84,751.1	73,676.1
		PFR(GOK)	3,937.4	2,617.0	4,617.0	4,717.0
		Public Participation Proj.	1,805.0	-	-	-

Note : CF_ Contigency Fund, EF_Equalization Fund, NG-CDF_National Government Constituency Development Fund

PFR : Perfomance for Results

BETA: Bottom Up Economic Transformation Agenda

Annex Table 5: Recurrent Sector Ceilings for the FY 2024/25-2026/27 MTEF Period (Ksh Million)

Code	Sector	Economic Classification	Approved Budget 2023/24	BROP Projection 2024/25	2025/26	2026/27
010	AGRICULTURE, RURAL & URBAN DEVELOPMENT	Gross	32,970.2	28,156.0	29,175.1	30,439.4
		A-I-A	14,332.0	9,588.7	9,588.7	9,588.7
		Net	18,638.2	18,567.3	19,586.5	20,850.7
		Salaries	6,636.0	6,725.1	6,949.9	7,187.7
		Grants & Transfers	23,296.1	18,552.8	19,259.0	20,103.0
		Other Recurrent	2,947.9	2,687.9	2,766.3	2,848.7
		Strategic Intervention	-	100.0	100.0	200.0
		BETA	90.2	90.2	100.0	100.0
020	ENERGY, INFRASTRUCTURE AND ICT	Gross	148,004.6	148,380.9	151,683.8	152,653.3
		A-I-A	130,596.6	130,596.6	130,596.6	130,596.6
		Net	17,408.0	17,784.3	21,087.2	22,056.7
		Salaries	4,696.3	4,823.5	4,966.6	5,115.1
		Grants & Transfers	113,921.7	113,921.7	115,549.9	117,259.5
		Other Recurrent	28,734.3	28,883.4	30,367.3	29,318.7
		Strategic Intervention	500.0	600.0	600.0	760.0
		BETA	152.2	152.2	200.0	200.0
030	GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	Gross	30,044.5	30,299.8	31,050.8	32,949.3
		A-I-A	11,114.5	11,114.5	11,114.5	11,114.5
		Net	18,930.0	19,185.3	19,936.3	21,834.8
		Salaries	2,486.2	2,562.4	2,647.6	2,735.7
		Grants & Transfers	18,158.0	18,158.0	18,636.7	19,139.5
		Other Recurrent	3,102.4	3,058.4	3,205.9	3,360.5
		Strategic Intervention	5,465.6	5,665.6	5,665.6	6,818.6
		BETA	832.4	855.4	895.0	895.0
040	HEALTH	Gross	80,627.1	82,343.4	87,785.3	91,946.7
		A-I-A	25,185.0	25,185.0	25,185.0	25,185.0
		Net	55,442.1	57,158.4	62,600.3	66,761.7
		Salaries	14,126.0	15,457.7	15,921.5	16,399.1
		Grants & Transfers	60,875.4	60,875.4	63,919.1	67,115.1
		Other Recurrent	2,346.8	2,346.8	2,464.1	2,587.3
		Strategic Intervention	469.6	469.6	557.6	922.2
		BETA	2,809.4	3,194.0	4,923.0	4,923.0
050	EDUCATION	Gross	595,480.7	640,408.7	688,108.5	747,854.3
		A-I-A	52,644.8	52,644.8	52,644.8	52,644.8
		Net	542,835.9	587,763.9	635,463.7	695,209.4
		Salaries	315,327.8	321,624.9	331,273.6	341,211.8
		Grants & Transfers	97,228.2	97,228.2	102,089.6	107,194.1
		Other Recurrent	2,799.4	2,799.4	2,939.4	3,086.4
		Strategic Interventions	136,304.1	173,323.8	183,833.6	228,389.6
		Medical Insurance	18,361.3	19,252.4	19,252.4	19,252.4
		BETA	25,460.0	26,180.0	48,720.0	48,720.0

Annex Table 5: Recurrent Sector Ceilings for the FY 2024/25-2026/27 MTEF Period (Ksh Million)…Contd.

