REPUBLIC OF KENYA

THE NATIONAL TREASURY AND PLANNING

2020 BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 9, 2020

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Foreword

The 2020 Budget Review and Outlook Paper is set against the backdrop of a contracting global economy occasioned by the outbreak and the rapid spread of the Covid-19 Pandemic. The Pandemic and the attendant containment measures has led to contraction of the global economy disrupting businesses including international trade and leading to loss of livelihoods for millions of people globally. Global economic activity is projected to contract by to 4.9 percent in 2020 from a growth of 2.9 percent in 2019 with prospects across countries and regions remaining highly uncertain.

On the domestic scene, the Pandemic and the containment measures have not only disrupted our ways of lives and livelihoods, but to a greater extent business. Consequently, the economy grew by 4.9 percent in the first quarter of 2020 compared to a growth of 5.5 percent in a similar period in 2019. Overall, the economy is projected to grow by 2.6 percent in the calendar year 2020 and rebound to 5.3 percent in 2021. In terms of fiscal years, the economy is projected to grow by 4.0 percent in the FY 2020/21 and 5.9 percent over the medium term. To cushion citizens and businesses from the adverse effects of Covid-19 Pandemic and support economic activities, the Government moved swiftly to implement a range of fiscal measures in the context of the Finance Act 2020 and monetary measures. Evidently these measures have provided the much needed relief to the economy and provided additional disposable incomes to the people and businesses. Building on the progress made, the Government introduced an 8-Point Economic Stimulus Programme (ESP) which is currently underway in all the 47 counties; and is finalizing the development of a Post Covid-19 Economic Recovery Strategy.

The fiscal performance of the FY 2019/20 budget was below target on account of revenue shortfalls and rising expenditure pressures. In particular, the revenue shortfalls in the fourth quarter of the FY 2019/20 was largely due to the Covid-19 Pandemic. Revenue performance was further worsened by the tax incentives were introduced to cushion Kenyans from the economic impact of the Pandemic. To sustain national revenue, the Government lowered the level of tax exemptions in view of revenues foregone by the Government through tax incentives and exemptions. In light of these challenges, revenue collection for the FY 2020/21 is expected to slightly decline while expenditures for the fiscal year have been rationalized to ease funding pressures and create fiscal space. Consequently, the fiscal deficit (including grants) is expected at 8.4 percent of GDP in the FY 2020/21 which is higher than the 7.8 percent of the GDP registered in FY 2019/20.

As we prepare for the FY 2021/22 budget, emphasis will be on strategic interventions under the Post Covid-19 Economic Recovery Strategy that will further re-position the economy on a steady and sustainable growth trajectory. Equally, special focus will be placed on the achievement of the “Big Four” Agenda as prioritized in the third Medium Term Plan (MTP III) of the Vision 2030. Given the tight resource envelope, all Sector Working Groups are required to carefully scrutinize all proposed Ministries, Departments and Agencies (MDAs) budgets for FY 2021/22 and the medium term to ensure that they remain within the ceilings provided to ensure that the Government budgets within its means and safeguards macroeconomic stability. In this regard, I therefore, call upon all to adhere to the hard sector ceilings, and the strict deadlines provided in this document to facilitate the finalization and appropriation of the FY 2021/22 and the medium term budget.

HON. (AMB.) UKUR YATANI, EGH
CABINET SECRETARY/ THE NATIONAL TREASURY & PLANNING

Acknowledgement

The 2020 Budget Review and Outlook Paper (BROP) has been prepared in accordance with the Public Finance Management (PFM) Act, 2012 and its Regulations. The document provides the fiscal outturn for the FY 2019/20, the macro-economic projections and sets the sector ceilings for the FY 2021/22 and the Medium Term Budget. The document also provides an overview of how the actual performance of the FY 2019/20 affected our compliance with the fiscal responsibility principles and the financial objectives spelt out in the PFM Act as well as information showing adjustments made in the projections outlined in the 2020 Budget Policy Statement.

We are operating under tight resource constraints amidst significant revenue shortfalls occasioned by declining economic activity as a result of the adverse effects of the Covid-19 Pandemic. This calls for proper prioritization to ensure that our expenditures go to the most impactful programmes with highest welfare benefits to Kenyans. Thus, all Sector Working Groups (SWGs) are expected to ensure that their budgets are aligned to the overall Government priorities while taking into account the available resources.

The preparation of the 2020 BROP was a collaborative effort of various Government Agencies. We thank all the Government Ministries, Departments and Agencies as well as other spending units for the timely provision of useful data and information on their budget execution for the FY 2019/20. We are also grateful to the Macro Working Group for reviewing this document to ensure it satisfies the PFM Act, 2012 and sets out the sector ceilings that will guide the rest of the sectors in the preparation of their FY 2021/22 and the Medium Term Budget. This document also benefitted from key inputs from various Directorates and Departments within the National Treasury and Planning. I wish to thank the core team from the Macro and Fiscal Affairs Department and the Budget 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 FY 2021/22 Medium Term Budget preparation process by calling on all Sector Working Groups to devise an engagement framework that will deepen open public and stakeholders' participation and incorporation of the proposals received.

JULIUS MUIA, PhD., CBS
PRINCIPAL SECRETARY/ THE NATIONAL TREASURY

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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
CFS	Consolidated Fund Services
CG	County Government
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
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. The PFM law (Section 15) 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 2020 Budget Review and Outlook Paper has been prepared in accordance with the Public Finance Management (PFM) Act, 2012 and its Regulations. The document provides actual fiscal performance for the FY 2019/20, macro-economic projections and the sector ceilings for the FY 2021/22 and the medium term budget. The document also provides an overview of how the actual performance of the FY 2019/20 affected our compliance with the fiscal responsibility principles and the financial objectives spelt out in the PFM Act as well as information showing changes from the projections outlined in the 2020 Budget Policy Statement.

The fiscal performance of the FY 2019/20 budget was below target on account of revenue shortfalls and rising expenditure pressures. In particular, the revenue shortfalls in the fourth quarter of the FY 2019/20 was largely due to the Covid-19 Pandemic. Thus, total revenue collection including A-I-A amounted to Ksh 1,733.6 billion against the revised target of Ksh 1,864.8 billion. On the other hand, total expenditures and net lending was Ksh 2,565.4 billion falling short of the target by Ksh 252.4 billion, mainly due to the lower absorptions recorded in both the recurrent and development expenditures by the National Government. As result, the fiscal deficit for the FY 2019/20 was Ksh 790.8 billion (equivalent to 7.8 percent of GDP) against a targeted deficit of Ksh 918.0 billion (9.0 percent of GDP).

In light of these challenges, revenue collection for the FY 2020/21 is expected to slightly decline while expenditures for the fiscal year have been rationalized to ease funding pressures and create fiscal space. Consequently, the fiscal deficit (including grants) is expected at 8.4 percent of GDP in the FY 2020/21 which is higher than the 7.8 percent of the GDP registered in FY 2019/20. The fiscal outcome for the FY 2021/22 is projected to improve supported by the fiscal consolidation policies. Revenue collection is projected at 15.0 percent of GDP in the FY 2021/22 from 15.8 percent of GDP in the FY 2020/21. Total expenditures are projected at 24.8 percent of GDP in FY 2021/22 from 22.7 percent of GDP in FY 2020/21. As a result, fiscal deficit for the FY 2021/22 is projected to decline to 7.3 percent of GDP from 8.4 percent of GDP deficit in FY 2020/21.

The outbreak and spread of the Covid-19 Pandemic and the ensuing containment measures have devastated global economies. As a result, the global economy is projected to contract by 4.9 percent in 2020 from a growth of 2.9 percent in 2019 with prospects across countries and regions remaining highly uncertain. Kenya has not been spared. The Pandemic slowed down economic activities in key sectors of the economy in the first quarter of 2020, resulting to a lower growth of 4.9 percent compared to a growth of 5.5 percent in a similar period in 2019. Overall, taking into account the available indicators for second quarter for 2020, the economy is projected to grow by 2.6 percent in 2020 and rebound to 5.3 percent in 2021. In terms of fiscal years, the economy is projected to grow by 4.0 percent in the FY 2020/21 and 5.9 percent over the medium term.

To cushion businesses and households from the adverse effects of the Pandemic and stimulate economic recovery the Government is implementing a host of measures including the Economic Stimulus Program and is finalizing a Post Covid-19 Economic Recovery Strategy. These measures coupled with the stable macroeconomic environment and the sustained implementation of the “Big Four” Agenda is expected to boost economic recovery. However, this macroeconomic outlook is not without risks. The risks to this outlook include persistence of the Covid-19 Pandemic However, the Government will monitor these risks and respond appropriately to mitigate any negative impact on growth.

I. INTRODUCTION

Objective of the 2020 Budget Review and Outlook Paper

1. The objective of the 2020 Budget Review and Outlook Paper (BROP) is to provide a review of fiscal performance for the FY 2019/20 and how this performance impacts on the financial objectives and fiscal responsibility principles set out in the PFM Act and outlined in the 2020 Budget Policy Statement (BPS). This, together with updated macroeconomic developments and outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the FY 2021/22 and the medium-term budget. Details of the fiscal framework and the medium term policy priorities will be firmed up in the 2021 BPS.

2. The 2020 BROP is a key policy document that will guide the development of the 2021 BPS. The 2021 BPS will highlight the progress in the implementation of the "Big Four" Plan and other projects prioritized in the Third Medium Term Plan (MTP III 2018-2022), while also taking into account the recent macroeconomic developments.

3. The underperformance in revenue collection and expenditure pressures in the FY 2019/20 largely due to the adverse effects of the Covid-19 Pandemic had implications on the financial objectives outlined in the 2020 BPS and the fiscal projections of the 2020/21 budget. The 2020 BROP therefore, presents a revised fiscal outlook taking into account the revenue performance by end August 2020 and the prolonged effects of COVID-19 Pandemic on economic activities and the measures put in place to curb its spread. Expenditure projections for FY 2020/21 have been revised to accommodate the weak revenue performance through trade-offs and reallocations of the existing budgetary provisions and additional expenditure on productive areas of spending across the Government.

4. As required by the PFM Act, 2012, the budget process emphasizes on efficiency and effectiveness of public spending and improving revenue collection to stimulate and sustain economic activities. This will in turn ensure that the debt position remains sustainable and enhances continued fiscal discipline. To meet the resource requirements of the FY 2021/22 and the medium budget, the Government will continue to implement prudent measures aimed at enhancing the tax revenue and rationalizing expenditures. In this regard, this BROP provides sector ceilings which will set in motion the budget preparation process for the FY 2021/22 and the medium term. The sector ceilings are guided by the overall resource envelope that is informed by the macroeconomic and fiscal outlook as presented in Section III and IV of this document. Budgetary allocations in this BROP are aligned to the needs of the Economic Stimulus Programme and the Post Covid-19 Economic Recovery Strategy designed to mitigate the negative impact on the economy and further re-position the economy on a sustainable growth trajectory. The allocations also prioritize investments to the strategic interventions under the "Big Four" Agenda which aims to enable creation of more jobs, support manufacturing activities, enhance universal health coverage, improve food security and enhance living conditions through affordable housing.

5. With this background, the rest of the document is organized as follows: Section II provides a review of the fiscal performance for the FY 2019/20 and its implications on the financial objectives set out in the 2020 BPS. Section III provides highlights of the recent economic developments and outlook while Section IV and V provide for the proposed resource allocation framework and the conclusion respectively.

II. REVIEW OF FISCAL PERFORMANCE FOR THE FY 2019/20

A. FY 2019/20 Fiscal Performance

6. In the 2020 BPS our financial projections assumed a normal operating environment having set on a conscious journey of fiscal consolidation, targeting a lower fiscal deficit of 6.3 percent of GDP in the FY 2019/20, 4.9 percent of GDP in 2020/21 and ultimately 3.0 percent of GDP over the medium term. This plan was premised on a strong revenue growth, reduction of non-core expenditures and a gradual slowdown in the growth of public debt.

7. However, this path was interrupted by the outbreak and the rapid spread of the Covid-19 Pandemic. The pandemic did not only worsen revenue performance in FY 2019/20, but will also affect revenue performance in FY 2020/21. In particular, import-related taxes such as import duty, VAT on imports, import declaration fees and railway development levy have been negatively affected due to lower imports and reduction of trade among countries. Further, other domestic taxes have been severely affected by declining incomes and depressed consumption.

8. The fiscal measures implemented by the Government in order to cushion Kenyans against the adverse impact of the pandemic and to further increase liquidity in the economy such as lowering of the Value Added Tax (VAT) rate from 16% to 14%; reduction of tax rates for both corporate and personal income (PAYE) from 30% to 25%, provision of a 100% tax relief for persons earning a gross monthly income of up to Ksh 24,000 and reduction of turnover tax rate from 3.0% to 1.0% are estimated to cost the exchequer Ksh 172.0 billion in revenue foregone by the Government in one financial year.

9. As a result of the challenging operating environment, total cumulative revenue including A-i-A for FY 2019/20 amounted to Ksh 1,733.6 billion against a revised target of Ksh 1,864.8 billion (**Table 1**). This represented a revenue shortfall of Ksh 131.2 billion. Ordinary revenue collection amounted to Ksh 1,573.4 billion against a target of Ksh 1,615.4 billion with tax revenues falling below target in all broad categories. The revenue shortfall is mainly attributed to the fiscal measures implemented by the Government to cushion Kenyans from the adverse effects of COVID-19 pandemic. The revenue performance in FY 2019/20 represented a year on year growth of 1.9 percent.

10. Even before the first COVID-19 case was reported in Kenya, measures instituted internationally to curb the spread of the disease such as cancellation of international flights and total/partial lockdowns by some countries were having an adverse impact on import related taxes and sectors such as tourism and hospitality. The emergence of COVID-19 in Kenya in March 2020 complicated the situation and negatively affected both the domestic and import related revenues especially in the fourth quarter of FY 2019/20.

11. The appropriation in aid (A-i-A) shortfall of Ksh 89.2 billion is attributed to a difficult operating environment owed to the prevalence of COVID-19 pandemic especially in the fourth quarter. Closure of learning institutions significantly affected A-i-A revenue collection especially in the universities and other institutions of higher learning such as TVETs and Kenya Medical Training Colleges (KMTCs).

Table 1: Government Revenue and External Grants, FY 2019/20 (Ksh Million)

	2018/2019 Actual	2019/2020		Deviation KSh.	% Growth
		Actual*	Target		
Total Revenue (a+b)	**1,701,672**	**1,733,631**	**1,864,823**	**(131,192)**	**1.9**
(a) Ordinary Revenue	**1,499,757**	**1,573,418**	**1,615,378**	**(41,960)**	**4.9**
Import Duty	106,875	98,022	95,942	2,080	(8.3)
Excise Duty	194,310	195,270	201,205	(5,935)	0.5
PAYE	393,440	399,201	399,411	(210)	1.5
Other Income Tax	291,890	307,735	320,857	(13,121)	5.4
VAT Local	230,776	213,884	228,222	(14,338)	(7.3)
VAT Imports	183,368	169,829	171,907	(2,078)	(7.4)
Investment Revenue	26,763	103,393	104,576	(1,182)	286.3
Traffic Revenue	4,061	3,573	4,566	(993)	(12.0)
Taxes on Intl. Trade & Trans.(IDF Fee)	24,197	29,994	28,250	1,744	24.0
Others [1]	44,078	52,517	60,442	(7,925)	19.1
(b) Appropriation In Aid [2]	**201,915**	**160,213**	**249,445**	**(89,232)**	**(20.7)**
o/w Railway Development Levy	21,303	23,258	22,682	576	9.2
(c) External Grants	**19,702**	**19,820**	**35,026**	**(15,206)**	**0.6**
Total Revenue and External Grants	**1,721,373**	**1,753,451**	**1,899,849**	**(146,398)**	**1.9**
Total Revenue and External Grants as a percentange of GDP	**18.50**	**17.20**	**18.63**		

1/ includes rent on land/buildings, fines and forfeitures, other taxes, loan interest receipts reimbursements and other fund contributions, fees, and miscellaneous revenue.
2/ includes receipts from Road Maintenance Levy Fund and A-I-A from Universities
*Provisional

Source of Data: National Treasury

12. During the FY 2019/20, the Government received investment income in form of dividends, surplus funds and directors' fees of Ksh 46.0 billion which was on target (**Table 2**). The Government also received Ksh 70.1 billion from a mop-up exercise initiated to recall excess surplus funds from the parastatals.

Table 2: Investment Income for the FY 2019/20 (Ksh Million)

	FY 2018/19	FY 2019/20	
	ACTUAL RECEIPTS	REVISED ESTIMATES	ACTUAL RECEIPTS
DIVIDENDS	16,553.0	41,043.00	41,043.48
SURPLUS FUNDS	8,000.0	4,985.0	4,985.0
DIRECTORS FEES	22.0	29.5	16.7
TOTAL	24,575.00	46,057.48	46,045.15

Source of Data: National Treasury

13. Similarly, external grants amounted to Ksh 19.8 billion against a revised target of Ksh 35.0 billion, translating into a shortfall of 15.2 billion. Of these external grants, programme grants (AMISOM reimbursements) amounted to Ksh 4.6 billion against a target of Ksh 11.7 billion, project grants revenue of Ksh 9.6 billion against a target of Ksh 15.3 billion and project grants (A-i-A) of Ksh 5.6 billion against a target of Ksh 8.0 billion.

Table 3: Revenue Performance by Sector - Ksh Million

Cumulative Revenue Performance by Sector - Kshs Million									
Economic Sector	**Jul-Jun 2017/18**	**Jul-Jun 2018/19**	**Jul-Jun 2019/20**	**Revenue Contribution**			**GDP Contribution**		
				Jul-Jun 2017/18	**Jul-Jun 2018/19**	**Jul-Jun 2019/20**	**2017/18**	**2018/19**	**2019/20**
Agriculture	19,943	23,445	20,478	2.4%	2.6%	2.3%	34.4%	34.6%	35.4%
Construction	42,913	44,736	44,699	5.1%	5.0%	4.9%	5.5%	5.5%	5.6%
Education	24,110	22,291	23,452	2.9%	2.5%	2.6%	4.2%	4.2%	4.1%
Electricity, Gas, Steam	33,326	33,838	32,140	4.0%	3.8%	3.5%	2.5%	2.3%	2.4%
Financial And Insurance	148,752	166,123	171,681	17.8%	18.4%	18.9%	6.6%	6.2%	5.9%
o/w banks	112,580	127,388	135,247	13.4%	14.1%	14.9%			
Information And Communication	116,645	134,724	148,801	13.9%	14.9%	16.4%	1.3%	1.3%	1.2%
Manufacturing	154,768	164,832	158,313	18.5%	18.3%	17.5%	8.0%	7.5%	7.2%
Others	137,262	138,932	137,870	16.4%	15.4%	15.2%	10.4%	10.5%	10.4%
Professional and Technical	30,388	33,019	36,219	3.6%	3.7%	4.0%	1.7%	1.7%	1.6%
Public administration	12,756	12,635	13,383	1.5%	1.4%	1.5%	3.4%	3.5%	3.5%
Real Estate Activities	24,179	24,958	24,493	2.9%	2.8%	2.7%	7.0%	7.0%	6.8%
Transportation And Storage	41,641	41,223	41,486	5.0%	4.6%	4.6%	7.6%	8.2%	8.5%
Wholesale And Retail Trade	50,616	61,293	53,581	6.0%	6.8%	5.9%	7.4%	7.5%	7.5%
Total	**837,299**	**902,048**	**906,597**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source of Data: Kenya Revenue Authority for revenue figures and Kenya National Bureau of Statistics for GDP figures

14. Cumulatively, over half of revenue is generated from three sectors namely: Manufacturing, ICT and Financial Services. Whereas Agriculture contributed an average of 34.8% to GDP in the last three years, it contributed 2.4% of total revenue in FY 2019/20. The decline in manufacturing sector contribution to revenue from 18.5% in 2017/18 to 17.5% in 2019/20 is in line with the decline in the sector's contribution to GDP from 8.0% in 2017/18 to 7.2% in 2019/20.

Expenditure Performance

15. Total expenditure and net lending in the FY 2019/20 was Ksh 2,565.4 billion against a revised target of Ksh 2,817.8 billion, representing an under spending of Ksh 252.4 billion (9.0% deviation from the revised budget) (**Table 4**). This shortfall was attributed to lower absorption in both recurrent and development expenditures by the National Government.

16. The National Government's recurrent expenditure amounted to Ksh 1,603.1 billion (excluding Ksh 41.2 billion by Parliament and Judiciary) against a target of Ksh 1,728.4 billion, representing an under-spending of Ksh 125.3 billion. The under expenditure in recurrent category was mainly due to below target expenditure on operation and maintenance attributed to scaled down operations of the National Government in the last half of the FY due to Covid-19 Pandemic. Expenditure on domestic interest payments was above target by Ksh 13.6 billion while foreign interest payments was below target by Ksh 10.0 billion. Over the same period, a huge shortfall in operation and maintenance resulted to an under spending of Ksh 69.2 billion in recurrent ministerial Appropriation-in-Aid.

17. Development expenditures were below target by Ksh 83.5 billion on account of lower than programmed absorption by MDAs of domestically financed programmes by Ksh 53.0 billion and lower than programmed execution of externally funded programmes by Ksh 30.5 billion.

Table 4: Expenditure and Net Lending, FY 2019/20 (Ksh Million)

	2018/2019 Actual	2019/2020		Deviation	% Growth
		Actual*	Targets		
1. RECURRENT	**1,489,844**	**1,603,128**	**1,728,403**	**(125,275)**	**7.6**
Domestic Interest	272,351	315,362	301,812	13,550	15.8
Foreign Interest	103,372	121,840	131,868	(10,028)	17.9
Pensions & Other CFS	70,804	89,605	90,989	(1,384)	26.6
Wages and Salaries	417,526	449,927	457,155	(7,228)	7.8
Operation and Maintenance	625,791	626,394	746,579	(120,186)	0.1
O/W: Appropriation-in-Aid	147,765	106,958	176,126	(69,167)	(27.6)
2. **DEVELOPMENT**	**541,884**	**594,944**	**678,466**	**(83,523)**	**9.8**
Development Projects (Net)	289,029	389,571	434,273	(44,703)	34.8
Payment of Guaranteed Loans	2,485	661	644	18	(73.4)
Appropriation-in-Aid	243,408	204,712	243,549	(38,837)	(15.9)
3. County Governments	360,740	325,278	362,383	(37,105)	(9.8)
4. Parliamentary Service	28,525	27,990	34,257	(6,267)	(1.9)
5. Judicial Service	12,713	14,103	14,298	(195)	10.9
6. Equalization Fund	6,962	-	-	-	(100.0)
7. CF	-	-	-	-	-
TOTAL EXPENDITURE	**2,433,707**	**2,565,444**	**2,817,808**	**(252,365)**	**5.4**

Wages and salaries; includes wages for teachers, civil servants and police

Source of Data: National Treasury

Ministerial Expenditure

18. The total cumulative ministerial and other public agencies expenditure including A-i-A was Ksh 1,692.5 billion (87.9 percent absorption) against a target of Ksh 1,976.5 billion. Recurrent expenditure was Ksh 1,127.8 billion (89.0 percent absorption) against a target of Ksh 1,266.6 billion, while development expenditure was Ksh 608.7 billion (85.8 percent absorption) against a target of Ksh 709.8 billion. The discrepancy between actual and target expenditures was partly due to the non-capture of the parastatals and some other government entities expenditures.

19. As at the end of FY 2019/20, recurrent expenditures by the State Department for Early Learning and Basic Education, State Department for University Education; Teachers Service Commission; State Department for Vocational and Technical Training and the Ministry of Health (Social Sector) accounted for 45.1 percent of total recurrent expenditure. In addition, the State Department for Interior and the Ministry of Defence accounted for 10.2 percent and 8.8 percent of total recurrent expenditure respectively.

