



REPUBLIC OF KENYA

THE NATIONAL TREASURY AND ECONOMIC PLANNING

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CABINET SECRETARY, THE NATIONAL TREASURY & ECONOMIC
PLANNING DURING THE LAUNCH OF THE FY 2025/26 AND THE
MEDIUM-TERM BUDGET PREPARATION PROCESS AT THE
KENYATTA INTERNATIONAL CONVENTION CENTER (KICC),
NAIROBI ON MONDAY, 9TH SEPTEMBER, 2024**

Principal Secretaries and Accounting Officers Present,

Chairpersons: Budget and Appropriations Committee,

Finance and Planning Committee,

Public Debt and Privatization Committee, and

The Council of Governors,

Our Development Partners,

Members of the 4th Estate,

Distinguished Guests,

Ladies and Gentlemen:

1. Good morning. It is my pleasure to be with you this morning for the official launch of the FY2025/26 and Medium Term Budget Preparation Process. Indeed this is my maiden launch of this process.

2. I recently issued guidelines on the preparation of the FY 2025/26 and the Medium-Term Budget in accordance with Article 220 of the Constitution and Sections 35(e) and 36 of the Public Finance Management Act (CAP 412A).

3. It is further to these Guidelines that we are here today to officially launch the preparation process of the FY 2025/26 and the Medium-Term Budget.

Ladies and Gentlemen:

4. As we launch this process, it is important that we appreciate the economic environment within which we are operating. In the global scene, economic growth is expected to remain subdued over the medium-term as the effects of high inflation, restrictive macroeconomic policies, geopolitical tensions, and challenges in the Chinese economy weigh on the outlook. For many countries, tackling inflation remains the primary focus but as the inflationary pressures continue to ease, the global policy focus will increasingly shift to managing other risks to growth, such as climate change, high debt, etc.

5. The latest World Economic Outlook Report, indicates that global growth is projected to drop slightly to 3.2 percent in 2024 from 3.3 percent in 2023 before recovering to 3.3 percent in 2025.

6. In the advanced economies, growth is projected at 1.7 percent in 2024 before rebounding to 1.8 percent in 2025. Several global factors pose risks to the outlook. Monetary policy regimes could remain tight for an extended period due to persistent inflation. Heightened geopolitical tensions in the Middle East, the risks associated with Ukraine-Russia war and possible escalation in geopolitical tensions could add to energy costs, disrupt international trade, and slow global growth.

7. In the emerging markets and developing economies, growth is projected to remain stable at 4.3% in 2024 and 2025 from a growth of 4.4% in 2023. In the Sub-Saharan Africa region, growth is projected to remain moderate at 3.7% in 2024 and 4.1% in 2025.

8. Kenyan economy is not immune to the global developments and the combination of elevated inflation and high interest rates has resulted in lower growth over the past year. This notwithstanding, economic growth has remained strong and resilient. This is supported by strong agricultural and manufacturing activities underpinned by favourable weather conditions, strong service sector, stable macroeconomic environment, ongoing public infrastructural investments and sustained business confidence. The economy is expected to grow by to 5.5 percent in 2025 as compared to 5.6 percent in 2023.

Ladies and Gentlemen:

9. The FY2025/26 and the medium-term Budget is being framed and prepared within the context I have just highlighted. The Budget will also be anchored on the Fourth Medium Term Plan (MTP IV) of the Vision 2030 and continue to support the implementation of the Bottom-up Economic Transformation Agenda (BETA). This will be achieved through continued implementation of a growth responsive fiscal consolidation plan designed towards slowing down public debt without compromising service delivery.

10. The focus will remain the five pillars of BETA with the largest impact on the economy and household welfare. These are;

- (i) Agricultural Transformation;
- (ii) Micro, Small and Medium Enterprise (MSME) Economy;

- (iii) Housing and Settlement;
- (iv) Healthcare; and
- (v) Digital Superhighway and Creative Economy.

11. Further, the Government will work towards ensuring responsible economic management to support economic inclusion and empowerment; broadening opportunities and promoting equity; attracting investment in key sectors; improving health and education outcomes by increasing access to health care and all levels of education and investing in priority skills. In this regard, Sector Working Groups (SWGs) will be required to undertake a thorough review of the proposed budgets and prioritize allocations accordingly towards improving productivity and achievement of MTP IV objectives.

