REPUBLIC OF KENYA

THE NATIONAL TREASURY AND ECONOMIC PLANNING

MEDIUM TERM

DRAFT 2023 BUDGET POLICY STATEMENT

ECONOMIC RECOVERY AGENDA TO PROMOTE INCLUSIVE GROWTH

18TH JANUARY, 2023

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Foreword

The 2023 Budget Policy Statement (BPS), the first to be prepared under the new Administration-the Kenya Kwanza Government, sets out the Administration's priority programs, policies and reforms to be implemented in the Medium-Term Expenditure Framework (MTEF). The 2023 BPS comes at a time when the Government is finalising the preparation of the Fourth Medium-Term Plan (2023-2027) of the Kenya Vision 2030 that will prioritize implementation of economic recovery strategies of the new Administration to re-position the economy on a steady and sustainable growth trajectory.

The BPS is framed against a backdrop of global economic slowdown underpinned by the ongoing Russia-Ukraine conflict, elevated global inflation, and the lingering effects of the COVID-19 pandemic and climate change related supply chain disruptions. As the effects of COVID-19 pandemic started to fade away, the Kenyan economy bounced back recording a GDP growth rate of 7.5 percent in 2021. However, the momentum has been disrupted again by the Russia-Ukraine conflict that has disrupted global trade with increased fuel, fertiliser and food prices. For the first time in five years the inflation rate in Kenya is above the Government target range mainly driven by supply side constraints occasioned by external shocks and climate related food and energy prices. Aside from these challenges, the Kenyan economy continues to be confronted by various constraints such as: recurrent drought affecting agricultural productivity; declining manufacturing productivity; skewed access to finance for business and development; rigidities in business regulatory framework; weak governance; and fiscal risks including pension's liabilities, stalled public projects, payment arrears; and high debt service that has hindered the economy from achieving its full potential.

The need to address these constraints and bolster resilience forms the basis of the Kenya Kwanza Government's Economic Recovery Agenda anchored on a Bottom-Up Approach. The agenda is geared towards economic turnaround and inclusive growth, and aims to increase investments in at least five sectors envisaged to have the largest impact and linkages to the economy as well as on household welfare. These include Agriculture; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; Digital Superhighway and Creative Industry. Special focus will be placed on increased employment, more equitable distribution of income, social security while also expanding the tax revenue base, and increased foreign exchange earnings. The implementation of these interventions is expected to stimulate economic recovery to 6.1 percent growth in 2023 from the estimated 5.5 percent in 2022.

The fiscal policy stance over the medium term aims at supporting the economic recovery agenda of the Government through a growth friendly fiscal consolidation plan designed to slowing the annual growth in public debt and implementing an effective liability management strategy without compromising service delivery to citizens. This is expected to boost the country's debt sustainability position and ensure that Kenya's development agenda honours the principle of inter-generational equity.

As part of the economic turnaround plan, the Government will scale up revenue collection efforts by the Kenya Revenue Authority (KRA) to Ksh 3.0 trillion in the FY 2023/24 and Ksh 4.0 trillion over the medium term. In order to achieve this, the Government will undertake a combination of both tax administrative and tax policy reforms. KRA will implement among others, the following measures: reduction of Value Added Tax (VAT) gap from 38.9 percent to 19.8 percent of the potential by fully rolling out electronic Tax Invoice Management System (eTIMS); reduction of Corporate Income Tax (CIT) gap from 32.2 percent to 30.0 percent of the potential as envisaged in the KRA Corporate Plan; integration of KRA tax system with the Telecommunication companies (Telcos); tax base expansion in the informal sector; implementation of rental income tax measures by mapping rental properties; roll out of measures at the Customs and Border Control leveraging on technology and enhanced data analytics to enhance revenue per unit; and, upscaling the technical capacity of KRA through skills, technology and additional staffing.

On the tax policy, the Government will implement various tax policy measures to further boost revenue collection. In addition, to further strengthen revenue mobilization efforts, the Government will finalise the development of the National Tax Policy and the Medium-Term Revenue Strategy. The National Tax Policy Framework will guide and enhance administrative efficiency of the tax system, provide consistency and entrench predictability in the tax system. The Medium-Term Revenue Strategy will provide a comprehensive approach of undertaking effective tax system reforms for boosting tax revenues and improving the tax system over the medium term. Additionally, the Government will continue to improve efficiency in public spending to ensure value for money by eliminating non priority expenditures; retiring expensive and unsustainable consumption subsidies; reducing tax exemptions; scaling up the use of Public Private Partnerships financing for commercially viable projects; rolling out an end-to-end e-procurement system; and streamlining the initiation, execution, delivery and sustainability of public investment projects.

In light of the above fiscal consolidation plan, the expenditure ceilings in this Budget Policy Statement have been revised to reflect emerging realities. In this regard, all proposed Ministries, Departments and Agencies (MDAs) budgets for FY 2023/24 have been scrutinized carefully to ensure quality and alignment to the Government Economic Recovery Agenda as outlined in this BPS and the Fourth MTP and other strategic interventions of national interest. I therefore, call upon all Sector Working Groups and MDAs to adhere to the hard sector ceilings, and the strict deadlines provided in this document to facilitate the finalization of the FY 2023/24 and the medium-term budget proposals.

PROF. NJUGUNA S. NDUNG'U, CBS
CABINET SECRETARY
NATIONAL TREASURY AND ECONOMIC PLANNING

Acknowledgement

The 2023 BPS is prepared in compliance with the provisions of the Public Finance Management Act, 2012. It outlines the strategic priorities of the new Administration, highlights the current state of the economy, provides macro-fiscal outlook over the medium term together with a summary of Government spending plans as a basis for the FY 2023/24 budget. The publication of the 2023 BPS aims to improve the public's understanding of Kenya's public finance management and guide debate on economic and development matters.

As we finalize the budget for the FY 2023/24 and the medium term, I wish to emphasize that the economy is operating under tight fiscal constraints. This has warranted tough choices including suspension of subsidies on fuel, electricity and food to ensure that scarce resources are directed towards priority areas of socio-economic transformation while ensuring that debt levels are sustainable. This has laid a strong foundation for the country to be self-reliant – a move from dependence on debt to dependence on revenues that are raised by taxpayers. Sector working groups (SWGs) are therefore urged to undertake a careful scrutiny of individual MDA's budgets execution reports to curtail growth of recurrent budgets and ensure funding priorities is accorded to the new Administration's Bottom-Up Economic Transformation Agenda.

The preparation of the 2023 BPS was a collaborative effort among various Government Agencies. We are grateful for their inputs. We thank the Ministries, Government Departments and Agencies for timely provision of information. We are also grateful for the comments received from the Macro Working Group and participants of the January 2023 Public Sector Hearings and the general public which provided invaluable inputs to the 2023 BPS. Finally, we are grateful to the core team from the Macro and Fiscal Affairs Department and Budget Department that coordinated the finalization of this document. The core team under the guidance of the Director, Macro and Fiscal Affairs tirelessly put together this document and ensured it was produced in time and is of high-quality standard.

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

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About the Budget Policy Statement

The Budget Policy Statement (BPS) is a Government policy document that sets out the broad strategic priorities and policy goals to guide the National Government and the County Governments in preparing their budgets for the subsequent financial year and over the medium term.

In the document, adherence to the fiscal responsibility principles demonstrates prudent and transparent management of public resources in line with the Constitution and the Public Finance Management (PFM) Act, 2012.

Section 25 of the PFM Act, 2012, provides that the National Treasury shall prepare and submit to the Cabinet the BPS for approval. Subsequently, the approved BPS is submitted to the Parliament, by the 15th of February each year. Parliament shall, not later than 14 days after the BPS is submitted, table and discuss a report containing its recommendations and pass a resolution to adopt it with or without amendments. The Cabinet Secretary, the National Treasury and Economic Planning shall take into account resolutions passed by Parliament in finalizing the budget for the FY 2023/24 and the medium term.

The Budget Policy Statement contains:

(a) an assessment of the current state of the economy including macroeconomic forecasts;
(b) the financial outlook with respect to Government revenue, expenditures and borrowing for the next financial year and over the medium term;
(c) the proposed expenditure ceilings for the National Government, including those of Parliament and the Judiciary and indicative transfers to County Governments;
(d) the fiscal responsibility principles and financial objectives over the medium-term including limits on total annual debt; and
(e) Statement of Specific Fiscal Risks.

Preparation of the BPS is a consultative process that involves seeking and taking into account the views of: The Commission on Revenue Allocation; County Governments; Controller of Budget; Parliamentary Service Commission; Judicial Service Commission; Ministries, Departments and Agencies; the public; and any other interested persons or groups.

I. ECONOMIC RECOVERY AGENDA TO PROMOTE INCLUSIVE GROWTH

1.1 Overview

1. The 2023 Budget Policy Statement is the first to be prepared under the Kenya Kwanza Government and sets out the priority programs, policies and reforms of the Administration that will be implemented in the Medium-Term Expenditure Framework (MTEF). The document is framed against a backdrop of global economic slowdown occasioned by the ongoing Russia-Ukraine conflict, elevated global inflation, lingering effects of the COVID-19 pandemic, and persistent supply chain disruptions.

2. In the context of this challenging times, Kenya's economy remains resilient with an impressive economic performance of 7.5 percent in 2021 largely on account of bold economic policies and structural reforms as well as sound economic management implemented overtime. However, the momentum has been disrupted again by the Russia-Ukraine conflict that has seen disruption in global trade with increased fuel, fertiliser and food prices. For the first time in five years the inflation rate in Kenya is above the Government target range mainly driven by supply side constraints occasioned by external shocks. Aside from these shocks, the Kenyan economy is confronted by various bottlenecks including recurrent drought affecting agricultural productivity; declining manufacturing productivity; skewed access to finance for business and development; rigidities in business regulatory framework; weak governance; and fiscal risks including pension's liabilities, stalled public projects, pending bills; and high debt service that has hindered the economy from achieving its full potential

3. The need to address these challenges, bolster resilience while building on successes realized overtime forms the basis of the Kenya Kwanza Government's Economic Recovery Agenda anchored on the Bottom-Up Approach. The Agenda is geared towards economic turnaround and inclusive growth. Special focus will be placed on increased employment, more equitable distribution of income, social security while also expanding the tax revenue base, and increased foreign exchange earnings.

4. The priority programmes are classified under two categories; core pillars and the enablers which aimed at creation of a conducive business environment for socio-economic transformation. Under the core pillars, the Government seeks to increase investments in five sectors envisaged to have the biggest impact on the economy as well as on household welfare. These include Agriculture; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry. To make these programme feasible, the Government will implement strategic interventions under the following key enablers: Infrastructure; Manufacturing; Blue Economy; the Services Economy, Environment and Climate Change; Education and Training; Women Agenda; Social Protection; Sports, Culture and Arts; and Governance.

5. Through the various priority economic policies, structural reforms, fiscal consolidation plan and sectoral expenditure programs outlined in this 2023 BPS,

the Government is taking determined steps to address these challenges, bolster resilience to shock as part of the strategy for socio-economic transformation and inclusive growth. Over the medium term, the Government through the Fourth Medium-Term Plan (2023-2027) will prioritize implementation of economic recovery strategies to re-position the economy on a steady and sustainable growth trajectory.

1.2 Core Thematic Areas

6. The Government will implement policies and structural reforms and promote investment in five core thematic areas that are expected to have the highest impact at the bottom of the income earnings. These are: Agriculture Productivity; Micro, Small and Medium Enterprise (MSME) Economy; Housing and Settlement; Healthcare; and Digital Superhighway and Creative Economy.