Code	Sector	Economic Classification	Approved Budget	BROP Projection		
			2023/24	2024/25	2025/26	2026/27
060	GOVERNANCE, JUSTICE, LAW AND ORDER	Gross	220,529.5	232,657.7	249,167.4	280,489.2
		A-I-A	1,222.2	1,222.2	1,222.2	1,222.2
		Net	219,307.4	231,435.6	247,945.3	279,267.0
		Salaries	136,899.9	141,054.2	145,285.8	149,644.4
		Grants & Transfers	33,049.5	33,420.0	34,061.7	34,617.6
		Other Recurrent	24,406.7	24,406.7	25,566.1	26,781.6
		Strategic Interventions	17,592.1	24,820.5	35,672.4	60,864.2
		Medical Insurance	8,581.4	8,956.4	8,581.4	8,581.4
070	PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	Gross	194,209.8	197,958.2	220,140.8	328,936.6
		A-I-A	10,608.5	10,608.5	10,608.5	10,608.5
		Net	183,601.3	187,349.7	209,532.4	318,328.2
		Salaries	48,145.5	49,589.9	51,077.6	52,609.9
		Grants & Transfers	56,127.9	56,127.9	58,617.6	61,222.5
		Other Recurrent	48,236.2	48,236.2	50,391.5	52,654.6
		Medical Insurance	5,400.0	5,400.0	5,400.0	5,400.0
		Salary Review	21,700.0	10,468.0	19,305.0	19,305.0
		Strategic Interventions	14,600.2	28,136.2	35,349.2	137,744.6
080	NATIONAL SECURITY	Gross	184,990.2	204,026.6	207,293.5	213,937.8
		A-I-A	-	4,743.3	4,743.3	4,743.3
		Net	184,990.2	199,283.3	202,550.2	209,194.5
		Salaries	2,059.0	2,120.8	2,184.4	2,249.9
		Grants & Transfers	182,394.0	201,368.7	204,555.9	211,118.0
		Other Recurrent	537.2	537.2	553.3	569.9
090	SOCIAL PROTECTION, CULTURE AND RECREATION	Gross	45,681.9	47,828.1	48,502.2	49,144.3
		A-I-A	3,678.7	3,678.7	3,678.7	3,678.7
		Net	42,003.2	44,149.4	44,823.5	45,465.7
		Salaries	4,221.5	4,348.1	4,478.6	4,612.9
		Grants & Transfers	10,192.8	10,192.8	10,572.1	10,907.4
		Other Recurrent	3,286.5	3,286.5	3,450.8	3,623.4
		Strategic Interventions	-	940.5	940.5	940.5
		BETA	27,981.2	29,060.2	29,060.2	29,060.2
0100	ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	Gross	32,348.7	32,211.4	35,143.2	36,689.3
		A-I-A	12,701.4	12,701.4	12,701.4	12,701.4
		Net	19,647.3	19,510.0	22,441.8	23,987.9
		Salaries	2,588.0	2,665.6	2,745.6	2,828.0
		Grants & Transfers	25,669.0	25,669.0	26,945.7	28,286.1
		Other Recurrent	2,981.7	2,766.7	2,884.8	3,008.3
		Strategic Interventions	1,110.0	1,110.0	2,567.0	2,567.0
	TOTAL	**Gross**	**1,564,887.2**	**1,644,270.7**	**1,748,050.6**	**1,965,040.2**
		A-I-A	**262,083.5**	**262,083.5**	**262,083.5**	**262,083.5**
		Net	**1,302,803.7**	**1,382,187.1**	**1,485,967.1**	**1,702,956.7**
		Salaries	**537,186.1**	**550,972.2**	**567,531.0**	**584,594.5**
		Grants & Transfers	**620,912.5**	**635,514.4**	**654,207.3**	**676,962.6**
		Other Recurrent	**119,379.1**	**119,009.1**	**124,589.5**	**127,839.3**
		Strategic Intervention	**176,041.5**	**235,166.2**	**265,285.8**	**439,206.8**
		Medical Insurance	**32,342.7**	**33,608.8**	**33,233.8**	**33,233.8**
		Salary Review	**21,700.0**	**10,468.0**	**19,305.0**	**19,305.0**
		BETA	**57,325.4**	**59,532.0**	**83,898.2**	**83,898.2**

Annex Table 6: Budget Calendar for the FY 2024/25 Medium-Term Budget

Activity	Responsibility	FY2024/25 Timeline
1. Develop and issue MTEF guidelines	**National Treasury**	**4-Aug-23**
2. Launch of Sector Working Groups	**National Treasury**	**18-Aug-23**
3. Programme Performance & Strategic Reviews	**MDAs**	**31-Aug-23**
3.1 Review and update of strategic plans	"	"
3.2 Review of programme outputs and outcomes	"	"
3.3 Review of Expenditure	"	"
3.4 Review and approval of projects for FY2023/24	Project Committees	"
3.5 Progress report on MTP implementation	"	"
3.6 Preparation of annual plans	"	"
4. Development of Medium-Term Budget Framework	**Macro Working Group**	**30-Sep-23**
4.1 Estimation of Resource Envelope	"	"
4.2 Determination of policy priorities	"	"
4.3 Preliminary resource allocation to Sectors, Parliament, Judiciary & Counties	"	"
4.4 Draft Budget Review and Outlook Paper (BROP)	"	"
4.5 Approval of BROP by Cabinet	"	13-Oct-23
4.6 Submission of approved BROP to Parliament	"	23-Oct-23
5. Preparation of MTEF budget proposals	**Line Ministries**	**28-Nov-23**
5.1 Retreats to draft Sector Reports	Sector Working Group	22nd Oct -4th Nov & 5th - 18th Nov -23
5.2 Public Sector Hearing	National Treasury	27th Nov 23
5.3 Review and incorporation of stakeholder inputs in the Sector proposals	Sector Working Group	4-Dec-23
5.4 Submission of Sector Report to Treasury	Sector Chairpersons	6-Dec-23
5.5 Consultative meeting with CSs/PSs on Sector Budget proposals	National Treasury	11-Dec-23
6. Draft Budget Policy Statement (BPS)	**Macro Working Group**	**15-Feb-24**
6.1 Draft BPS	Macro Working Group	15-Dec-23
6.2 Division of Revenue Bill (DORB)	National Treasury	"
6.3 County Allocation of Revenue Bill (CARB)	National Treasury	"
6.4 County Governments' Additional Allocation Bill (CGAAB)	National Treasury	"
6.5 Submission of BPS, DORB, CARB and CGAAB to Cabinet for approval	National Treasury	12-Jan-24
6.6 Submission of BPS, DORB, CARB and CGAAB to Parliament for approval	National Treasury	15-Feb-24
7. Preparation and approval of Final MDAs Budgets		**29-Apr-24**
7.1 Develop and issue final guidelines on preparation of 2023/24 MTEF Budget	National Treasury	5-Mar-24
7.2 Submission of Budget Proposals to Treasury	Line Ministries	15-Mar-24
7.3 Consolidation of the Draft Budget Estimates	National Treasury	1-Apr-24
7.4 Submission to Cabinet for Approval	National Treasury	15-Apr-24
7.5 Submission of Draft Budget Estimates to Parliament	National Treasury	29-Apr-24
7.6 Submission of the Finance Bill	National Treasury	29-Apr-24
7.7 Review of Draft Budget Estimates by Parliament	National Assembly	15-May-24
7.8 Report on Draft Budget Estimates from Parliament	National Assembly	31-May-24
7.9 Consolidation of the Final Budget Estimates	National Treasury	7-Jun-24
7.10 Submission of Appropriation Bill to Parliament	National Treasury	10-Jun-24
8. Budget Statement	**National Treasury**	**13-Jun-24**
9. Appropriation Bill Passed	**National Assembly**	**30-Jun-24**
10. Finance Bill Passed	**National Assembly**	**30-Jun-24**