Ladies and Gentlemen:

12. The Medium-Term Fiscal Framework will be premised on the following assumptions:

- (i) Real GDP growth at 5.5 % in 2025 and over the medium-term;
- (ii) Inflation to be maintained within the target range of $\pm 2.5\%$ of 5%;
- (iii) Interest rates to ease downwards and foreign exchange rates to remain stable over the medium term;
- (iv) Total Revenue to improve gradually to reach 16.9% of the GDP in the FY 2025/26 and over the medium-term; and
- (v) Total expenditure to decrease to below 21.5% of GDP in FY 2025/26 and over the medium-term in line with the fiscal consolidation policy.

Ladies and Gentlemen:

13. The implementation of the FY 2024/25 Budget has commenced in earnest. However, it is important to note that following the withdrawal of the 2024 Finance Bill, the Government has had to forego additional revenue measures. We therefore implemented measures aimed at aligning our priorities with the available resources.

14. This included rationalization of operational and development Budget while protecting key social spending in education, health, and social protection. I wish to urge MDAs to ensure that the areas targeted for austerity in Government are sustained during budget implementation.

15. We also acknowledge that a country's sustainability and economic growth depends on its ability to generate revenues to finance its development. The importance of domestic resource mobilization as a key driver of the development agenda is thus well established.

16. In this respect, the National Treasury has developed the Medium-Term Revenue Strategy to enhance domestic revenue mobilization over the medium term. The Strategy will guide Tax Administration to improve efficiency in the administration of tax laws, create tax rates that will enhance compliance and build the tax base. The Strategy is expected to strengthen the policy dimension towards fiscal consolidation process with a target to achieve the EAC convergence criteria of fiscal deficit of 3.0 percent of GDP.

Ladies and Gentlemen:

17. I wish to reaffirm our commitment to further reform Public Finance Management to enhance efficiency, accountability and prudence. This will include implementing an end-to-end e-Government Procurement System aimed at

enhancing transparency and accountability in procurement as well as maximizing value for money. The system is currently undergoing piloting in readiness for rollout to all MDAs including County Governments.

18. To further strengthen management of public resources, we are in the process of transitioning from cash to accrual basis to improve cash management and enhance financial and fiscal reporting. The accrual accounting will enable the Government to account for all assets and liabilities including all Government assets. I have in this regard constituted a Multi-Agency Task Team headed by the Principal Secretary the National Treasury to guide the roll out of this initiative.

19. We have also initiated reforms geared towards automating assets and inventory management in MDAs as well as County Governments. Towards this end, we will soon be operationalizing the Assets and Inventory Management Modules in the IFMIS with the module for all MDAs. This will enable the Government have full visibility of all assets and inventory and facilitate optimal assets utilization and ensure idle and unserviceable assets are disposed in conformity with the existing legal requirements.

Ladies and Gentlemen:

20. In the recent past, Kenyans across the Country have demanded for more accountability and prudence, and value for money in the use of public resources. In view of this, Accounting Officers should ensure that all expenditure made by your respective MDAs is lawful and authorized. In addition, public spending should be effective, efficient, economical and transparent. You are therefore reminded to provide information on any fraud, losses, or any violation of public finance management laws and give explanation for the actions taken to prevent a similar problem in future.

21. We remain committed to ensuring strong governance to achieve this objective. In this regard, the Government has prioritized proper and effective functioning of the Office of the Auditor General, Office of the Controller of Budget, Ethics and Anti-Corruption Commission as well as the Judiciary and all the players in the administration of justice value chain.

Ladies and Gentlemen:

22. As you are aware, we have established a Pending Bills Verification Committee to carry out a thorough analysis of all pending bills for the period 1st July 2005 to 30th June 2022 and formulate measures to stop accumulation of pending bills going forward. The Committee is expected to complete its work and submit a report by October 2024, this report will inform the measures to be undertaken within the fiscal framework.