1.2.1 Agricultural Transformation and Inclusive Growth

7. The economy remains highly dependent on the agriculture sector, contributing on average 25 percent of the GDP directly, forming approximately 65 percent of Kenya's total exports and has the highest employment multiplier in the economy. However, agricultural productivity in the country has been declining largely occasioned by the prolonged drought as a result of failed rain and high global fertiliser prices resulting in severe food shortage. The spread of the COVID-19 pandemic worsened the situation with world fertiliser prices having more than doubled in the past two years, affecting productivity of Kenyan farmers.

8. The Government's initial interventions involved stepping up food supply in northern Kenya and other regions and enhanced coordination between National and County Governments, private sector and development partners through the National Steering Committee on Drought Response to cushion communities affected by drought, especially in the worst-hit arid and semi-arid (ASAL) counties. To make fertilizer available and improve productivity in counties and regions that plant in the short rain season, the Government imported 1.5 million 50 kg bags and distributed them at a lower cost of Ksh 3,500. The Government working with the private sector has also made arrangements to make another 6 million bags of various types of fertiliser available for the long rains season.

9. Over the medium term, the Government will develop policy, legal and institutional reforms to provide an enabling environment for agricultural productivity. In particular, the Government will:

a) Support all farmers to access quality inputs such as seeds, fertiliser and pesticides, among others and also ensure that farmers have access to extension services in order to improve farming skills. This will increase agriculture productivity;
b) Increase the land under irrigation from the current 670,000 acres to 3 million acres million already identified as irrigable land. Of these, 200,000 acres will be under rice irrigation and 500,000 under other food crops. The strategy will involve the construction of 100 dams through Public-Private Partnerships to harness water for irrigation and domestic use. This will guarantee food security

and move the country from the dependency on rain fed agriculture and vulnerability to drought and the effects of climate change;

c) Reinstate the stalled milk coolers' programme and the distribution of 650 milk coolers. This will support dairy farmers in the country who continue to struggle with the high cost of feed and challenges of storage, preservation of milk and access to markets. This will further bolster economic turnaround, improve food security, create jobs and boost exports;

d) Work with local research institutions and both the public and private sectors to scale up seed multiplication for all crops access and improve value addition; and

e) Enhance agricultural market access and support agricultural insurance programmes.

1.2.2 Transforming the Micro, Small and Medium Enterprise (MSME) Economy

10. The Micro, Small and Medium Enterprise (MSME) Economy contribute very significantly to the economy, employing about 85 percent of non-farm jobs. Access to credit is a stimulant that enhance growth in the MSME economy. However, high interest rates crowd out the private sector and the MSMEs. The Government is committed to ensure Kenyans access affordable credit. Towards this end, the Government will commit resources every year to provide MSMEs with access to the fund through SACCOs, venture capital, equity funds and long-term debt for start-up and growth-oriented SMEs.

11. As part of the process, the Government initiated the Hustlers Fund as an intervention to correct market failure problems at the bottom of the pyramid and to cushion the MSMEs against high cost of credit. This program aims to lift those at the bottom of the pyramid through structured products in personnel finance that includes savings, credit, insurance and investment.

12. Other interventions by the Government will include ending criminalization of work of enterprises such as hawkers by enacting a right to work law, making trading licenses affordable and provide a trading location entity to every citizen/MSME who applies. This will create a favourable business and enterprise environment, decriminalize livelihood and support people in the informal sector to organize them into a stable, viable and creditworthy business entities. Towards this end, the Government will work with the County Government to create frameworks that provide secure trading places in the cities and towns. To enhance MSMEs infrastructure and capacity building, the Government will establish MSME Business Development Centre in every ward, and an industrial park and business incubation centre in every TVET institution.

1.2.3 Housing and Settlement

13. The cost of housing is a heavy burden to majority of Kenyans and is the major factor driving the proliferation of slums. The Government plans to close the housing gap by facilitating delivery of 250,000 houses per year. To realize this, the Government will implement policies and administrative reforms to lower the cost

of construction and improve access to affordable housing finance while creating jobs and entrepreneurial opportunities to all Kenyans. In this regard, the Government will not only provide land and bulk infrastructure, but also implement measures to unlock the challenges that inhibit investment in the housing sector.

14. As part of the process, the Government will restructure affordable long-term housing finance scheme, including a National Housing Fund and Cooperative Social Housing Schemes that will guarantee off take of houses from developers. This is expected to grow the number of mortgages from 30,000 to 1,000,000 by enabling low-cost mortgages of Ksh 10,000 and below. This plan is expected to create quality jobs for 100,000 youths, employing graduates from TVETS, directly in construction sector and indirectly through manufacturing of building products every year.

15. The Government will also implement policies to strengthen the Jua Kali sector by building their capacities to produce high quality of construction materials such as doors, windows, gates and hinges. As part of the process, The Government will upgrade and support Jua Kali by linking it with technical and vocational education institutions. This will see enterprises that produce housing products to emerge or expand, create jobs and wealth for hustlers, making housing plan truly transformational from the bottom up.

1.2.4 Healthcare

16. Access to quality and affordable healthcare is critical for socio-economic development. It is estimated that Kenyan families spend a total of Ksh 150 billion in out-of-pocket expenditures on health services a year. For this reason, the Government will continue to implement the Universal Health Care plan that will lift this punitive burden from the shoulders of Kenyans and their businesses. The strategy will involve revitalisation of primary healthcare by laying more emphasis on preventive and promotive strategies. Many critical health illnesses, including cancer, heart complications, kidney failure and hypertension, can be detected and addressed at this level without the need for a hospital visit or admission.

17. As part of the health sector interventions, the Government will reform the National Health Insurance Fund (NHIF) as a necessary imperative. Progress has been made in enrolling more members into the insurance scheme. In the past 10 years, 12 million Kenyans have joined the Fund. The challenge, however, is that the NHIF is an occupational scheme for salaried people on payroll in the public and private sectors, and not the social insurance scheme it ought to be. The Government will thus change the contribution structure from an individual contributory scheme to a household contribution model.

18. The Government will promote investment to expand existing health infrastructure and improve procurement of medical supplies. Pharmaceuticals and consumable medical supplies account for an estimated 20 percent of total health expenditures with more than 70 percent of pharmaceutical products being imported. Domestic pharmaceutical manufacturers have the capacity to manufacture bigger share competitively, but are hampered by the high cost of production and punitive tax regime. The Government will work towards entrenching Kenya as regional pharmaceutical manufacturing hub by reviewing the

tax regime and cost of doing business in the country, and leveraging on Universal Health Care and human per capita to identify and scale up domestic manufacturing of pharmaceutical products and other essential supplies that can be competitive.

19. To improve health outcomes and reach of healthcare services, the Government will leverage on information technology to drive responsiveness, efficiency, seamlessness between providers, transparency and fraud prevention. The strategy will involve deployment of an integrated state-of-the-art health information system that will enable every Kenyan to own and control access to their health record.

20. In order to build a better human resource for healthcare, the Government will work with County Governments to build a centralised system. Measures will be put in place to address the challenge of inadequate human resources in the public hospitals and the poor industrial relations between health professionals. This will address the in equitability in distribution of health professional and will enable doctors get equal treatment in capacity building, and solve the shortage in health specialists in the county health services. The Government will also mainstream community health workers and make them the foundation of the country's healthcare system in partnership with County Governments.

1.2.5 Digital Superhighway and Creative Economy

21. Kenya is a strong leader in the Information, Communication and Technology space. Appropriate policy framework, constitutionally protected freedoms of expression, media, information and communication has cemented the country's position as a regional and continental hub of innovation overtime. Despite this feat, there is tremendous potential for the country to become a global leader, employing hundreds of thousands of young people and generating immense wealth if the young people are facilitated to plug into the global digital economy. For this reason, the Government will promote investment in the digital superhighway and the creative economy in order to further enhance productivity and overall competitiveness. Over the next 5 years, the Government will support extension of National Optic Fibre Backbone infrastructure work to ensure universal broadband availability. The laying out of an additional 100,000 km of the national fibre-optic network is expected to deliver this target.

22. Government will also digitize and automate all critical Government processes throughout the country, with a view to bringing at least 80 percent of all Government services online at greater convenience to citizens. Moreover, the Government will undertake measures to bring down the cost of calls and data in order to bring more Kenyans, especially the youth online for business, learning, entertainment and socialisation. This initiative converges with the efforts to boost the creative economy and scale up cultural production and the arts industry.

23. To further entrench Kenya's lead in the digital economy, the Government will establish a Presidential Advisory Council on Science and Technology Policy that will ensure a wholesome Government approach to technological development and use and build necessary capacities across Government. The Government will also promote investment in Konza Technopolis to bring together industry, academic institutions and other innovators to co-invest in emerging technologies to create

high-quality jobs that leverage on artificial intelligence, robotics and other technologies and thus enhance our regional and global competitiveness.

24. In the creative economy, Kenya has a highly talented youth on a diverse spectrum of creative work which including music, theatre, graphic design, digital animation, fashion and craft, among others. The digital revolution, reinforced by good connectivity has opened up opportunities for this sector to be a significant economic actor in its own right. Additionally, the creative industry can add value to Kenya's exports such as fashion, leather products and craft industries can employ millions of Kenyan youths. To realize these benefits, the Government will establish more arts and culture infrastructure, including theatres, music auditoriums and art galleries, and extensive refurbishing of facilities to expand spaces for artistic and cultural expression and production. These investments will be undertaken in full recognition of national values and principles of governance as well as broader national interests and goals.

1.3 Enablers

25. The Government's economic turnaround plan will be underpinned by sound and innovative policy and structural reforms across all socio-economic sectors, efficient infrastructure, climate-change mitigation mechanisms, and will foster strict compliance with the Constitution and the rule of law.

1.3.1 Infrastructure

26. The Government will intensify national connectivity through road, rail, port, energy and fibre-optic infrastructure to foster an enabling environment for economic recovery and inclusive growth. The Government is finalising a framework for centralisation of resources to deal with all stalled infrastructure projects.

Roads

27. Roads are the most important infrastructure in the country. Overtime, the Government has pursed ambitious projects that has doubled the number of paved roads. However, the need for roads remains immense as one third of classified roads needs either reconstruction or rehabilitation. Over the medium term, the Government will continue to invest in road infrastructure by completing all roads under construction. The Government will also prioritize upgrading and maintaining rural access roads as well as improve road infrastructure in urban informal settlement and critical national and regional trunk roads that have the highest immediate economic impact.

Electricity

28. Electricity is a vital economic and social good critical for production of consumer goods and provision of essential services such as health and security. While generation capacity and total electricity connections has increased considerably in the recent years, electricity in the country remains expensive and unreliable. One of the key contributors to both the cost and quality of power is the aging transmission and distribution network. The investment required to upgrade the network is considerable, more so in the difficult financial situation that the country is in.

29. To improve reliability and bring down the cost of power, the Government will: mobilise the resources needed to revamp the transmission and distribution network; accelerate geothermal resources development; and develop Liquified Natural Gas (LNG) storage facility in Mombasa, with a view to phasing out heavy fuel oil (HFO) from the power generation portfolio. This will also contribute to meeting Kenya's emission reduction commitments. The Government will also enforce transparency and public accountability of the electricity sector requiring the Energy Regulatory Commission (ERC) to publish quarterly system, financial and operational performance reports. Further, the Government will delink development initiatives from the Kenya Power and let the company to operate on commercial principle. A policy, regulatory and financing framework for off-grid community-owned development projects (mini and micro-grids) will be instituted.

Petroleum and E-mobility

30. Petroleum is the largest import in terms of volume and price in the country, and will remain an important fuel for several decades. Price volatility in this commodity is a challenge for consumers and economic stability. In particular, the recent fuel price escalation as a result of global price shock has severely affected Kenyans with significant fiscal implications. In order to stabilize consumer prices against unpredictable swings in global oil prices, the Government will set up a legal framework to ring-fence the Fuel Stabilization Fund.