Source: National Treasury

Annex Table 7: County Governments' Fiscal Performance for FY 2022/23

County	Annual Own Source Revenue (OSR) Target (Ksh)	Actual OSR Collection (Ksh)	% of Collection of OSR Against Annual Target	Budget Estimates (Kshs. Million)			Expenditure (Kshs. Million)			Recurrent Absorption Rate (%)	Development Absorption Rate (%)	Overall Absorption Rate
				Rec	Dev	Total	Rec	Dev	Total			
				A	B	C=A+B	D	E	F=D+E	G=D/A*100	H=E/B*100	I=F/C*100
Baringo	387,429,514	313,351,637	80.9	5,368.69	3,888.73	9,257.42	5,368.49	2,432.72	7,801.21	100	62.6	84.3
Bomet	300,000,000	242,395,023	80.8	5,848.16	2,439.18	8,287.34	5,530.23	1,533.35	7,063.57	94.6	62.9	85.2
Bungoma	1,347,382,860	1,177,322,906	75.9	10,378.86	4,445.88	14,824.74	9,278.83	2,734.12	12,012.95	89.4	61.5	81
Busia	469,163,026	343,922,975	64.9	6,544.61	3,033.28	9,577.88	6,225.69	1,257.07	7,482.76	95.1	41.4	78.1
Elgeyo Marakwet	246,239,213	217,350,490	88.3	3,991.29	2,264.90	6,256.19	3,769.50	1,390.64	5,160.15	94.4	61.4	82.5
Embu	950,000,000	678,638,337	74.5	5,109.35	2,191.72	7,301.07	4,890.56	1,223.44	6,114.00	95.7	55.8	83.7
Garissa	100,000,000	142,491,298	81.4	6,556.23	2,813.92	9,370.15	6,162.63	1,597.33	7,759.96	94	56.8	82.8
Homa Bay	818,315,811	491,496,550	60.1	6,983.69	3,095.42	10,079.11	6,940.82	2,474.76	9,415.58	99.4	79.9	93.4
Isiolo	180,471,698	152,700,178	85.2	4,377.52	2,083.19	6,460.71	4,027.38	1,462.41	5,489.79	92	70.2	85
Kajiado	1,743,946,728	875,281,130	50.2	7,476.38	3,192.25	10,668.63	7,107.55	2,411.57	9,519.12	95.1	75.5	89.2
Kakamega	1,942,426,514	1,309,679,900	67.4	11,338.34	4,859.70	16,198.04	10,477.29	3,657.54	14,134.83	92.4	75.3	87.3
Kericho	1,019,388,053	501,354,545	49.2	5,825.29	2,628.29	8,453.57	5,431.89	2,190.79	7,622.68	93.2	83.4	90.2
Kiambu	4,475,410,939	3,587,282,110	71.5	13,074.22	4,587.82	17,662.04	10,650.88	1,212.26	11,863.14	81.5	26.4	67.2
Kilifi	1,051,376,905	661,686,660	62.9	9,931.46	5,420.29	15,351.76	7,825.66	3,355.06	11,180.72	78.8	61.9	72.8
Kirinyaga	550,000,000	586,660,639	112.3	4,847.45	2,185.06	7,032.51	4,836.07	1,609.99	6,446.06	99.8	73.7	91.7
Kisii	650,000,000	977,218,129	63.7	7,810.10	3,303.76	11,113.86	7,520.21	457.82	7,978.02	96.3	13.9	71.8
Kisumu	2,118,837,525	1,153,464,305	48.2	8,483.12	3,562.16	12,045.28	7,271.83	1,808.50	9,080.33	85.7	50.8	75.4
Kitui	420,000,000	464,354,467	110.6	8,662.90	3,643.15	12,306.05	8,173.76	2,129.55	10,303.32	94.4	58.5	83.7
Kwale	454,276,121	392,952,872	86.5	7,061.20	4,868.21	11,929.41	6,758.72	2,950.19	9,708.91	95.7	60.6	81.4
Laikipia	1,297,000,000	980,163,461	61.4	5,358.07	1,833.28	7,191.35	5,323.92	1,225.93	6,549.85	99.4	66.9	91.1
Lamu	131,000,000	156,907,612	119.8	3,001.20	1,366.43	4,367.63	2,747.93	763.51	3,511.43	91.6	55.9	80.4
Machakos	1,850,610,939	1,429,791,260	83.3	8,778.23	3,766.36	12,544.59	7,926.94	1,600.08	9,527.02	90.3	42.5	75.9