20. Analysis of development outlay indicates that the State Department for Infrastructure accounted for the largest share of the total development expenditure (27.5 percent), followed by the State Department for Transport (15.4 percent), State Department for Energy (8.2 percent), Ministry of water and Sanitation (7.3 percent), and the Ministry of Health (6.4 percent). The expenditures by large Ministries/State Departments were below target because of underreporting of expenditure from the sub-national, parastatals and some donor funded projects. **Table 5** shows the recurrent and development expenditures by Ministries, State Departments and other government entities for the period under review**.**

Table 5: Ministerial Expenditures, Period Ending 30th June, 2020 (Ksh Millions)

Budget Head	MINISTRY/DEPARTMENT/COMMISSIONS	Jun-20 Reccurent		Variance	Jun-20 Development		Variance	Jun-20 Total		Variance	% of Total Expenditure to Target
		Actual*	Target		Actual*	Target		Actual*	Target		
1011	The Presidency	11,238	12,849	(1,612)	2,860	3,624	(764)	14,098	16,474	(2,376)	85.6
1021	State Department for Interior	115,343	126,771	(11,428)	4,428	8,665	(4,236)	119,771	135,436	(15,665)	88.4
1023	State Department for Correctional Services	21,895	32,772	(10,877)	30	78	(49)	21,924	32,850	(10,926)	66.7
1024	State Department for Immigration and Citizen Services	1,844	2,034	(189)	573	651	(79)	2,417	2,685	(268)	90.0
1032	State Department for Devolution	2,372	2,433	(61)	907	2,820	(1,913)	3,279	5,253	(1,974)	62.4
1035	State Department for Development of the ASAL	977	978	(1)	4,819	5,669	(849)	5,797	6,647	(850)	87.2
1041	Ministry of Defence	99,668	107,077	(7,408)	2,183	9,644	(7,461)	101,851	116,721	(14,870)	87.3
1052	Ministry of Foreign Affairs	10,536	17,001	(6,465)	315	1,251	(936)	10,851	18,252	(7,401)	59.5
1064	State Department for Vocational and Technical Training	11,954	16,806	(4,852)	5,324	6,946	(1,623)	17,278	23,752	(6,474)	72.7
1065	State Department for University Education	87,199	116,933	(29,734)	6,390	6,622	(232)	93,589	123,555	(29,966)	75.7
1066	State Department for Early Learning & Basic Education	82,030	89,737	(7,708)	3,273	4,581	(1,307)	85,303	94,318	(9,015)	90.4
1068	State Department for Post Training and Skills Development	116	122	(6)	-	-	-	116	122	(6)	95.1
1071	The National Treasury	53,338	57,644	(4,305)	17,592	20,330	(2,738)	70,930	77,973	(7,043)	91.0
1072	State Department for Planning	11,672	11,701	(30)	29,389	43,563	(14,174)	41,061	55,264	(14,203)	74.3
1081	Ministry of Health	71,415	76,097	(4,681)	39,017	43,666	(4,650)	110,432	119,763	(9,331)	92.2
1091	State Department for Infrastructure	64,332	61,161	3,171	167,118	179,014	(11,896)	231,450	240,175	(8,725)	96.4
1092	State Department for Transport	6,387	9,768	(3,381)	93,571	94,198	(628)	99,958	103,967	(4,008)	96.1
1093	State Department for Shipping and Maritime	339	1,387	(1,048)	-	568	(568)	339	1,956	(1,616)	17.4
1094	State Department for Housing & Urban Development	930	954	(24)	24,356	27,851	(3,496)	25,285	28,805	(3,520)	87.8
1095	State Department for Public Works	2,162	2,165	(3)	1,163	1,386	(223)	3,325	3,551	(226)	93.6
1107	Ministry of Water and Sanitation	3,512	5,656	(2,144)	44,377	55,351	(10,974)	47,889	61,007	(13,118)	78.5
1108	Ministry of Environment and Forestry	9,505	10,358	(853)	3,572	3,655	(83)	13,078	14,013	(936)	93.3
1112	Ministry of Lands and Physical Planning	2,348	2,681	(333)	4,118	4,515	(397)	6,466	7,196	(730)	89.9
1122	State Department for Information Communication Technology	2,499	2,627	(129)	15,930	18,900	(2,969)	18,429	21,527	(3,098)	85.6
1123	State Department for Broadcasting & Telecommunications	3,316	4,839	(1,523)	515	531	(16)	3,831	5,370	(1,540)	71.3
1132	State Department for Sports	1,221	1,312	(91)	5,588	13,650	(8,062)	6,809	14,962	(8,153)	45.5
1134	State Department for Culture and Heritage	2,871	3,405	(534)	502	503	(2)	3,373	3,909	(536)	86.3
1152	Ministry of Energy	2,382	6,706	(4,323)	50,060	55,763	(5,703)	52,442	62,469	(10,026)	83.9
1162	State Department for Livestock.	2,030	2,309	(279)	3,032	4,369	(1,336)	5,062	6,677	(1,616)	75.8
1165	State Department for Crop Development	4,496	14,643	(10,147)	16,209	22,512	(6,303)	20,705	37,155	(16,451)	55.7
1166	State Department for Fisheries, Aquaculture & the Blue Economy	1,672	1,732	(60)	1,645	3,043	(1,399)	3,316	4,775	(1,459)	69.4
1167	State Department for Irrigation	503	832	(330)	7,875	8,586	(711)	8,378	9,418	(1,040)	89.0
1168	State Department for Agricultural Research	4,351	5,366	(1,015)	348	595	(246)	4,699	5,960	(1,261)	78.8
1173	State Department for Cooperatives	309	649	(340)	4,517	4,573	(55)	4,827	5,222	(395)	92.4
1174	State Department for Trade	1,557	1,677	(120)	975	1,120	(145)	2,532	2,797	(265)	90.5
1175	State Department for Industrialization	2,529	3,409	(880)	9,013	7,770	1,243	11,542	11,179	363	103.2
1184	State Department for Labour	1,851	2,646	(795)	1,177	1,442	(264)	3,028	4,088	(1,059)	74.1
1185	State Department for Social Protection, Pensions & Senior Citizens Affairs	28,200	29,358	(1,158)	12,166	14,018	(1,852)	40,366	43,376	(3,010)	93.1
1192	State Department for Mining	411	586	(175)	333	333	(0)	743	918	(175)	80.9
1193	State Department for Petroleum	223	234	(11)	2,368	3,042	(674)	2,591	3,276	(685)	79.1
1202	State Department for Tourism	4,543	7,438	(2,895)	609	1,411	(802)	5,152	8,849	(3,697)	58.2
1203	State Department for Wildlife	3,733	8,089	(4,355)	517	1,539	(1,023)	4,250	9,628	(5,378)	44.1
1212	State Department for Gender	1,357	1,522	(165)	2,778	2,785	(7)	4,135	4,307	(172)	96.0
1213	State Department for Public Service	6,421	8,182	(1,762)	797	798	(1)	7,218	8,980	(1,762)	80.4
1214	State Department for Youth	12,677	13,970	(1,293)	7,785	7,954	(168)	20,462	21,923	(1,461)	93.3
1221	State Department for East African Community	504	515	(11)	-	-	-	504	515	(11)	97.9
1222	State Department for Regional and Northern Corridor Development	1,735	2,195	(460)	3,516	3,690	(173)	5,251	5,885	(633)	89.2
1252	State Law Office and Department of Justice	3,926	4,566	(640)	120	277	(157)	4,047	4,843	(797)	83.6
1261	The Judiciary	13,627	13,797	(171)	2,498	3,166	(668)	16,125	16,964	(839)	95.1
1271	Ethics and Anti-Corruption Commission	3,094	3,105	(11)	-	-	-	3,094	3,105	(11)	99.6
1281	National Intelligence Service	38,350	41,680	(3,330)	-	-	-	38,350	41,680	(3,330)	92.0
1291	Office of the Director of Public Prosecutions	2,926	3,267	(341)	73	14	59	2,999	3,281	(282)	91.4
1311	Office of the Registrar of Political Parties	1,182	1,212	(30)	-	-	-	1,182	1,212	(30)	97.5
1321	Witness Protection Agency	311	482	(171)	-	-	-	311	482	(171)	64.5
2011	Kenya National Commission on Human Rights	385	395	(9)	-	-	-	385	395	(9)	97.6
2021	National Land Commission	1,619	1,664	(45)	-	-	-	1,619	1,664	(45)	97.3
2031	Independent Electoral and Boundaries Commission	4,640	4,808	(168)	-	-	-	4,640	4,808	(168)	96.5
2041	Parliamentary Service Commission	7,902	9,773	(1,871)	513	513	-	8,415	10,286	(1,871)	81.8
2042	National Assembly	17,969	21,582	(3,613)	-	-	-	17,969	21,582	(3,613)	83.3
2043	Parliamentary Joint Services	2,120	2,902	(783)	1,608	1,722	(115)	3,727	4,625	(898)	80.6
2051	Judicial Service Commission	476	501	(24)	-	-	-	476	501	(24)	95.1
2061	The Commission on Revenue Allocation	364	365	(0)	-	-	-	364	365	(0)	99.9
2071	Public Service Commission	2,221	2,353	(132)	23	22	0	2,244	2,376	(132)	94.5
2081	Salaries and Remuneration Commission	420	450	(30)	-	-	-	420	450	(30)	93.3
2091	Teachers Service Commission	255,843	255,951	(108)	78	400	(322)	255,921	256,351	(429)	99.8
2101	National Police Service Commission	625	645	(20)	-	-	-	625	645	(20)	96.8
2111	Auditor General	5,055	5,363	(307)	143	143	-	5,198	5,505	(307)	94.4
2121	Office of the Controller of Budget	599	678	(79)	-	-	-	599	678	(79)	88.3
2131	The Commission on Administrative Justice	529	542	(13)	-	-	-	529	542	(13)	97.6
2141	National Gender and Equality Commission	377	391	(14)	0	3	(2)	378	394	(16)	95.9
2151	Independent Policing Oversight Authority	658	820	(162)	-	-	-	658	820	(162)	80.3
	Total	**1,127,722**	**1,266,618**	**(138,896)**	**608,687**	**709,835**	**(101,147)**	**1,736,409**	**1,976,452**	**(240,044)**	**87.9**

Source of Data: National Treasury

Overall Balance and Financing

21. In line with the performance in expenditure and reduced revenues as a result of Covid-19 pandemic, the fiscal deficit (excluding grants) amounted to Ksh 831.8 billion (8.2 percent of GDP). This deficit was lower than the projected deficit of Ksh 953.0 billion (9.3 percent of

GDP) (**Table 6**). Including grants, the fiscal deficit (on commitment basis) amounted to Ksh 812.0 billion (8.0 percent of GDP against a target of Ksh 918.0 billion (9.0 percent of GDP).

Table 6: Budget Outturn for the FY 2019/20 (Ksh Million)

	2018/2019 Actual	2019/2020		Deviation	% growth	2019/2020 as a % of GDP		2018/2019 Actual as a % of GDP
		Actual*	Targets			Actual	Targets	
A. TOTAL REVENUE AND GRANTS	**1,721,373**	**1,753,451**	**1,899,849**	**(146,398)**	**1.9**	**17.2**	**18.6**	**18.5**
1. Revenue	**1,701,672**	**1,733,631**	**1,864,823**	**(131,192)**	**1.9**	**17.0**	**18.3**	**18.3**
Ordinary Revenue	1,499,757	1,573,418	1,615,378	(41,960)	4.9	15.4	15.8	16.1
Import Duty	106,875	98,022	95,942	2,080	(8.3)	1.0	0.9	1.1
Excise Duty	194,310	195,270	201,205	(5,935)	0.5	1.9	2.0	2.1
Income tax	685,330	706,936	720,268	(13,332)	3.2	6.9	7.1	7.4
VAT	414,143	383,713	400,129	(16,416)	(7.3)	3.8	3.9	4.5
Investment Revenue	26,763	116,146	121,791	(5,645)	334.0	1.1	1.2	0.3
Others	72,336	73,331	76,043	(2,712)	1.4	0.7	0.7	0.8
Appropriation-in-Aid	201,915	160,213	249,445	(89,232)	(20.7)	1.6	2.4	2.2
2. Grants	**19,702**	**19,820**	**35,026**	**(15,206)**	**0.6**	**0.2**	**0.3**	**0.2**
AMISOM Receipts	4,315	4,639	11,698	(7,059)	7.5	0.0	0.1	0.0
Revenue	8,437	9,623	15,309	(5,686)	14.0	0.1	0.2	0.1
Appropriation-in-Aid	6,949	5,558	8,019	(2,462)	(20.0)	0.1	0.1	0.1
B.EXPENDITURE AND NET LENDING	**2,433,707**	**2,565,444**	**2,817,808**	**(252,365)**	**5.4**	**25.2**	**27.6**	**26.2**
1. Recurrent	**1,531,083**	**1,645,222**	**1,776,959**	**(131,737)**	**7.5**	**16.1**	**17.4**	**16.5**
Domestic Interest	272,351	315,362	301,812	13,550	15.8	3.1	3.0	2.9
Foreign Interest	103,372	121,840	131,868	(10,028)	17.9	1.2	1.3	1.1
Pension & Other CFS	70,804	89,605	90,989	(1,384)	26.6	0.9	0.9	0.8
Wages and Salaries	417,526	449,927	457,155	(7,228)	7.8	4.4	4.5	4.5
O & M/Others	667,030	668,487	795,135	(126,648)	0.2	6.6	7.8	7.2
2. Development and Net Lending	**534,922**	**594,944**	**678,466**	**(83,523)**	**11.2**	**5.8**	**6.7**	**5.7**
O/W Domestically financed	307,010	396,648	449,677	**(53,029)**	**29.2**	**3.9**	**4.4**	**3.3**
Foreign financed	225,427	197,634	228,145	**(30,511)**	**(12.3)**	**1.9**	**2.2**	**2.4**
3. Equalization Fund	6,962	-	0	-	(100.0)	-	-	-
4. County Governments	360,740	325,278	362,383	(37,105)	(9.8)	3.2	3.6	3.9
5. CF	-	-	-	-	-	-	-	-
C. DEFICIT EXCL.GRANT (Commitment basis)	**(732,035)**	**(831,812)**	**(952,985)**	**121,173**	**13.6**	**(8.2)**	**(9.3)**	**(7.9)**
D. DEFICIT INCL.GRANTS (Commitment basis)	**(712,333)**	**(811,993)**	**(917,959)**	**105,967**	**14.0**	**(8.0)**	**(9.0)**	**(7.7)**
E. ADJUSTMENT TO CASH BASIS	**8,725**	**(20,813)**	**-**	**(20,813)**	**-**	**(0.2)**	**-**	**0.1**
F. DEFICIT INCL.GRANTS (Cash basis)	**(721,058)**	**(791,180)**	**(917,959)**	**126,779**	**9.7**	**(7.8)**	**(9.0)**	**(7.8)**
G. FINANCING	**721,058**	**791,180**	**917,959**	**(126,779)**	**9.7**	**7.8**	**9.0**	**7.8**
1. Net Foreign financing	**414,518**	**340,805**	**324,009**	**16,796**	**(17.8)**	**3.3**	**3.2**	**4.5**
Disbursements	**680,759**	**442,404**	**445,486**	**(3,082)**	**(35.0)**	**4.3**	**4.4**	**7.3**
Programme Loans	84,784	239,400	217,930	21,469	182.4	2.3	2.1	0.9
Project Cash Loans	41,681	47,798	56,361	(8,563)	14.7	0.5	0.6	0.4
Project Loans AIA	100,622	104,525	113,896	(9,371)	3.9	1.0	1.1	1.1
Project Loans SGR _PHASE_1&2A_AIA	79,960	44,812	51,090	(6,278)	(44.0)	0.4	0.5	0.9
Commercial Finanacing	373,712	5,870	6,209	(338)	(98.4)	0.1	0.1	4.0
O/W syndicated loan	212,329	-	-	-	(100.0)	-	-	2.3
Debt repayment - Principal	(266,241)	(101,600)	(121,477)	19,878	(61.8)	(1.0)	(1.2)	(2.9)
2. Net Domestic Financing	**306,540**	**450,375**	**593,950**	**(143,575)**	**46.9**	**4.4**	**5.8**	**3.3**
Government Securities	309,379	409,911	441,869	(31,958)	32.5	4.0	4.3	3.3
Government Overdraft & Others	(3,584)	(11,405)	-	(11,405)	218.2	(0.1)	-	(0.0)
Movement in Government Deposits	(2,133)	49,825	148,869	(99,044)	(2,436.1)	0.5	1.5	(0.0)
Domestic Loan Repayments (Net Receipts)	2,878	2,044	3,213	(1,169)	(29.0)	0.0	0.0	0.0
MEMO ITEM								
GDP ESTIMATE	**9,303,050.00**	**10,196,618**	**10,196,618**					

**Provisional*

Source of Data: National Treasury

22. The fiscal deficit was financed through net external financing equivalent to Ksh 340.4 billion. Total disbursements (inflows) including A-i-A amounted to Ksh 442.0 billion against a target of Ksh 445.5 billion. The actual disbursement amount included Ksh 47.8 billion project cash loans, Ksh 104.5 billion project loans A-i-A, Ksh 44.8 billion project loans A-i-A for SGR, Ksh 5.8 billion commercial financing and Ksh 239.4 billion programme loans. External

repayments (outflows) of principal debt amounted to Ksh 101.6 billion including principal repayments due to bilateral and multilateral organizations and to commercial sources amounting to Ksh 40.1 billion, Ksh 18.8 billion and Ksh 42.7 billion respectively.

23. The net domestic financing amounted to Ksh 450.4 billion against a target of Ksh 594.0 billion. This included Ksh 5.2 billion from the Central Bank, 235.4 billion from Commercial Banks, Ksh 165.8 billion from Non-Banking Financial Institutions, Ksh 5.2 billion from Non-residents and 2.0 billion from other domestic sources.

B. Fiscal Performance for the FY 2019/20 in Relation to Financial Objectives

24. The fiscal performance in the FY 2019/20 has affected the financial objectives set out in the PFM Act 2012 and outlined in the 2020 BPS and the Budget for FY 2020/21 in the following ways:

i. The base for ordinary revenue projections is higher than the actual outcome by about Ksh 42.0 billion; forcing a downward adjustment of ordinary revenues base for FY 2020/21 and in the medium term. This adjustment in revenues is expected to translate to a mix of downward adjustment in expenditure projections and upward adjustment in financing measures for the FY 2020/21. In addition, adjustments will be made to fiscal aggregates to mirror revisions in the macroeconomic projections as well as revenue performance for the first two months of FY 2020/21;

ii. The baseline ceilings for spending agencies will be adjusted in line with the revised resource envelope under the updated macroeconomic framework that will be provided in the 2021 BPS taking into account the performance in project execution in the FY 2020/21 budget by MDAs and any identified one-off expenditures; and,

iii. The under-spending in both recurrent and development budget for the FY 2019/20 has implications on the base used to project expenditures in the FY 2020/21 and the medium term. Appropriate revisions have been undertaken in the context of this BROP taking into account the budget outturn for the FY 2019/20.

25. As highlighted above, the reasons for the deviations from the financial objectives include: implications of COVID-19 pandemic on the economy – adversely impacting both revenue performance and absorption of both recurrent and development projects, lower than projected revenue collection; under-spending in both recurrent and development; under-reporting on A-i-A expenditures by MDAs; and slow uptake of external resources in the FY 2019/20.

26. To remedy these deviations, the fiscal outlook will focus on strengthening the tax and revenue administration reforms contained in the 2020 BPS. In addition, the National Treasury has established the Public Investment Management Unit (PIMU) to enhance transparency and accountability. Further, the National Treasury has issued Public Investment Management Regulations, which provide a framework for appraising and approving capital projects. The PIMU and the Regulations will facilitate prioritization of ongoing projects and in evaluation of all new projects in the context of their alignment to the "Big Four" Plan, medium and long term development agenda; their impact on poverty alleviation; promotion of growth and job creation. Additionally, the Economic Stimulus Programme that the Government is implementing will stimulate and sustain economic activities, cushion Kenyans and businesses particularly those affected by the COVID-19 pandemic.

C. Fiscal Responsibility Principles

27. In line with the Constitution, the Public Finance Management (PFM) Act, 2012, the PFM regulations, and in keeping 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:

28. The National Government's development expenditure as a percent of Ministerial Government expenditure was 34.7 percent in FY 2019/20 and is projected to remain above the 30 percent statutory benchmark over the medium term **(Table 7).**

Table 7: Fiscal Performance in Relation to Financial Objectives

	FY 2018/19	FY 2019/20		FY 2020/21		FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25
	Actual	Revised Budget	Prel. Actual	Budget	BROP'20	BROP'20	BROP'20	BROP'20	BROP'20
	Ksh. Billions								
1.0 Total Expenditure & Net Lending	2,434	2,818	2,565	2,791	2,791	2,836	3,007	3,191	3,225
1.1 Total Ministerial National Govt Expenses	1,626	1,931	1,713	1,820	1,820	1,761	1,886	2,034	2,057
Total Recurrent	1,531	1,777	1,645	1,816	1,816	1,871	1,952	2,045	2,065
CFS (Interest & Pensions)	447	525	527	586	586	671	709	737	737
Ministerial Recurrent	1,085	1,252	1,118	1,230	1,230	1,200	1,243	1,308	1,327
o/w Wages & Salaries	418	457	450	482	482	541	574	591	591
Wages as % National Government Revenues/1	***31.1%***	***30.4%***	***31.9%***	***31.6%***	***34.1%***	***36.2%***	***34.9%***	***32.3%***	***29.7%***
Development	542	678	595	590	590	561	643	726	730
Development as % Ministerial NG expenditures	***33.3%***	***35.1%***	***34.7%***	***32.4%***	***32.4%***	***31.8%***	***34.1%***	***35.7%***	***35.5%***
Domestic	316	450	397	337	337	279	331	407	410
External	225	228	198	253	253	282	313	319	320
Contingencies	-	-	-	5	5	5	5	5	5
1.2 County Allocation	361	362	325	369	369	377	384	391	401
Equitable share	314	317	287	317	317	319	325	331	341
Conditional Grants	47	46	38	53	53	59	59	60	60
2.0 Total Revenues	1,702	1,865	1,734	1,893	1,782	1,873	2,027	2,220	2,393
3.0 Total National Government Revenues (Incl. A-I-A)	1,341	1,502	1,408	1,523	1,413	1,495	1,644	1,829	1,992
4.0 National Government Domestic Borrowing (net)	307	594	450	494	555	506	648	621	480

Source of Data: National Treasury

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

29. In line with the requirements of the PFM Act that the National Government's expenditure on the compensation of employees (including benefits and allowances) not to exceed 35 percent of the national government's equitable share of the revenue raised nationally plus other revenues generated by the National Government pursuant to Article 209 (4) of the Constitution, the National Government's share of wages and benefits to revenues was 31.9 percent in the FY 2019/20 and is projected to remain below the 35 percent statutory benchmark in the medium term.

30. The fiscal responsibility principle spelt 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. In conformity to this, resources mobilized through borrowing during the FY 2019/20 were used to finance infrastructural projects as shown in the development estimates of the budget..

31. The Medium Term Debt Management Strategy and other policy documents spell out the purposes of external and domestic financing and as such;

32. The Government maintained public debt at sustainable levels as approved by Parliament (for National Government) and County Assemblies (for County Governments) in the PFM Act regulations, 2015.

33. The debt ratios remained within sustainable levels necessitating the country to be rated as a stronger performer in comparison to internationally recognized thresholds.

34. The public debt sustainability indicators illustrate that Kenya faces a high risk of debt distress.

35. The baseline projection scenario of Kenya's external debt sustainability indicates that the country is within sustainable levels as a stronger performer. The debt sustainability indicators show that Kenya faces a high risk of external debt distress due to breach of at least one of the three external debt indicators (PPG debt service-to-exports ratio) **(Table 8).**

Table 8: Kenya's External debt sustainability (Calendar years)

Indicators	Thresholds for Kenya	2019	2020	2021	2022	2023	2024	2025
PV of debt–to-GDP ratio	**55**	27.6	26.8	27.9	27.8	27.6	27.2	26.0
PV of debt-to-exports ratio	**240**	225.2	288.0	260.6	258.5	255.2	249.4	237.7
PPG Debt service-to-exports ratio	**21**	31.4	27.5	25.9	25.5	24.4	36.1	24.1
PPG Debt service-to-revenue ratio	**23**	21.3	14.5	15.9	15.7	14.8	22.0	14.4

Source: IMF Country Report No. 20/156, May 2020

36. To manage fiscal risks prudently as required, the Government has improved its macroeconomic forecasts and regularly reviews the impact of macroeconomic projections and their implications on the budget. Potential fiscal risks arising from contingent liabilities, including from Public Private Partnership projects among others are taken into account and a contingency provision made to cushion the economy from unforeseeable shocks.

37. On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, the Government continues to carry out tax reforms through modernizing and simplifying tax laws. In order to lock in predictability and enhance compliance with tax system, the Government through the Finance Act, 2019 has proposed to amend the Income Tax Act, Excise Duty Act, VAT Act and the Tax Procedures Act.

38. The National Government fiscal projections **(Table 9)** provide comparisons between the updated projections in the 2020 BROP and the 2020 BPS which inform the projections for the FY 2020/21 and the medium term. The deviations, in the revision in revenues and expenditures are due to the base effect on revenue forecast and macroeconomic assumptions contained in this BROP, which will be firmed up in the context of the 2021 BPS. The Government will not deviate from the fiscal responsibility principles, but will make appropriate modifications to the financial objectives contained in the latest BPS to reflect the changed circumstances.