31. The Government will also roll out electric vehicle (EV) charging infrastructure in all urban areas and along the highways and create incentives for adoption of electric mass transit systems in all cities and towns; provide financial and tax incentives for public service vehicles and commercial transporters to convert to electric vehicles; leverage the financial support that will be provided to the bodaboda sector through the Hustlers Fund, to develop the nascent electrical vehicle (EV) and motorcycle assembly industry. Accelerating transition to electric vehicles is a win-win proposition in terms of contributing to Kenyans emission reduction commitment, cheaper transport, and leveraging on the large local and regional motorcycle market to build an electric vehicle industry.

1.3.2 Manufacturing

32. The manufacturing sector has been declining as a percent of GDP in the recent years. To improve productivity in the sector, the Government has adopted a value chain approach through the Bottom-Up initiative that will address the bottlenecks that impede the growth of manufacturing sector and enhance the country's competitiveness.

Leather

33. Kenya has a big potential to develop its leather sector given the available market in uniformed services and schools. Key challenges in the sector arise from poor quality of hides and skins, lack of skills, and limited leather factories in the country. To build capacity in the sector, the Government will set up leather industry clusters in Athi River, Narok, Isiolo and Wajir and secure linkages with and technical support from overseas markets. The Government will also support the MSMEs to participate in supply and value chains of hides and skins through establishment of processing plants.

Building Products

34. Building products are currently one of Kenya's leading manufactured exports to neighbouring countries. The Government will establish standards that will enable Jua Kali to produce range of products such as mabati, building steel, mass fittings, windows and doors.

Garments and Textiles

35. Garments and textiles exports is Kenya's third largest component at Ksh 60 billion and employing 50,000 people. The sector is however confronted by numerous challenges including high cost of labour and low agricultural productivity that hampers the competitiveness of Kenya's garment export. In order to support locally manufactured textiles, the Government will work with the apparel export industry to develop a viable raw cotton in order to produce and convert cotton into fabric competitively.

1.3.3 Blue Economy

36. Sustainable use of ocean and blue economy resources remains a key socio-economic development priority for the Government as a means to end hunger, reduce poverty, create jobs and spur economic growth. Building on the historic 2018 Sustainable Blue Economy Conference in Nairobi, the Government will review the National Blue Economy Strategy to strengthen community structures in participatory management of freshwater, coastal and marine resources and ecosystems. The strategy is expected to contribute to socio-economic development through food and nutrition security, coastal and rural development and income increases along the aquaculture value chains, maritime transport and tourism.

1.3.4 The Services Economy

Financial Services

37. Kenya is a global leader in financial innovation with access to formal financial services standing at 83.7 percent in 2022 largely attributed to the progress made by Kenya to expand financial access through various channels including mobile money financial platforms. However, there remains limited access to formal credit at the bottom of the pyramid in part because of Credit Reference Bureau listing by predatory lenders. Additionally, continued over reliance on domestic debt poses risk of crowding out the private sector.

38. The Government will implement targeted interventions to strengthen the financial services sector's role in driving the Government's economic recovery agenda, cement Kenya's position as the region's financial and technological hub and help millions of ordinary citizens overcome pressing economic challenges and achieve prosperity. In particular, the Government will; i) leverage on Kenya's well advanced SACCO system to develop a tier three financial system that will facilitate disbursement of affordable credit through the Hustlers Fund to cushion those affected by the current predatory lending interest rates e.g. market traders, boda boda; ii) implement the MSMEs Credit Guarantee Scheme (CGS) to promote enterprise development through access to quality and affordable credit to MSMEs; and iii) develop and deploy a robust financial services consumer protection policy and legal framework that will protect Kenyans from predatory lenders.

Tourism

39. Tourism is a historically important sector for the economy, in terms of foreign exchange earnings and job creation. To support the sector, the Government will focus on a bottom up job-creating tourism industry by: i) Nurturing a tourism ecosystem that supports independent travel particularly for young people, including quality and secure budget hotels and bed and breakfast facilities, affordable budget air travel to all parts of the country and safe road travel; ii) Diversify Kenya's tourism by promoting niche market products, notably adventure, sport and cultural tourism; and iii) Diversify source markets to include African markets.

Aviation

40. Aviation is a strategic industry for the economy. It is vital for the tourism industry, exports of fresh produce and maintenance of Kenya's position as a regional hub. The Kenya Airways had demonstrated that Kenya could become a global aviation hub. To support the aviation industry, the Government will develop a turnaround strategy for Kenya Airways. A critical plank of this strategy will be a financing plan that does not depend on operational support from the exchequer beyond December 2023.

1.3.5 Environment and Climate Change

41. Environmental conservation and response to the impacts of climate change are at the centre of the Government's socio-economic transformation agenda. Provision of a cleaner and safer environment is consistent with the Constitutional obligations and will cement the country's position as a global leader in environmental protection and sustainable development. To actualise this, the Government will continue to mainstream issues of environment conservation, climate change mitigation and adaptation, halt and reversal of deforestation, biodiversity loss and land degradation, in all Government programmes and across all levels of Government.

42. Already, the Government has commenced its plan to grow 15 billion trees across the country by 2030. The goal is to increase the national tree cover from the current 12 percent to 30 percent over that period. This will ensure that the country attains the Constitutional mandate of at least 10 percent land area forest cover. The reforestation programme will be implemented through the Ministry of Environment, Climate Change and Forestry in collaboration with County Governments and other stakeholders both local and foreign including youth and women groups, civil societies and religious organisations. To achieve this, the Government will continue to support efforts by the Kenya Forestry Research Institute (KEFRI) in high quality tree seed production in the 18 Tree Seeds Centers countrywide.

43. Informing the climate change agenda, is a commitment to reduce greenhouse gas emissions by 32 percent by 2030 as contained in Kenya's Nationally Determined Contribution (NDC). Towards this end, the Government will adopt a Bottom-Up 3P solutions (people, planet, profit) whose priority value chains include: biomass energy (wood fuel), agro-forestry and solid waste management. The strategy will involve modernizing and commercializing the charcoal value

chain by adopting modern kilns, supporting scaling up of clean cooking technologies and promoting youth-owned and operated briquette-making enterprises.

44. In solid waste management, the Government working with the private sector has developed a European model called Extended Producer Responsibility (EPR) based on household level separation that is unlikely to be practical beyond the urban middle class. The Government will complement EPR system with a Bottom-Up community-based value chain; organise waste collectors into cooperatives and provide circular economy waste separation sites.

45. To ensure sustainable funding of climate change action and green economy initiatives, the Government will implement Green Financing as a flagship programme to transition to a low-carbon, climate resilient and green economy through incorporation of risks and opportunities resulting from environment and climate change in the financial sector. This would be implemented through establishment of Green Finance Coordination Framework of public and private green finance to enhance operational effectiveness, identify common challenges, encourage peer learning, and limit duplication of efforts. To further enhance increase of financial flows for climate action, the Government will develop and implement policies and strategies to tap into the global carbon market opportunities, green and climate financing mechanisms such as Green Climate Fund, promote green bonds and debt for climate swaps among others.

46. In order to deliver locally-led climate resilience actions and strengthen National and County Governments' capacity to manage climate risks, the Government in collaboration with Development Partners developed an innovative Financing Locally-led climate Action (FLLoCA) Program. The Program is designed to encourage cross-agency collaboration and vertical linkages from community level up to national level in addressing climate change. The programme is supporting counties to put in place participative climate change policy and legislative frameworks in order to be able to access pooled finance to support implementation of locally-led climate actions.

1.3.6 Education and Training

47. Education is the ultimate means of ensuring an equitable society. As part of its economic turnaround and inclusive growth strategy, the Government will facilitate impartation of the necessary skills and competencies to learners from pre-primary to the tertiary level, regardless of background, in order to enable them, to effectively play their part by contributing to the nation building effort, and partake of the dividends of shared prosperity.

48. As part of the process, the Government undertook to review the Competency-Based Curriculum following the concerns of many stakeholders, especially parents and teachers. This was done under the auspices of the newly set up Presidential Working Party on Education Reform. The findings and recommendations from the Working Party shall inform subsequent necessary intervention to ensure that Kenya delivers the calibre of education, skills and training needed to successfully pursue sustainable development. In order to increase the teacher to learner ratio in primary

and secondary schools, the Government has provided resources to the Teachers Service Commission to recruit 30,000 teachers.

49. Other reforms in the education sector include; establishment of a National Skill and Funding Council that amalgamates the High Education Loans Board, Technical Training and Vocational Education Training Institution (TVET) and University Funding Board and increase funding to bridge the current 45 percent gap; construction of a fully equipped TVET in the remaining 52 constituencies within; set up a National Open University to increase access and reduce the cost of university education while making 100 percent transition to higher education a reality.

1.3.7 Women Agenda

50. Participation of women in key sectors of the economy is minimal, and a vast majority of them remain in low-income jobs or enterprises and endure poor working conditions. Women are also largely excluded from governance and political institutions. As part of its inclusive strategy, the Government will provide financial and capacity building support for women through the Hustlers Fund for women-led co-operative societies, chamas, merry-go-rounds and table banking initiatives and protect them from predatory interest rates charged by unscrupulous money lenders. The Government will also increase the number of, and personnel at gender desks at police stations; increase funding for the Anti-Female Genital Mutilation (FGM) Board and fully implement the anti-FGM law; and take administrative measures to ensure 100 percent enforcement of the spousal consent legal provisions in land transactions to cushion women and children from dispossession of family land.

1.3.8 Social Protection

51. At the heart of the Government's development agenda, is the inclusion in society and employment opportunities for the vulnerable members. The National Social Security Fund (NSSF) payroll deduction system is not diverse enough in an economy where 85 percent of workforce is not on formal payrolls. To address this, the Government will establish a universal social security system, encompassing pension, occupational hazard and unemployment insurance.

52. The Government will also continue to support vulnerable members of the society through the Social Safety Nets Programmes (Inua Jamii), the Hunger Safety Net Programme and the National Council for Persons Living with Disabilities Fund. To protect the elderly, the Government will push for attainment of 100 percent NHIF coverage for senior citizens within three years; revamp the cash transfer programmes for elderly and vulnerable households to improve operational efficiency, prompt payment accountability and coverage; invest in education and training for caregivers and medical staff to fill the gap of skills in the provision of specialised care for older people.

53. To support people living with disabilities (PWDs), the Government will target for 100 percent NHIF coverage for PWDs; integrate schools to allow children with disabilities to start interacting with the general public at an early age to restore their confidence and self-esteem; and merge the National Fund for the Disabled of Kenya (NFDK) with National Council for Persons with Disabilities (NCPWD) and

ensure parliamentary oversight for accountability. The Government will also set aside 15 percent of all public-funded bursaries for pupils with disabilities; and ring fence adequate percentage of the Hustlers Fund for PWDs.

1.3.9 Sports, Culture and Arts

54. The Government recognizes sports and the arts as a mega industry that can employ millions of youth and help grow the economy. Kenya sporting prowess portends tremendous opportunity to build a sports economy value chain that includes hosting of international sporting events, training facilities and manufacturing of sports apparel and equipment.

55. To supports the sports industry, the Government has moved with speed to get the country's football back, protect Kenya's proud athletics pedigree from doping, and to streamline collection and distribution of royalties to our artists. Through the revolutionary 'TALANTA HELA' Plan, the Government will rebuild and monetise sports and creative industry. As part of the inclusive growth plan, the Government will champion a grassroots football development program that will see National Government work with County Governments to invest heavily in youth football. Arrangements are at an advanced stage to launch a Bottom-up football tournament to be contested by under-19 teams from all 47 Counties.