Makueni	1,085,000,000	891,595,986	62.5	7,485.99	3,278.76	10,764.74	7,309.93	2,537.37	9,847.31	97.6	77.4	91.5
Mandera	290,436,786	122,528,934	42.2	8,427.76	4,286.08	12,713.84	8,198.47	3,656.65	11,855.12	97.3	85.3	93.2
Marsabit	170,000,000	133,545,723	34.5	5,033.71	3,798.97	8,832.68	4,928.06	2,698.78	7,626.84	97.9	71	86.3
Meru	1,042,461,228	750,986,590	69.8	8,932.70	3,716.32	12,649.03	8,816.19	2,640.93	11,457.11	98.7	71.1	90.6
Migori	600,000,000	406,364,909	67.7	7,253.87	3,103.11	10,356.99	6,808.40	1,690.15	8,498.55	93.9	54.5	82.1
Mombasa	5,004,354,326	3,998,628,848	79.9	9,868.41	4,131.59	14,000.00	10,355.16	2,183.64	12,538.80	104.9	52.9	89.6
Murang'a	1,500,000,000	658,166,964	42.2	6,861.82	2,942.06	9,803.88	6,432.54	2,037.80	8,470.34	93.7	69.3	86.4
Nairobi City	17,755,011,669	10,478,816,326	58.5	30,369.96	9,243.95	39,613.92	28,627.93	4,610.46	33,238.38	94.3	49.9	83.9
Nakuru	3,580,000,000	3,130,423,723	70.7	12,870.61	8,339.09	21,209.70	10,520.71	3,008.13	13,528.84	81.7	36.1	63.8
Nandi	373,234,444	200,737,628	53.8	6,114.46	2,398.28	8,512.74	5,961.12	1,969.44	7,930.57	97.5	82.1	93.2
Narok	4,204,783,838	3,061,007,640	72.8	10,153.46	4,827.66	14,981.12	9,654.28	3,149.84	12,804.13	95.1	65.2	85.5
Nyamira	782,500,000	284,598,621	26.3	4,909.47	2,185.41	7,094.89	4,341.27	1,393.94	5,735.21	88.4	63.8	80.8
Nyandarua	660,000,000	505,913,306	76.7	5,307.09	2,274.98	7,582.07	4,983.24	1,673.14	6,656.38	93.9	73.5	87.8
Nyeri	800,000,000	1,080,186,883	76.3	5,316.93	2,291.54	7,608.47	5,113.88	1,718.40	6,832.29	96.2	75	89.8
Samburu	670,038,184	656,224,645	94.3	4,794.78	2,184.83	6,979.61	4,491.86	1,837.44	6,329.30	93.7	84.1	90.7
Siaya	700,998,234	508,041,662	68.1	5,775.87	2,827.00	8,602.86	5,279.00	1,520.28	6,799.27	91.4	53.8	79
Taita Taveta	541,118,780	426,372,490	68.1	4,996.55	2,197.01	7,193.56	4,874.53	1,261.05	6,135.58	97.6	57.4	85.3
Tana River	87,846,000	59,173,171	67.4	5,468.74	2,511.27	7,980.02	4,626.32	1,288.96	5,915.28	84.6	51.3	74.1
Tharaka Nithi	380,000,000	286,737,650	63.2	4,364.60	1,316.77	5,681.36	4,083.61	914.06	4,997.67	93.6	69.4	88
Trans Nzoia	1,204,392,612	1,052,173,181	81.5	5,807.36	3,309.33	9,116.68	5,458.99	2,138.90	7,597.89	94	64.6	83.3
Turkana	198,000,000	177,717,811	89.8	12,528.85	5,880.28	18,409.13	11,191.08	3,318.04	14,509.12	89.3	56.4	78.8
Uasin Gishu	1,400,471,851	982,046,563	66.9	7,308.95	4,514.71	11,823.66	7,161.67	3,218.77	10,380.44	98	71.3	87.8
Vihiga	284,073,208	241,350,189	59.7	4,551.02	1,937.00	6,488.02	4,482.55	1,464.63	5,947.18	98.5	75.6	91.7
Wajir	100,000,000	46,746,101	46.7	8,125.45	3,109.23	11,234.68	7,848.01	2,377.74	10,225.75	96.6	76.5	91
West Pokot	170,000,000	128,195,210	75.4	5,200.51	2,464.03	7,664.54	5,120.22	2,193.11	7,313.33	98.5	89	95.4
Total	**66,087,997,006**	**47,104,747,238**	**65.9**	**354,635.28**	**160,542.25**	**515,177.52**	**330,915.78**	**97,980.28**	**428,896.06**	**93.3**	**61**	**83.3**