Table 9: Government Fiscal Projections, Ksh Billion

	FY 2018/19	FY 2019/20		FY 2020/21		FY 2021/22		FY 2022/23		FY 2023/24	FY 2024/25
	Prel	Rev. Budget	Prel Actual	Budget	BROP 20	BPS 20	BROP 20	BPS 20	BROP 20	BROP 20	BROP 20
TOTAL REVENUE	**1,702**	**1,865**	**1,734**	**1,893**	**1,782**	**2,417**	**1,873**	**2,707**	**2,027**	**2,220**	**2,393**
Total Revenue as a % of GDP	***18.3%***	***18.3%***	***17.0%***	***16.8%***	***15.8%***	***18.5%***	***15.0%***	***18.4%***	***14.6%***	***14.3%***	***13.8%***
Ordinary revenue	1,500	1,615	1,573	1,634	1,524	2,145	1,656	2,418	1,794	1,945	2,109
Ordinary Revenue as a % of GDP	***16.1%***	***15.8%***	***15.4%***	***14.5%***	***13.5%***	***16.4%***	***13.2%***	***16.5%***	***12.9%***	***12.6%***	***12.2%***
Tax Revenue	1,401	1,418	1,384	1,515	1,424	2,019	1,558	2,279	1,687	1,829	1,984
Non-Tax Revenue	99	198	189	119	100	126	99	139	107	116	125
AIA	202	249	160	259	259	272	216	288	234	275	284
Expenditure	**2,434**	**2,818**	**2,565**	**2,791**	**2,791**	**2,968**	**2,836**	**3,214**	**3,007**	**3,191**	**3,225**
Expenditure as a % of GDP	***26.2%***	***27.6%***	***25.2%***	***24.7%***	***24.8%***	***22.8%***	***22.7%***	***21.9%***	***21.7%***	***20.6%***	***18.7%***
Recurrent (incl of conditional transfer to co	1,546	1,791	1,660	1,841	1,841	1,961	1,908	2,084	1,991	2,086	2,106
Development	574	710	619	628	628	677	604	790	686	769	773
Equalization Fund	7	-	-	7	7	7	7	7	7	8	8
County Transfer (Equitable share)	314	317	287	317	317	326	319	335	325	331	341
Contingencies	-	-	-	5	5	5	5	5	5	5	5
Budget Balance (Deficit (-) excl Grants	**(732)**	**(953)**	**(832)**	**(898)**	**(1,008)**	**(551)**	**(963)**	**(508)**	**(980)**	**(972)**	**(832)**
Deficit as % of GDP	***-7.9%***	***-9.3%***	***-8.2%***	***-8.0%***	***-8.9%***	***-4.2%***	***-7.7%***	***-3.5%***	***-7.1%***	***-6.3%***	***-4.8%***
Grants	20	35	20	57	57	46	46	47	47	48	49
Adjustment to cash basis	-	-	12	-	-	-	-	-	-	-	-
Balance Incl.Grants (cash basis)	(712)	(918)	(800)	(841)	(951)	(505)	(917)	(461)	(933)	(924)	(783)
Deficit as % of GDP	***-7.7%***	***-9.0%***	***-7.8%***	***-7.5%***	***-8.4%***	***-3.9%***	***-7.3%***	***-3.1%***	***-6.7%***	***-6.0%***	***-4.5%***
Net Foreign Financing	415	324	340	347	397	319	411	294	285	303	303
Domestic Loan Repayments (receipts)	3	4	3	5	5	4	1	4	4	3	3
Domestic Borrowing (net)	307	594	450	494	555	186	506	167	648	621	480
Domestic Borrowing % of GDP	***3.3%***	***5.8%***	***4.4%***	***4.4%***	***4.9%***	***1.4%***	***4.0%***	***1.1%***	***4.7%***	***4.0%***	***2.8%***
Public Debt to GDP (net Deposits)	***57.0%***	***51.1%***	***60.7%***	***51.7%***	***63.4%***	***51.6%***	***64.5%***	***49.7%***	***64.8%***	***64.0%***	***61.9%***
Nominal GDP (Ksh. billion)	**9,303**	**10,197**	**10,200**	**11,276**	**11,267**	**13,044**	**12,502**	**14,674**	**13,879**	**15,495**	**17,286**

Source of Data: National Treasury

D. County Governments' Fiscal Performance

39. As reflected in the County Allocation of Revenue Act (CARA), 2019, County Governments were allocated a total of Ksh 378.49 billion. This included: a) Ksh 316.5 billion as equitable share of revenues raised nationally; b) Ksh 13.91 billion being conditional allocations that are part of National Government's shareable revenue; c) Ksh 8.98 billion from Roads Maintenance Fuel Levy Fund (RMLF) collected by the Kenya Roads Board (KRB), of which 15 percent is set aside for County roads; and d) Ksh 39.09 billion from proceeds of loans and grants from development partners. In addition, Ksh 5.76 billion was allocated to the Equalisation Fund in FY 2019/20 in line with Article 204 of the Constitution.

40. Actual disbursements to the County Governments during the FY 2019/20 totalled Ksh 338 billion comprising of; a) Ksh 286.78 billion as equitable share of revenue raised nationally; b) Conditional allocations amounting to Ksh 20.7 billion derived from the National Government's equitable revenue share; c) Ksh 7.65 billion from the Roads Maintenance Levy Fund (RMLF); and; d) Proceeds from external loans and grants totalling Ksh 22.88 billion earmarked to supplement financing of devolved functions **(Table 10).**

41. In aggregate terms, total transfers including equitable share and conditional grants to County Governments in FY 2019/20 amounted to 89 percent of the total allocations as contained in CARA, 2019. Only 91 percent of the equitable share was transferred to the County

Governments as at 30th June 2020. This was majorly due to revenue shortfalls in the Financial Year especially during the last quarter of the Financial Year occasioned by the Covid-19 Pandemic and the responses by the government to cushion the affected individuals and businesses from the negative impact of the pandemic. It should be noted the National Government had proposed to Parliament amendments to the Division of Revenue Act (DoRA), 2019 and the CARA, 2019 to reduce the equitable share allocated to County Governments by Ksh 30 billion due to the then forecasted shortfalls in revenue. However, the proposed amendment was not approved by the two houses.

42. It is worth noting that this BROP is being prepared amidst an unprecedented situation of the Covid-19 pandemic which has brought about major economic and social disruptions. Jobs and lives have been lost and businesses have been closed globally and throughout the country. To this end, the Government of Kenya, in collaboration with her development partners allocated and disbursed Kshs 7.86 billion in the FY 2019/20 to assist in cushioning the individuals and businesses against the negative impacts of the pandemic. Ksh 7.36 billion was not in CARA 2019 but was transferred to County Governments pursuant to Article 223 of the Constitution, whereas Ksh 502 million was a grant from DANIDA). Ksh 2.36 billion was special grants to County Governments to pay allowances for frontline health workers dealing with Covid-19.

43. This notwithstanding, the National Treasury committed through summit to transfer the remaining 9 percent of the equitable share to the County Governments as soon as the revenue performance improves, pursuant to Article 219 of the Constitution of Kenya, 2010.

Table 10: Total Transfers to County Governments from FY 2013/14 to FY 2019/20 (Ksh Million)

Transfer Type	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	Grand Total	%
1. Equitable share transfer	**190,000**	**226,660**	**259,774**	**280,300**	**302,000**	**314,000**	**286,784**	**1,859,518**	**91.25%**
2. GoK-funded conditional allocations	**5,665**	**3,261**	**10,901**	**13,705**	**12,008**	**15,017**	**20,699**	**81,256**	**3.99%**
a) Level Five Hospital	*3,419*	*1,863*	*3,600*	*4,000*	*4,200*	*4,326*	*4,326*	**25,735**	1.26%
b) Free Maternal Healthcare	*2,246*	*1,398*	*3,321*	*4,105*	-	-	-	**11,070**	0.54%
c) Managed Equipment Services	-	-	*3,080*	*4,500*	*4,908*	*8,830*	*6,017*	**27,335**	1.34%
d) Foregone User Fees Compensation	-	-	*900*	*900*	*900*	*900*	*900*	**4,500**	0.22%
e) Rehabilitation of Youth Polytechnics	-	-	-	-	*2,000*	*961*	*2,000*	**4,961**	0.24%
f) Emergency Medical Service Grant	-	-	-	*200*	-	-	-	**200**	0.01%
g) Construction of County HQs	-	-	-	-	-	-	*100*	**100**	0.00%
h) Covid-19 response Funds	-	-	-	-	-	-	*7,356*	**7,356**	0.36%
3. Additional conditional allocations	-	**1,137**	**5,547**	**6,063**	**17,797**	**31,070**	**30,521**	**92,135**	**4.52%**
a) Road Maintenance Levy Fund			*3,300*	*4,307*	*10,262*	*7,424*	*7,645*	**32,938**	1.62%
b) External Loans and Grants	-	*1,137*	*2,247*	*1,756*	*7,535*	*23,646*	*22,876*	**59,197**	2.90%
-World Bank (KDSP Level I)	-	-	-	-	*2,148*	-	*1,410*	**3,558**	0.17%
-World Bank (KDSP Level II)	-	-	-	-	*1,950*	*4,000*	-	**5,950**	0.29%
-World Bank (NUTRIP)	-	-	*1,045*	*791*		-	-	**1,836**	0.09%
-Danida (HSPS III)	-	*734*	*664*	*408*	-		*0*	**1,806**	0.09%
-World Bank (KHSSP-HSSF)	-	*404*	*508*	*556*	*8*	-	-	**1,476**	0.07%
-World Bank (THUSCP)	-	-	-	-	*1,250*	*1,958*	*2,656*	**5,864**	0.29%
-Danida (UHDSP)	-	-	-	-	*1,116*	*1,040*	*922*	**3,079**	0.15%
Danida Covid-19 Support of Level II and III Hospitals	-	-	-	-	-	-	*502*	**502**	0.02%
-World Bank (NARIGP)	-	-	-	-	*1,063*	*1,052*	*4,563*	**6,677**	0.33%
-Italy (KIDDP; Rehab. of Sub-Dist. Hosp.)	-	-	*30*	-		-	-	**30**	0.00%
World Bank,KUSP-UIG	-	-	-	-	-	*1,854*	*387*	**2,241**	0.11%
World Bank ,KUSP-UDG	-	-	-	-	-	*11,465*	*8,128*	**19,593**	0.96%
World Bank-KCSAP	-	-	-	-	-	*1,000*	*2,982*	**3,982**	0.20%
EU - IDEAS	-	-	-	-	-	*941*	-	**941**	0.05%
IDA (World Bank)-WSDP	-	-	-	-	-	-	*563*	**563**	0.03%
SIDA -ASDSP II	-	-	-	-	-	*335*	*764*	**1,099**	0.05%
EU-WaTER	-	-	-	-	-	-	-	-	0.00%
4. Allowances for County medical personnel				4,842		-		**4,842**	0.24%
5. Coffee Cess				107		-		**107**	0.01%
Grand Total *(= 1+2+3+4+5)*	**195,665**	**231,059**	**276,223**	**305,016**	**331,805**	**360,086**	**338,004**	**2,037,858**	**100.00%**

Source of Data: The National Treasury

Notes: *In both the FY 2018/19 and FY 2019/20 Ksh 4.3 billion from the National Government's revenue share was paid to the National Hospital Insurance Fund (NHIF) as a special grant for Free Maternal Healthcare, to be disbursed directly to Counties on reimbursement basis.*

44. Another reason for the less than 100 percent transfer is failure by some County Governments to adhere to requirements of specific conditional allocations. Some of the conditional allocations affected by this non-compliance include Ksh 617 Million for the Water

& Sanitation Development Project; Ksh. 338 Million for the Transforming Health Systems for Universal Care Project; Ksh. 337 Million for the National Agriculture & Rural Inclusive Growth Project (NARIGP); Ksh. 86 Million for the Kenya Climate Smart Agriculture Project (KCSAP); Ksh 80 million for the Kenya Urban Support Programme; and Ksh. 385 million for construction of County headquarters. Likewise, Ksh 1.34 billion from the RMLF was not disbursed because some counties failed to comply with the KRB Act, a condition for the grant.

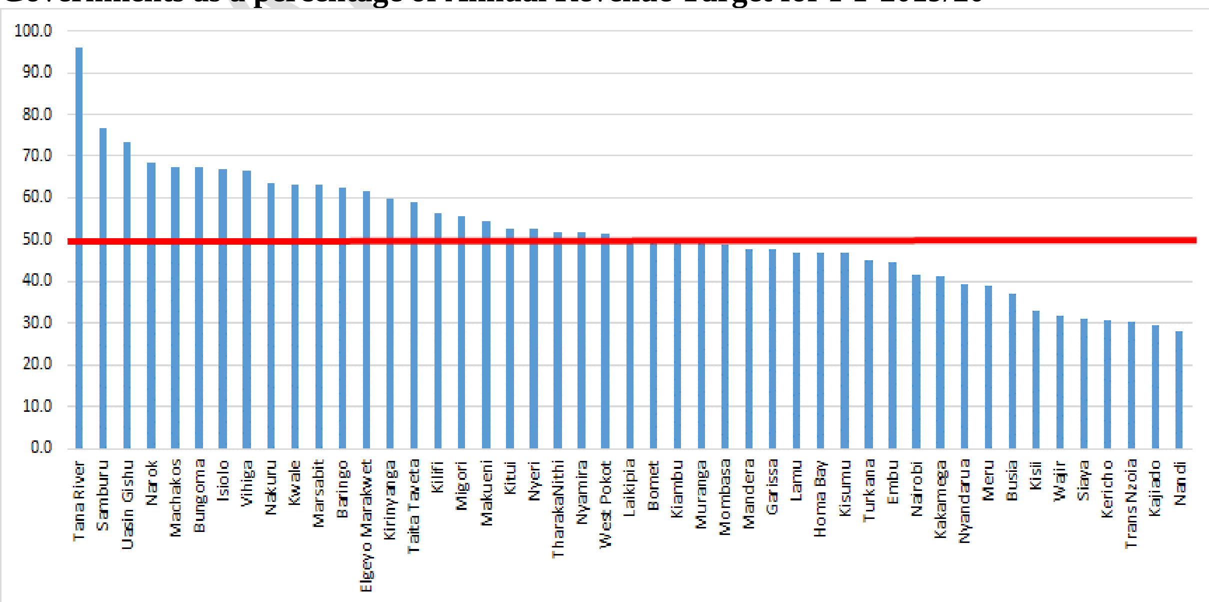
45. National Treasury guidelines require that Accounting Officers responsible for the specific conditional grants submit written instructions to the National Treasury to authorise release of conditional grants. However an amount of Ksh 6.12 billion could not be disbursed as there were no written instructions from the respective Accounting Officers. These include allocation of Ksh. 4.89 billion for the Kenya Devolution Support Program (KDSP) (Level 2 Grant); Ksh. 880 million for the Water Tower Protection, Climate Change Mitigation & Adaptation Programme; and, Ksh. 350 million for the Drought Resilience Programme in Northern Kenya. Nevertheless, this created the desired fiscal space in the Supplementary II budget in order to allow for mobilization and budgeting of resources towards addressing the Covid-19 pandemic.

46. In total for the period FY 2013/14 to FY 2019/20, County Governments have received Ksh 2.03 trillion cumulatively, 91.6 percent of which is equitable share, 3.59 percent being conditional grants that are part of shareable revenue, and a further 4.58 percent being the additional conditional allocations that are not part of shareable revenue. The remaining 0.23 percent represents a one-off payment made in FY 2016/17 in respect to allowances to medical personnel and coffee cess.

Performance of County Governments Own Source Revenue

47. During the period July 2019 to March 2020, the County Governments generated a total of Ksh 28.04 billion in Own Source Revenue (OSR) against an annual target of Ksh. 57.82 billion **(Figure 1)**. This represents 48 percent of the annual OSR target in FY 2019/20, which is a decrease from 55.5 percent of the annual OSR target for a similar period in the FY 2018/19. Only twenty six (26) County Governments in FY 2019/20 were able to generate more than fifty percent of their annual OSR target for the first three quarters of the financial year.

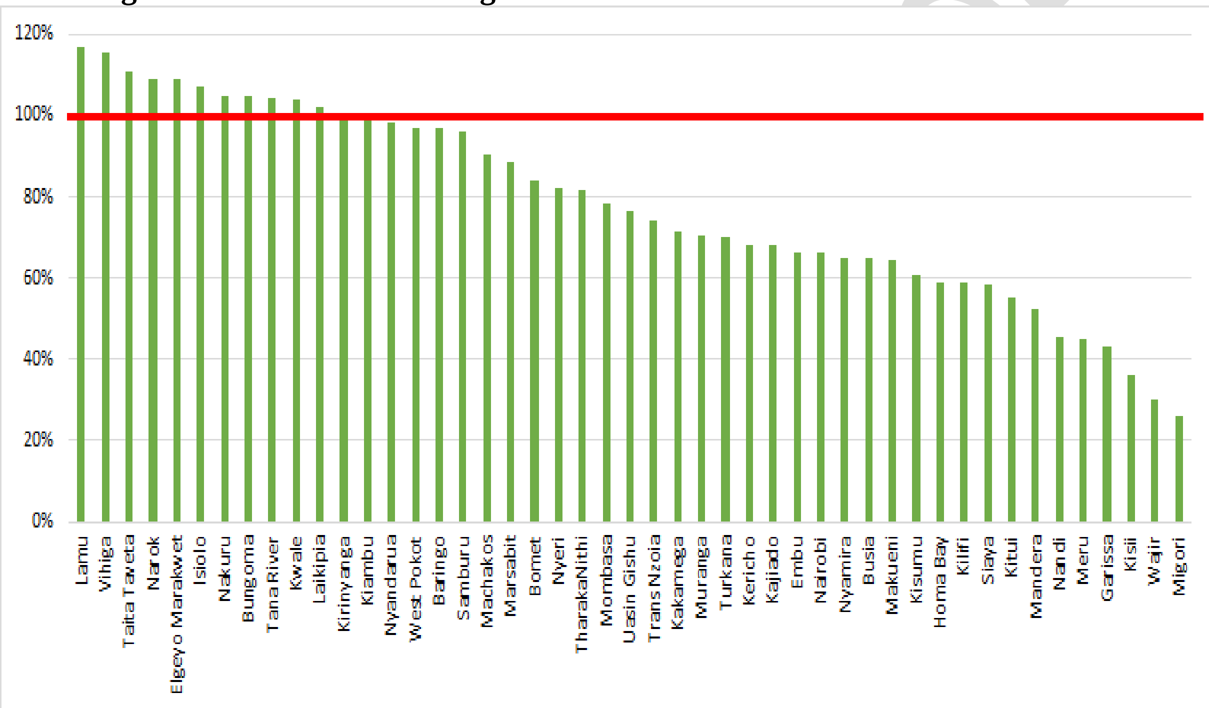
Figure 1: Actual Revenue Collected (First Nine Months of FY 2019/20) by the County Governments as a percentage of Annual Revenue Target for FY 2019/20



Source of Data: Controller of Budget

48. Data from OCOB indicates that County Governments collected Ksh 40.3 billion of OSR in the FY 2018/19 against a target of Ksh 53.86 billion representing an outturn of 74 percent. A total of 13 County Governments surpassed their targets in the FY, and about 6 County Governments collected less than half of their target (**Figure 2**). While this indicates an improvement in OSR collections, it is worth noting that most County Governments have demonstrated the urge to have realistic OSR projections to avoid unfunded budgets which may lead to pending bills. However, given that there are still some County Governments with unrealistic OSR projections, there is need for more capacity building on areas of tax analysis and revenue forecasting. *The National Policy to Support Enhancement of County Governments' Own-Source Revenue* and the *County Governments (Revenue Raising Process) Bill 2018* will address challenges around OSR collection and administration once they are fully operational.

Figure 2: Actual Revenue Collected in FY 2018/19 by the County Governments as a Percentage of Annual Revenue Target



Source of Data: Controller of Budget

County Governments Budget Absorption Rate

49. The overall absorption rate (actual expenditure over budget) for the County Governments combined for the first nine months of FY 2019/20 was 48.4 percent, which is equal to the absorption rate in FY 2018/19 (**Annex Table 7**). The absorption rate for development expenditure for the period July 2019 to March 2020 remained low at 25 percent compared to that of the recurrent expenditure which stood at 64 percent for the same period.

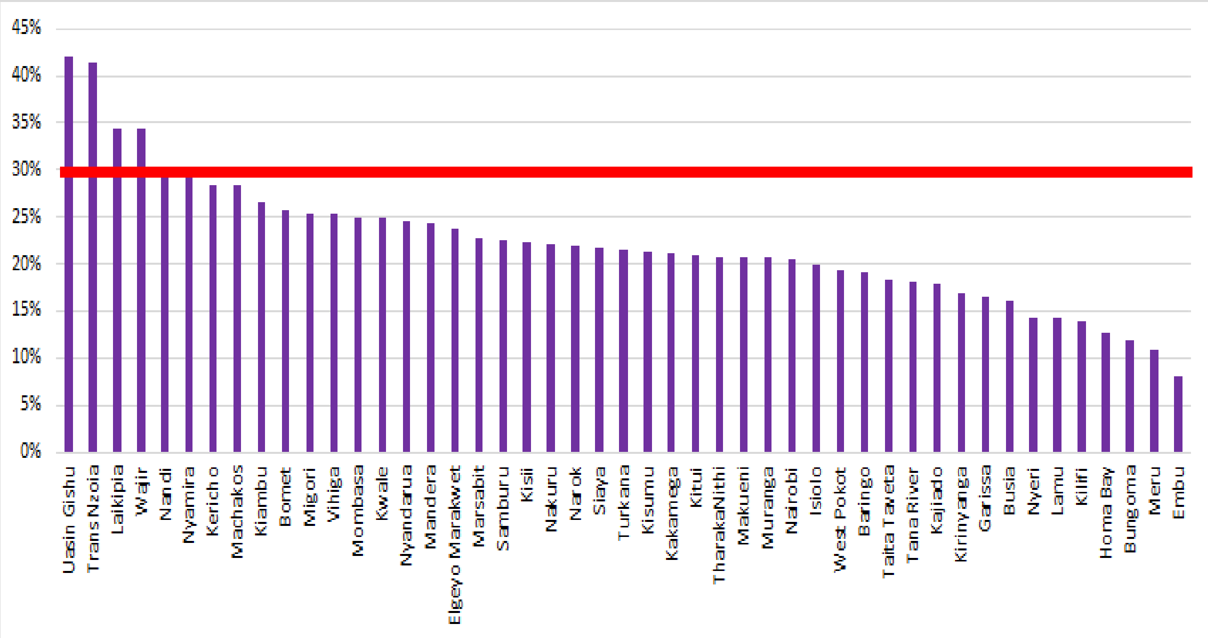
E. County Governments' Compliance with Fiscal Responsibility Principles

Allocation on Development Expenditure

50. In managing the County Government's finances, 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. All the forty-seven county governments complied with this legal requirement in their FY 2019/20. However, actual expenditure for the first nine months of FY 2019/20 on development spending was less than 30

percent during this period for all County Governments except for Isiolo, Kakamega, Kwale, Mandera, Marsabit and Tana River counties **(Annex Table 7**). Data from OCOB indicates that for the FY 2018/19, only about six (6) counties achieved the minimum 30 percent threshold in their actual development expenditure. (**Figure 3**).

Figure 3: Actual Development Expenditures as a Percentage of Total Budget for the FY 2018/19



Source of Data: Controller of Budget

Allocation on Compensation of Employees

51. Regulation 25(1) (b) of the PFM (County Governments) Regulations, 2015, requires that the county government's expenditure on wages and benefits for its public officers should not exceed thirty five (35) percent of the county government's total revenue. According to the Report by the Controller of budget on County Government's budget implementation for the first nine months of FY 2019/20, over 50 percent of the County Governments total expenditures are going towards personal emoluments. About ten (10) Counties namely Embu, Baringo, Garissa, Elgeyo Marakwet, Samburu, Machakos, Nandi and Nyeri had over 60 percent of their total expenditures going towards personal emoluments. In this regard, the wage bill remains a major challenge being faced by most county governments hence the need for concerted effort to find viable solutions to keep the wage bill within the legal threshold.

Other Challenges encountered by County Governments in Public Finance Management

Pending Bills of County Governments

52. The National Treasury in collaboration with OCOB has continuously followed up with County Governments to clear their pending bills following the special audit conducted by the Office of the Auditor General (OAG) in 2018. As per the report, the total pending bills amounted to Ksh 89.99 billion out of which Ksh 51.28 billion were classified as eligible and Ksh 37.7 billion as ineligible. However, a total of Ksh 1.31 billion of the eligible pending bills were disputed by 13 County Governments. Further verification of the disputed pending bills is on-going. Nevertheless, as at 30th June 2020, a total of Ksh 39.17 billion (76.39 percent) of the eligible bills had been paid by the County Governments. On the ineligible bills, County Governments were advised to form Pending Bills Verification Committees. To this end, Ksh

2.69 billion (7 percent) of the ineligible pending bills had been paid. This is as a result of the work being done by the Pending Bills Committee The total outstanding bills, both eligible and ineligible stood at Kshs 47.12 billion as at 30th June 2020 (**Table 11**).