56. To further harness the potential of the sports and arts industry, the Government will: identify sustainable sources for sports funding and consider setting up of a national lottery, tax incentives for corporate sponsorship, a dedicated or ring-fenced tax and Public-Private Partnership framework for infrastructure development. The Government will also review the Sports Act; and establish and resource adequately a dedicated function within the Tourism Promotion Council to attract international sporting events; and leverage on the country's international athletics brand to develop a domestic sports apparel manufacturing cluster. Further, the Government will expand the National Youth Talent Academy to include all sports and simultaneously devolve it to County level; introduce County Sports Talent Academy the capacity to systematically identify promising sporting talent and provide necessary support through sponsorship to further their skills/talent.

1.3.10 Governance

57. The Government's commitment for the next five years is to scale up the implementation of the provisions of the 2010 Constitution, strengthen the rule of law, increase access to justice, ensure respect for human rights and respect the United Nations Sustainable Development Goal Number 16 on peace, justice and strong institutions. Most importantly, the Government shall endeavour to ensure zero tolerance to corruption by making all public servants accountable, and submitting to the oversight of Parliament and other constitutionally mandated institutions.

58. To strengthen governance, the Government appointed four Court of Appeal and two Environment and Land Court judges, and 20 judges of the High Court. The Government has also escalated the actualisation of the Judiciary Fund that will increase the allocation of resources to match the needs of enhancing access to justice throughout Kenya. Over the medium term, the Government will:

a) Equip the Attorney-General's Office with the resources and ability it needs to safeguard the public interest in court, legislating, negotiating international agreements, and signing of contracts. This will minimize the needless litigation and costly fines;
b) Bolster the financial and technical capabilities as well as the independence of all independent (Chapter 15) institutions to make sure they are capable of defending the national interest and the people's sovereignty;
c) Institutionalize human rights-based approaches to Counter-Terrorism (CT), including strengthening the Special CT Courts to ensure speedy and fair trials;
d) Strengthen the Office of the Registrar of Political Parties (ORPP) by opening county offices;
e) End the weaponization and politicization of the anti-corruption efforts by allowing the relevant institutions to freely exercise the independence given to them by the Constitution;
f) Grant financial independence to the Ethics and Anti-Corruption Commission (EACC) and the police to end their reliance on the Office of the President; and
g) Promote accountability and openness in the management of public affairs, institutionalizing open governance in all State organs and agencies, and publishing an annual State of Openness Report.

59. To enhance devolution, the Government will: complete transfer of all functions constitutionally earmarked to counties within six months; and develop a framework for ensuring that state-owned firms carrying out devolved or shared functions adhere to the principles of governance and ensure that the principle of funding-follows-functions is adhered to with respect to all devolved functions. The Government will also improve County Governments' capacity to generate their own income and reduce over-reliance on transfers from the National government; and ensure that shareable revenue is transferred to counties in a timely and predictable manner and in accordance with the law.

Security

60. The security sector is critical to long-term sustainable development and poverty alleviation by ensuring safe and fair systems to enable people to work and business to operate. Despite steps towards reform, many challenges still exist in effective implementation of security sector reforms as is evident in continued cases of political interference, poor leadership and dismal performance, corruption, abduction, torture, disappearance and murder, extrajudicial killings and a lack of effective oversight and accountability.

61. To reverse this, the Government has successfully engaged security sector stakeholders to re-orient policing operations. This has ushered a new policing paradigm geared towards achieving a high level of security for citizens while observing their rights and freedoms to the greatest extent. To strengthen policing services, the Government has executed the necessary instrument to actualise the financial independence of the National Police Service in the realisation that this is the substantive enabler of genuine institutional independence. The operational

independence of the police is necessary for its efficiency, professionalism and accountability. Going forward, the Government will commission a review the remuneration and terms of all officers in the security sector to be commensurate with the cost of living

II. RECENT ECONOMIC DEVELOPMENTS AND MEDIUM-TERM OUTLOOK

2.1 Overview

62. The Kenyan economy continued to expand in 2022, albeit at a slower pace than the 7.5 percent recorded in 2021. Real GDP is expected to grow by 5.5 percent in 2022 supported by the services sector despite subdued performance in agriculture and weaker global growth. The economy is projected to rebound to 6.1 percent in 2023, reinforced by the Government's development agenda geared towards economic turnaround and inclusive growth.

63. The coordination between monetary and fiscal policies continued to support macroeconomic stability with interest rates remaining relatively stable. Year-on-year overall inflation rate declined for the second consecutive month in December 2022. Inflation rate eased to 9.1 percent in December 2022 from 9.5 percent in November 2022 due to a decline in food prices with the favourable rains and declining international prices of edible oils. However, this inflation rate was higher than the 5.7 percent recorded in December 2021.

64. The external sector has remained stable despite the tight global financial conditions attributed to strengthening US Dollar and uncertainties regarding the ongoing Russian-Ukraine conflict. Due to the strong dollar, the exchange rate to the Kenya shilling like all world currencies has weakened but strengthened against other major international currencies. The current account deficit was generally stable at 5.2 percent of GDP in the 12 months to November 2022 compared to 5.4 percent of GDP in November 2021 on account of improved receipts from service exports and resilient remittances. The official foreign exchange reserves at 4.2 months of import cover in November 2022 continues to provide adequate buffer against short term shocks in the foreign exchange market.

65. The fiscal policy continues to pursue growth friendly fiscal consolidation to preserve debt sustainability. This will be achieved through enhancing revenue collection and curtailing non-core expenditures while prioritizing high impact social and investment expenditure. As such fiscal deficit is projected to decline from 5.8 percent of GDP in FY 2022/23 to 4.3 percent of GDP in FY 2023/24.

2.2 Recent Economic Developments and Outlook

Global and Regional Economic Developments

66. Global economic outlook has become more uncertain - reflecting the impact of the ongoing Russia-Ukraine conflict, elevated global inflation, lingering effects of COVID-19 pandemic, and persistent supply chain disruptions. Global growth is expected to slow down to 3.2 percent in 2022 and is projected to slow down to 2.7 percent in 2023 from the earlier forecast of 2.9 percent. The USA economy is projected to slow down to 1.0 percent in 2023 from 1.6 percent in 2022, Euro Area economies will slow down to 0.5 percent from 3.1 percent in 2022. China economy is projected to improve to 4.4 percent from 3.2 percent in 2022 **(Table 2.1)**.

67. In the sub-Saharan Africa region, growth is projected at 3.7 percent in 2023 from a growth of 3.6 percent in 2022. This outlook is weaker than the growth of 4.7 percent in 2021 reflecting lower trading partner growth, tighter financial and monetary conditions, and a negative shift in the commodity terms of trade.

Table 2.1: Global Economic Growth, Percent

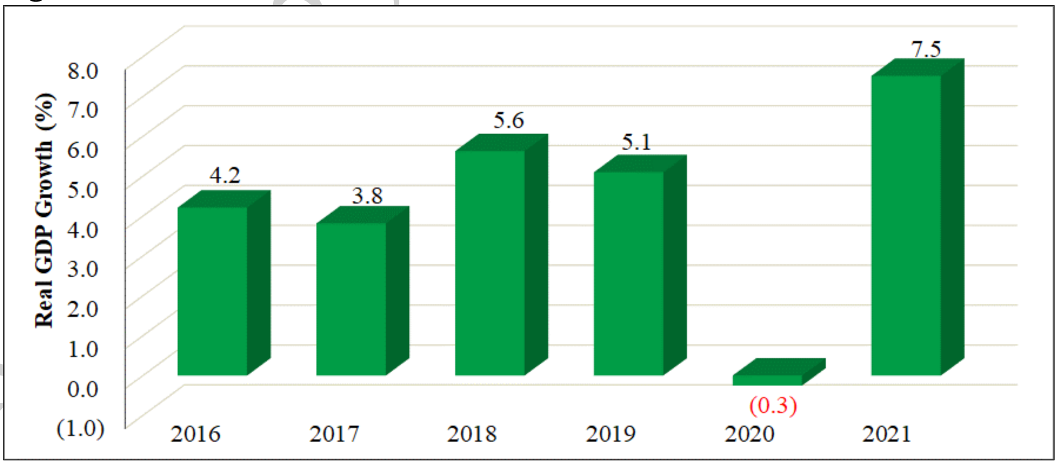
Economy	2020	2021	2022*	2023*
	Actual		Oct. WEO	Oct. WEO
World	(3.1)	6.0	3.2	2.7
Advanced Economies	(4.5)	5.2	2.4	1.1
Of which: USA	(3.4)	5.7	1.6	1.0
Euro Area	(6.1)	5.2	3.1	0.5
Emerging and Developing Economies	(2.0)	6.6	3.7	3.7
Of which: China	2.2	8.1	3.2	4.4
India	(6.6)	8.7	6.8	6.1
Sub-Saharan Africa	(1.6)	4.7	3.6	3.7
Of which: South Africa	(6.3)	4.9	2.1	1.1
Nigeria	(1.8)	3.6	3.2	3.0
EAC-5	0.9	6.6	4.7	5.4
Of which: Kenya***	(0.3)	7.5	5.5	6.1
** Estimate *** budget estimate*				
EAC-5: Burundi, Kenya, Rwanda, Tanzania and Uganda				

Source of Data: October 2022 WEO

Domestic Economic Developments

68. The Kenyan economy demonstrated remarkable resilience and recovery from COVID-19 shock due to the diversified nature of the economy and the proactive measures by the Government to support businesses. The economy expanded by 7.5 percent in 2021, a much stronger level from a contraction of 0.3 percent in 2020 **(Figure 2.1)**.

Figure 2.1: Annual Real GDP Growth rates



Source of Data: Kenya National Bureau of Statistics, The National Treasury

69. The growth momentum continued in the first three quarters of 2022 averaging 5.5 percent despite subdued performance in agriculture and weaker global growth. The economy grew by 6.7 percent in the first quarter and 5.2 percent in the second quarter compared to a growth of 2.7 percent and 11.0 percent in similar quarters in 2021.

70. In the third quarter of 2022, the economy grew by 4.7 percent compared to a growth of 9.3 percent in the corresponding quarter of 2021. Most sectors posted slower growths owing to the significantly high growth rates recorded in the third quarter of 2021 that signified recovery from the impact of the COVID-19 pandemic. The growth in the third quarter of 2022 was mainly supported by the service sectors particularly Accommodation and Food Service activities, Wholesale and retail trade, Professional, Administrative and Support services, Education and Financial and Insurance activities. The growth was however slowed by declines in activities of the Agriculture, Forestry and Fishing, and Mining and Quarrying sectors

71. The agriculture sector recorded a contraction of 0.6 percent in the third quarter of 2022 compared to a growth of 0.6 percent recorded in the corresponding quarter of 2021. The slowdown in performance of the sector was mainly attributed to unfavorable weather conditions that prevailed in first three quarters of 2022. The decline was reflected in the decline in vegetable exports and milk intake by processors. The sector's performance was cushioned from a steeper contraction by improved production in fruits, coffee and cane.