Source of Data: Controller of Budget

Annex Table 8: Members of the Macro Working Group who attended the Retreat in Naivasha from September 6-13, 2023 to review and finalize this 2023 Budget Review and Outlook Paper

S/No.	Institution/ Department		Name	Designation
1	The National Treasury	Macro & Fiscal Affairs	1. Mr. Musa Kathanje	Director/ Macro & Fiscal Affairs
			2. Mr. John Njera	Director Planning
			3. Mr. Johnson Mwangi	Director Planning
			4. Mr. Maurice Omete	Senior Economist
			5. Ms. Catherine Kalachia	Senior Economist
			6. Ms. Lucy Muraya	Senior Economist
			7. Ms. Geraldine Kyalo	Senior Economist
			8. Ms. Phyllis Muthoni	Economist I
			9. Mr. Thomas Kipyego	Economist I
			10. Ms. Ann Nyagah	Economist II
			11. Ms. Agnes Angwenyi	Office Administrative Assistant
			12. Ms. Beatrice Muriithi	Principal Assistant Office Administrator
			13. Ms. Irene Asava	Senior Assistant Office Administrator
			14. Ms. Jane Karanja	Senior Assistant Office Administrator
			15. Ms. Jane Wanjiku	Office Administrative Assistant
		Intergovernmental Fiscal Relations	16. Ms. Elizabeth Nzioka	Senior Deputy Director
			17. Mr. Brian K. Cheruiyot	Principal Economist
		Debt Policy, Strategy and Risk Management	18. Mr Cleophas Kirwa	Senior Debt Management Officer
		Debt Recording and Settlement	19. Mr. Samuel Gitahi	Economist I
		Resource Mobilization	20. Ms. Khadija Swaleh	Economist
		Government Investment and Public Enterprises	21. Mr. Paul Kiagu	Chief Economist

S/No.	Institution/ Department		Name	Designation
		Accounting Services	22.CPA Purity Mutheu	Principal Accountant
		Pensions	23. CPA Judith Nyakawa	Senior Deputy Director
		Public Private Partnerships	24. Mr. James Kimani	Principal Economist
		Finance Unit	25. Mr. Ambrose Ogango	Senior Chief Finance Officer
2	State Department of Economic Planning	State Department of Economic Planning	26. Mr. Jackson Kiprono	Principal Economist
			27. Ms. Peninah Kawira	Senior Economist
3	Central Bank of Kenya	Central Bank of Kenya	28. Ms. Esther W. Kariuki	Deputy Manager
			29. Mr. Julius K. Bett	Economist
4	Kenya Revenue Authority	Kenya Revenue Authority	30. Ms. Jane Kanina	Assistant Manager
			31. Mr. Walter Mokaya	Officer
5	Kenya National Bureau of Statistics	Kenya National Bureau of Statistics	32. Mr. James Gekara Abuga	Senior Manager
6	Commission on Revenue Allocation	Commission on Revenue Allocation	33. Ms. Lineth Oyugi	Director/Economic Affairs
7	Kenya Institute of Public Policy and Research Analysis	Kenya Institute of Public Policy, Research and Analysis	34. Mr. Benson Kiriga	Senior Policy Analyst
			35. Ms. Laureen Karima	Policy Analyst

Annex Table 9: Summary of Comments Received from Stakeholders and Public on the 2023 BROP

POLICY AREA	PARAGRAPH	RECOMMENDATIONS	RESPONSE/ACTION TAKEN
Fiscal Performance - Revenue and Expenditures	5	The National Government should set realistic revenue targets.	The revenue projections for FY 2022/23 were quite conservative. The below target performance was largely attributed to the uncertain operating environment related to the general elections and the negative impact of the geo-politics that led to global economic slowdown and supply chain disruptions.
	6	Future upward adjustments in taxes more so consumption taxes should be gradually implemented over the medium term. Even as the government institutes these measures in an effort to increase revenue collection, it is important that consideration is given so that these tax changes do not jeopardise the goal of revenue maximisation due to their negative effects on private consumption and investment	The National Treasury is in the process of developing a Medium Term Revenue Strategy that will will provide a comprehensive framework for guiding tax reforms for boosting revenues and improving the tax system over the medium-term.
	7	The 2023 BROP should have information of underperformance of all revenue streams.	Paragraph 6 provides explanation for the below target performance of the major tax heads. The reasons include: decline in oil volumes, motor vehicle imports and deliveries of domestic excisable goods; subdued growth in the construction, transport and manufacturing sectors owing to the high cost of inputs and increasing inflationary pressures.
	11	Actual external grants in FY 2022/23 amounted to Ksh 23.1 billion representing 55.4 percent of the revised target of Ksh 41.7 billion. This led to a low programme absorption for externally funded programmes. There is need to provide more accurate budget projections for the external grants to avoid a negative impact on planned development activities.	The external grants projections for FY 2023/24 and the medium term have been moderated in order not to interrupt implementation of planned development activities.
	12	In the FY 2022/23 recurrent expenditure grew by 7.9 percent while development projects (net) contracted by	The under-spending for the FY 2022/23 budget was both in recurrent and development budget and can partly be explained