Table 11: Pending Bills of the County Governments' as at 30th June 2020

County	Total Pending Bills	Eligible Pending Bills as per the OAG Special Audit (Kshs)	Eligible Pending Bills Disputed By County Governments	Eligible Pending Bills Paid	Outanding Eligible Pending Bills as at 30th June 2020 (Kshs.)	Ineligible Pending Bills as per the OAG Speacial Report (Kshs)	Ineligible Pending Bills Paid
	A	B	C	D	E=B-D	E	F
Baringo	45,765,998	24,046,826		24,046,826	0	21,719,172	0
Bomet	1,253,551,181	1,190,167,877	144,488,259	990,262,922	199,904,955	63,383,304	0
Bungoma	601,481,507	376,038,793	13,264,596	362,774,197	13,264,596	225,442,714	128,225,677
Busia	1,013,493,163	972,895,883	1,251,275	971,644,606	1,251,277	40,597,280	0
Elgeyo/Marakw	908,679,275	225,216,395		225,216,395	0	683,462,880	428,978,838
Embu	1,362,958,792	435,114,432		435,114,432	0	927,844,360	50,250,949
Garissa	2,553,348,202	2,307,530,407	117,241,271	2,161,217,777	146,312,630	245,817,795	0
Homa Bay	1,663,245,610	40,447,020		40,447,020	0	1,622,798,590	241,871,783
Isiolo	1,334,674,795	1,258,372,703		691,253,320	567,119,383	76,302,092	0
Kajiado	366,353,650	88,191,609		88,191,609	0	278,162,041	0
Kakamega	593,950,376	583,093,452		583,093,452	0	10,856,924	8,082,840
Kericho	1,094,470,975	490,184,743		490,184,743	0	604,286,232	141,827,944
Kiambu	2,312,759,531	1,831,618,030		1,565,606,208	266,011,822	481,141,501	0
Kilifi	1,377,012,031	1,116,043,558		1,116,043,558	0	260,968,473	16,360,234
Kirinyaga	1,328,459,563	741,080,963	397,304,121	319,440,751	421,640,212	587,378,600	42,359,883
Kisii	1,414,104,629	1,200,573,919	15,763,476	1,184,810,134	15,763,785	213,530,710	0
Kisumu	2,475,722,125	1,792,200,077		1,595,253,547	196,946,530	683,522,048	0
Kitui	1,443,011,641	572,033,419		572,033,419	0	870,978,222	304,308,790
Kwale	2,501,631,906	809,734,393		809,734,393	0	1,691,897,513	0
Laikipia	989,444,917	77,539,708		77,539,708	0	911,905,209	0
Lamu	143,663,524	85,050,899		85,050,899	0	58,612,625	31,528,323
Machakos	1,286,526,181	942,363,607		940,436,740	1,926,867	344,162,574	0
Makueni	34,902,732	33,018,202		33,018,202	0	1,884,530	0
Mandera	552,137,062	349,433,313		338,950,000	10,483,313	202,703,749	0
Marsabit	776,411,111	728,259,831		617,942,947	110,316,884	48,151,280	0
Meru	2,265,112,691	1,845,545,178		1,793,635,716	51,909,462	419,567,513	148,518,534
Migori	1,275,250,208	1,007,373,410	168,968,104	750,178,806	257,194,604	267,876,798	203,700,508
Mombasa	5,347,786,393	3,545,800,427		1,887,722,116	1,658,078,311	1,801,985,966	0
Murang'a	2,038,047,918	1,531,778,008		1,531,778,008	0	506,269,910	0
Nairobi City	23,139,794,063	11,783,829,072		5,121,738,876	6,662,090,196	11,355,964,991	146,440,676
Nakuru	2,504,561,905	420,164,604	25,487,581	393,978,523	26,186,081	2,084,397,301	0
Nandi	1,447,847,605	942,307,841		942,307,841	0	505,539,764	0
Narok	2,056,439,795	1,980,736,070	212,049,716	1,583,033,918	397,702,152	75,703,725	27,609,076
Nyamira	435,328,993	275,698,127		275,698,127	0	159,630,866	36,301,873
Nyandarua	1,138,159,128	297,078,779		297,078,779	0	841,080,349	317,016,227
Nyeri	360,535,590	152,196,769		152,196,769	0	208,338,821	146,652,290
Samburu	846,492,795	762,579,174	48,201,481	714,377,693	48,201,481	83,913,621	0
Siaya	709,770,238	637,310,697	105,092,567	511,069,825	126,240,872	72,459,541	0
Taita/Taveta	451,282,264	390,269,112		390,269,112	0	61,013,152	0
Tana River	1,202,679,386	507,082,631		507,082,631	0	695,596,755	0
Tharaka -Nithi	1,112,652,892	701,871,919		682,223,937	19,647,982	410,780,973	0
Trans Nzoia	1,079,983,912	666,047,614	6,890,490	659,157,124	6,890,490	413,936,298	0
Turkana	5,660,295,757	1,816,400,453	53,631,790	1,515,480,718	300,919,735	3,843,895,304	0
Uasin Gishu	366,384,594	76,566,231		60,435,232	16,130,999	289,818,363	207,973,124
Vihiga	2,037,052,291	1,151,148,522		660,591,525	490,556,997	885,903,769	0
Wajir	2,357,171,365	2,039,742,167		2,039,742,167	0	317,429,198	65,740,429
West Pokot	1,725,540,240	483,053,261		384,982,834	98,070,427	1,242,486,979	0
Total	**88,985,930,500**	**51,284,830,125**	**1,309,634,727**	**39,174,068,082**	**12,110,762,043**	**37,701,100,375**	**2,693,747,997**

Source of Data: Office of the Auditor General

Failure to Report on Programme Achievements by County Governments

53. According to the *County Governments' Budget Implementation Review Report* for the first nine months of FY 2019/20, County Governments did not submit non-financial information on programme and project achievements despite this being a requirement by the Controller of Budget Act, 2016. Even in some instances, the submitted financial reports were inconsistent with the approved budgets.

Economic Impact of the Covid-19 pandemic

54. Given the disruptions occasioned by the actions taken by the government to contain spread of the COVID-19 disease, it is clear that the measures negatively affected all County Governments in implementation of the FY 2019/20 budget. A clear example is the revenue shortages at the national level which affected transfers to the County Governments.

Weak Budgetary Controls by the County Treasuries and Use of OSR at Source before Banking in the CRF

55. According to the *County Governments' Budget Implementation Review Report* for the first nine months of FY 2019/20, some counties such as; Kitui, Laikipia, Machakos, Meru, Migori, Mombasa, Nyeri, Taita Taveta, Tana River, Bomet, Bungoma, Busia, Homa Bay, Kakamega, and Kericho, incurred expenditure in excess of approved budgetary allocations as a result of weak budgetary controls. This could also imply that County Governments were using own source revenue collection at source against the PFM Act.

Measures to address some of the challenges faced by County Governments

56. To ensure that the County Governments have a reliable and predictable Own Source Revenue (OSR), the National Treasury through a multi-agency team, is implementing the *National Policy to Support Enhancement of County Governments' OSR*. The Policy has been disseminated to the Executive Arms of all the 47 County Governments, and the dissemination to the County Assemblies is on-going. Other activities planned in the coming financial years include supporting Counties to develop principal laws to anchor their revenue measures in line with Article 210(1) of the Constitution, review of the national legislations affecting County Governments OSR, development of standardized guidelines on organizational structure for OSR, supporting the County Governments in development of Tariffs and Pricing Policy among others.

57. One of the mandates of the National Treasury as indicated in the PFM Act, 2012, is to assist county governments to build their capacity for efficient, effective and transparent financial management. In the upcoming trainings, more emphasis will be put on vote book and budgetary controls to ensure that there is no spending at source and that expenditures are within the approved budget. In order to ensure that the capacity building initiatives are more focused to the specific needs of the County Governments, the National Treasury will also undertake a training needs assessment of the County Governments on PFM to inform future capacity building strategies.

58. While the COVID-19 pandemic is primarily a health crisis and human tragedy, it also has far reaching economic ramifications. The responses instituted to control its spread have disrupted millions of livelihoods with disproportionate impact on poor households and small and informal business. Counties are called upon to develop frameworks for action aimed at saving lives, protecting households, businesses, and the economy from the fall out of the pandemic, especially given the fact that health is a devolved function.

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Recent Economic Developments

Real Sector Developments

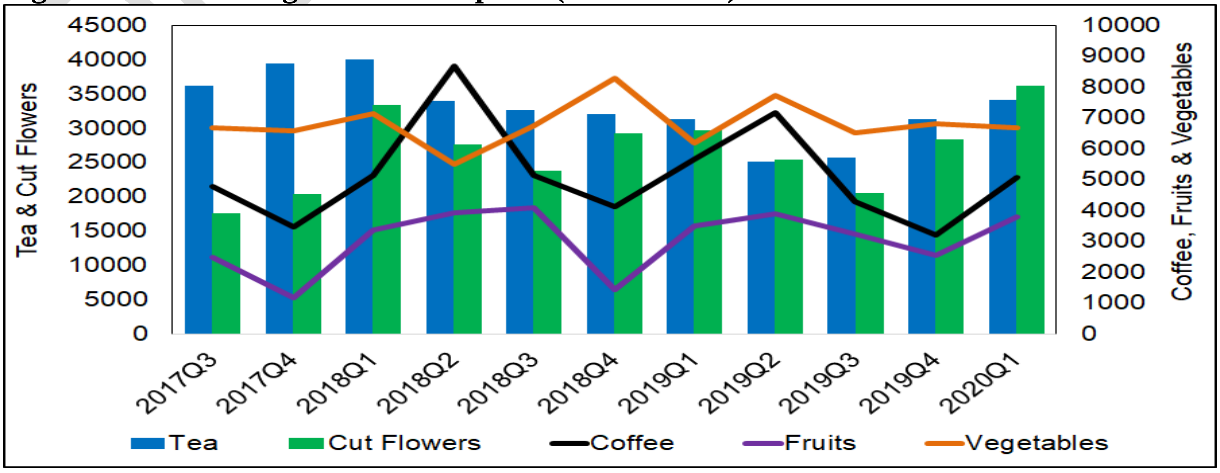
59. The outbreak and spread of the Covid-19 Pandemic and the ensuing containment measures have devastated global economies. As a result, the global economy is projected to contract by 4.9 percent in 2020 from a growth of 2.9 percent in 2019 with prospects across countries and regions remaining highly uncertain. Kenya has not been spared. The Pandemic and the containment measures slowed down economic activities in key sectors of the economy in the first quarter of 2020, resulting to a lower growth of 4.9 percent compared to a growth of 5.5 percent in a similar period in 2019. Overall, taking into account the available indicators for second quarter for 2020, the economy is projected to grow by 2.6 percent in the calendar year 2020 compared to the initial projection of 6.1 percent in the 2020 Budget Policy Statement. The economy is projected to rebound to 5.3 percent in 2021 and 5.9 percent over the medium term. In terms of fiscal years, the economy is projected to grow by 4.0 percent in the FY 2020/21 and 5.9 percent over the medium term.

60. The slowdown in the first quarter of 2020 was mainly due to the uncertainty surrounding the Covid-19 pandemic that was already slowing economic activity in most of the country's major trading partners. The contraction by 9.3 percent in the accommodation and food services sector exacerbated the decelerated growth in the first quarter of 2020. on the positive side, the economy was supported by strong agricultural activities that strengthened to 4.9 percent in the first quarter of 2020 from 4.7 percent over the same period in 2019. A resilient non-agriculture sector also supported growth, despite a slowdown to 5.2 percent from 5.9 percent over the period under review.

61. The agriculture sector grew by 4.9 percent in the first quarter of 2020 compared to a growth of 4.7 percent in the same period in 2019 supported by favorable weather conditions. Tea production and cane deliveries grew by 49.2 percent and 10.2 percent, respectively in the first quarter of 2020 relative to 2019.. However, the production of coffee and formal milk intake declined by 11.8 percent and 1.2 percent over the same period **(Table 12).**

62. The first quarter of 2020 recorded strong growth in earnings from agricultural exports. Earning from the exports of fruits, cut flowers, coffee, tea and vegetables grew by 128.8 percent, 112.4 percent, 94.8 percent, 56.6 percent and 29.6 percent in the quarter under review relative to the same quarter of 2019 **(Figure 4).**

Figure 4: Value of Agricultural Exports (Ksh Million)



Source of Data: Kenya National Bureau of Statistics

63. The contribution of agricultural sector to the overall GDP growth was 1.3 percentage points in the first quarter of 2020, an increase from 1.2 percentage points in the same quarter of 2019. Indicators in the sector also points to continued strong performance in the second quarter majorly on account of improved weather conditions and increased credit extension to the sector. The sector received Ksh 2.5 billion net credit in April 2020, Ksh 0.9 billion in May but recorded a net repayment of Ksh 0.3 billion in June 2020.

64. The non-agricultural sector (service, industry and mining and quarrying) remained resilient and grew by 5.2 percent in the first quarter of 2020, down from 5.9 percent in the same quarter of 2019. The services and industry sector contributed 3.3 percentage points to real GDP growth in the first quarter of 2020 mainly supported by strong performance in the services sector.

Table 12: Sectoral GDP Performance

Sectors	Real GDP Growth by Sector					Sector Contributions to Real GDP				
	2016Q1	2017Q1	2018Q1	2019Q1	2020Q1	2016Q1	2017Q1	2018Q1	2019Q1	2020Q1
Primary Sector	**3.7**	**4.1**	**6.6**	**4.6**	**5.1**	**1.0**	**1.1**	**1.8**	**1.3**	**1.4**
Agriculture	3.6	4.0	6.7	4.7	4.9	1.0	1.1	1.8	1.2	1.3
Mining & Quarrying	5.8	5.6	3.1	1.4	9.5	0.1	0.1	0.0	0.0	0.1
Secondary Sector (Industry)	**4.7**	**4.4**	**4.6**	**4.9**	**4.1**	**0.8**	**0.8**	**0.8**	**0.8**	**0.7**
Manufaturing	1.4	1.9	3.2	3.5	2.9	0.2	0.2	0.3	0.3	0.3
Electricity & Water Supply	10.3	8.2	6.1	7.8	6.3	0.2	0.2	0.2	0.2	0.2
Construction	9.2	7.9	6.7	6.1	5.3	0.4	0.4	0.3	0.3	0.3
Tertiary Sector (Services)	**6.8**	**6.1**	**6.2**	**6.4**	**5.4**	**3.1**	**2.9**	**2.9**	**3.0**	**2.6**
Wholesale & Retail trade	2.9	3.5	5.6	6.3	6.4	0.2	0.2	0.4	0.4	0.4
Accomodation & Restaurant	8.3	24.0	13.3	11.0	(9.3)	0.1	0.3	0.2	0.2	(0.1)
Transport & Storage	8.2	7.8	6.5	6.4	6.2	0.5	0.5	0.4	0.4	0.4
Information and Communication	10.8	13.4	13.2	10.2	9.8	0.4	0.5	0.5	0.4	0.4
Financial & Insurance	7.8	3.9	4.0	6.3	6.0	0.5	0.2	0.2	0.4	0.4
Public Administration	6.0	2.6	5.5	8.9	6.7	0.2	0.1	0.2	0.3	0.2
Others	6.8	5.4	5.1	4.8	4.7	1.3	1.1	1.0	0.9	0.9
of which Real Estate	9.6	6.5	5.2	4.8	4.3	0.7	0.5	0.4	0.4	0.3
Taxes on Products	**2.2**	**4.1**	**6.1**	**4.7**	**3.4**	**0.2**	**0.4**	**0.6**	**0.5**	**0.3**
GDP at Market Prices	**5.0**	**5.2**	**6.2**	**5.5**	**4.9**	**5.0**	**5.2**	**6.2**	**5.5**	**4.9**
of which Non-Agriculture	6.1	5.9	6.0	5.9	5.2	3.8	3.8	3.8	3.8	3.3

Source of Data: Kenya National Bureau of Statistics

65. Activities in the mining and quarrying sector recovered to record a growth of 9.5 percent in the first quarter of 2020 up from 1.4 percent in the first quarter of 2019. The sector's growth is attributed to increased production from prior quarters across all products in Base Titanium Limited which operates Kenya's largest mine.

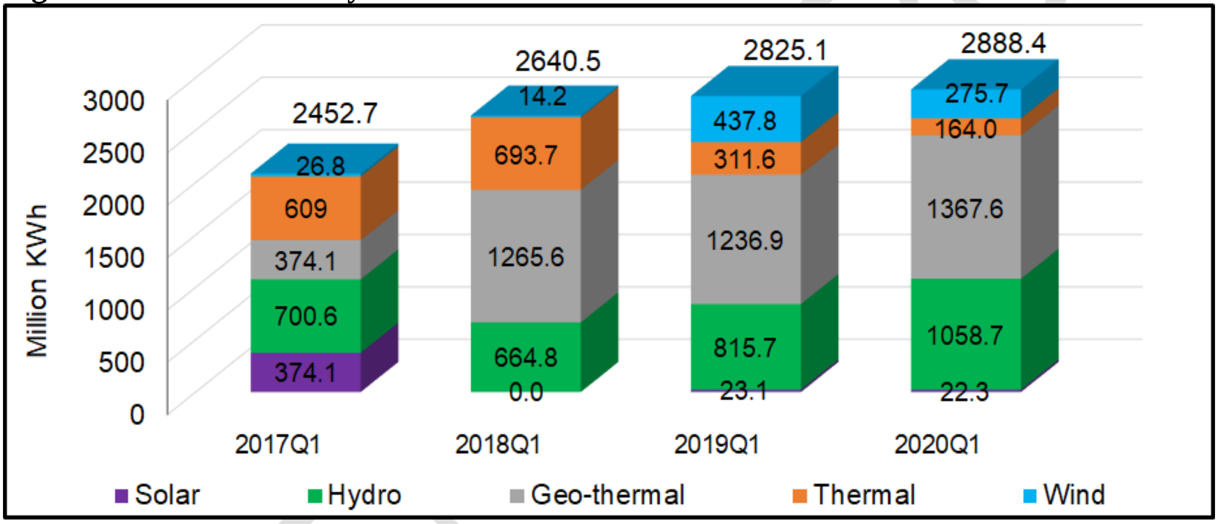
66. The industry sector growth declined from 4.9 percent in the first quarter of 2019 to 4.1 percent in the first quarter of 2020 due to slowdown the performance of manufacturing, construction and electricity and water supply activities. Nevertheless, the sector accounted for 0.7 percentage points to real GDP growth in the first quarter of 2020.

67. The manufacturing sector is estimated to have expanded by 2.9 percent in the first quarter of 2020 compared to a growth of 3.5 percent in a similar quarter of 2019. This is reflected by the decline in consumption of electricity to a growth of 2.4 percent in the first quarter of 2020 compared to a growth of 2.8 percent in the first quarter of 2019. Growth in the sector was mainly supported by the manufacture of non-food products such as cement production, assembly of motor vehicles and cigarette production that increased by 4.6 percent

compared to a growth of 3.3 percent in the corresponding period of 2019.The sectors contribution to growth was 0.3 percentage points in the first quarter of 2020. The performance of the manufacturing is poised to improve with recovery observed in June 2020 from a contraction in the previous months. Credit extended to the sector will be partly to support pandemic induced manufacturing, working capital requirements and new activities in the sector

68. Activities in Electricity and water supply subsector declined to 6.3 percent in the first quarter of 2020 down from 7.8 percent in the same period of 2019. Total electricity generation expanded by 2.2 percent in the first quarter of 2020 compared to a growth of 7.0 percent in the corresponding quarter of 2019. Growth in the electricity sector was supported by increased generation of electricity from hydro (29.8 percent) due to sufficient rainfall and geothermal (10.6 percent) coupled with a decline in generation of electricity from thermal sources (47.4 percent). However, generation of electricity from solar, and wind declined by 3.2 percent, and 37.0 percent respectively. The electricity and water supply sub-sector contributed 0.2 percentage points to real GDP growth **(Figure 5).**

Figure 5: Local Electricity Generation



Source of Data: Kenya National Bureau of Statistics

69. The construction sector grew by 5.3 percent in the first quarter of 2020 compared to 6.1 percent in a similar period in 2019. Its contribution to growth was 0.3 percentage points in both quarters. The decelerated growth in the sector was due to a decline in importation of fabricated metal products and cement, and construction related materials on account of disruption in international trade and the business environment as a result of the Covid-19 pandemic.

70. Nonetheless, the sector performance was strong mainly supported by considerable growth in consumption of cement which rose by 11.9 percent compared to a contraction of 2.5 percent in the first quarter of 2019. The sector's growth was further supported by increased credit to the sector which grew by 4.2 percent to stand at Ksh 352.9 billion in the period under review in the period under review.

71. The services sector expanded by 5.4 percent in the first quarter of 2020 compared to a growth of 6.4 percent in the same quarter in 2019. Activities in information and communication (9.8 percent), wholesale and retail trade (6.4 percent), transport and storage (6.2 percent), financial and insurance (6.0 percent), and real estate (4.3 percent) remained vibrant supporting the growth in the services sector. The sector accounted for 2.6 percentage points in the first quarter of 2020, compared to 3.0 percent in the first quarter of 2019.

72. The performance of activities in the transport and storage sector declined to 6.2 percent in the first of quarter of 2020 from 6.4 percent recorded in the first quarter of 2019 following imposition measures to contain the spread of covid-19 towards the end of the quarter. Growth in the sector was mainly supported by a 0.8 percent increase cargo throughput at the port of Mombasa, 20.6 percent decline in the average international oil price and 7.1 percent growth in the stock of credit advanced to transport and communication in March 2020.

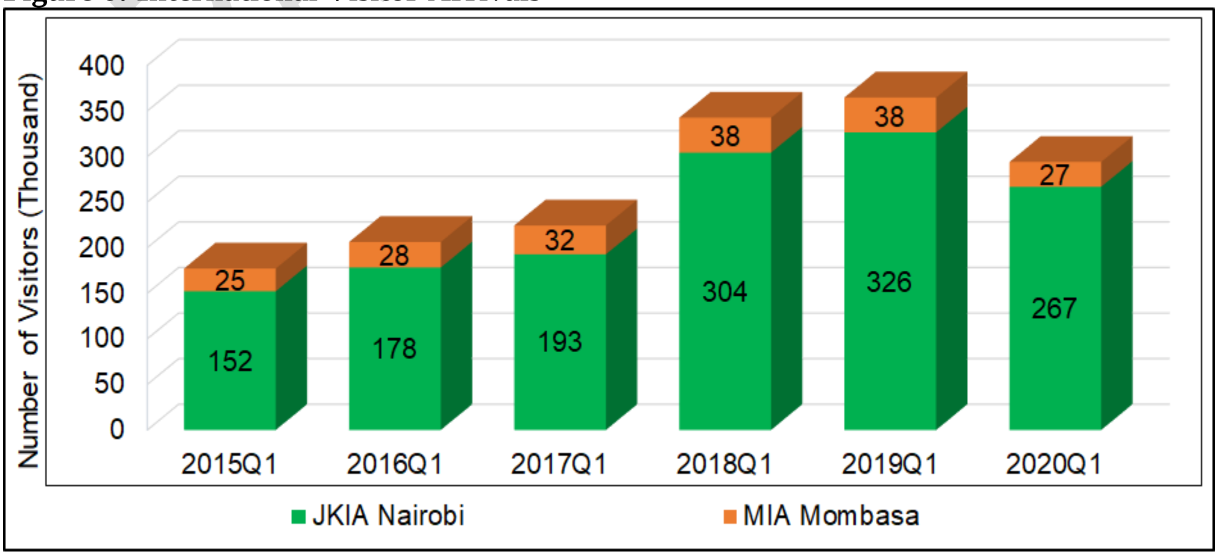
73. The information and communication technology (ICT) sector grew by 9.8 percent in the first quarter of 2020 down from 10.2 percent in the same quarter in 2019. The growth was supported by increased number of mobile transactions and growth in imports of telecommunication equipment. While the total number of mobile money subscriptions and transactions declined in the quarter, the value of mobile money transactions grew by 2.1 percent to Ksh 1,086.9 billion. The sector's performance was also enhanced by increased access and use of internet services.

74. The financial and insurance sector performance was weaker in the quarter under review expanding by 6.0 percent in 2020, compared to 6.3 percent in 2019 but it's contribution to real GDP growth remained 0.4 percent in both quarters. On the other hand, following the confirmation of Covid-19 case in Kenya in March 2020, activities in the health sector increased marginally from 5.4 percent in quarter one of 2019 to 5.8 percent in the first quarter of 2020.

