REPUBLIC OF KENYA

THE NATIONAL TREASURY AND ECONOMIC PLANNING

KEYNOTE ADDRESS BY HON. CPA JOHN MBADI NG'ONGO, EGH CABINET SECRETARY, THE NATIONAL TREASURY & ECONOMIC PLANNING DURING THE LAUNCH OF THE PUBLIC HEARINGS FOR THE FY 2025/26 AND THE MEDIUM-TERM BUDGET AT THE KENYATTA INTERNATIONAL CONVENTION CENTER (KICC), NAIROBI ON 20TH NOVEMBER 2024

Principal Secretaries and Accounting Officers Present,

Chairperson, Budget and Appropriations Committee,

Chairperson, Finance and Planning Committee,

Chairperson, Public Debt and Privatization Committee

Development Partners,

Members of the 4th Estate

Distinguished Guests,

Ladies and Gentlemen:

1. Good morning. It is an honour for me to be with you this morning for the official launch of the Public Hearings for the FY2025/26 and Medium Term Budget.

2. If you recall, I presided over the launch of the FY2025/26 and Medium Term Budget process in September 2024. During the event, I emphasized the need to get it right in each and every step of this process until we get the final output which is a Budget with ownership and support from the citizens and

stakeholders in the country. The budget making process for FY 2025/26 and the Medium-Term has now entered a crucial stage where we need to undertake further engagement with members of the public after the initial engagement across the 47 Counties.

Ladies and Gentlemen:

3. As we launch the Public Hearings for FY2025/26 and Medium-Term, it is important that we appreciate the context within which we are formulating and preparing the forthcoming Budget.

4. The latest World Economic Outlook (October 2024) report paints a picture of a global economy facing significant challenges, including persistent inflation, geopolitical tensions, and financial market volatility. While the global economy is projected to grow at a modest pace in the coming years, the outlook is marked by considerable uncertainty and downside risks. 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.

5. While most of the East African economies have shown resilience in the face of global economic challenges, the region's economic outlook remains uncertain. To navigate these challenges and capitalize on opportunities, governments across the region will have to adopt prudent fiscal and monetary policies, promote regional trade and integration, and invest in human capital and infrastructure expansion.

6. For Kenya, the implications of the global economic outlook are mixed. On the positive side, high commodity prices projected in the global outlook, particularly for key exports like coffee and tea, are likely to boost export

earnings and government revenue. In addition, remittances from the diaspora, which form a significant source of our foreign exchange, will continue to flow into the country, thus boosting foreign exchange reserves. Finally, strong domestic demand, driven by population growth and urbanization expected from the affordable housing programme, is likely to support economic growth.

7. On the negative side, a weaker global economy can reduce demand for Kenya's exports, thus impacting trade and growth. Higher interest rates projected in the global outlook can increase borrowing costs for the government and the private businesses thus hindering investments and economic activities.

8. Finally, the country still faces challenges such as high debt levels and the impact of climate change. Climate change poses significant risks to the region's agriculture, tourism, and other sectors, potentially impacting economic growth and stability. With regard to debt vulnerability, our country still faces significant challenges which is limiting our fiscal space and therefore constraining the space growth-oriented economic development programmes.

9. To mitigate these risks and sustain economic growth, the Government will implement sound macroeconomic policies, promote private sector investment, and prioritize climate-resilient development.

Ladies and Gentlemen:

10. Kenya's economy is projected to grow at a moderate pace in the medium-term, supported by strong domestic demand and investments in agriculture, manufacturing, favourable weather conditions, strong service sector, stable macroeconomic environment, ongoing public investments in infrastructure

and sustained business confidence. The economy is expected to grow gradually to 5.5 percent in 2025 as compared to 5.6 percent in 2023.

11. The Medium-Term Fiscal Framework is premised on the following assumptions:

(i) Growth of Real GDP at 5.0 in 2024 and 5.5 % in 2025 and the medium-term;
(ii) Inflation maintained within the target range of ±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:

12. High levels of public debt can lead to increased interest and debt repayments, which strains budgetary resources and limits the government's ability to invest in key public service programmes. In this context, allow me to give highlights of the fiscal consolidation policy that the Government has been pursuing over the last three years in its effort to reduce the budget deficit and debt levels.

13. In the FY2021/22, the overall fiscal balance stood at 8.6% of the GDP while the overall nominal debt was at 67.6% of the GDP. As you will notice, the Government fiscal position was moving towards unsustainable deficit and debt

levels that needed to be reversed. It is in this regard that the Government adopted a fiscal consolidation policy.

14. Fiscal consolidation policy has involved a combination of strategies, including decreasing spending on non-priority expenditure programs; broadening tax base and reforming tax administration. These reforms have begun to bear fruits as can be demonstrated by a decline in the overall fiscal balance from a high of 8.6% in FY2021/22 to 4.5% of the GDP in FY2024/25. Likewise, the overall nominal debt has come down from a high of 67.6% in FY2021/22 to 62.8% of the GDP in FY2024/25.

15. By reducing government spending and increasing revenue, fiscal consolidation will help us to reduce inflation and stabilize the economy. In addition, by reducing public debt and improving the government's fiscal position, we shall be in a position to create fiscal space and room for additional spending on priority programmes such as infrastructure, education, health, social and BETA programs.