POLICY AREA	PARAGRAPH	RECOMMENDATIONS	RESPONSE/ACTION TAKEN
		11.7 percent. The Government should focus on growing the development budget to accelerate economic development in the country. This can be achieved by cutting down on recurrent expenditure and non-core activities.	by below target disbursements for externally funded projects and low revenue collection. To reverse this, the Government will put in place appropriate measures to increase revenue collection, improve absorption of resources from development partners and explore alternative financing strategies early in the financial year to ensure the budget is fully funded. Consequently, development expenditure is projected to grow from Ksh 793.8 billion (4.9 percent of GDP) in FY 2023/24 to 1,390.8 billion (5.7 percent of GDP) in FY 2027/28.
	14	The Ministerial AIA has not been disintegrated by each ministry and state agencies. It is difficult to know how much each state agency contributed. Further, there is no explanation on the under-collection of the Ministerial AIA and expenditure absorption.	The Budget Review and Outlook Paper usually provides performance of broad revenue categories. A full breakdown of revenues including AIA is usually provided in the Budget Policy Statement that is finalized in February of every year.
	Table 3	There were several MDAs whose percentage of total expenditure to target exceeded 100 percent and there is no reasons behind such performance and the way forward in the subsequent financial years. The BROP should explain the reasons behind the over 100 percent expenditure performance to the target and the measures taken to address such occurrence in the current and subsequent financial year.	The over 100 percent expenditure was due MDAs committing beyond their budgets.
		Provisional expenditure under the Judiciary Fund in the FY 2022/23 has been captured. Please note that actual expenditure shall be captured upon finalization of the Financial Report which is currently under preparation and is expected to be finalized by 30th September, 2023.	This is noted and will be reviewed once the actual expenditure has been finalized and shared with the National Treasury.
	16	There were no funds allocated for Contingency Fund and there is no narrative to explain it. This allocation is a requirement by law. The allocation would have come	Table 4 shows that Contingency Fund was allocated Ksh 2.0 billion in FY 2022/23. The resources were utilized to cater for

POLICY AREA	PARAGRAPH	RECOMMENDATIONS	RESPONSE/ACTION TAKEN
		in handy to help in unforeseen circumstances. The allocation would have helped in the provision of subsidies like fuel subsidies that would help cushion Kenyans.	the additional expenditures arising from the unforeseen circumstances in the Supplementary I and II expenditures
Fiscal Responsibility Principles	19 (i)	In FY 2022/23 there was lapse in the fiscal discipline in relation to the timely closure of the financial year and opening of the subsequent financial year. Even though these delays are supported with valid reasons, we observe they affect budget implementation of the subsequent financial year. The Government should ensure adherence to year-end procedures in line with the applicable circulars issued by the National Treasury.	The FY 2022/23 was a challenging year marked by the transition from the previous Administration to the current one. The first half of the FY 2022/23 was marked by slow implementation of programmes and projects due to inadequate revenues. In part, revenue performance was affected by the general slowdown of economic activities occasioned by the adverse impact of shocks that hit the country. Going forward, the Government will endeavour to ensure strict adherence to year-end procedures in line with the applicable circulars issued by the National Treasury.
	19 (iii)	Section 15 (2) (C) of the PFM Act 2012 requires over the medium term, the National Government's borrowing shall be used only for the purpose of financing development expenditures and not recurrent. To demonstrate this has been complied with, there is need to use the three financial years' data rather the previous FY 2022/23 only.	Table 5 provides data on performance in relation to fiscal responsibility principles for two previous years – FY 2021/22 and FY 2022/23. As required by the PFM Act, the Table further provides projections for four outer years. In FY 2023/24, the allocation for development expenditure is 34.4 percent of ministerial Government expenditure and is projected to remain above the 30 percent threshold over the medium term.
	19 (iv)	Debt service to revenue and grant ratio is projected to be at 65.9 as of June 2024 from 55.1 as of June 2023 and is attributed to the maturity of the international sovereign bond. Also, the debt service-to-revenue ratio as indicated in table 6 is projected at 24.9 in June 2024 from 16.6 in 2023 an indication of high risk debt distress. In line with the Section 15 of the PFM Act 2012, the 2023 BROP should clearly state the cost of any additional debt to the country and put strategies in	To reduce debt vulnerabilities, the Government has committed to a fiscal consolidation program (by broadening the tax revenue base and minimizing non-priority expenditures) and optimising the financing mix in favour of concessional borrowing to finance capital investments. Additionally, a steady and strong inflow of remittances and a favourable outlook for exports will play a major role in supporting external debt sustainability.