75. The wholesale and retail trade sector remained vibrant, expanding by 6.4 percent in the first quarter of 2020 compared to 6.3 percent in a similar quarter in 2019. Dry maize and beans fetched better prices in in the first quarter 2020 compared to the same period in 2019, supporting wholesale and retail sector. Motor gasoline premium, light diesel oil and kerosene prices increased during the period under review. The sector contributed 0.4 percentage points to Real GDP in both quarters.

76. Accommodation and food service activities contracted by 9.3 percent in the first quarter of 2020 compared to a growth of 11.0 percent in the first quarter of 2019. Activities in the Accommodation and restaurant sector were adversely affected by Covid-19 pandemic as international travels were either cancelled or suspended, hotels closed or scaled down their operations for indefinite period and movement restrictions imposed in nearly all the countries. These measures resulted to a decline in the number of international visitor arrivals through the two major airports from 364,744 in the first quarter of 2019 to 294,053 in the review period **(Figure 6).**

Figure 6: International Visitor Arrivals

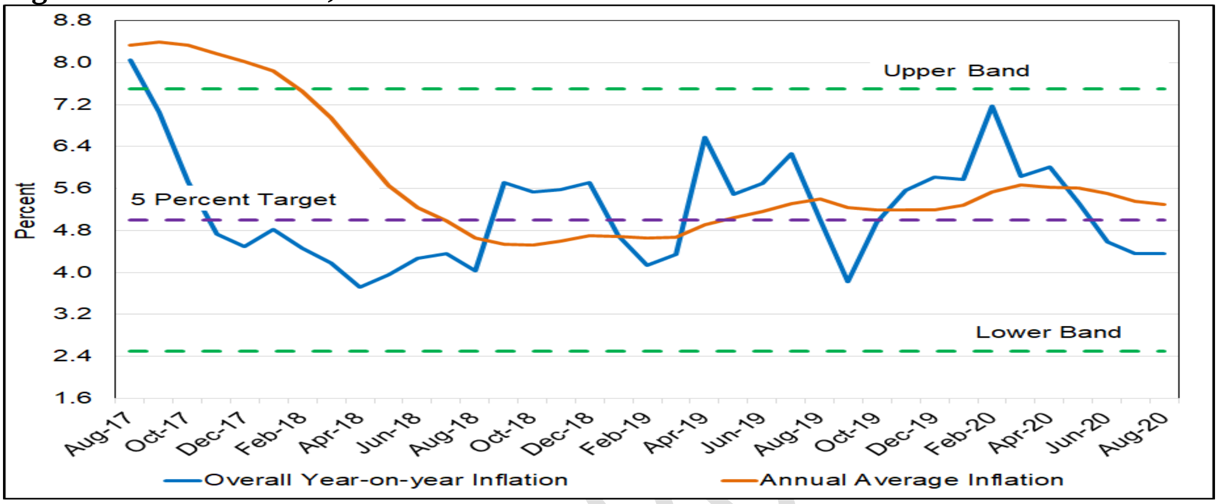


Source of Data: Kenya National Bureau of Statistics

Inflation Rate

77. Year-on-year overall inflation has remained within the government target range since end 2017 demonstrating prudent monetary policies. The inflation rate was at 4.4 percent in August 2020, declining from 5.0 percent in August 2019 **(Figure 7).** This decline reflected favourable weather conditions which resulted to declines in the prices of key food items such as cabbages, tomatoes, Irish potatoes, spinach and loose maize grain. Paraffin, petrol, diesel and 200KWh electricity prices also declined during the same period due to lower international oil prices.

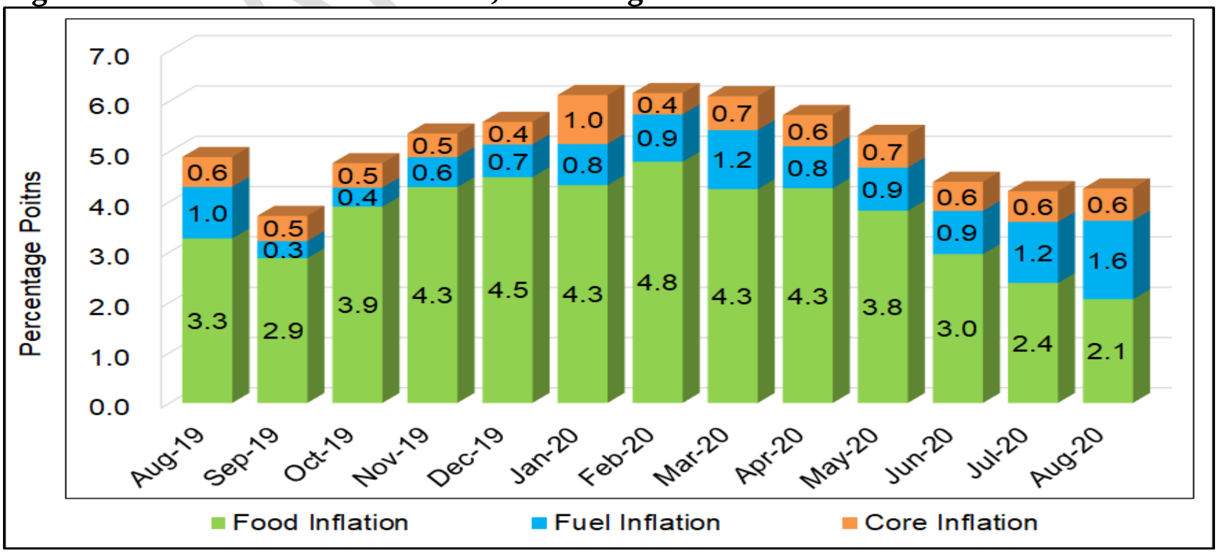
Figure 7: Inflation Rate, Percent



Source of Data: Kenya National Bureau of Statistics

78. The contribution of core inflation to overall inflation has been low and stable reflecting the impact of the reduction of VAT and muted demand pressures in the economy on account of prudent monetary policies. The contribution of fuel inflation has also been low, a reflection stable energy prices despite the increase in the Petroleum development levy in July 2020. The major driver of overall inflation in the period under review has been food inflation **(Figure 8).**

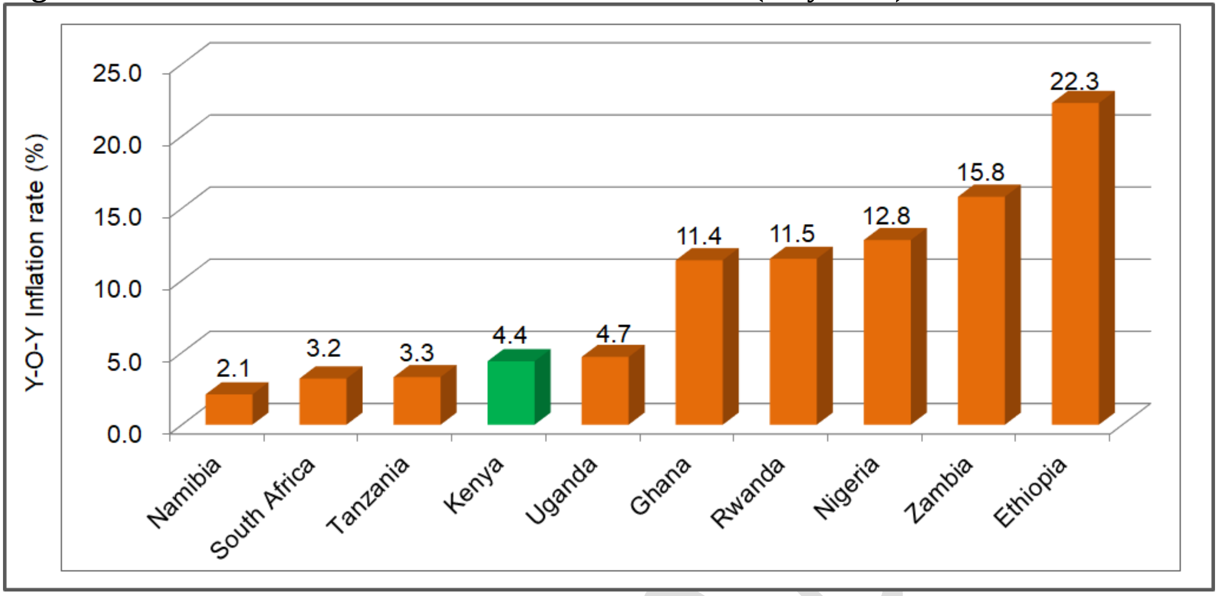
Figure 8: Contributions to Inflation, Percentage Points



Source of Data: Kenya National Bureau of Statistics

79. Kenya's rate of inflation compares favorably with the rest of Sub-Saharan Africa countries. In July 2020, Kenya recorded a lower inflation rate than Uganda, Ghana, Rwanda, Nigeria, Zambia, and Ethiopia **(Figure 9)**.

Figure 9: Inflation Rates in selected African Countries (July 2020)

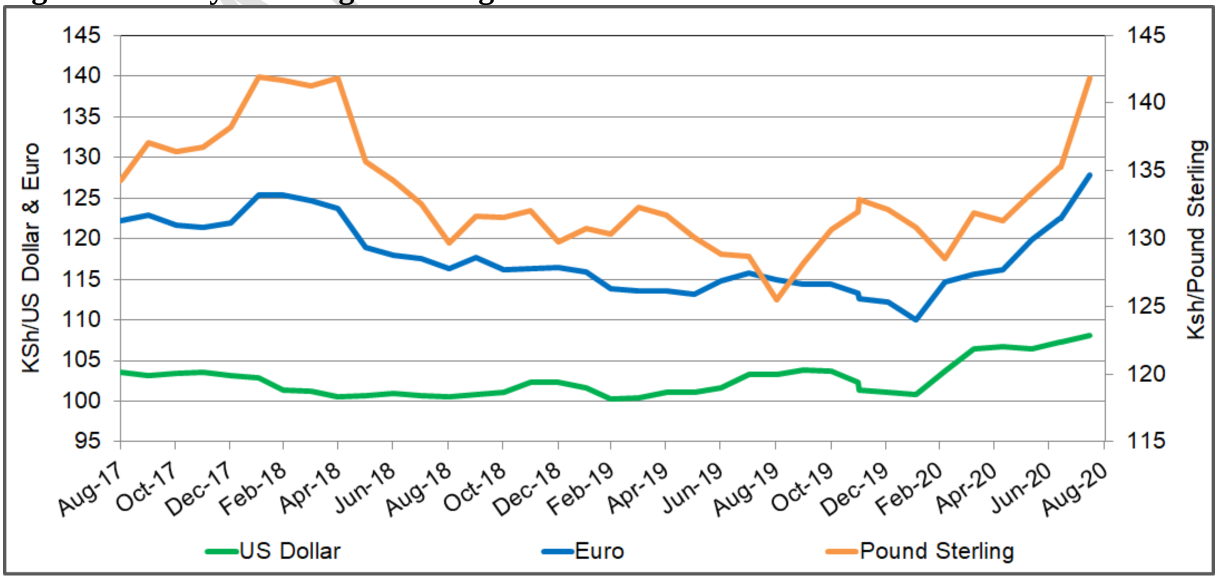


Source of Data: National Central Banks

Kenya Shilling Exchange Rate

80. The foreign exchange market has experienced some volatility in 2020, largely due to uncertainties with regard to the impact of Covid-19 Pandemic and a significant strengthening of the US Dollar in the global markets. However, the Kenya Shilling remained competitive supported by a stable current account deficit. The Shilling depreciated against the US Dollar, Sterling pound and the Euro exchanging at an average of Ksh 107.3, Ksh 135.3 and Ksh 122.5 in July 2020 from Ksh 103.2, Ksh 128.7 and Ksh 115.8 in July 2019, respectively **(Figure 10).**

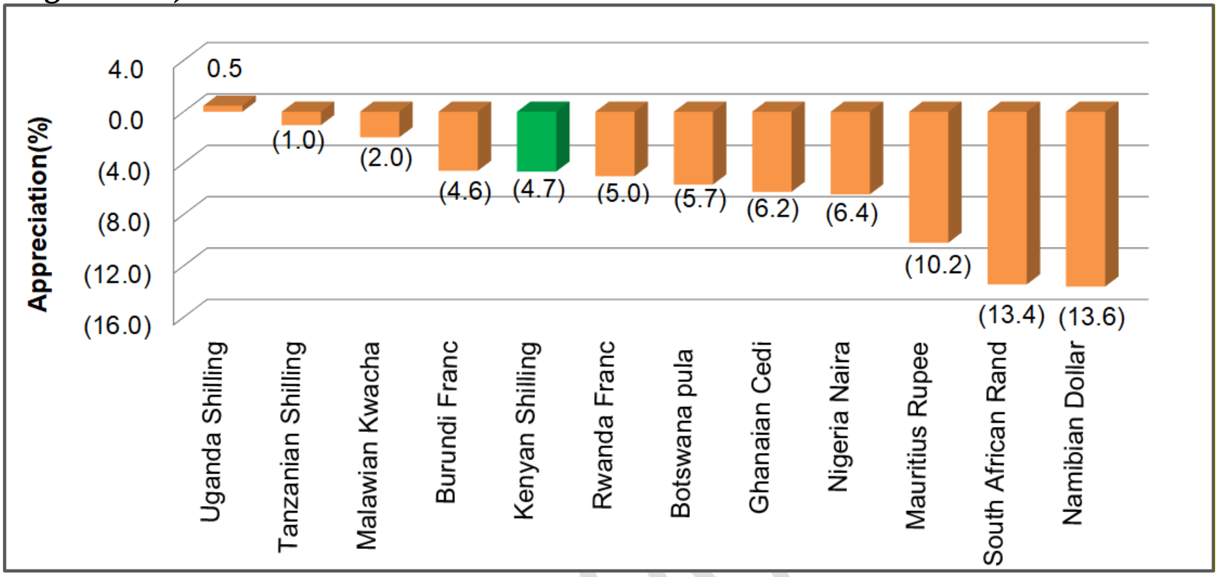
Figure 10: Kenya Shillings Exchange Rate



Source of Data: Central Bank of Kenya.

81. In comparison to most Sub-Saharan Africa currencies the Kenya Shilling has remained relatively stable **(Figure 11).** In the year to August 2020, the Shilling weakened by 4.7 percent against US Dollar. This depreciation in Kenya Shilling was lower than the depreciation in Ghanaian Cedi, Rwanda Franc, Botswana pula, Nigerian Naira, Mauritius Rupee, South African Rand and Namibian Dollar.

Figure 11: Performance of Selected Currencies against the US Dollar (August 2019 to August 2020)

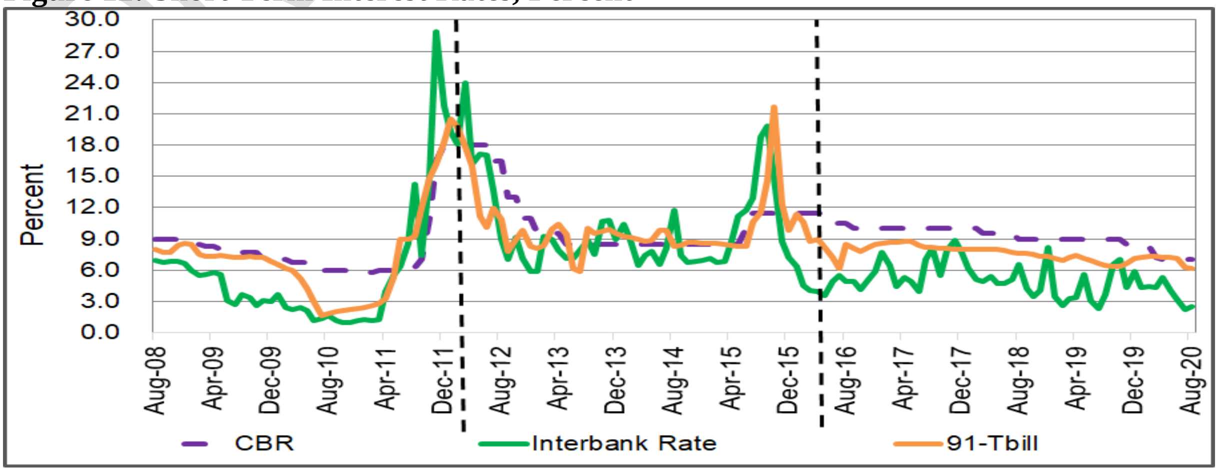


Source of Data: National Central Banks

Interest Rates

82. Short-term interest rates remained fairly low and stable. The Central Bank Rate was retained at 7.0 percent on July 29, 2020 same as in April 2020 to signal lower lending rates in order to support credit access by borrowers especially the Small and Medium Enterprises distressed by Covid-19 pandemic. The interbank rate remained low and fairly stable at 2.5 percent in August 2020 from 3.6 percent in August 2019 in line with the easing of the monetary policy and adequate liquidity in the money market **(Figure 12).** The 91-day Treasury Bills rate declined to 6.2 percent in August 2020 compared to 6.4 percent in August 2019. Over the same period, the 182-day Treasury Bills rate declined to 6.6 percent from 7.1 percent while the 364-day decreased to 7.5 percent from 9.2 percent.

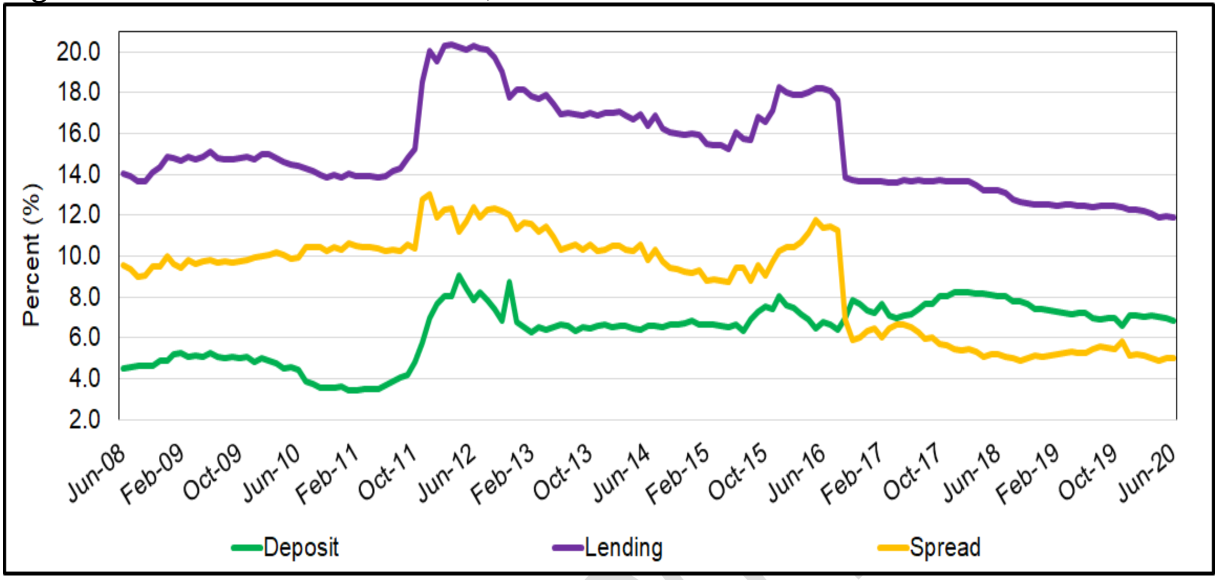
Figure 12: Short Term Interest Rates, Percent



Source of Data: Central Bank of Kenya

83. The improved liquidity in the money market has resulted in stable commercial bank rates. The average lending rate declined from 12.5 percent in June 2019 to 11.9 percent in June 2020 while the average deposit rates declined from 7.2 percent to 6.9 percent. This led to an decrease in the average interest rates spread by 0.3 percentage points over the review period **(Figure 13)**.

Figure 13: Commercial Bank Rates, Percent



Source of Data: Central Bank of Kenya

Money and Credit

84. Growth in broad money supply, M3, declined to 8.4 percent in the year to June 2020 compared to a growth of 9.2 percent in the year to June 2019 **(Table 13).** The decline in growth of M3 is attributed to decline in growth of other deposits at CBK and foreign currency deposits. However the growth in M3 was supported by improvement in the growth of demand deposits, time and savings deposits as well as currency outside banks.

85. NFA of the banking system in the year to June 2020 contracted by 5.8 percent, compared to a growth of 24.2 percent in the June 2019. The contraction in growth of the NFA was mainly reflected in the contraction of the foreign currency reserves by the Central Bank. On the other hand, increase in growth of NFA of commercial banks, is partly attributed to decrease in growth of deposits by foreign banks and increased deposits with foreign banks.

86. Meanwhile, Net Domestic Assets (NDA) increased to register a growth of 13.5 percent in the year to June 2020 from a growth of 4.7 percent over a similar period in 2019**.** This is largely due to an improvement in net credit flows to the both the government, private sectors and other public sector **(Table 13).**

Table 13: Money and Credit Developments (12 Months to June 2020 Ksh billion)

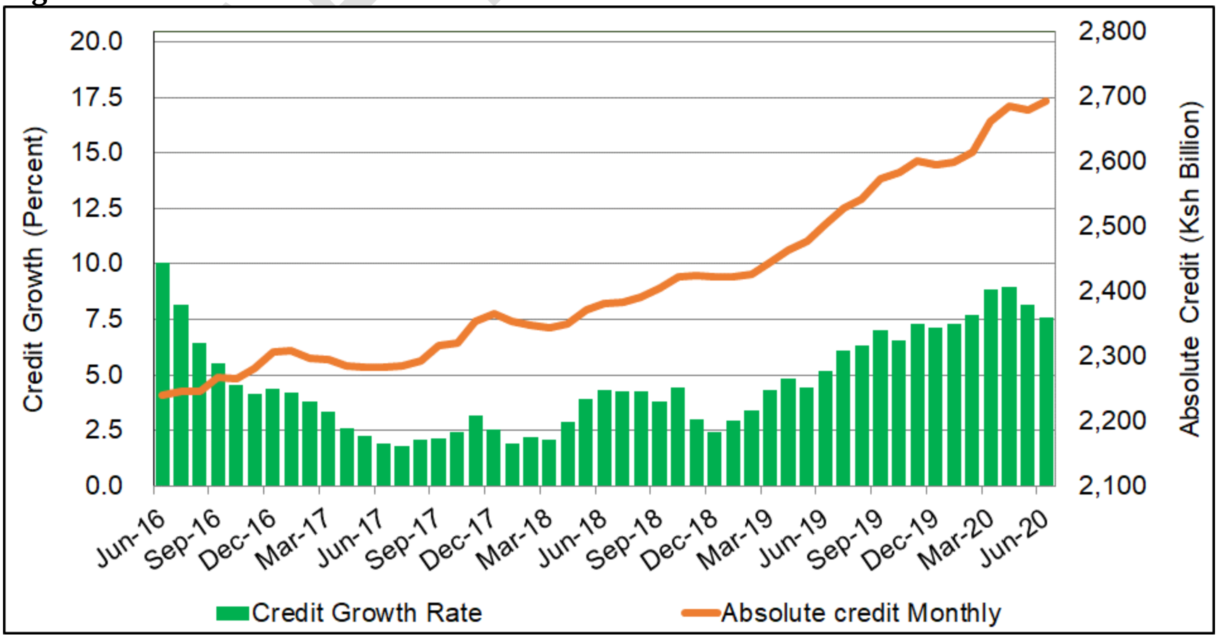
				Absolute Change		Percent Change	
	2018 June	2019 June	2020 June	2018-2019 June	2019-2020 June	2018-2019 June	2019-2020 June
COMPONENTS OF M3							
1. Money supply, M1 (1.1+1.2+1.3)	1,425.6	1,575.5	1,666.6	149.9	91.1	10.5	5.8
1.1 currency outside banks (M0)	218.3	196.9	210.9	21.3	13.9	(9.8)	7.1
1.2 Demand deposits	1,126.1	1,212.7	1,335.1	86.7	122.4	7.7	10.1
1.3 Other deposits at CBK	81.2	165.8	120.5	84.6	45.3	104.2	(27.3)
2. Money supply, M2 (1+2.1)	2,681.9	2,943.7	3,201.3	261.9	257.5	9.8	8.7
2.1 Time and savings deposits	1,256.3	1,368.2	1,534.7	111.9	166.5	8.9	12.2
Money supply, M3 (2+3.1)	3,262.6	3,564.2	3,863.6	301.6	299.4	9.2	8.4
3.1 Foreign currency deposits	580.8	620.5	662.4	39.7	41.9	6.8	6.7
SOURCES OF M3							
1. Net foreign assets (1.1+1.2)	756.9	939.9	885.4	183.0	54.5	24.2	(5.8)
1.1 Central Bank	783.6	941.0	918.1	157.4	22.9	20.1	(2.4)
1.2 Banking Institutions	(26.7)	(1.1)	(32.7)	25.6	31.6	(95.9)	2,906.6
2. Net domestic assets (2.1+2.2)	2,505.7	2,624.3	2,978.3	118.6	353.9	4.7	13.5
2.1 Domestic credit (2.1.1+2.1.2+2.1.3)	3,237.3	3,490.0	3,899.5	252.7	409.5	7.8	11.7
2.1.1 Government (net)	745.1	890.5	1,117.9	145.5	227.4	19.5	25.5
2.1.2 Other public sector	111.9	96.4	88.4	15.4	8.0	(13.8)	(8.3)
2.1.3 Private sector	2,380.4	2,503.0	2,693.2	122.6	190.2	5.2	7.6
2.2 Other assets net	(731.6)	(865.6)	(921.2)	134.1	55.6	18.3	6.4

Source of Data: Central Bank of Kenya

Private Sector Credit

87. Private sector credit grew by 7.6 percent in the 12 months to June 2020 compared to a growth of 5.2 percent in the year to June 2019 **(Figure 14).** This growth was observed mainly in the manufacturing (12.3 percent); trade (8.4 percent); transport and communication (14.9 percent); Mining and Quarrying (10.0 percent) and consumer durables (15.2 percent). The operationalization of the prospective Credit Guarantee Scheme for the vulnerable Micro, Small and Medium sized Enterprises (MSMEs), which will de-risk lending by commercial banks, is critical to increasing credit to this sector.