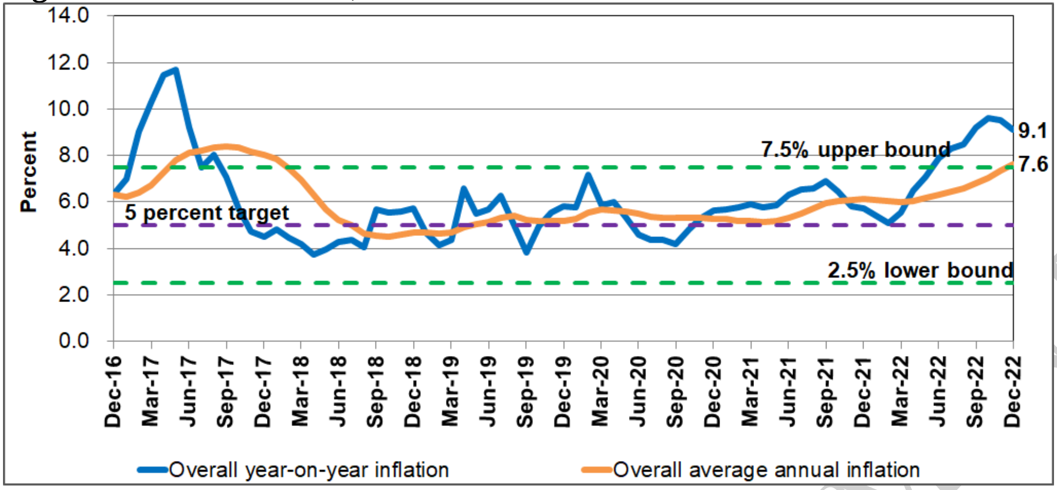
72. The performance of the industry sector slowed down to a growth of 3.4 percent in the third quarter of 2022 compared to a growth of 8.3 percent in the same period in 2021. This was mainly on account of normalization of activities in the manufacturing sub-sector after the strong recovery in 2021. Manufacturing sub-sector expanded by 2.4 percent in the third quarter of 2022 compared to 10.2 percent growth recorded in the same period of 2021. The growth in the industry sector was supported by positive growths in Electricity and Water Supply sub-sector and construction sub-sector which grew by 4.7 percent and 4.3 percent, respectively.

73. The activities in the services sector normalized and remained strong in the third quarter of 2022 after a strong recovery in 2021 from the effects of COVID-19 pandemic. The sector growth slowed down to 6.1 percent in the third quarter of 2022 compared to a growth of 11.4 percent in the third quarter of 2021. This performance was largely characterized by substantial growths in accommodation and food services, wholesale and retail trade, professional, administrative and support services and education sub-sectors.

Inflation Rate

74. The year-on-year inflation rate eased for the second consecutive month in December 2022 but was still above the 7.5 percent upper bound target. Inflation rate eased to 9.1 percent in December 2022 from 9.5 percent in November 2022 due to a decline in food prices as a result of favorable rains and declining international prices of edible oils **(Figure 2.2)**. However, this inflation rate was higher than the 5.7 percent recorded in December 2021. Overall annual average inflation increased to 7.6 percent in December 2022 compared to the 6.1 percent recorded in December 2021.

Figure 2.2: Inflation Rate, Percent



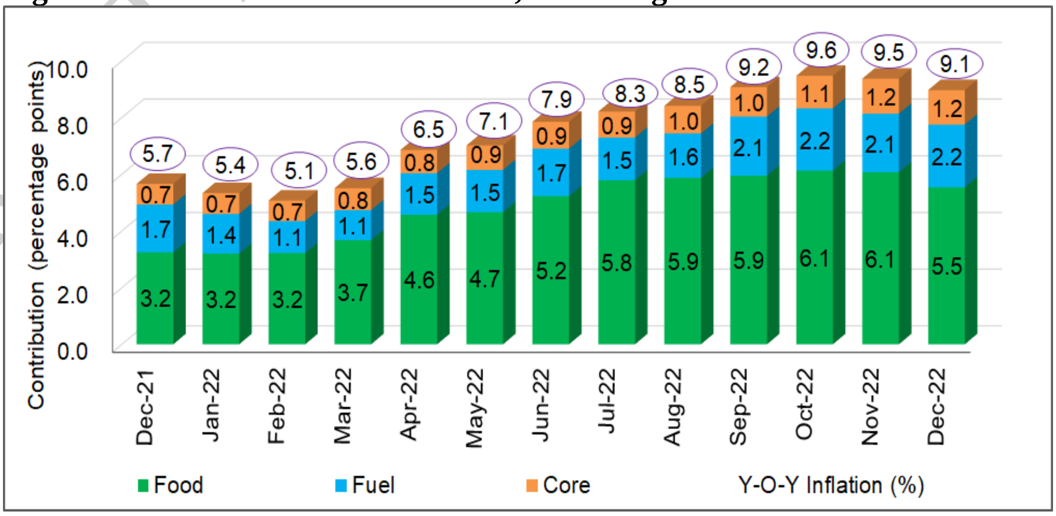
Source of Data: Kenya National Bureau of Statistics

75. Food inflation remained the main driver of overall year-on-year inflation in December 2022, contributing 5.5 percentage points, an increase, compared to a contribution of 3.2 percentage points in December 2021 **(Figure 2.3)**. The increase was mainly attributed to unfavourable weather conditions and supply constraints of key food items particularly maize grain (loose), fortified maize flour, cooking oil (salad), cabbages, beef with bones and mangoes.

76. Fuel inflation also increased to contribute 2.2 percentage points to year-on-year overall inflation in December 2022 from a contribution of 1.7 percentage points in December 2021. This was mainly driven by increases in electricity prices due to higher tariffs and increased prices of kerosene/paraffin, diesel and petrol on account of higher international oil prices.

77. The contribution of core (non-food non-fuel) inflation to year-on-year overall inflation has been low and stable, consistent with the muted demand pressures in the economy, supported by prudent monetary policy. The contribution of core inflation to overall inflation increased to 1.2 percentage points in December 2022 compared to 0.7 percentage points contribution in December 2021.

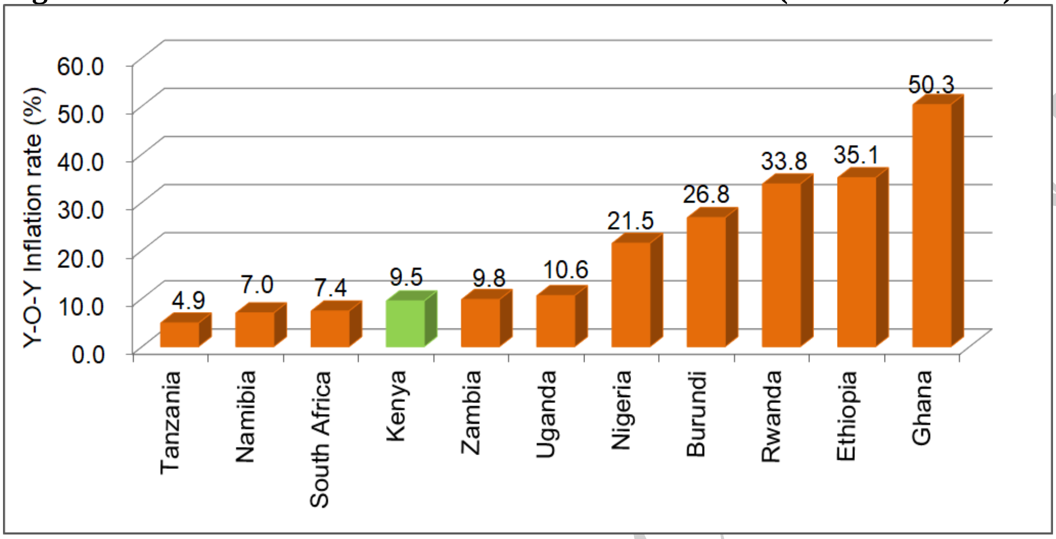
Figure 2.3: Contributions to Inflation, Percentage Points



Source of Data: Kenya National Bureau of Statistics

78. While inflation has been rising and remains high in most economies, Kenya's inflation rate at 9.5 percent in November 2022 is much lower than that of some countries in the Sub-Saharan African region that have double digits' inflation **(Figure 2.4)**.

Figure 2.4: Inflation Rates in selected African Countries (November 2022)

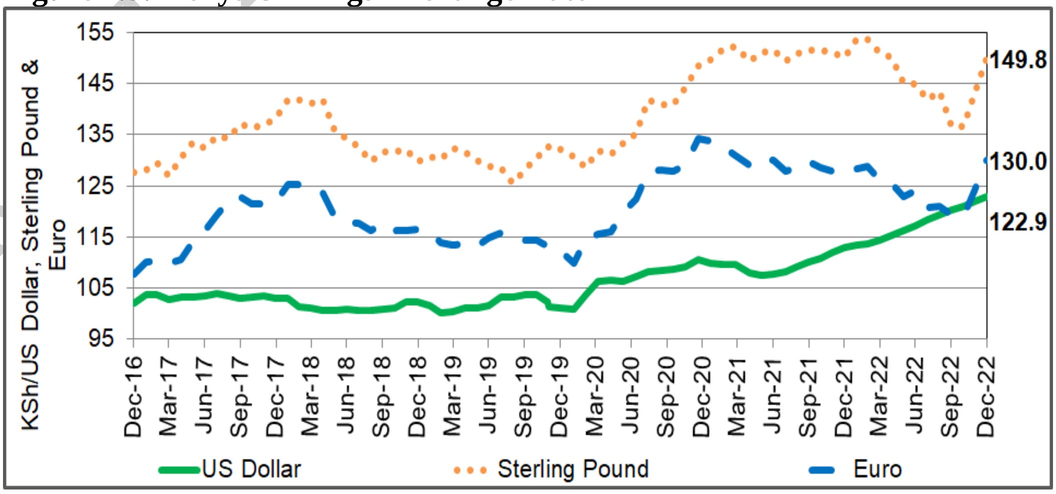


Source of Data: National Central Banks

Kenya Shilling Exchange Rate

79. The foreign exchange market has largely remained stable despite the tight global financial conditions attributed to strengthening US Dollar and uncertainties regarding the ongoing Russian-Ukraine conflict. Due to the strong dollar, the exchange rate to the Kenya shilling like all world currencies has weakened to exchange at Ksh 122.9 in December 2022 compared to Ksh 112.9 in December 2021 **(Figure 2.5)**. Against the Euro, the Kenya shilling also weakened to Ksh 130.0 from Ksh 127.6 over the same period. The Kenyan Shilling strengthened against the Sterling Pound to Ksh 149.8 in December 2022 from Ksh 150.2 in December 2021.

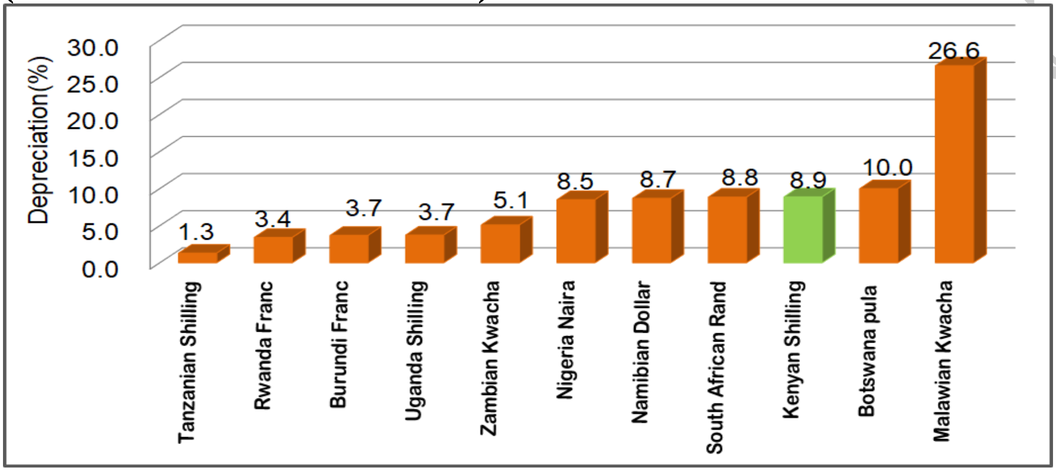
Figure 2.5: Kenya Shillings Exchange Rate



Source of Data: Central Bank of Kenya

80. In comparison to Sub-Saharan Africa currencies, the volatility of the Kenya Shilling exchange rate has remained relatively low at 8.9 percent against the US Dollar in November 2022 **(Figure 2.6)**. The depreciation rate of the Kenya Shilling was lower than that of Namibian Dollar, Botswana pula, South African Rand and Malawi Kwacha. The stability in the Kenya Shilling was supported by increased remittances, adequate foreign exchange reserves and improved exports receipts.

Figure 2.6: Performance of Selected Currencies against the US Dollar (December 2021 to December 2022).