Ladies and Genrlemen

- ***FY 2024/25 Budget implementation:***

16. Budget implementation in the first four months of the FY 2024/25 was initially impended by the withdrawal of the Finance Bill, 2024 and protests that led to a slowdown of economic activities.

17. By end October 2024, revenue collection amounted to **Ksh.854.5 billion** against a target of **Ksh.928.2 billion** resulting to an underperformance of **Ksh.73.7 billion.** The underperformance was on account of shortfall registered

in ordinary revenue of **Ksh.48.6 billion** and ministerial A-i-A of **Ksh.25.1 billion.**

18. It is however critical to note that total revenues grew by 3.4 percent by end October 2024 from a growth of 13.0 percent by end October 2023 while ordinary revenues grew by 7.2 percent from 12.0 percent over the same period. All tax revenues except VAT recorded positive growth rates.

19. Expenditures by end October 2024 were below target by **Ksh.101.9 billion** on account of below target disbursements towards recurrent expenditure and County Equitable share.

20. Fiscal operations by end of October 2024 resulted in an overall deficit inclusive of grants of **Ksh.222.9 billion** (1.2 percent of GDP) against a target of **Ksh.249.2 billion** (1.4 percent of GDP).

Ladies and Genrlemen

- ***The FY 2025/26 and the Medium-Term Budget***

21. The focus of the FY 2025/26 budget will be on the implementation of priority programmes under the Bottom-Up Economic Transformation Agenda (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.

22. This will strictly be 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.

Ladies and Genrlemen

- ***Zero Based Budgeting***

23. The Government has emphasized on a Zero-Based Approach to Budgeting in the FY 2025/26 Budget to address misallocation of resources inherent in incremental approach and eliminate unnecessary costs associated with inefficiencies and duplication in public spending.

24. To implement Zero Based Budgeting in the FY 2025/26 Budget, MDAs developed preliminary baseline information using the Budget Costing Tool and submitted the budget baseline to the National Treasury. We further requested for submission of summarized requirements of the priority areas which were reviewed and used to firm up the indicative Sector Ceilings.

25. Sector Working Groups were therefore required to review the Budget baseline requirements and prioritize their spending plans based on agreed criteria and within the indicative sector ceilings. I therefore urge the public to interrogate the priorities that will be presented during these hearings to ensure they address the need of the common Kenyan.

Ladies and Gentlemen

- ***Pending Bills***

26. The Government is cognizant of the urgent need to address the Pending Bills threat, and releasing the much-needed liquidity, facilitate better economic performance and restore confidence and hope, particularly to the MSMEs who suffer the greatest hazard resulting from unpaid bills for delivered goods and services.

27. To address this issue, the Government constituted the Pending Bills Verification Committee (PBVC) to scrutinize and analyse the existing National Government pending bills that have accumulated from 1st July 2005 to 30th June 2022 and make recommendations to the Government on settlement of the same.

28. I will therefore be making proposals in the FY 2025/26 Budget and over the medium term to address the verified pending bills. Going forward, there shall be no acceptance or tolerance to accumulation of unpaid bills. The government will in this regard initiate major reforms to curb the pending bills problem.

Ladies and Gentlemen

- **Public Participation**

29. Public participation is at the core of our public finance management system in line with Article 201 of the Constitution and Section 35 (2) of the PFMA, 2012 (CAP 412A). It is essential in ensuring that public funds are allocated and used effectively, efficiently, and equitably to meet the needs of the people. It also promotes transparency, accountability, and democratic governance, which eventually lead to better outcomes of public spending for the betterment of society.

30. When citizens are involved in the budgeting process, they are able to monitor how public funds are allocated and spent. This scrutiny has the potential to reduce corruption and mismanagement of public funds. Further, with Citizens' input, we get valuable insights into localized priorities and solutions, thus helping policymakers to make informed decisions about resource allocation. It also helps in identifying and prioritizing the most

pressing needs of the society by ensuring that resources are allocated in the most efficient and effective manner.

31. It is in this regard that we have organized the Public Sector Hearings that will commence today, **20th November, 2024** for the next two days to **22nd November, 2024** to enable the public provide feedback and validate the FY 2025/26 Sector Budget Proposals.

32. I therefore call upon the members of public including our youth and the vulnerable members of our society to actively participate during this process. I wish to express the Government's commitment in ensuring that these views shape the priorities in the FY 2025/26 Budget.

33. During the meetings, Sector teams will have an opportunity to discuss the sectoral performance, prioritized programmes and projects for funding in FY2025/26 and the Medium-Term, expected outputs and outcomes from public spending; and other emerging issues. The contribution of the public is welcome as it will go towards finalization of spending proposals in the Budget Policy Statement and ultimately the FY 2025/26 Budget to be submitted to Parliament in April, 2025.

Ladies and Gentlemen:

34. I am also aware that to prepare for this occasion, a lot of effort has been put by the Sector Working Groups and other stakeholders. I sincerely wish to thank everyone who has been involved in this demanding exercise.

35. Finally, I want to once again urge members of the public to feel free in giving their input and raising issues where necessary in the discussions that will take

place today and the next two days. I look forward to your input to complement the proposals that have been put together by individual Sector Working Groups.

36. With those remarks, May I now take this opportunity to declare the Public Sector Hearings officially open.