Figure 14: Private Sector Credit

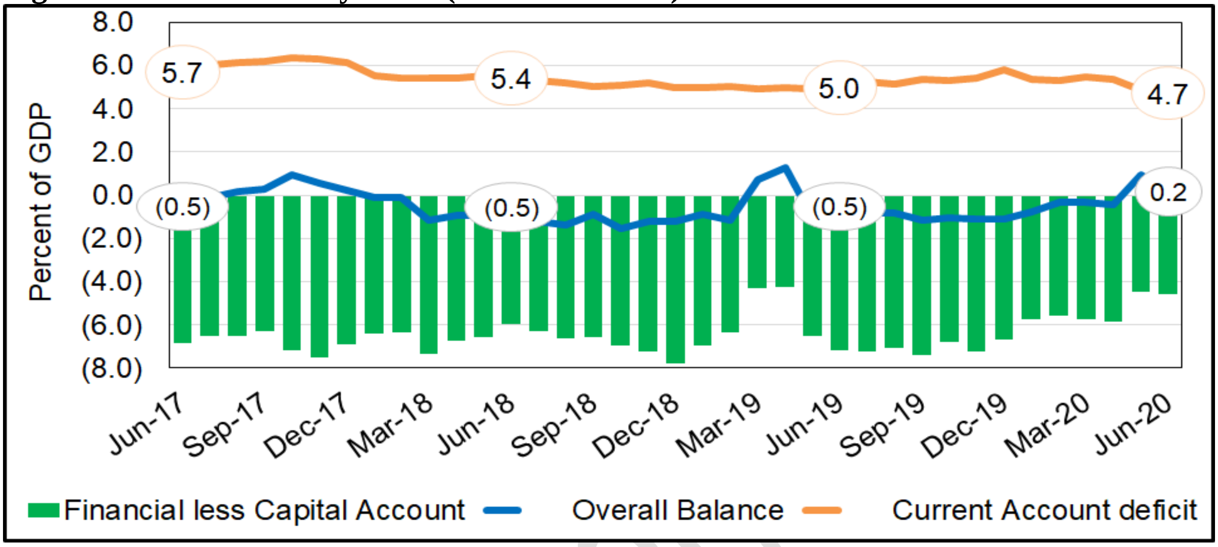


Source of Data: Central Bank of Kenya

External Sector Developments

16. The overall balance of payments position improved to a surplus of US$ 179.3 million (0.2 percent of GDP) in the year to June 2020 from a deficit of US$ 492.7 million (0.5 percent of GDP) in the year to June 2019 **(Figure 15).** This was mainly due to narrowing of the financial account deficit

Figure 15: Balance of Payments (Percent of GDP)



Source of Data: Central Bank of Kenya

88. The capital account balance registered a surplus of US$ 149.6 million in the year to June 2020. However, this was a decline by US$ 65.6 million compared to the balance witnessed in June 2019. Financial inflows declined to US$ 4,485.1 million in June 2020 compared to US$ 6,634.8 million in June 2019 **(Table 14).** The financial inflows were mainly in the form of direct investments, portfolio investments and other investments which stood at a deficit of US$ 662.1 million, US$ 1,189.2 million and deficit of US$ 5,019.2 million, respectively in June 2020.

Table 14: Balance of Payments (US$ Million)

						Year to June 2020		Percent of GDP	
	Jun-19	**Sep-19**	**Dec-19**	**Mar-20**	**Jun-20**	**absolute change**	**Percent Change**	**Jun-19**	**Jun-20**
Overall Balance	**(492.7)**	**(1,072.5)**	**(1,042.7)**	**(340.6)**	**179.3**	**672.0**	**(136.4)**	**(0.5)**	**0.2**
A) Current Account	(4,737.4)	(5,019.5)	(5,552.5)	(5,635.7)	(4,795.3)	57.9	1.2	(5.0)	(4.7)
Merchandise Account (a-b)	(10,164.7)	(10,287.6)	(10,679.5)	(10,442.8)	(9,458.9)	705.8	(6.9)	(10.7)	(9.3)
a) Goods: exports	5,931.4	5,849.6	5,871.9	6,070.1	5,927.4	4.0	(0.1)	6.2	5.8
b) Goods: imports	16,096.1	16,137.2	16,551.4	16,512.8	15,386.3	709.8	(4.4)	16.9	15.1
Net Services (c-d)	1,886.4	1,869.6	1,767.4	1,352.7	1,293.0	593.4	(31.5)	2.0	1.3
c) Services: credit	5,701.0	5,674.9	5,621.5	5,333.0	5,044.0	657.0	(11.5)	6.0	5.0
d) Services: debit	3,814.6	3,805.3	3,854.1	3,980.3	3,751.0	63.6	(1.7)	4.0	3.7
Net Primary Income (e-f)	(1,688.6)	(1,848.2)	(1,925.4)	(1,778.2)	(1,625.5)	63.1	(3.7)	(1.8)	(1.6)
e) Primary income: credit	213.2	216.6	218.3	226.6	208.5	4.7	(2.2)	0.2	0.2
f) Primary income: debit	1,901.8	2,064.8	2,143.7	2,004.8	1,834.0	67.8	(3.6)	2.0	1.8
Net Secondary Income	5,229.6	5,246.8	5,285.0	5,232.5	4,996.1	233.5	(4.5)	5.5	4.9
g) Secondary income: credit	5,281.2	5,299.4	5,339.7	5,286.7	5,050.9	230.3	(4.4)	5.5	5.0
h) Secondary income: debit	51.6	52.6	54.7	54.2	54.7	3.1	6.1	0.1	0.1
B) Capital Account	215.2	206.8	207.7	189.6	149.6	65.6	(30.5)	0.2	0.1
C) Financial Account	(6,634.8)	(6,714.3)	(6,238.9)	(5,720.5)	(4,488.1)	2,146.7	(32.4)	(7.0)	(4.4)

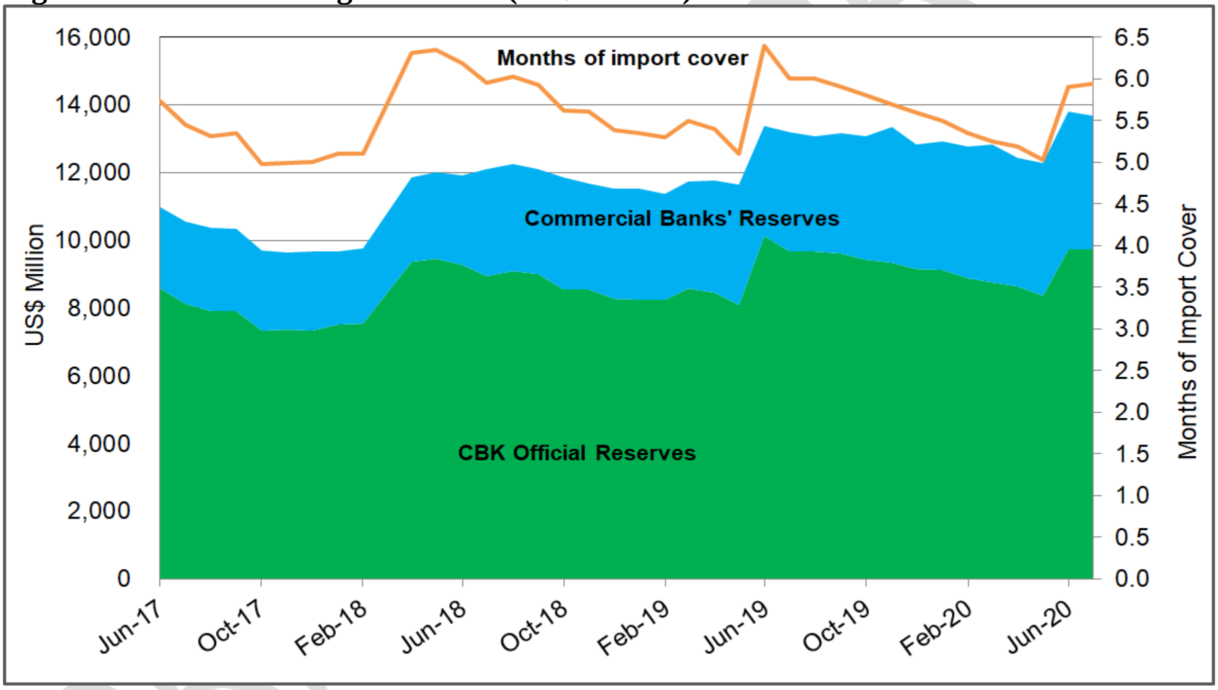
Source of Data: Central Bank of Kenya

89. The current account deficit worsened by 1.2 percent to US$ 4,795.3 million (4.7 percent of GDP) in the June 2020 compared to a deficit of US$ 4,737.4 million (5.0 percent of GDP) in the year to June 2019 mainly due to a decline in net secondary income and net services **(Table 14).** The balance in the merchandise account improved by US$ 705.8 million to a deficit of US$ (9,458.9) million in the year to June 2020 on account of a decline in imports that more than offset the decline in exports.

Foreign Exchange Reserves

90. The banking system's foreign exchange holdings remained strong at US$ 13,680.9 million in June 2020 up from US$ 13,187.3 million in June 2019. The official foreign exchange reserves held by the Central Bank improved to US$ 9,739.9 million (5.9 months of import cover) in June 2020 compared with US$ 9,655.9 million (6.0 months of import cover) in June 2019 **(Figure 16).** This fulfils the requirement to maintain reserves at minimum of 4.0 months of imports cover to provide adequate buffer against short term shocks in the foreign exchange market. Commercial banks holdings increased to US$ 3,940.9 million in June 2020 from US$ 3,531.4 million in June 2019.

Figure 16: Official Foreign Reserves (US$ Million)

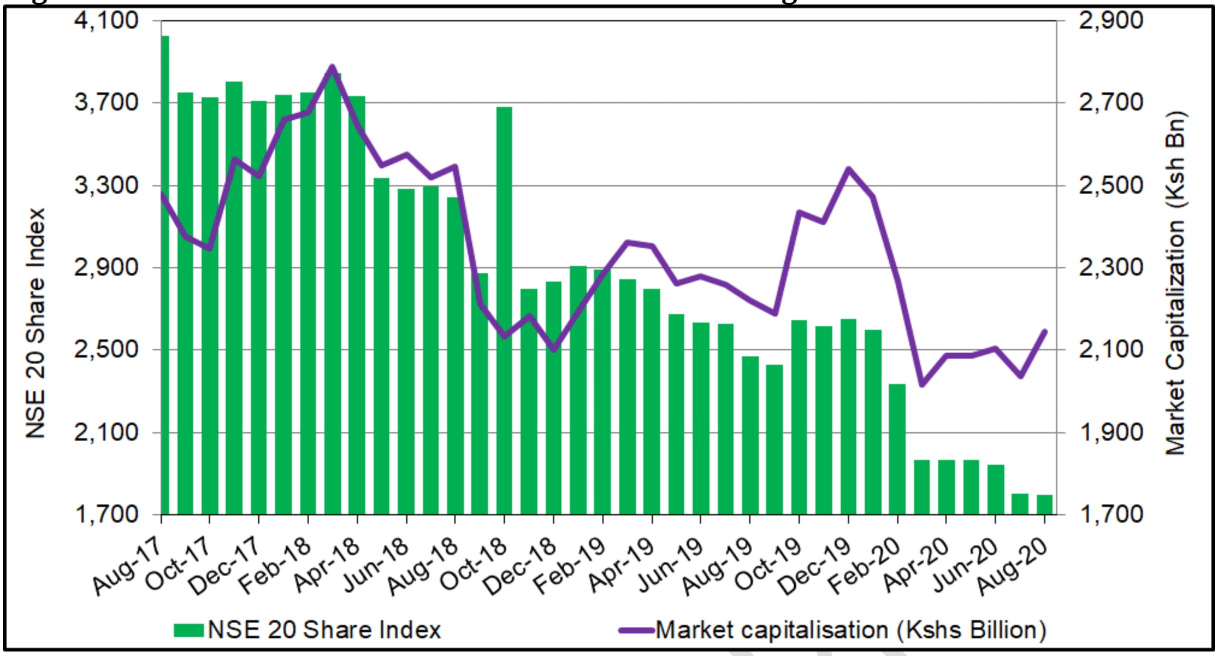


Source of Data: Central Bank of Kenya

Capital Markets Developments

91. Activity in the capital markets declined in August 2020 compared to August 2019, with equity share prices declining as shown by the NSE 20 Share Index. The decline reflects the volatility in the financial markets as a result of the uncertainty surrounding the corona virus pandemic. The NSE 20 Share Index was 1,794 points by end of August 2020 compared to 2,468 points by end August 2019. Consequently, market capitalization declined from Ksh 2,222 billion to Ksh 2,144 billion over the same period **(Figure 17).**

Figure 17: Performance of the Nairobi Securities Exchange



Source of Data: Nairobi Security Exchange

B. Medium Term Economic Outlook

Global Growth Outlook

92. The outbreak and spread of the Covid-19 Pandemic and the ensuing containment measures have devastated global economies. As a result, the global economy is projected to contract by 4.9 percent in 2020 from a growth of 2.9 percent in 2019. This economic outlook is worse than the growth reported during the 2008 - 2009 global financial crisis. On a positive note, world economic growth is projected to rebound to 5.4 percent in 2021 mainly supported by a gradual strengthening in consumption and investment is also expected to firm up.

93. Growth in the advanced economies is projected at negative 8.0 percent in 2020 recovering to 4.8 percent in 2021. This reflects deeper than anticipated effects of the pandemic on economic activity in the first half of 2020 and more gradual recovery in the second half of the year. Significant contraction of the economy is projected in the United States (-8.0 percent), Japan (-5.8 percent), the United Kingdom (-10.2 percent), Germany (-7.8 percent), France (-12.5 percent), and Italy and Spain (-12.8) percent. Growth in the Euro area is expected to contract by 10.2 percent in 2020 before recovering to grow at 6.0 percent in 2021.

94. The emerging markets and developing economies are also projected to contract by 3.0 percent in 2020. Better prospects are however expected in 2021 with growth forecasted at 5.9 percent; this recovery is well echoed in the forecasted growths of Emerging and Developing Asia and Europe, Latin America and the Caribbean, and Sub-Saharan Africa.

95. The Sub-Saharan African region has not been spared the negative impact of the pandemic with the region projected to contract by 3.2 percent in 2020. Consistent with forecast in the other regions, economic growth in the region is expected to recover to 3.4 percent in 2021 as most of the economies in the region recover from the adverse effects of the Covid-19 pandemic.

Domestic Growth Outlook

96. On the domestic scene, prior to the outbreak of Covid-19 pandemic, Kenya's economy was strong and resilient despite the challenging global environment. The economy expanded by 4.9 percent in the first quarter of 2020 supported by the agricultural sector on account of favorable weather conditions.

97. Leading economic indicators for the second quarter point to continued strong performance in agriculture, mainly due to favorable weather conditions and lifting of restrictions in the key export markets. However, the negative effects of covid-19 on the economy are projected to more than offset the gains in the agricultural sector leading to an overall projected growth, in calendar years, of 2.6 percent in 2020. On a positive note, economic growth is projected to recover to 5.3 percent in 2021 and 5.9 percent in the medium term. In terms of fiscal years, economic growth is projected to grow by 4.0 percent in FY 2020/21 and further to 5.9 percent over the medium term.

98. This growth outlook for the calendar year 2020 and the FY 2020/21 and the medium term, will be supported by the stable macroeconomic environment, investments in the strategic areas under the "Big Four" agenda, the ongoing public investments in infrastructure projects, the Economic Stimulus Program being implemented and the planned Post Covid-19 Economic Recovery Strategy. These factors will push up consumer demand and increase both public and private sector investment reinforcing the projected growth. The economic growth projections over the medium term are aligned to those of the Third Medium Term Plan (2018-2022) which is implementing Vision 2030 **(Table 15 and Annex Table 1).**

Table 15: Macroeconomic Indicators, in Fiscal Years

	2018/19	2019/20		2020/21		2021/22		2022/23		2023/24		2024/25
	Act	Supp III Budget	Act	Budget	BROP'20	PROJ.	BROP'20	PROJ.	BROP'20	PROJ.	BROP'20	BROP'20
	Annual percentage change											
National Accounts and Prices												
Real GDP	5.9	4.0	4.0	4.2	4.0	5.8	5.2	6.0	5.4	6.4	5.9	5.9
GDP Deflator	3.2	5.4	5.4	6.2	6.2	5.4	5.5	5.4	5.3	5.5	5.4	5.3
CPI Index (eop)	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	4.9	5.1	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of Trade (-deterioration)	0.6	2.6	-0.3	4.2	-1.1	1.1	1.1	0.5	-0.5	0.6	0.4	0.5
	Percentage of GDP											
Investment and saving												
Investment	17.7	15.7	13.1	21.6	13.3	22.1	16.4	23.1	17.2	24.6	18.4	18.5
Gross National Savings	13.6	11.4	7.6	16.5	8.2	17.0	11.6	19.1	12.3	22.0	13.7	13.8
Central Government Budget												
Total revenue	18.3	18.3	17.0	16.8	15.8	17.0	15.0	16.9	14.6	17.1	14.3	13.8
Total expenditure and net lending	26.2	27.6	25.2	24.7	24.8	23.5	22.7	22.3	21.7	21.0	20.6	18.7
Overall Fiscal balance excl. grants	-7.9	-9.3	-8.2	-8.0	-8.9	-6.5	-7.7	-5.5	-7.1	-3.9	-6.3	-4.8
Overall Fiscal balance, incl. grants, cash basis	-7.8	-9.0	-8.0	-7.5	-8.4	-6.1	-7.3	-5.1	-6.7	-3.6	-6.0	-4.5
Nominal debt (eop), net of deposits	57.0	58.7	60.7	60.5	63.4	60.0	64.5	59.0	64.8	56.7	64.0	50.6
External sector												
Current external balance, incl. official transfers	-4.1	-4.2	-5.5	-5.1	-5.1	-5.1	-4.8	-4.0	-4.8	-2.6	-4.8	-4.7
Gross reserves in months of imports	6.4	6.5	6.3	6.0	5.8	6.0	5.8	6.0	5.8	6.0	5.8	5.9

Source of Data: National Treasury

Monetary Policy Outlook

99. The main objective of monetary policy, over the medium terms, will be to maintain stable prices. Overall inflation is expected to remain within the target range in the short run, despite the disruptions occasioned by the COVID-19 pandemic. This will be supported by favorable weather conditions, lower international oil prices, muted demand pressures and the reduction of Value Added Tax (VAT) from 16 percent to 14 percent.

100. The Central Bank of Kenya will continue to monitor developments in the money and foreign exchange market and take appropriate measures in the event of adverse shocks.

External Sector Outlook

101. The Kenya Shilling is expected to remain stable in 2020 on account of a stable current account deficit. The current account deficit is expected to narrow to 5.1 percent of GDP in 2020 from 5.8 percent in 2019 supported by a lower oil import bill and lower imports of SGR-related equipment.

Fiscal Policy Outlook

102. The revenue projections over the medium term takes into account the consistent decline in the share of revenue to GDP in the last five years, the negative impact of the Covid-19 pandemic on revenue collection and the impact of personal and corporate income tax relief extended to individuals and businesses to mitigate the impact of the pandemic. As such, the Government will take a cautious and realistic revenue projections for FY 2021/22 and the medium term to manage expectations and improve budget credibility. Fiscal policy over the medium-term aims at enhancing revenue mobilisation and strengthen management of public debt to minimize cost and risks of the portfolio, while accessing external concessional funding to finance development projects.

C. Risks to the Domestic Economic Outlook

103. This macroeconomic outlook is not without risks from both external and domestic sources. Risks from the global economies relate to persistence of the Covid-19 pandemic and required lockdowns, voluntary social distancing and its effect on consumption, the ability of laid off workers securing employment in other sectors, rising operating cost to make work places more hygienic and safe, reconfiguration of disrupted global supply chains, extent of cross-border spill overs occasioned by weaker external demand and funding shortfalls.

104. On the domestic front, risks will emanate from weaker external demand, reduced tourist arrivals due the Covid-19 fears and restrictions and further restrictions of movement should they become necessary to control the surge in infections. In addition, the economy will continue to be exposed to risks arising from public expenditure pressures, particularly wage related recurrent expenditures and the erratic weather related shocks that could have negative impact on energy generation and agricultural output leading to higher inflation that could slow down growth.

105. The main risks to the foreign exchange market in 2020 relate to continued uncertainties occasioned by the Covid-19 pandemic. Nevertheless, the official foreign exchange reserves, at 5.9 months of import cover in June 2020, will continue to provide an adequate buffer against short term shocks in the foreign exchange market.

106. The Government is continually monitoring these risks and taking appropriate monetary and fiscal policy measures to preserve macroeconomic stability and strengthen resilience in the economy. To cushion the country against the downsides of the risks emanating from the Covid-19 pandemic, the Government is implementing an 8 point Economic Stimulus Package to

protect lives and livelihoods. The Government is also planning a Post Covid-19 Economic Recovery Strategy to return the economy on a stable growth path. Additionally, the diversified nature of our economy continues to offer resilience to any global challenges.

107. On risks emanating from domestic sources, the Government has laid foundations to enhance faster and lasting growth through the "Big Four" Plan, which will unlock better growth, and positively impact on the lives of people through jobs creation and poverty reduction. As such, the Government is expanding irrigation schemes to reduce dependence on rain-fed agriculture, diversifying exports and promoting value addition in agriculture. Further, the Government is accelerating infrastructure development to support manufacturing and expand intra-regional trade by deliberately targeting new markets for our products. Finally, the ongoing enhanced domestic resource mobilization and expenditure rationalization will significantly reduce wage related pressures and reduce debt accumulation thus creating fiscal space necessary for economic sustainability.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustments to the FY 2020/21 Budget

108. The Medium Term Fiscal Framework (MTFF) for the FY 2020/21 emphasizes on efficiency and effectiveness of public spending and improving revenue collection to stimulate and sustain economic activities, mitigate the adverse impact of COVID-19 pandemic on the economy and re-position the economy on a steady and sustainable growth trajectory. This will in turn ensure that the debt position remains sustainable and enhances continued fiscal discipline.

109. The underperformance in both revenue collection and expenditure in the FY 2019/20 has implications on the financial objectives outlined in the 2020 BPS and the 2020/21 Budget. In particular, the baseline for projecting both the revenue and expenditures for the FY 2020/21 and the medium term has changed given the outcome of FY 2019/20 and the first two months of FY 2020/21.

110. In light of these challenges, the revenue projections for FY 2020/21 have been revised taking into account a lower projection base- Supplementary III (on account of the Ksh 131.2 billion shortfall in FY 2019/20), revenue performance by end August 2020 and the prolonged effects of COVID-19 Pandemic on economic activities and the measures put in place to curb its spread. Expenditure projections for FY 2020/21 have been revised to accommodate the weak revenue performance through trade-offs and reallocations of the existing budgetary provisions and additional expenditure on productive areas of spending across the Government.

111. Revenues for the FY 2020/21 are therefore, projected at Ksh 1,782.4 billion (15.8 percent of GDP) with ordinary revenues at Ksh 1,523.5 billion (13.5 percent of GDP). On the other hand, expenditures are projected at Ksh 2,790.6 billion (24.8 percent of GDP) with recurrent expenditures projected at Ksh 1,826.7 billion (16.2 percent of GDP) while development expenditures are projected at Ksh 589.7 billion (5.2 percent of GDP). Transfer to County Governments is projected at Ksh 369.2 billion (3.3 percent of GDP). The resulting fiscal deficit of Ksh 951.4 billion (8.4 percent of GDP) will be financed by a net external financing of Ksh 396.8 billion and a net domestic borrowing of Ksh 554.6 billion (**Annex Table 2 & Annex Table 3**).