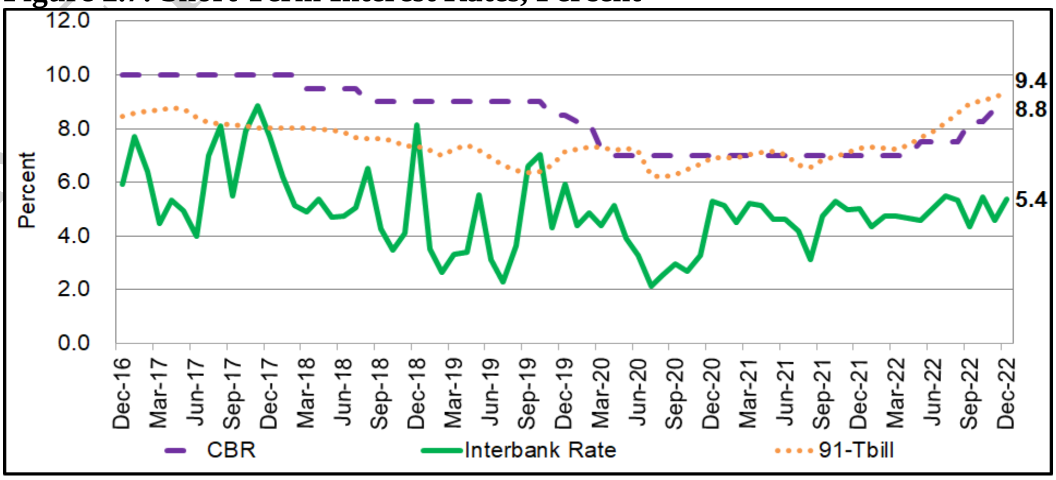
Source of Data: National Central Banks

Interest Rates

81. Monetary policy stance remains tight to anchor inflation expectations due to the sustained inflationary pressures, the elevated global risks and their potential impact on the domestic economy. In this regard, the Central Bank Rate was raised from 8.25 percent to 8.75 percent in November 2022 **(Figure 2.7).**

82. The interbank rate remained stable at 5.4 percent in December 2022 compared to 5.0 percent in December 2021 while the Treasury bills rates increased in December 2022 due to tight liquidity conditions. The 91-day Treasury Bills rate was at 9.4 percent in December 2022 compared to 7.3 percent in December 2021.

Figure 2.7: Short Term Interest Rates, Percent



Source of Data: Central Bank of Kenya

83. Commercial banks' lending rates remained relatively stable in October 2022 supported by the prevailing monetary policy stance during the period. The average lending rate was at 12.4 percent in October 2022 from 12.1 percent in October 2021 while the average deposit rate increased to 7.0 percent from 6.4 percent over the same period. Consequently, the average interest rate spread declined to 5.4 percent in October 2022 from 5.7 percent in October 202.

Money and Credit

84. Broad money supply, M3, grew by 7.2 percent in the year to December 2022 compared to a growth of 6.1 percent in the year to December 2021 **(Table 2.2)**. The growth in December 2022 was mainly due to an increase in domestic credit particularly net lending to the private sector. This growth was however curtailed by a decline in the Net Foreign Assets (NFA).

Table 2.2: Money and Credit Developments (12 Months to December 2022 Ksh billion)

				Change		Percent Change	
	2020 December	2021 December	2022 December	2020-2021 December	2021-2022 December	2020-2021 December	2021-2022 December
COMPONENTS OF M3							
1. Money supply, M1 (1.1+1.2+1.3)	1,720.1	1,848.1	1,971.1	128.0	123.0	7.4	6.7
1.1 currency outside banks (M0)	233.7	253.5	260.8	19.8	7.3	8.5	2.9
1.2 Demand deposits	1,385.8	1,498.3	1,605.0	112.5	106.8	8.1	7.1
1.3 Other deposits at CBK	100.7	96.3	105.3	(4.3)	9.0	(4.3)	9.3
2. Money supply, M2 (1+2.1)	3,250.2	3,431.6	3,617.5	181.3	185.9	5.6	5.4
2.1 Time and savings deposits	1,530.1	1,583.5	1,646.4	53.4	62.9	3.5	4.0
Money supply, M3 (2+3.1)	**3,990.9**	**4,235.2**	**4,538.5**	**244.3**	**303.3**	**6.1**	**7.2**
3.1 Foreign currency deposits	740.7	803.7	921.1	63.0	117.4	8.5	14.6
SOURCES OF M3							
1. Net foreign assets (1.1+1.2)	**746.9**	**590.1**	**283.9**	**(156.9)**	**(306.1)**	**(21.0)**	**(51.9)**
1.1 Central Bank	738.5	700.6	537.8	(37.9)	(162.7)	(5.1)	(23.2)
1.2 Banking Institutions	8.5	(110.5)	(253.9)	(118.9)	(143.4)	(1,406.7)	(129.8)
2. Net domestic assets (2.1+2.2)	**3,244.0**	**3,645.1**	**4,254.6**	**401.2**	**609.4**	**12.4**	**16.7**
2.1 Domestic credit (2.1.1+2.1.2+2.1.3)	4,245.8	4,876.9	5,439.7	631.1	562.8	14.9	11.5
2.1.1 Government (net)	1,343.3	1,723.6	1,924.3	380.3	200.7	28.3	11.6
2.1.2 Other public sector	91.2	100.1	81.9	8.9	(18.2)	9.8	(18.2)
2.1.3 Private sector	**2,811.3**	**3,053.2**	**3,433.5**	**241.9**	**380.4**	**8.6**	**12.5**
2.2 Other assets net	(1,001.8)	(1,231.8)	(1,185.2)	(229.9)	46.6	(23.0)	3.8

Source of Data: Central Bank of Kenya

85. Net Foreign Assets (NFA) of the banking system in the year to December 2022 contracted by 51.9 percent, compared to a contraction of 21.0 percent in the year to December 2021. The decline in NFA partly reflected a reduction in reserves at the Central Bank due to scheduled debt service, and the increase in commercial bank's borrowing from foreign sources.

86. Net Domestic Assets (NDA) registered a growth of 16.7 percent in the year to December 2022, an improvement compared to a growth of 12.4 percent over a similar period in 2021. The growth in NDA was mainly supported by resilient growth in credit to the private sector as business activities improved. Growth of domestic credit extended by the banking system to the Government moderated to 11.6 percent in the year to December 2022 compared to a growth of 28.3 percent

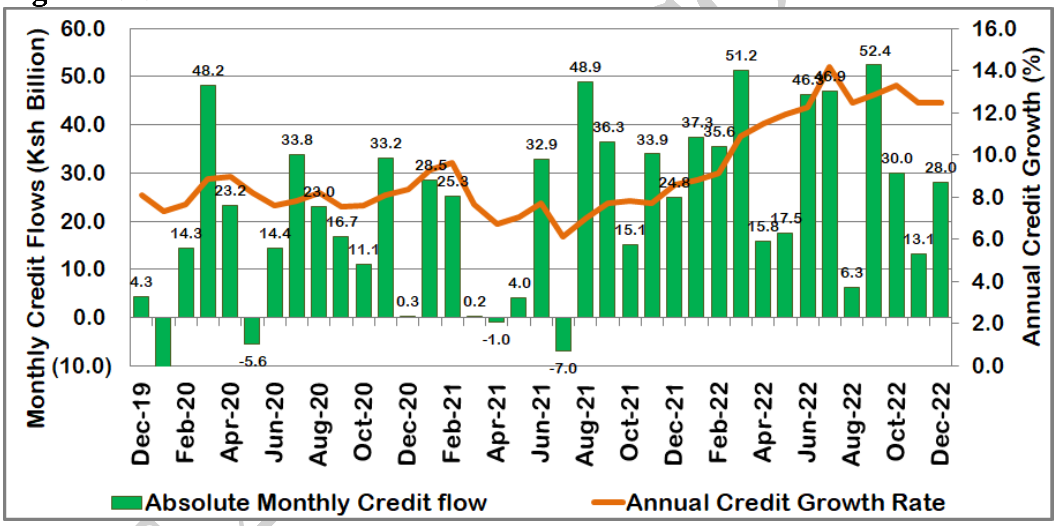
in the year to December 2021. Lending to other public sector also declined during the period, mainly due to repayments by county governments and parastatals

Private Sector Credit

87. Private sector credit improved to a growth of 12.5 percent in the 12 months to December 2022 compared to a growth of 8.6 percent in the year to December 2021 **(Figure 2.8)**. All economic sectors registered positive growth rates reflecting increased credit demand following improved economic activities. Strong credit growth was observed in the following sectors: mining, transport and communication, agriculture, manufacturing, business services, trade, and consumer durables. Monthly credit flows (month on month) have also improved from Ksh 24.8 billion in December 2021 peaking at Ksh 28.0 billion in December 2022.

88. The Government has launched the Hustlers Fund, as an intervention to correct market failure problems that led to predatory lending. This program aims to lift those at the bottom of the pyramid through structured products in personnel finance that includes savings, credit, insurance and investment.

Figure 2.8: Private Sector Credit



Source of Data: Central Bank of Kenya

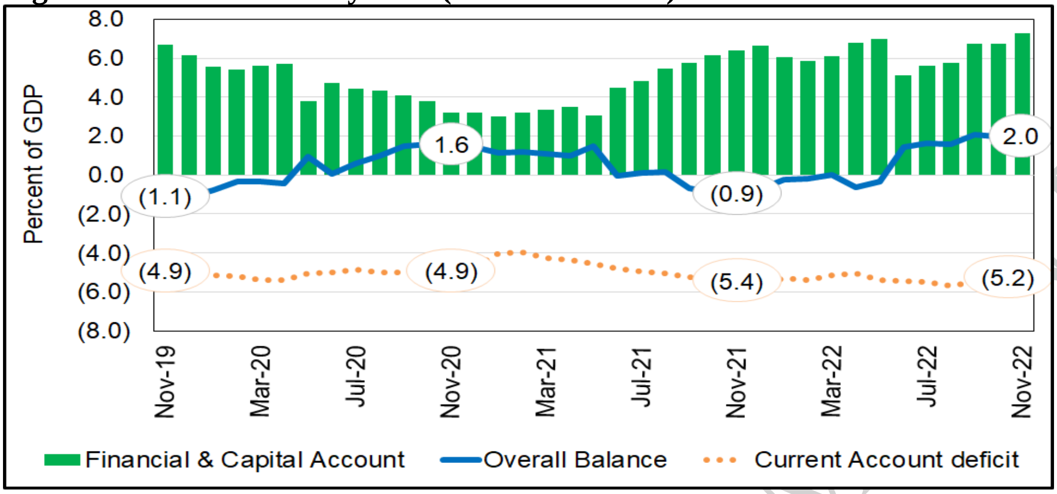
External Sector Developments

89. The overall balance of payments position improved to a surplus of USD 2,245.4 million (2.0 percent of GDP) in November 2022 from a deficit of USD 976.8 million (0.9 percent of GDP) in November 2021 **(Figure 2.9)**. This was mainly due to an improvement in the capital account despite a decline in the merchandise account reflecting increased imports of petroleum products owing to high international crude oil prices.

90. The current account deficit was generally stable at USD 5,771.0 million (5.2 percent of GDP) in November 2022 compared to USD 5,811.6 million (5.4 percent of GDP) in November 2021. The current account balance was supported by an improvement in the net receipts on the services account and the net secondary

income balance despite a deterioration in the net primary income balance and merchandise account.

Figure 2.9: Balance of Payment (Percent of GDP)



Source of Data: Central Bank of Kenya

91. The balance in the merchandise account declined by USD 1,238.0 million to a deficit of USD 12,186.7 million in November 2022 mainly due to increased payments on imports in spite of an improvement in the export earnings **(Table 2.3)**. In the year to November 2022, exports grew by 12.4 percent primarily driven by improved receipts from tea and manufactured goods despite a decline in receipts from horticulture. The increase in receipts from tea exports reflects improved prices attributed to demand from traditional markets. On the other hand, imports of goods increased by 11.7 percent in the year to November 2022 mainly due to increases in imports of oil and other intermediate goods.