23. I also wish to remind Accounting Officers to ensure that expenditure carryovers from FY 2023/24 Budget are treated as first charge on FY 2024/25 Budget and accommodated within the approved budgetary provision for MDAs without seeking for additional funding as guided in **Treasury Circular No. 10/2024**.

Ladies and Gentlemen:

24. As we commence the preparation of the next budget, I am aware of the challenges we are currently facing as a country. These include less than ideal revenue performance, escalation in public debt and debt service, expenditure carryovers and accumulation of pending bills as well as increased requirement for funding priority interventions. These continue to exert pressure on limited resources.

25. In view of this, the Government will continue to pursue a fiscal consolidation policy with the overall aim of reducing fiscal deficit and debt accumulation. The

strategy focuses on enhancing domestic revenue mobilization, rationalization and reprioritization of expenditures while safeguarding priority Government programmes and social spending.

Ladies and Gentlemen:

26. The Government will further entrench the adopted Zero-Based Budgeting (ZBB) approach in preparing the FY 2025/26 and future budgets. The ZBB approach requires expenditure proposals to compete for funding on an equal basis – starting afresh (from zero) each financial year. This means that the MDA’s entire budget needs to be justified and approved, rather than just being based on historical trends which is generally incremental in nature. This is aimed at curtailing misallocation of resources inherent in incremental approach and eliminate unnecessary costs associated with inefficiencies and duplication in public spending.

27. To implement Zero Based Budgeting, the National Treasury has developed the *Budget Costing Tool* in the IFMIS Budget Module for the National Government which has incorporated standardized costing methodologies to streamline calculation of budget baselines and prioritization to give credible base for preparation of budget estimates.

28. I therefore expect that SWGs will ensure that all expenditure items in the FY 2025/26 Budget are justified and emphasis is placed on allocating the limited resources based on programme efficiency and requirement rather than incremental budgeting.

Ladies and Gentlemen:

29. The Government is operating under constrained fiscal environment. In view of this, prioritization during resource allocation will be critical in ensuring low-

priority expenditures are dropped or deferred to give way to high-priority service-delivery programmes. SWGs should eliminate wasteful expenditures and pursue priorities which are aimed at safeguarding livelihoods, creating jobs, reviving businesses and economic recovery.

30. Sector Working Groups should therefore redirect resources to:

- (i) Programmes that enhance value chain and linkage to BETA priorities;
- (ii) Foster implementation of Government Priorities emphasised through Presidential Directives and Cabinet Decisions;
- (iii) Completion of ongoing projects, stalled projects and payment of verified pending bills;
- (iv) Programmes that support mitigation and adaptation of climate change; and
- (v) Furtherance and implementation of the Constitution.

Ladies and Gentlemen:

31. Public participation is an integral part of our public finance management system. Article 201 of the Constitution and Section 35 (2) of the Public Finance Management Act, (CAP 412A) makes it a mandatory requirement in the design of public goods and services, and the associated spending. It is in view of the importance attached to Public Participation that the National Treasury and Economic Planning during the preparation of the FY 2024/25 and the Medium-Term Budget, conducted an elaborate countrywide stakeholder engagement on the budget process. I wish to urge SWGs to ensure that the medium-term priorities arising from this process are considered and prioritized in the preparation of the Financial Year 2025/26 and the Medium-Term Budget.

32. I wish to emphasize that the National Treasury will ensure it fulfils its legal mandate in ensuring a more participatory approach in the management of our financial matters. In equal measure, I wish to urge SWGs to embrace meaningful participation during this process by identifying and engaging stakeholders to obtain input during the budget preparation process.

Ladies and Gentlemen:

33. The Constitution and the Public Finance Management Act, requires timely preparation of key policy documents and Bills for approval by Cabinet and Parliament. In this regard, Accounting Officers are expected to strictly follow the schedule of activities outlined in the Budget Calendar provided in the **Treasury Circular No.11 of 2024**.

Finally, I wish to assure you that my office remains open to consultations, and new ideas that will add value to the process. The National Treasury and Economic Planning will also be available to provide the necessary support required throughout the process. With those remarks, it is now my pleasure and humble duty to officially launch the budget preparation process for the FY 2025/26 and the Medium-Term.

THANK YOU