B. FY 2021/22 Budget Framework

112. The FY 2021/22 budget framework builds up on the Government's efforts through the Economic Stimulus Programme and the Post Covid-19 Economic Recovery Strategy to stimulate and sustain economic activities, mitigate the adverse impact of COVID-19 pandemic on the economy and re-position the economy on a steady and sustainable growth trajectory. This is in addition to expenditure rationalization and revenue mobilization programmes that the Government has been implementing.

113. To protect the gains already made, the Government will continue to emphasize on the implementation of policy measures such as the zero-based budgeting process, adoption of the "no new projects" policy, a review of portfolio of externally funded projects to restructure and re-alignment with the "Big Four" Plan and reducing spending on programmes, which are not of high priority. As a result, the overall fiscal deficit is expected to decline from Ksh 951.4 billion (8.4 percent of GDP) in FY 2020/21 to Ksh 917.3 billion (7.3 percent of GDP) in FY 2021/22. Further, with the fiscal consolidation strategy, MDAs are required to adopt the culture of doing more with less that is available with a view to promote sustainability and optimality. This will

boost our debt sustainability position and give flexibility for counter cyclical fiscal policy interventions when appropriate.

114. In the FY 2021/22 revenue collection including Appropriation-in-Aid (A-i-A) is projected at Ksh 1,872.6 billion (15.0 percent of GDP). Of this, ordinary revenues is projected at Ksh 1,656.2 billion (13.2 percent of GDP). This revenue performance will be underpinned by economic recovery efforts through the Economic Stimulus Programme and the Post Covid-19 Economic Recovery Strategy, on-going reforms in tax policy and revenue administration. On the other hand, the overall expenditure and net lending are projected at Ksh 2,836.0 billion (22.7 percent of GDP). Of this, recurrent expenditure will amount to Ksh 1,892.9 billion (15.1 percent of GDP) while, development expenditure will amount to Ksh 560.6 billion (4.5 percent of GDP). Transfer to Counties and Contingency Fund are projected at Ksh 377.5 billion and Ksh 5.0 billion respectively.

115. The fiscal deficit in FY 2021/22 will be financed by a net external financing of Ksh 411.3 billion (3.3 percent of GDP) and a net domestic financing of Ksh 506.0 billion (4.0 percent of GDP).

C. Medium Term Fiscal Projections

116. The Medium-Term Fiscal Policy aims at economic recovery to support sustained, rapid and inclusive economic growth, safeguard livelihoods and continue the fiscal consolidation programme to create fiscal space for the implementation of the "Big Four" Plan. In this regard, and driven by economic recovery strategies, continued reforms in revenue administration and revenue enhancement measures, the Government's total revenue and total expenditure are projected at Ksh 2,219.8 billion (14.3 percent of GDP) and Ksh 3,191.4 billion (20.6 percent of GDP) in FY 2023/24. Of the total expenditures, recurrent expenditures are expected to decline to 13.4 percent of GDP in the medium term while development and net lending expenditure is projected at 4.7 percent of GDP by FY 2023/24.

117. Given the expenditure and revenue enhancement measures the Government has put in place, fiscal deficit inclusive of grants is projected to decline to 6.0 percent of GDP in the FY 2023/24 and further to 4.5 percent of GDP in the FY 2024/25. The lower deficit reflects the enhanced revenue collection as a result of economic recovery strategies and prudent public spending. Particular emphasis will be placed on:

i. Increasing efficiency, effectiveness and accountability of public spending;
ii. Containing the growth of recurrent expenditure in favour of capital investment; and
iii. Ensuring capital expenditures are thoroughly scrutinized and aligned with "the Big Four" Plan, the Third MTP and strategic policy interventions by the Government.

D. Medium-Term Expenditure Framework

118. The Government will continue with its policy of expenditure prioritization with a view to achieving the transformative development agenda which is anchored on provision of core services, ensuring equity and minimizing costs through the elimination of duplication and inefficiencies, implementation of the constitution, creation of employment opportunities and improving the general welfare of the people. Realization of these objectives will have implications in the budget ceilings to be provided in this Budget Review and Outlook Paper. The following criteria will serve as a guide for allocating resources:

(i) Linkage of Programmes to the 'Big Four' Plan either as drivers or enablers;
(ii) Linkage of the programme with the objectives of Third Medium-Term Plan of Vision 2030;
(iii) Degree to which a programme addresses job creation and poverty reduction;
(iv) Degree to which the programme is addressing the core mandate of the MDAs;
(v) Expected outputs and outcomes from a programme; and
(vi) Cost effectiveness and sustainability of the programme.

119. In FY 2018/19, the Government initiated the implementation of the "Big Four" Agenda and allocated resources to implement the programmes both for drivers and enablers. Going forward, resources will be prioritized towards the achievement of the following "Big Four" interventions;

(i) Enhancing Food and Nutrition Security to all Kenyans by 2022 - Under this cluster, the objective is to ensure all citizens enjoy food security and improved nutrition by 2022;
(ii) Providing Universal Health Coverage and Guaranteeing Quality and Affordable Healthcare to all Kenyans - under this cluster, the relevant MDAs will be implementing identified interventions with the objective of expanding Universal Health Coverage;
(iii) Providing Affordable and Decent Housing for all Kenyans by constructing at least five hundred thousand affordable houses to improve the living conditions of Kenyans.; and
(iv) Supporting value addition and raising the manufacturing sector share of GDP - under this cluster, the objective is to increase the share of manufacturing sector to GDP to 15 percent by 2022.

120. Reflecting on the above, we have developed the Medium-Term Expenditure Framework.

V. CONCLUSION AND NEXT STEPS

121. The FY 2021/22 and the medium term budget is being prepared against the backdrop of a slowdown in the growth of the global economy. The Pandemic and the attendant containment measures has led to contraction of the global economy disrupting businesses including international trade and leading to loss of livelihoods for millions of people globally. Kenya has not been spared. The Pandemic and the containment measures have not only disrupted our ways of lives and livelihoods, but to a greater extent business. Consequently, the economy is projected to slow down to 2.6 percent in 2020 from the 5.4 percent registered in 2019. To cushion citizens and businesses from the adverse effects of Covid-19 Pandemic and stimulate economic recovery, the Government will continue to implement measures in the context of the Economic Stimulus Programme and the Post Covid-19 Economic Recovery Strategy.

122. Given the tight resource constraints amidst significant revenue shortfalls occasioned by the adverse effects of the Covid-19 Pandemic, the Government will continue to ensure proper prioritization of public expenditures to the most impactful programmes with highest welfare benefits to Kenyans. As such, in the FY 2021/22 budget, special focus will be placed on the achievement of the "Big Four" Agenda as prioritized in the third Medium Term Plan (MTP III) of the Vision 2030. Equally, emphasis will be on strategic interventions under the Post Covid-19 Economic Recovery Strategy that will further re-position the economy on a steady and sustainable growth trajectory. Thus, all Sector Working Groups (SWGs) are required to adhere to the hard sector ceilings, and the strict deadlines provided in this document to facilitate the finalization and appropriation of the FY 2021/22 and the medium term budget. The resource envelope and ceilings for each Sector provided in this Budget Review and Outlook Paper will form inputs into the next Budget Policy Statement, which will be finalized by mid-February 2021.

Annex Table 1: Macroeconomic Indicators for the FY 2018/19- 2024/25 Period

	2018/19	2019/20		2020/21		2021/22			2022/23			2023/24			2024/25
	Act	Supp III Budget	Act	Budget	BROP'20	BPS'20	PROJ.	BROP'20	BPS'20	PROJ.	BROP'20	BPS'20	PROJ.	BROP'20	BROP'20
annual percentage change, unless otherwise indicated															
National Account and Prices															
Real GDP	5.9	4.0	4.0	4.2	4.0	6.3	5.8	5.2	6.6	6.0	5.4	6.8	6.4	5.9	5.9
GDP deflator	3.2	5.4	5.4	6.2	6.2	5.4	5.4	5.5	5.3	5.4	5.3	5.4	5.5	5.4	5.3
CPI Index (eop)	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	4.9	5.1	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	0.6	2.6	-0.3	4.2	-1.1	1.1	1.1	1.1	0.3	0.5	-0.5	0.4	0.6	0.4	0.5
Money and Credit (end of period)															
Net domestic assets	4.7	12.8	13.5	14.8	13.3	6.5	5.3	11.7	15.4	14.4	12.7	15.9	15.7	13.6	13.2
Net domestic credit to the Government	19.5	15.7	21.0	19.6	21.4	6.8	13.5	16.1	5.6	13.1	17.7	13.2	14.6	14.4	9.7
Credit to the rest of the economy	5.2	7.1	7.6	7.5	12.8	13.1	9.4	11.8	15.9	12.2	12.7	14.2	13.3	12.8	13.7
Broad Money, M3 (percent change)	9.2	9.6	8.4	10.6	10.5	12.1	11.5	11.0	12.5	11.7	11.0	12.6	12.2	11.6	11.6
Reserve money (percent change)	2.5	5.2	-2.9	6.1	13.6	7.6	7.0	6.5	8.0	7.2	6.5	8.1	7.7	7.1	7.1
in percentage of GDP, unless otherwise indicated															
Investment and Saving															
Investment	17.7	15.7	13.1	21.6	13.3	22.1	22.1	16.4	22.4	23.1	17.2	22.6	24.6	18.4	18.5
Central Government	8.1	6.7	5.8	5.0	5.2	5.1	5.2	4.4	5.3	5.1	4.6	4.9	4.8	4.6	4.2
Other	9.5	9.0	7.3	16.6	8.1	17.1	16.9	12.0	17.2	18.0	12.6	17.6	19.8	13.8	14.3
Gross National Saving	13.6	11.4	7.6	16.5	8.2	17.8	17.0	11.6	19.6	19.1	12.3	21.2	22.0	13.7	13.8
Central Government	1.8	1.3	0.9	0.5	-0.3	3.7	2.0	-0.1	4.4	2.2	0.4	4.0	2.8	1.0	1.8
Other	11.8	10.1	6.7	16.0	8.5	14.1	14.9	11.7	15.1	16.9	11.9	17.3	19.2	12.6	12.0
Central Government Budget															
Total revenue	18.3	18.3	17.0	16.8	15.8	18.5	17.0	15.0	18.4	16.9	14.6	18.4	17.1	14.3	13.8
Total expenditure and net lending	26.2	27.6	25.2	24.7	24.8	22.8	23.5	22.7	21.9	22.3	21.7	21.8	21.0	20.6	18.7
Overall Fiscal balance excl. grants	-7.9	-9.3	-8.2	-8.0	-8.9	-4.2	-6.5	-7.7	-3.5	-5.5	-7.1	-3.3	-3.9	-6.3	-4.8
Overall Fiscal balance, incl. grants, cash basis	-7.8	-9.0	-8.0	-7.5	-8.4	-3.9	-6.1	-7.3	-3.1	-5.1	-6.7	-3.0	-3.6	-6.0	-4.5
Primary budget balance	-3.6	-4.7	-3.6	-3.4	-4.3	0.3	-1.8	-3.0	0.8	-1.2	-2.7	1.0	0.0	-2.3	-1.2
Net domestic borrowing	3.3	5.8	4.4	4.4	4.9	1.4	3.6	4.0	1.1	3.1	4.7	2.4	1.7	4.0	2.8
External Sector															
Exports value, goods and services	14.1	13.4	11.0	12.7	10.1	13.4	12.2	9.9	13.3	11.9	9.3	13.2	11.6	8.6	7.9
Imports value, goods and services	21.2	20.2	19.9	20.3	17.7	19.9	19.7	16.3	18.2	18.2	15.2	16.4	16.5	14.1	13.0
Current external balance, including official transfers	-4.1	-4.2	-5.5	-5.1	-5.1	-4.3	-5.1	-4.8	-2.9	-4.0	-4.8	-1.3	-2.6	-4.8	-4.7
Gross reserves in months of next yr's imports	4.9	4.9	5.5	4.5	5.3	5.8	5.8	5.5	5.9	5.9	5.5	5.9	5.9	5.5	5.5
Gross reserves in months of this yr's imports	6.4	6.5	6.3	6.0	5.8	6.0	6.0	5.8	6.0	6.0	5.8	6.0	6.0	5.8	5.9
Public debt															
Nominal debt (eop), net of deposits	57.0	58.7	60.7	60.5	63.4	53.9	60.0	64.5	51.0	59.0	64.8	48.3	56.7	64.0	50.6
Domestic (gross)	29.9	30.6	31.2	32.0	33.1	26.8	31.9	33.9	24.9	31.7	35.2	24.5	31.8	35.5	34.6
Domestic (net)	24.5	25.7	26.2	27.5	28.7	22.9	27.9	29.9	21.4	28.1	31.6	21.4	28.6	32.3	31.7
External	32.5	33.1	34.5	33.0	34.7	31.0	32.1	34.6	29.6	30.9	33.2	26.9	28.2	31.7	18.9
Memorandum Items:															
Nominal GDP (in Ksh Billion)	9,303	10,197	10,200	11,276	11,267	13,044	12,576	12,502	14,674	14,044	13,879	16,527	15,760	15,495	17,286
Nominal GDP (in US$ Million)	90,881	99,742	99,774	110,672	111,863	130,124	123,799	127,469	145,788	137,058	143,759	163,349	153,041	163,831	188,098

Source of Data: The National Treasury

Annex Table 2: Government Operations for the FY 2018/19 - 2024/25 Period, Ksh Billion

	2018/19	2019/20		2020/21			2021/22			2022/23			2023/24			2024/25
	Act	Supp III Budget	Act	BPS'20	Budget	BROP'20	BPS'20	PROJ.	BROP'20	BPS'20	PROJ.	BROP'20	BPS'20	PROJ.	BROP'20	BROP'20
TOTAL REVENUE	**1,701.7**	**1,864.8**	**1,733.6**	**2,134.1**	**1,892.6**	**1,782.4**	**2,417.1**	**2,139.1**	**1,872.6**	**2,706.6**	**2,367.8**	**2,027.5**	**3,046.4**	**2,691.6**	**2,219.8**	**2,393.1**
Ordinary Revenue	1,499.8	1,615.4	1,573.4	1,856.7	1,633.8	1,523.5	2,144.9	1,871.7	1,656.2	2,418.3	2,077.8	1,793.8	2,720.6	2,363.3	1,944.6	2,109.2
Income Tax	685.3	720.3	706.9	862.3	685.0	699.4	996.9	776.6	744.0	1,141.3	846.5	800.6	1,280.6	973.1	862.3	928.7
Import duty (net)	106.9	95.9	98.0	126.5	106.8	84.4	147.7	137.4	91.1	164.1	159.0	98.4	182.3	177.5	106.3	114.8
Excise duty	194.3	201.2	195.3	258.0	241.4	195.6	272.0	277.3	245.3	303.1	312.8	275.4	348.1	357.9	309.8	348.8
Value Added Tax	414.1	400.1	383.7	496.4	481.6	444.2	602.0	567.7	477.1	670.6	635.3	512.5	757.8	717.4	550.7	591.8
Investment income	26.8	34.7	34.7	21.0	28.6	28.6	21.6	21.6	21.6	22.3	22.3	22.7	22.9	22.9	23.8	25.0
Other	72.3	163.2	154.8	92.5	90.4	71.3	104.7	91.1	77.1	116.9	102.0	84.1	128.8	114.4	91.8	100.0
Ministerial Appropriation in Aid	**201.9**	**249.4**	**160.2**	**277.4**	**258.9**	**258.9**	**272.2**	**267.4**	**216.4**	**288.3**	**290.0**	**233.7**	**325.9**	**328.3**	**275.1**	**283.9**
Railway Development Levy	21.3	22.7	23.3	27.8	27.2	27.2	29.2	30.4	27.8	32.5	34.2	*30.4*	*36.1*	*38.5*	*33.2*	*36.3*
Ministerial and Departmental Fees (AiA)/NMS	180.6	226.8	137.0	249.6	231.7	231.7	243.0	237.0	188.6	255.8	255.8	203.3	289.8	289.8	241.9	247.6
Across the board Additional AiA																
EXPENDITURE AND NET LENDING	**2,433.7**	**2,817.8**	**2,565.4**	**2,748.2**	**2,790.6**	**2,790.6**	**2,968.2**	**2,954.0**	**2,836.0**	**3,214.1**	**3,133.3**	**3,007.0**	**3,595.0**	**3,309.0**	**3,191.4**	**3,225.0**
Recurrent expenditure	1,531.1	1,777.0	1,645.2	1,781.0	1,826.7	1,826.7	1,945.3	1,941.3	1,892.9	2,067.9	2,047.5	1,975.0	2,404.1	2,172.8	2,069.3	2,089.0
Interest payments	375.7	433.7	437.2	456.0	463.1	463.1	541.3	537.3	537.3	577.0	556.5	556.5	661.6	569.4	569.4	569.4
Domestic interest	272.4	301.8	315.4	308.4	308.4	308.4	371.0	370.4	370.4	382.0	382.6	382.6	454.2	385.7	385.7	385.7
Foreign Interest	103.4	131.9	121.8	147.6	154.7	154.7	170.2	166.8	166.8	195.0	174.0	174.0	207.5	183.7	183.7	183.7
Pensions & Other CFS	70.8	91.0	89.6	118.7	123.4	123.4	134.0	134.0	134.0	152.9	152.9	152.9	173.5	173.5	167.9	167.9
Pensions	66.4	87.0	87.0	114.2	119.2	119.2	128.5	132.8	132.8	146.9	146.0	146.0	167.4	163.5	163.5	163.5
Other CFS	4.4	4.0	2.6	4.4	4.2	4.2	5.5	4.2	4.2	6.1	4.4	4.4	6.1	4.4	4.4	4.4
Contribution to civil service pension fund	0.0	0.0	0.0	10.3	10.3	10.3	21.6	21.6	21.6	22.9	22.9	22.9	24.3	24.3	24.3	24.3
Net Issues/Net Expenditure	936.8	1,076.2	1,011.5	1,022.9	1,052.8	1,052.8	1,064.7	1,064.7	1,064.7	1,115.3	1,115.3	1,095.3	1,315.9	1,176.9	1,126.9	1,140.9
O/W: Wages & Salaries[1]	417.5	457.2	449.9	483.7	496.3	481.7	541.3	541.3	541.3	573.8	573.8	573.8	591.0	591.0	591.0	591.0
Development and Net lending	**541.9**	**678.5**	**594.9**	**587.3**	**589.7**	**589.7**	**633.5**	**623.3**	**560.6**	**747.4**	**687.1**	**643**	**785**	**730**	**725.9**	**729.8**
Domestically financed (Gross)	307.0	449.7	396.6	334.5	329.9	329.9	345.1	334.9	272.3	427.2	366.9	323.1	459.2	404.5	399.2	402.3
O/W Domestically Financed (Net)/NMS	262.2	385.3	352.7	265.3	273.5	273.5	272.4	261.0	201.0	349.1	287.1	247.1	372.9	315.8	315.8	315.8
Ministerial Development AIA	270.2	64.3	43.9	52.9	56.4	56.4	72.7	73.9	71.3	78.1	79.8	76.0	86.2	88.7	83.4	88.2
Foreign financed	225.4	228.1	197.6	246.3	253.0	253.0	281.6	281.6	281.6	312.7	312.7	312.7	317.6	317.6	318.7	319.9
Net lending	2.5	0.6	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equalization Fund	7.0	0.0	0.0	6.5	6.8	6.8	6.8	6.8	6.8	7.5	7.5	7.5	8.0	8.0	8.0	7.6
County Allocation	**360.7**	**362.4**	**325.3**	**375.0**	**369.2**	**369.2**	**384.5**	**384.5**	**377.5**	**393.7**	**393.7**	**383.7**	**401.2**	**401.2**	**391.2**	**401.2**
Equitable Share	314.0	316.5	286.8	316.5	316.5	316.5	325.7	325.7	318.7	334.8	334.8	324.8	341.2	341.2	331.2	341.2
Conditional Allocation	46.7	45.9	38.5	58.5	52.7	52.7	58.8	58.8	58.8	58.9	58.9	58.9	59.9	59.9	59.9	59.9
Contingency Fund	**0.0**	**0.0**	**0.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**
Fiscal Balance *(commitment basis excl. grants)*	**-732.0**	**-953.0**	**-831.8**	**-614.1**	**-898.0**	**-1,008.2**	**-551.2**	**-814.9**	**-963.3**	**-507.5**	**-765.5**	**-979.5**	**-548.6**	**-617.3**	**-971.6**	**-831.9**
Grants	**19.7**	**35.0**	**19.8**	**42.8**	**56.8**	**56.8**	**46.1**	**46.1**	**46.1**	**46.9**	**46.9**	**46.9**	**46.9**	**46.9**	**48.1**	**49.3**
Of which: Project grants	15.4	23.3	15.2	37.9	32.7	32.7	43.6	43.6	43.6	46.9	46.9	46.9	46.9	46.9	48.1	49.3
Programmme grants	4.3	11.7	4.6	4.9	24.1	24.1	2.5	2.5	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Balance *(incl. grants)*	**-712.3**	**-918.0**	**-812.0**	**-571.2**	**-841.1**	**-951.4**	**-505.1**	**-768.8**	**-917.3**	**-460.6**	**-718.6**	**-932.6**	**-501.7**	**-570.4**	**-923.5**	**-782.6**
Adjustment to Cash Basis	0.0	0.0	11.8	0.0	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 *(incl. grants) Cash Basis*	**-712.3**	**-918.0**	**-800.2**	**-571.2**	**-841.1**	**-951.4**	**-505.1**	**-768.8**	**-917.3**	**-460.6**	**-718.6**	**-932.6**	**-501.7**	**-570.4**	**-923.5**	**-782.6**
Statistical discrepancy	8.7	0.0	-9.4	0.0	0.0	0.0	-3.3	-3.3	0.0	-3.3	-3.3	0.0	-3.3	-3.3	0.0	0.0
TOTAL FINANCING	**721.1**	**918.0**	**790.8**	**571.2**	**841.1**	**951.4**	**501.8**	**765.5**	**917.3**	**457.2**	**715.2**	**932.6**	**498.3**	**567.1**	**923.5**	**782.6**
Net Foreign Financing	**414.5**	**324.0**	**340.4**	**345.2**	**346.8**	**396.8**	**319.3**	**311.3**	**411.3**	**293.6**	**284.6**	**284.6**	**101.2**	**302.6**	**302.6**	**302.6**
Disbuserments	**680.8**	**445.5**	**442.0**	**519.3**	**526.4**	**576.4**	**550.6**	**550.6**	**650.6**	**542.2**	**542.2**	**542.2**	**561.1**	**561.1**	**561.1**	**561.1**
Commercial Financing	373.7	6.2	5.9	0.3	6.2	6.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Semi consessional Loans	0.0	0.0	0.0	124.1	124.1	124.1	124.3	124.3	224.3	105.6	105.6	105.6	113.6	113.6	113.6	113.6
Total Project loans (AIA + Revenue)	222.3	221.3	197.1	242.9	244.1	244.1	273.5	273.5	273.5	302.0	302.0	302.0	307.6	307.6	307.6	307.6
Concessional Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Programme Loans	84.8	217.9	239.0	152.0	152.0	202.0	152.8	152.8	152.8	134.6	134.6	134.6	139.9	139.9	139.9	139.9
O/W: P for R Programme Loans	8.2	21.8	30.1	2.0	2.0	2.0	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Rapid Credit Facility from IMF	0.0	78.3	78.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank DPO	76.6	117.8	108.2	150.0	150.0	150.0	149.3	149.3	149.3	131.1	131.1	131.1	136.4	136.4	136.4	136.4
AfDB	0.0	0.0	22.4	0.0	0.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt repayment - Principal	-266.2	-121.5	-101.6	-174.1	-179.6	-179.6	-231.3	-239.4	-239.4	-248.7	-257.6	-257.6	-459.9	-258.5	-258.5	-258.5
Net Domestic Financing	**306.5**	**594.0**	**450.4**	**226.1**	**494.3**	**554.6**	**182.4**	**454.2**	**506.0**	**163.6**	**430.6**	**648.0**	**397.1**	**264.4**	**620.9**	**480.0**
Memo items																
External Debt	3,023.1	3,023.1	3,515.8	3,721.8	3,722.8	3,912.6	4,041.1	4,042.1	4,323.9	4,338.2	4,335.7	4,608.5	4,439.4	4,436.9	4,911.1	3,265.3
Domestic Debt (gross)	2,785.5	2,785.5	3,177.5	3,309.5	3,609.9	3,732.1	3,491.9	4,010.1	4,238.2	3,652.1	4,452.2	4,886.1	4,049.1	5,010.3	5,507.0	5,987.0
Domestic Debt (net)	2,278.1	2,278.1	2,674.2	2,802.1	3,102.4	3,228.8	2,984.5	3,502.6	3,734.9	3,144.6	3,944.7	4,382.8	3,541.7	4,502.8	5,003.7	5,483.7
Financing gap	8.7	0.0	-21.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	**9,303.1**	**10,196.6**	**10,199.9**	**11,636.9**	**11,275.8**	**11,266.6**	**13,044.1**	**12,575.9**	**12,501.6**	**14,673.6**	**14,043.6**	**13,879.0**	**16,527.2**	**15,759.9**	**15,494.8**	**17,286.2**