Table 2.3: Balance of Payments (USD Million)

				Year to November 2022		Percent of GDP	
	Nov-20	**Nov-21**	**Nov-22**	**Change**	**Percent Change**	**Nov-21**	**Nov-22**
Overall Balance	**1,565.4**	**(976.8)**	**2,245.4**	**3,222.2**	**329.9**	**(0.9)**	**2.0**
A) Current Account	**(4,780.7)**	**(5,811.6)**	**(5,771.0)**	**40.6**	**0.7**	**(5.4)**	**(5.2)**
Merchandise Account (a-b)	(8,597.5)	(10,948.8)	(12,186.7)	(1,238.0)	(11.3)	(10.2)	(11.0)
a) Goods: exports	5,961.7	6,661.9	7,490.9	829.0	12.4	6.2	6.8
b) Goods: imports	14,559.2	17,610.7	19,677.6	2,066.9	11.7	16.4	17.8
Net Services (c-d)	364.1	574.4	1,678.7	1,104.3	192.3	0.5	1.5
c) Services: credit	3,784.0	4,594.7	6,776.7	2,182.0	47.5	4.3	6.1
d) Services: debit	3,419.9	4,020.3	5,098.0	1,077.7	26.8	3.7	4.6
Net Primary Income (e-f)	(1,508.0)	(1,449.8)	(1,692.8)	(243.0)	(16.8)	(1.3)	(1.5)
e) Primary income: credit	151.4	130.8	95.3	(35.5)	(27.1)	0.1	0.1
f) Primary income: debit	1,659.4	1,580.6	1,788.1	207.5	13.1	1.5	1.6
Net Secondary Income	4,960.7	6,012.6	6,429.8	417.3	6.9	5.6	5.8
g) Secondary income: credit	5,028.2	6,129.9	6,504.9	374.9	6.1	5.7	5.9
h) Secondary income: debit	67.5	117.4	75.1	(42.3)	(36.1)	0.1	0.1
B) Capital Account	**123.3**	**196.1**	**1,386.3**	**1,190.2**	**607.0**	**0.2**	**1.3**
C) Financial Account	**(3,012.2)**	**(6,696.3)**	**(6,635.1)**	**61.2**	**0.9**	**(6.2)**	**(6.0)**

Source of Data: Central Bank of Kenya

92. Net receipts on the services account improved by USD 1,104.3 million to USD 1,678.7 million in November 2022 compared to a similar period in 2021. This was mainly on account of an increase in receipts from transportation and tourism as international travel continues to improve. Net Secondary income remained resilient and increased by USD 417.3 million during the review period owing to an increase in remittances. The balance on the primary account widened by USD 243.0 million to a deficit of USD 1,692.8 million in November 2022, from a deficit of USD 1,449.8 million in the same period last year, reflecting higher interest related payments on other investments.

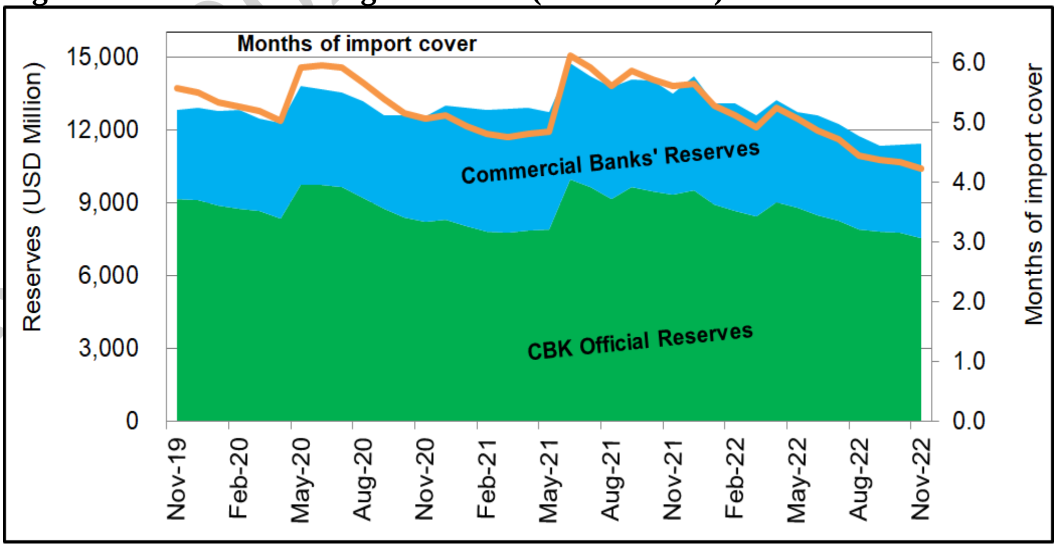
93. The capital account balance improved by USD 1,190.2 million to register a surplus of USD 1,386.3 million in November 2022 compared to a surplus of USD 196.1 million in the same period in 2021. Net financial inflows remained vibrant at USD 6,635.1 million in November 2022 compared to USD 6,696.3 million in November 2021. The net financial inflows were mainly in the form of other investments, financial derivatives and direct investments. Portfolio investments registered a net outflow during the period.

Foreign Exchange Reserves

94. The banking system's foreign exchange holdings remained strong at USD 11,407.7 million in November 2022 from USD 13,503.0 million in November 2021. The official foreign exchange reserves held by the Central Bank stood at USD 7,548.8 million compared to USD 9,306.3 million over the same period **(Figure 2.10)**.

95. The official reserves held by the Central Bank in November 2022 represented 4.2 months of import cover as compared to the 5.6 months of import cover in November 2021. It, therefore, fulfilled the requirement to maintain it at a minimum of 4.0 months of imports cover to provide adequate buffer against short term shocks in the foreign exchange market. Commercial banks holdings decreased to USD 3,859.2 million in November 2022 from USD 4,196.8 million in November 2021.

Figure 2.10: Official Foreign Reserves (USD Million)

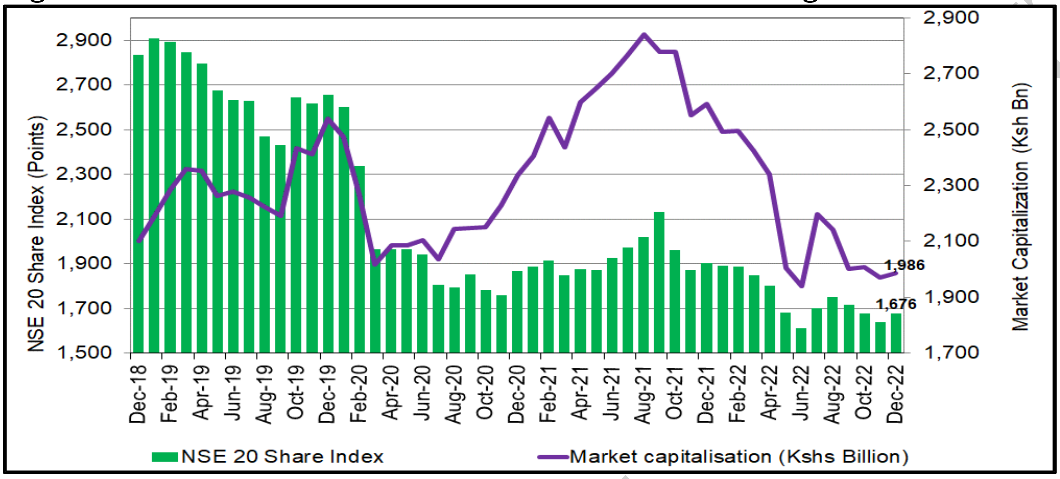


Source of Data: Central Bank of Kenya

Capital Markets Development

96. Activity in the capital markets slowed down in December 2022 compared to December 2021 due to the outflow of investors as advanced economies tightened their monetary policy amid recession fears. The NSE 20 Share Index declined to 1,676 points in December 2022 compared to 1,903 points in December 2021 while Market capitalization also declined to Ksh 1,986 billion from Ksh 2,593 billion over the same period **(Figure 2.11)**.

Figure 2.11: Performance of the Nairobi Securities Exchange



Source of Data: Nairobi Securities Exchange

2.3 Fiscal Performance

97. Budget execution in the first five months of FY 2022/23 progressed well. Revenues continued to record positive growth albeit revenue shortfall reflecting improvement in business environment, tax policy measures and enhanced revenue administration by the Kenya Revenue Authority. Revenue targets for the FY 2022/23 are also expected to be achieved considering the performance in the first five months.

98. Overall expenditures were below programme target underpinned by shortfalls recorded in revenue performance and inadequate liquidity in the government securities market. However, ministerial expenditure targets were not fully met partly due to low absorption of foreign and domestic financed projects. Disbursement to the counties was also short of the target for the period to November 2022.

Revenue Performance

99. Revenue collection to November 2022 grew by 10.6 percent compared to a growth of 29.5 percent in November 2021. This decline in rate of growth is attributed to the fact that the previous FY's growth was anchored on a lower base – a contraction recorded in the FY 2019/20 which had the effects of COVID-19 pandemic. As at end November 2022, the cumulative total revenue inclusive of Ministerial Appropriation in Aid (A-i-A) was Ksh 893.8 billion against a target of Ksh 912.9 billion. This performance was Ksh 19.1 billion below the set target.

100. Ordinary revenue to November 2022 recorded a growth of 9.5 percent compared to a growth of 27.2 percent in November 2021. This growth was also recorded in all broad categories of ordinary revenue. Specifically, Income tax grew by 10.3 percent, Value Added Tax (VAT) by 8.9 percent, Excise taxes by 7.9 percent, and Import duty by 18.8 percent. In nominal terms, ordinary revenue collection to November 2022 was Ksh 786.5 billion against a target of Ksh 818.7 billion. This performance was Ksh 32.2 billion below the target.

101. Ministerial A-i-A inclusive of the Railway Development Levy was Ksh 107.3 billion against a target of Ksh 94.3 billion recording a surplus of Ksh 13.1 billion reflecting timely reporting of Semi-Autonomous Government Agencies (SAGAs) A-i-A. Ministerial A-i-A revenue, recorded 19.0 percent growth for the period ending November 2022.

Expenditure Performance

102. Total expenditure and net lending for the period ending November 2022 was Ksh 1,096.6 billion which was below the projected amount of Ksh 1,183.7 billion by Ksh 87.1 billion. Recurrent spending amounted to Ksh 825.6 billion, development expenditure was Ksh 149.0 billion while transfer to County Governments was Ksh 122.1 billion.

103. Recurrent spending was below the projected target by Ksh 18.8 billion mainly on account of lower than targeted expenditure on pensions and other CFS and domestic interest. Development expenditure was below target by Ksh 26.0 billion on account of below target disbursements to both domestic and foreign financed programmes by Ksh 14.3 billion and Ksh 11.6 billion respectively.

104. Fiscal operations of the Government by end of November 2022 resulted in an overall deficit including grants of Ksh 199.5 billion against a projected deficit of Ksh 268.2 billion. This deficit was financed through net domestic borrowing of Ksh 180.7 billion and net foreign financing of Ksh 39.0 billion.

2.4 Fiscal Policy

105. The fiscal policy stance over the medium term aims at supporting the economic recovery agenda of the Government through a growth friendly fiscal consolidation plan designed to slowing the annual growth in public debt and implementing an effective liability management strategy, without compromising service delivery to citizens. This is expected to boost the country's debt sustainability position and ensure that Kenya's development agenda honours the principle of inter-generational equity.