POLICY AREA	PARAGRAPH	RECOMMENDATIONS	RESPONSE/ACTION TAKEN
		place to reduce the high risk of debt distress in the medium term.	
County Governments' Fiscal Performance	21	There was no utilization of the Equalization Fund. The Constitution of Kenya Article 204 provides for the circumstances for the utilization of the Equalization Fund. This means that there are marginalized areas that are yet that are yet to enjoy equality in services to the level generally enjoyed by the rest of the nation.	During the year under review, the Equalisation Fund loaded Ksh 3,009,998,064.6 into the IFMIS system to facilitate utilisation of unspent balances by implementing Ministry Departmental Agencies (MDAs) to fast-track payment of pending bills and completion of First Marginalization Policy projects in the 14 beneficiary counties as appropriated in the Equalisation Fund Appropriation Act, 2018 which does not lapse. Ksh 10.4 billion being allocation for FY 2021/22 and FY 2022/23 was appropriated through the Equalisation Fund Appropriation Bill 2023 which was approved and enacted on 30th June, 2023. The Equalisation Fund Appropriation Act, 2023 will be utilized for implementation of projects for Second Marginalisation Policy which have commenced in the 34 beneficiary counties.
	Table 9	Table 9 on County Government Sources of Revenue for FY 2022/23. It is misleading for the table to present that the budgeted county revenue for the FY 2022/23 as Ksh 370 billion. This fails to consider that Ksh. 29.6 billion from the FY 2021/22 had not been disbursed to the counties. The correct budgeted county revenue for the FY 2022/23 should therefore be, Ksh 399.6 billion	Table 9 has been amended to include the Ksh 399.6 billion . A footnote has also been inserted to explain that the 399.6 billion includes Ksh 370 billion Equitable Share for FY 2022/23 and Ksh 29.6 billion balances not disbursed in FY 2021/22.
	23	Analyse Table 10 to show the growth trends for the County Governments in total transfers from the previous financial year.	Table 10 has been updated to show the growth rates in both equitable share and total transfers to counties from FY 2017/18 to 2022/23.
	23	Government should ensure shareable revenue is transferred in timely and predictable manner.	The Government is committed to fulfil the requirement of Article 202 (1) and Article 202 (9) of the Constitution by ensuring equitable share are disbursed in time.

POLICY AREA	PARAGRAPH	RECOMMENDATIONS	RESPONSE/ACTION TAKEN
	26	The data provided by the County Government for OSR (Own Source Revenue) targets appears to lack realism. The Government should assist the County Governments in establishing their OSR (Own Source Revenue) targets. Government need to support County Governments to improve their capacity and enhance their ability to generate their own source of revenue	The National Treasury notes that a number of County Governments reported revenue collection way below their target. This could be attributed to a number of factors such as lack of proper revenue administration structures, revenue leakages, lack of internal controls or unrealistic revenue targets. The National Treasury in collaboration with stakeholders will undertake a number of reforms to assist the counties in enhancing revenue collection. Some of the measures include: establishment of a Multi-Agency Taskforce on Tax Analysis and Revenue Forecasting with an aim of developing a tool for OSR Analysis and Forecasting among County Governments; review of existing legislations; and automation of revenue collection and management. In addition, the National Treasury is planning to build the capacity of County Governments to generate statistics that conform to the Government Finance Statistics 2014 Manual beginning in FY 2023/24. This will strengthen the County Government's fiscal policy making including realistic revenue forecasting.
	Table 11 (currently Table 10)	Table 11: OSR Growth Trends from FY 2020/21 to FY 2022/23. The Table contains discrepancies in Own Source Revenue collection for various counties for the FY 2021/22 and 2022/23. These discrepancies could be as a result of some counties classifying revenue from Facility Improvement Funds (FIF) as part of the Own Source Revenue and others not doing so. This has led to underreporting of the OSR growth rates for Counties.	Table 10 has been amended to include two additional columns to provide information on AIA and other revenues collection by County Governments. The figures by all the counties have been harmonised to ensure uniform comparison in the measurement of Own Source Revenue. The figures as reported have been obtained from *County Governments Budget Implementation Review Report* for the FY 2022/23 prepared by the Office of the Controller of Budget.

POLICY AREA	PARAGRAPH	RECOMMENDATIONS	RESPONSE/ACTION TAKEN
		Table 11 should be amended to include the A-i-A and other revenues generated by the counties. The reported revenue collection for FY 2022/23 does not include the amount collected under the Health Services Fund. The proper way to reflect the County's Performance is either to restate the previous year's revenue by reducing the health component or incorporate the Health Services Fund Collection in the FY 2022/23 The National Treasury should convene a meeting of the PFM Institutions to discuss and provide guidelines on how to report revenues from health facilities for uniform and fair comparison among all counties.	The National Treasury will liaise with all stakeholders to provide a clear guidelines on how to report all the revenues collected by County Governments
	45	How will the Government make sure that Counties comply with Section 107 (20 (b) of PFM Act, 2012.	The PFM Act, 2012 require the County Treasury to allocate over the medium term a minimum of thirty percent of the County Government's budget to be allocated to the development expenditure. County Governments are expected to put in place measures to address adherence to the fiscal responsibility principles. The inability of County Governments to adhere adherence to fiscal responsibility principles will be address by building capacity to County Governments on planning, budgeting and revenue forecasting; adherence to the disbursement schedule on equitable share transfers by the National Government and actualization of the ICRMS.
	46	The Government should establish measures to ensure that the County's payroll expenses do not surpass 35 percent of the overall revenue.	The Public Finance Management (County Government) Regulations, 2015 requires that expenditure on wages and benefits for public officers shall not exceed 35 percent of the total revenues. This means that on average County