Source of Data: The National Treasury

Annex Table 3: Government Operations for the FY 2018/19 - 2024/25 Period (% of GDP)

	2018/19	2019/20		2020/21			2021/22			2022/23			2023/24			2024/25
	Act	Supp III Budget	Act	BPS'20	Budget	BROP'20	BPS'20	PROJ.	BROP'20	BPS'20	PROJ.	BROP'20	BPS'20	PROJ.	BROP'20	BROP'20
TOTAL REVENUE	**18.3%**	**18.3%**	**17.0%**	**18.3%**	**16.8%**	**15.8%**	**18.5%**	**17.0%**	**15.0%**	**18.4%**	**16.9%**	**14.6%**	**18.4%**	**17.1%**	**14.3%**	**13.8%**
Ordinary Revenue	16.1%	15.8%	15.4%	16.0%	14.5%	13.5%	16.4%	14.9%	13.2%	16.5%	14.8%	12.9%	16.5%	15.0%	12.6%	12.2%
Income Tax	7.4%	7.1%	6.9%	7.4%	6.1%	6.2%	7.6%	6.2%	6.0%	7.8%	6.0%	5.8%	7.7%	6.2%	5.6%	5.4%
Import duty (net)	1.1%	0.9%	1.0%	1.1%	0.9%	0.7%	1.1%	1.1%	0.7%	1.1%	1.1%	0.7%	1.1%	1.1%	0.7%	0.7%
Excise duty	2.1%	2.0%	1.9%	2.2%	2.1%	1.7%	2.1%	2.2%	2.0%	2.1%	2.2%	2.0%	2.1%	2.3%	2.0%	2.0%
Value Added Tax	4.5%	3.9%	3.8%	4.3%	4.3%	3.9%	4.6%	4.5%	3.8%	4.6%	4.5%	3.7%	4.6%	4.6%	3.6%	3.4%
Investment income	0.3%	0.3%	0.3%	0.2%	0.3%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%	0.2%	0.1%
Other	0.8%	1.6%	1.5%	0.8%	0.8%	0.6%	0.8%	0.7%	0.6%	0.8%	0.7%	0.6%	0.8%	0.7%	0.6%	0.6%
Ministerial Appropriation in Aid	**2.2%**	**2.4%**	**1.6%**	**2.4%**	**2.3%**	**2.3%**	**2.1%**	**2.1%**	**1.7%**	**2.0%**	**2.1%**	**1.7%**	**2.0%**	**2.1%**	**1.8%**	**1.6%**
Railway Development Levy	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Ministerial and Departmental Fees (AiA)/NMS	1.9%	2.2%	1.3%	2.1%	2.1%	2.1%	1.9%	1.9%	1.5%	1.7%	1.8%	1.5%	1.8%	1.8%	1.6%	1.4%
Across the board Additional 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%	0.0%	0.0%	0.0%	0.0%
EXPENDITURE AND NET LENDING	**26.2%**	**27.6%**	**25.2%**	**23.6%**	**24.7%**	**24.8%**	**22.8%**	**23.5%**	**22.7%**	**21.9%**	**22.3%**	**21.7%**	**21.8%**	**21.0%**	**20.6%**	**18.7%**
Recurrent expenditure	16.5%	17.4%	16.1%	15.3%	16.2%	16.2%	14.9%	15.4%	15.1%	14.1%	14.6%	14.2%	14.5%	13.8%	13.4%	12.1%
Interest payments	4.0%	4.3%	4.3%	3.9%	4.1%	4.1%	4.1%	4.3%	4.3%	3.9%	4.0%	4.0%	4.0%	3.6%	3.7%	3.3%
Domestic interest	2.9%	3.0%	3.1%	2.7%	2.7%	2.7%	2.8%	2.9%	3.0%	2.6%	2.7%	2.8%	2.7%	2.4%	2.5%	2.2%
Foreign Interest	1.1%	1.3%	1.2%	1.3%	1.4%	1.4%	1.3%	1.3%	1.3%	1.3%	1.2%	1.3%	1.3%	1.2%	1.2%	1.1%
Pensions & Other CFS	0.8%	0.9%	0.9%	1.0%	1.1%	1.1%	1.0%	1.1%	1.1%	1.0%	1.1%	1.1%	1.0%	1.1%	1.1%	1.0%
Pensions	0.7%	0.9%	0.9%	1.0%	1.1%	1.1%	1.0%	1.1%	1.1%	1.0%	1.0%	1.1%	1.0%	1.0%	1.1%	0.9%
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%	0.0%	0.0%	0.0%	0.0%
Contribution to civil service pension fund	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.2%	0.2%	0.1%
Net Issues/Net Expenditure	10.1%	10.6%	9.9%	8.8%	9.3%	9.3%	8.2%	8.5%	8.5%	7.6%	7.9%	7.9%	8.0%	7.5%	7.3%	6.6%
O/W: Wages & Salaries1	4.5%	4.5%	4.4%	4.2%	4.4%	4.3%	4.2%	4.3%	4.3%	3.9%	4.1%	4.1%	3.6%	3.8%	3.8%	3.4%
Development and Net lending	**5.8%**	**6.7%**	**5.8%**	**5.0%**	**5.2%**	**5.2%**	**4.9%**	**5.0%**	**4.5%**	**5.1%**	**4.9%**	**4.6%**	**4.7%**	**4.6%**	**4.7%**	**4.2%**
Domestically financed (Gross)	3.3%	4.4%	3.9%	2.9%	2.9%	2.9%	2.6%	2.7%	2.2%	2.9%	2.6%	2.3%	2.8%	2.6%	2.6%	2.3%
O/W Domestically Financed (Net)/NMS	2.8%	3.8%	3.5%	2.3%	2.4%	2.4%	2.1%	2.1%	1.6%	2.4%	2.0%	1.8%	2.3%	2.0%	2.0%	1.8%
Ministerial Development AIA	2.9%	0.6%	0.4%	0.5%	0.5%	0.5%	0.6%	0.6%	0.6%	0.5%	0.6%	0.5%	0.5%	0.6%	0.5%	0.5%
Foreign financed	2.4%	2.2%	1.9%	2.1%	2.2%	2.2%	2.2%	2.2%	2.3%	2.1%	2.2%	2.3%	1.9%	2.0%	2.1%	1.9%
Net lending	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Equalization Fund	0.1%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%
County Allocation	3.9%	3.6%	3.2%	3.2%	3.3%	3.3%	2.9%	3.1%	3.0%	2.7%	2.8%	2.8%	2.4%	2.5%	2.5%	2.3%
Equitable Share	3.4%	3.1%	2.8%	2.7%	2.8%	2.8%	2.5%	2.6%	2.5%	2.3%	2.4%	2.3%	2.1%	2.2%	2.1%	2.0%
Conditional Allocation	0.5%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.3%
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%	0.0%	0.0%	0.0%	0.0%
Fiscal Balance (commitment basis excl. grants)	**-7.9%**	**-9.3%**	**-8.2%**	**-5.3%**	**-8.0%**	**-8.9%**	**-4.2%**	**-6.5%**	**-7.7%**	**-3.5%**	**-5.5%**	**-7.1%**	**-3.3%**	**-3.9%**	**-6.3%**	**-4.8%**
Grants	**0.2%**	**0.3%**	**0.2%**	**0.4%**	**0.5%**	**0.5%**	**0.4%**	**0.4%**	**0.4%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**
Of which: Project grants	**0.2%**	**0.2%**	**0.1%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**	**0.3%**
Programmme grants	0.0%	0.1%	0.0%	0.0%	0.2%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fiscal Balance (incl. grants)	**-7.7%**	**-9.0%**	**-8.0%**	**-4.9%**	**-7.5%**	**-8.4%**	**-3.9%**	**-6.1%**	**-7.3%**	**-3.1%**	**-5.1%**	**-6.7%**	**-3.0%**	**-3.6%**	**-6.0%**	**-4.5%**
Adjustment to Cash Basis	0.0%	0.0%	0.1%	0.0%	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 (incl. grants) Cash Basis	**-7.7%**	**-9.0%**	**-7.8%**	**-4.9%**	**-7.5%**	**-8.4%**	**-3.9%**	**-6.1%**	**-7.3%**	**-3.1%**	**-5.1%**	**-6.7%**	**-3.0%**	**-3.6%**	**-6.0%**	**-4.5%**
Statistical discrepancy	0.1%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL FINANCING	**7.8%**	**9.0%**	**7.8%**	**4.9%**	**7.5%**	**8.4%**	**3.8%**	**6.1%**	**7.3%**	**3.1%**	**5.1%**	**6.7%**	**3.0%**	**3.6%**	**6.0%**	**4.5%**
Net Foreign Financing	**4.5%**	**3.2%**	**3.3%**	**3.0%**	**3.1%**	**3.5%**	**2.4%**	**2.5%**	**3.3%**	**2.0%**	**2.0%**	**2.1%**	**0.6%**	**1.9%**	**2.0%**	**1.8%**
Disbuserments	**7.3%**	**4.4%**	**4.3%**	**4.5%**	**4.7%**	**5.1%**	**4.2%**	**4.4%**	**5.2%**	**3.7%**	**3.9%**	**3.9%**	**3.4%**	**3.6%**	**3.6%**	**3.2%**
Commercial Financing	4.0%	0.1%	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Semi consessional Loans	0.0%	0.0%	0.0%	1.1%	1.1%	1.1%	1.0%	1.0%	1.8%	0.7%	0.8%	0.8%	0.7%	0.7%	0.7%	0.7%
Total Project loans (AIA + Revenue)	2.4%	2.2%	1.9%	2.1%	2.2%	2.2%	2.1%	2.2%	2.2%	2.1%	2.2%	2.2%	1.9%	2.0%	2.0%	1.8%
Concessional Loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Programme Loans	0.9%	2.1%	2.3%	1.3%	1.3%	1.8%	1.2%	1.2%	1.2%	0.9%	1.0%	1.0%	0.8%	0.9%	0.9%	0.8%
O/W: P for R Programme Loans	0.1%	0.2%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rapid Credit Facility from IMF	0.0%	0.8%	0.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
World Bank DPO	0.8%	1.2%	1.1%	1.3%	1.3%	1.3%	1.1%	1.2%	1.2%	0.9%	0.9%	0.9%	0.8%	0.9%	0.9%	0.8%
AfDB	0.0%	0.0%	0.2%	0.0%	0.0%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Debt repayment - Principal	-2.9%	-1.2%	-1.0%	-1.5%	-1.6%	-1.6%	-1.8%	-1.9%	-1.9%	-1.7%	-1.8%	-1.9%	-2.8%	-1.6%	-1.7%	-1.5%
Net Domestic Financing	**3.3%**	**5.8%**	**4.4%**	**1.9%**	**4.4%**	**4.9%**	**1.4%**	**3.6%**	**4.0%**	**1.1%**	**3.1%**	**4.7%**	**2.4%**	**1.7%**	**4.0%**	**2.8%**
Memo items																
External Debt	32.5%	29.6%	34.5%	32.0%	33.0%	34.7%	31.0%	32.1%	34.6%	29.6%	30.9%	33.2%	26.9%	28.2%	31.7%	18.9%
Domestic Debt (gross)	29.9%	27.3%	31.2%	28.4%	32.0%	33.1%	26.8%	31.9%	33.9%	24.9%	31.7%	35.2%	24.5%	31.8%	35.5%	34.6%
Domestic Debt (net)	24.5%	22.3%	26.2%	24.1%	27.5%	28.7%	22.9%	27.9%	29.9%	21.4%	28.1%	31.6%	21.4%	28.6%	32.3%	31.7%
Financing gap	0.1%	0.0%	-0.2%	0.0%	0.0%	0.0%	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%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source of Data: The National Treasury

Annex Table 6: Budget Calendar for the Medium-Term Budget (To be updated)

ACTIVITY	RESPONSIBILITY	FY2020/21 DEADLINE
1. Develop and issue MTEF guidelines	**National Treasury**	**23-Aug-19**
2. Launch of Sector Working Groups	**National Treasury**	**5-Sep-19**
3. Programme Performance & Strategic Reviews	**MDAs**	**16-Sep-19**
3.1 Review and update of strategic plans	"	"
3.2 Review of programme outputs and outcomes	"	"
3.3 Expenditure Review	"	"
3.4 Review and approval of projects for FY2020/21	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-19**
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 Submission and approval of BROP by Cabinet	"	15-Oct-19
4.6 Submission of approved BROP to Parliament	"	27-Oct-19
5. Preparation of MTEF budget proposals	**Line Ministries**	**29-Nov-19**
5.1 Retreats to draft Sector Reports	Sector Working Group	14-25 th Oct & 28th Oct - 8th Nov -19
5.2 Public Sector Hearing	National Treasury	25th Nov 19
5.3 Review and incorporation of stakeholder inputs in the Sector proposals	Sector Working Group	27-Nov-19
5.4 Submission of Sector Report to Treasury	Sector Chairpersons	29-Nov-19
5.5 Consultative meeting with CSs/PSs on Sector Budget proposals	National Treasury	6-Dec-19
6. Draft Budget Policy Statement (BPS)	**Macro Working Group**	**14-Feb-20**
6.1 Draft BPS	Macro Working Group	30-Nov-19
6.2 Division of Revenue Bill (DORB)	National Treasury	"
6.3 County Allocation of Revenue Bill (CARB)	National Treasury	"
6.4 Cabinet Retreat on Finalization of FY2020/21 Budget	Presidency	10-Jan-20
6.5 Submission of BPS, DORB and CARB to Cabinet for approval	National Treasury	12-Jan-20
6.6 Submission of BPS, DORB and CARB to Parliament for approval	National Treasury	14-Feb-20
8. Preparation and approval of Final MDAs Budgets		**27-Apr-20**
7.1 Develop and issue final guidelines on preparation of 2020/21 MTEF Budget	National Treasury	28-Feb-19
7.2 Submission of Budget Proposals to Treasury	Line Ministries	15-Mar-20
7.3 Consolidation of the Draft Budget Estimates	National Treasury	1-Apr-20
7.4 Submission to Cabinet for Approval	National Treasury	15-Apr-20
7.5 Submission of Draft Budget Estimates to Parliament	National Treasury	27-Apr-20
7.6 Submission of the Finance Bill	National Treasury	27-Apr-20
7.7 Review of Draft Budget Estimates by Parliament	National Assembly	15-May-20
7.8 Report on Draft Budget Estimates from Parliament	National Assembly	20-May-20
7.9 Consolidation of the Final Budget Estimates	National Treasury	29-May-20
7.10 Submission of Appropriation Bill to Parliament	National Treasury	10-Jun-20
7.11 Submission of Vote on Account to Parliament	National Treasury	10-Jun-20
8. Budget Statement	**National Treasury**	**11-Jun-20**
9. Appropriation Bill Passed	**National Assembly**	**30-Jun-20**
10. Finance Bill Passed	**National Assembly**	**30-Jun-20**

Source: National Treasury

Annex Table 7: County Governments' Fiscal Performance (July 2019 to March 2020)

	Own Source Revenue (Kshs M)			Budget Estimates (Ksh M)					Expenditure (Ksh M)					Absorption Rate (%)		
County	Target	Actual	% of actual OSR over Target	Rec't	% of Rec't over Total Budget	Dev't	% of Dev't over Total Budget	TOTAL	Rec't	% of Rec't over Total Expen.	Dev't	% of Dev't over Total Expen.	TOTAL	Rec't	Dev't	TOTAL
Baringo	393.42	245.9	62.5	4,383.00	50.5	4,298.52	49.5	8,681.5	2,935.16	82.5	624.67	17.5	3,559.8	67%	15%	41%
Bomet	275.92	138.58	50.2	4,470.70	63.1	2,616.92	36.9	7,087.6	2,785.80	82.1	606.76	17.9	3,392.6	62%	23%	48%
Bungoma	893.75	600.75	67.2	9,015.27	66.3	4,581.80	33.7	13,597.1	5,348.37	78.7	1,449.89	21.3	6,798.3	59%	32%	50%
Busia	504.5	186.6	37.0	5,350.35	57.7	3,915.25	42.3	9,265.6	3,261.24	81.1	760.76	18.9	4,022.0	61%	19%	43%
Elgeyo Marakwet	152	93.65	61.6	3,342.12	58.0	2,425.00	42.0	5,767.1	2,301.77	82.8	477.88	17.2	2,779.7	69%	20%	48%
Embu	900	401.86	44.7	4,331.36	65.5	2,279.60	34.5	6,611.0	2,915.76	87.1	433.42	12.9	3,349.2	67%	19%	51%
Garissa	150	71.37	47.6	6,122.97	56.0	4,807.49	44.0	10,930.5	4,194.48	80.4	1,020.10	19.6	5,214.6	69%	21%	48%
Homa Bay	207.59	97.29	46.9	5,424.72	65.1	2,913.07	34.9	8,337.8	3,800.04	76.0	1,199.07	24.0	4,999.1	70%	41%	60%
Isiolo	170.86	114.16	66.8	3,401.67	59.1	2,349.49	40.9	5,751.2	1,817.25	66.9	898.28	33.1	2,715.5	53%	38%	47%
Kajiado	1,793.86	531.68	29.6	6,324.65	61.5	3,961.80	38.5	10,286.5	4,010.34	79.7	1,018.40	20.3	5,028.7	63%	26%	49%
Kakamega	2,131.64	881.2	41.3	8,269.11	53.0	7,341.27	47.0	15,610.4	5,186.88	62.6	3,098.86	37.4	8,285.7	63%	42%	53%
Kericho	913.94	278.53	30.5	4,608.07	53.5	4,003.31	46.5	8,611.4	3,156.76	77.4	921.57	22.6	4,078.3	69%	23%	47%
Kiambu	3,853.59	1,895.64	49.2	11,502.40	64.2	6,412.96	35.8	17,915.4	7,788.32	78.8	2,095.81	21.2	9,884.1	68%	33%	55%
Kilifi	1,100.00	619.5	56.3	8,470.42	57.5	6,253.22	42.5	14,723.6	4,884.48	80.4	1,193.45	19.6	6,077.9	58%	19%	41%
Kirinyanga	480	286.9	59.8	4,295.81	70.1	1,835.80	29.9	6,131.6	2,428.78	79.7	616.99	20.3	3,045.8	57%	34%	50%
Kisii	870	286.68	33.0	8,456.98	66.2	4,311.71	33.8	12,768.7	5,289.49	81.0	1,237.99	19.0	6,527.5	63%	29%	51%
Kisumu	1,438.48	672.34	46.7	7,541.37	62.6	4,514.77	37.4	12,056.1	5,141.81	80.6	1,237.99	19.4	6,379.8	68%	27%	53%
Kitui	600	316.38	52.7	7,214.84	63.4	4,163.66	36.6	11,378.5	5,252.77	78.1	1,469.24	21.9	6,722.0	73%	35%	59%
Kwale	325	205.34	63.2	5,984.17	45.6	7,124.77	54.4	13,108.9	3,458.03	67.9	1,638.43	32.1	5,096.5	58%	23%	39%
Laikipia	1,006.88	507.96	50.4	4,277.97	60.2	2,827.66	39.8	7,105.6	3,032.64	84.4	560.65	15.6	3,593.3	71%	20%	51%
Lamu	100	46.92	46.9	2,655.94	56.1	2,080.38	43.9	4,736.3	2,487.23	82.6	523.19	17.4	3,010.4	94%	25%	64%
Machakos	1,608.58	1,085.63	67.5	8,105.62	60.1	5,385.75	39.9	13,491.4	5,446.78	83.8	1,054.31	16.2	6,501.1	67%	20%	48%
Makueni	655.24	356.57	54.4	6,332.08	56.6	4,847.56	43.4	11,179.6	4,409.14	80.2	1,090.73	19.8	5,499.9	70%	23%	49%
Mandera	183.56	87.85	47.9	6,510.52	50.1	6,476.97	49.9	12,987.5	4,774.80	63.9	2,699.62	36.1	7,474.4	73%	42%	58%
Marsabit	170	107.22	63.1	4,170.14	50.0	4,173.39	50.0	8,343.5	2,845.92	61.1	1,813.73	38.9	4,659.7	68%	43%	56%
Meru	825	320	38.8	7,847.65	70.1	3,346.00	29.9	11,193.7	5,453.71	88.0	746.58	12.0	6,200.3	69%	22%	55%
Migori	450	250.55	55.7	5,552.51	58.2	3,989.35	41.8	9,541.9	3,384.09	84.3	630.23	15.7	4,014.3	61%	16%	42%
Mombasa	5,000.00	2,443.08	48.9	9,357.92	63.8	5,309.28	36.2	14,667.2	5,134.11	73.4	1,856.70	26.6	6,990.8	55%	35%	48%
Muranga	960	471.64	49.1	5,495.23	61.3	3,472.57	38.7	8,967.8	3,209.18	60.6	2,090.52	39.4	5,299.7	58%	60%	59%
Nairobi	17,316.30	7,238.76	41.8	25,710.13	69.5	11,271.26	30.5	36,981.4	14,253.70	91.9	1,253.77	8.1	15,507.5	55%	11%	42%
Nakuru	3,100.00	1,968.76	63.5	10,806.49	49.7	10,943.61	50.3	21,750.1	6,413.03	80.4	1,559.65	19.6	7,972.7	59%	14%	37%
Nandi	628.82	175.74	27.9	5,106.23	60.0	3,407.23	40.0	8,513.5	3,657.66	81.4	833.95	18.6	4,491.6	72%	24%	53%
Narok	3,190.31	2,183.81	68.5	7,913.99	62.1	4,826.81	37.9	12,740.8	5,609.69	84.3	1,042.42	15.7	6,652.1	71%	22%	52%
Nyamira	250	129.34	51.7	4,901.38	70.0	2,100.59	30.0	7,002.0	3,201.48	84.7	578.25	15.3	3,779.7	65%	28%	54%
Nyandarua	630	246.74	39.2	4,909.39	61.5	3,074.32	38.5	7,983.7	2,776.55	95.7	125.3	4.3	2,901.9	57%	4%	36%
Nyeri	1,000.00	524.81	52.5	5,787.88	65.5	3,055.15	34.5	8,843.0	4,261.99	88.8	539.31	11.2	4,801.3	74%	18%	54%
Samburu	267.03	205.21	76.8	4,494.77	64.8	2,441.51	35.2	6,936.3	2,471.93	94.4	147.37	5.6	2,619.3	55%	6%	38%
Siaya	420	130.54	31.1	4,870.25	52.8	4,353.10	47.2	9,223.4	3,237.80	80.9	766.43	19.1	4,004.2	66%	18%	43%
Taita Taveta	350	206.53	59.0	3,466.84	60.4	2,275.47	39.6	5,742.3	2,513.79	89.7	289.32	10.3	2,803.1	73%	13%	49%
Tana River	66	63.45	96.1	5,333.27	66.4	2,702.05	33.6	8,035.3	2,896.56	70.2	1,231.79	29.8	4,128.4	54%	46%	51%
TharakaNithi	350	181.98	52.0	3,399.25	67.0	1,676.08	33.0	5,075.3	2,222.07	77.2	656.44	22.8	2,878.5	65%	39%	57%
Trans Nzoia	500	151.01	30.2	4,692.50	58.8	3,281.89	41.2	7,974.4	3,143.75	73.5	1,131.19	26.5	4,274.9	67%	34%	54%
Turkana	250	112.79	45.1	10,120.27	67.9	4,792.36	32.1	14,912.6	5,236.91	86.8	799.74	13.2	6,036.7	52%	17%	40%
Uasin Gishu	900	660.94	73.4	5,217.34	45.5	6,253.09	54.5	11,470.4	3,507.28	74.9	1,173.89	25.1	4,681.2	67%	19%	41%
Vihiga	192.09	128	66.6	4,174.81	59.3	2,868.40	40.7	7,043.2	2,714.68	76.5	835.59	23.5	3,550.3	65%	29%	50%
Wajir	150	47.9	31.9	6,224.00	54.3	5,244.33	45.7	11,468.3	4,482.64	79.7	1,138.66	20.3	5,621.3	72%	22%	49%
West Pokot	150.32	77.24	51.4	4,155.10	64.7	2,265.70	35.3	6,420.8	3,079.76	83.4	610.99	16.6	3,690.8	74%	27%	57%
TOTAL	**57,824.7**	**28,035.3**	**48.5**	**300,099.5**	**60.1**	**198,852.3**	**39.9**	**498,951.7**	**191,816.4**	**79.4**	**49,779.9**	**20.6**	**241,596.3**	**64%**	**25%**	**48%**

Source of Data: Controller of Budget