POLICY AREA	PARAGRAPH	RECOMMENDATIONS	RESPONSE/ACTION TAKEN
			Governments spent 41.7 percent of their total revenue on wages which is higher than the threshold of 35 percent provided by the PFM Act, 2012. The inability of County Governments to adhere adherence to fiscal responsibility principles will be address by building capacity to County Governments on planning, budgeting and revenue forecasting; adherence to the disbursement schedule on equitable share transfers by the National Government and actualization of the ICRMS.
	47	The 2023 BROP should report stock of pending bills accrued by the County Governments and efforts to clear pending bills.	Table 13 provides data on pending bills by County Governments. As at 30th June, 2023, County Governments reported pending bills of Ksh 164.76 billion as stated by the Controller of Budget. The County Executive reported a total of Ksh 163.1 billion while the County Assemblies reported a total of Ksh 1.7 billion as their pending bills. In order to adequately provide solution to the pending bills issues, the Government intends to conduct a comprehensive study to determine the causes of pending bills by the County Governments given that at the end of the financial year all counties received 100% of their equitable share and most of their conditional grants.
	47	Information on Pending Bills by MDAs and SOEs should be included in the 2023 BROP and corresponding measures put in place to address the accumulation of pending bills. MDAs and SOEs have the highest proportion of pending bills compared to County Government	This recommendation has been noted and the Government will consider incorporating information on pending bills by MDAs and SOEs in subsequent budget documents.
Macroeconomic Developments And Outlook	52	Amend paragraph to reflect the reason why there is increased uncertainty in the global financial market.	The paragraph has been rephrased to include aggressive monetary policy tightening in the advanced economies as a reason for global financial market uncertainty.

POLICY AREA	PARAGRAPH	RECOMMENDATIONS	RESPONSE/ACTION TAKEN
	67	What is the impact of the introduced interest rate corridor?	The interest rate corridor will facilitate alignment of the short term rates with the Central Bank Rate (CBR), reduce volatility in the interbank rate and improve monetary policy transmission. The interest rate corridor is set at ± 250 basis points around the CBR.
	76	The 2023 BROP is silent on the effects of the weakening Kenya Shilling exchange rate and its impact on the country's foreign debt. The National Treasury should disclose the effects of the weakening Shilling on foreign currency back debt stock and the way forward	The Kenyan foreign exchange market remained under pressure as a result of the global shocks largely driven by aggressive monetary policy tightening in advanced economies in response to inflationary pressures which weighed on the exchange rate and increased risk of debt distress. However, improvement in the current account, boosted by robust export earnings and strong remittance inflows the will continue to support stability in the foreign exchange market.
	79	In explaining the supply side projected growth, there is omission in explaining growth in the service sector. Include a paragraph to explain the projected growth in services sector.	Paragraph has been amended to read, "Services sector will be supported by resilient activities in the financial and insurance, information and communication, wholesale and retail trade and transport and storage, among others. The easing of global commodity prices and supply chain constraints coupled with robust private sector investment are expected to support domestic demand."
	Table 18	Inflation over the medium term is expected to return to the Government target range of 5.0±2.5 percent. The Table 18 does not reflect that.	Table 18 has been amended to show that inflation is expected to return to the Government's target range of 5.0±2.5 percent. This will be supported by muted demand pressures consistent with prudent monetary policy and easing domestic and global food prices. In addition, Government measures to support sufficient supply of staple food items through zero rated imports and lower the cost of production through the ongoing fertilizer and seeds subsidy program will exact downward pressure on inflation.
		The projected real GDP growth numbers at a constant 5.6% in 2024-2027 were too conservative given the	Growth projections from 2024 to 2027 have been revised upwards taking into account the ongoing interventions from

POLICY AREA	PARAGRAPH	RECOMMENDATIONS	RESPONSE/ACTION TAKEN
		ongoing Government investments to support economic activities.	both the Government and the private sectors to support specific sectors of the economy.
		The Government should highlight the key monetary policies introduced by the Central Bank of Kenya and the expected outcome of the implementation of the policies.	Paragraph 82 – 84 provides the monetary policy stance of the Government that is aimed at achieving price stability and providing adequate credit to support economic activity. Towards this end, the Central Bank has continued to implement reforms to Modernize its Monetary Policy Framework and Operations in Kenya, designed to enhance monetary policy transmission. The Central Bank has also introduced DhowCSD, an upgraded Central Securities Depository infrastructure, that offers a simple, efficient, and secure portal by the Central Bank of Kenya (CBK) to enable the public to invest in Government of Kenya securities.
Medium Term Sector Ceilings	Table 19	The table presents a no change in the ceilings for the energy, infrastructure and ICT for the FY 2023/24 and 2024/25. The energy, infrastructure and ICT contain two key core pillars under the Bottom-up Economic Transformation Agenda (BETA). The two pillars namely: Housing and Settlement and Digital Superhighway and Creative Industry are among those envisaged to have the largest impact to the economy as well as on household welfare in the medium term. The expectation is that the implementation of these two pillars will have some budgetary implications which if any need to be reflected in the medium-term sector ceilings.	Table 19 has been reviewed. The sector ceilings for energy, infrastructure and ICT is projected to rise by 8.7 billion from Ksh 532.4 billion in FY 2023/24 to Ksh 541.1 billion in FY 2024/25. The allocation FY 2024/25 is equivalent to 21.2 percent of the total expenditure, indicating the significance that the Government has laid on the sector which key towards the achievement of the objectives of the Bottom-Up Economic Transformation Agenda

THE NATIONAL TREASURY AND ECONOMIC PLANNING
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