106. The fiscal policy also indicates a deliberate convergence path towards the fiscal targets under the East African Community Monetary Union Protocol that sets a ceiling of fiscal deficit including grants of 3.0 percent of GDP and deficit excluding grants of 6.0 percent of GDP.

107. The fiscal policy will target to grow tax revenues above 17.8 percent of GDP in the FY 2023/24 and above 18.0 percent of GDP over the medium term **(Table 2.4)**. As part of the economic turnaround plan, the Government will scale up revenue collection efforts by the Kenya Revenue Authority (KRA) to Ksh 3.0

trillion in the FY 2023/24 and Ksh 4.0 trillion over the medium term. In order to achieve this, the Government will undertake a combination of both tax administrative and tax policy reforms.

108. On the tax administrative side, KRA will implement among others, the following measures:

i. Reduction of Value Added Tax (VAT) gap from 38.9 percent to 19.8 percent of the potential by fully rolling out electronic Tax Invoice Management System (eTIMS);
ii. Reduction of Corporate Income Tax (CIT) gap from 32.2 percent to 30.0 percent of the potential as envisaged in the KRA Corporate Plan;
iii. Integration of KRA tax system with the Telecommunication companies (Telcos);
iv. Tax base expansion in the informal sector. The potential taxable base of the informal sector is Ksh 2,800 billion as per the MSME survey;
v. Implementation of Rental Income Tax Measures by mapping rental properties; This will be achieved through enhanced field data analysis mopping up, integration of itax with National Lands Information Management System and use of a mobile App;
vi. Roll out of measures at the Customs and Border Control leveraging on technology and enhanced data analytics to enhance revenue per unit.
vii. Upscaling the technical capacity of KRA through skills, technology and additional staffing.

109. Going forward, KRA will address some of the challenges hampering enhanced tax compliance as follows:

i. Missing trader phenomenon/non/under declaration of sales and use of fictitious input claims through: the full roll out of eTIMS; restriction to eTIMS compliant invoices for income tax deductions and deployment of big data analytics to drive compliance interventions;
ii. Unavailability of critical 3rd Party Data: Lack of information from other Government Entities to support mobilization of tax revenues through: leveraging on Automation of systems for all key Government entities; integration of KRA tax systems with critical Government systems to allow seamless exchange of information for a 360-degree view of the taxpayers' economic transactions and enhancement of KRA capacity on big data analytics to drive compliance interventions;
iii. Monitoring of Excisable goods factories to ensure proper monitoring of production; under-declaration of excisable goods to evade taxes through: placement of resident officers to monitor production; providing strict time lines for factories to meet requirements; establishment of a Production

Monitoring Command Centre to monitor production in real time; enforce all factories to meet all factory requirements by use of metering and monitoring tools

iv. Close monitoring of payments from Government to ensure correct taxes are declared and paid;

v. The prevalence of counterfeit excisable products and stamps in the market will be addressed through: formation of a multi-Agency Team to investigate source of counterfeits and take necessary action; Data and intelligence driven field operations to take down counterfeiters; robust and effective market surveillance; regular reviews and upgrades of the security features of stamps and rolling out new excise stamps should it be deemed necessary;

vi. Concealment and declaration of imports and smuggling of excisable goods within the EAC region caused by the differential excise rates in the EAC region will be addressed through: increase synergy with the Customs Department on utilisation of scanners to identify excisable goods and ensure accurate declarations and harmonization of excise rates across the EAC region.

110. On the tax policy, the Government will implement various tax policy measures to further boost revenue collection. In addition, to further strengthen revenue mobilization efforts, the Government will finalise the development of the National Tax Policy and the Medium-Term Revenue Strategy (MTRS)for the period FY 2023/24 - 2026/27.

111. The National Tax Policy Framework will enhance administrative efficiency of the tax system, provide consistency and certainty in tax legislations and management of tax expenditure. On the other side, the Medium-Term Revenue Strategy will provide a comprehensive approach of undertaking effective tax system reforms for boosting tax revenues and improving the tax system over the medium term. The specific objectives for the MTRS are to:

i. raise ordinary revenue to GDP from 15.0 percent in the FY 2021/22 to 25 percent by 2030;

ii. increase tax compliance rate from 70 percent in the FY 2021/22 to 90 percent by 2030;

iii. align the tax policy objectives with other Government objectives such as ease of doing business, trade policies among others; and

iv. enhance collaboration between the Ministries, Departments and Agencies (MDAs), County Governments, private sector, civil society and the general public for enhancement of the domestic revenue mobilization.

112. On the spending side, total expenditures are projected to decline from 23.7 percent as a share of GDP in the FY 2021/22 to 22.3 percent as a share of GDP in

the FY 2026/27. The Government will sustain efforts to improve efficiency in public spending and ensure value for money by eliminating non priority expenditures; retiring expensive and unsustainable consumption subsidies; reducing tax exemptions; scaling up the use of Public Private Partnerships financing for commercially viable projects; and rolling out an end-to-end e-procurement system. In order to ease the burden of pension payments in future, the Government will continue with implementation of the Super Annuation Scheme for all civil servants below the age of 45 years that was rolled out in January 2021.

113. The Government will also strengthen public investment management by implementing the Public Investment Management (PIM) Regulations, 2022. This will enhance efficiency in identification and implementation of priority social and economic investment projects. This will further curtail runaway project costs, eliminate duplications and improve working synergy among implementation actors for timely delivery of development projects. To realize these benefits, the Government will roll-out and sensitize both the National Government and County Governments on the Regulations; develop and roll-out the Public Investment Management Information System (PIMIS) which automates the PIM process as outlined in the Regulations; and institutionalize a joint PIM-PPP planning framework to ensure that only projects with the highest social - economic returns are undertaken.

114. The above reforms on the revenue and expenditure side, will result in reduction in the fiscal deficit including grants from Ksh 849.2 billion (5.8 percent of GDP) in the FY 2022/23 to Ksh 695.2 billion (4.3 percent of GDP) in the FY 2023/24 and further to Ksh 832.6 billion (3.6 percent of GDP) in the FY 2026/27. This reduction will result in reduction in the growth of public debt thereby boosting the country’s debt sustainability position.

Table 2.4: Fiscal Framework (Ksh billion)

	FY 2020/21	FY 2021/22		FY 2022/23		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
	Prel. Actual	*Approved Revised II*	*Prel. Actual*	*Budget*	*Supp I Budget*	*Projections*			
	Ksh billions								
TOTAL REVENUE	**1,803.5**	**2,192.0**	**2,199.8**	**2,462.4**	**2,512.7**	**2,897.7**	**3,231.1**	**3,670.0**	**4,195.2**
Ordinary revenue	1,562.0	1,851.5	1,917.9	2,141.6	2,191.9	2,566.0	2,878.6	3,294.2	3,775.7
Ministerial Appropriation in Aid	241.5	340.4	281.9	320.8	320.8	331.7	352.5	375.8	419.5
TOTAL EXPENDITURE AND NET LENDING	**2,769.3**	**3,286.1**	**3,027.8**	**3,358.6**	**3,390.0**	**3,641.0**	**3,970.2**	**4,434.2**	**5,096.4**
Recurrent	1,813.3	2,227.3	2,135.3	2,271.0	2,352.7	2,422.3	2,646.3	2,916.4	3,390.3
Development	557.0	657.5	540.1	676.6	596.6	796.4	901.5	1,070.3	1,149.6
County Transfer	399.0	401.2	352.4	407.0	436.6	417.3	417.5	442.5	551.6
Contigency Fund	-	-	-	4.0	4.0	5.0	5.0	5.0	5.0
BALANCE EXCLUDING GRANTS	**(965.7)**	**(1,094.1)**	**(828.0)**	**(896.2)**	**(877.3)**	**(743.3)**	**(739.2)**	**(764.2)**	**(901.2)**
Grants	31.3	62.9	31.0	33.3	28.1	48.1	49.3	53.2	68.6
BALANCE INCLUSIVE OF GRANTS	**(934.4)**	**(1,031.2)**	**(797.0)**	**(862.9)**	**(849.2)**	**(695.2)**	**(689.8)**	**(711.0)**	**(832.6)**
Adjustment to cash basis	5.1	-	11.9	-	-	-	-	-	-
BALANCE INCLUSIVE OF GRANTS(cash basis	**(929.3)**	**(1,031.2)**	**(785.1)**	**(862.9)**	**(849.2)**	**(695.2)**	**(689.8)**	**(711.0)**	**(832.6)**
Discrepancy	*20.9*	-	*(37.3)*	-	-	-	*0.0*	*(0.0)*	-
TOTAL FINANCING	**950.2**	**1,031.2**	**747.8**	**862.9**	**849.2**	**695.2**	**689.8**	**711.0**	**832.6**
Net Foreign Financing	323.3	343.1	142.5	280.7	298.4	198.6	99.7	125.9	169.7
Net Domestic Financing	626.9	688.1	605.3	582.2	550.9	496.6	590.2	585.0	662.9
Nominal GDP (Fiscal year)	**11,370.3**	**12,646.2**	**12,752.2**	**14,002.5**	**14,521.6**	**16,290.3**	**18,180.2**	**20,436.9**	**22,872.3**

	FY2020/21	FY 2021/22		FY 2022/23		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27
	Prel. Actual	*Approved Revised II*	*Prel. Actual*	*Budget*	*Supp I Budget*	*Projections*			
	As a share of GDP								
TOTAL REVENUE	**15.9**	**17.3**	**17.3**	**17.6**	**17.3**	**17.8**	**17.8**	**18.0**	**18.3**
Ordinary revenue	13.7	14.6	15.0	15.3	15.1	15.8	15.8	16.1	16.5
Ministerial Appropriation in Aid	2.1	2.7	2.2	2.3	2.2	2.0	1.9	1.8	1.8
	-	-	-	-	-	-	-	-	-
TOTAL EXPENDITURE AND NET LENDING	**24.4**	**26.0**	**23.7**	**24.0**	**23.3**	**22.4**	**21.8**	**21.7**	**22.3**
Recurrent	15.9	17.6	16.7	16.2	16.2	14.9	14.6	14.3	14.8
Development	4.9	5.2	4.2	4.8	4.1	4.9	5.0	5.2	5.0
County Transfer	3.5	3.2	2.8	2.9	3.0	2.6	2.3	2.2	2.4
Contigency Fund	-	-	-	0.0	0.0	0.0	0.0	0.0	0.0
	-	-	-	-	-	-	-	-	-
BALANCE EXCLUDING GRANTS	**(8.5)**	**(8.7)**	**(6.5)**	**(6.4)**	**(6.0)**	**(4.6)**	**(4.1)**	**(3.7)**	**(3.9)**
Grants	0.3	0.5	0.2	0.2	0.2	0.3	0.3	0.3	0.3
BALANCE INCLUSIVE OF GRANTS	**(8.2)**	**(8.2)**	**(6.2)**	**(6.2)**	**(5.8)**	**(4.3)**	**(3.8)**	**(3.5)**	**(3.6)**
Adjustment to cash basis	0.0	-	0.1	-	-	-	-	-	-
BALANCE INCLUSIVE OF GRANTS(cash basis	**(8.2)**	**(8.2)**	**(6.2)**	**(6.2)**	**(5.8)**	**(4.3)**	**(3.8)**	**(3.5)**	**(3.6)**
Discrepancy	*0.2*	-	*(0.3)*	-	-	-	*0.0*	*(0.0)*	-
TOTAL FINANCING	**8.4**	**8.2**	**5.9**	**6.2**	**5.8**	**4.3**	**3.8**	**3.5**	**3.6**
Net Foreign Financing	2.8	2.7	1.1	2.0	2.1	1.2	0.5	0.6	0.7
Net Domestic Financing	5.5	5.4	4.7	4.2	3.8	3.0	3.2	2.9	2.9
Nominal GDP (Fiscal year)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source of Data: National Treasury

2.5 Economic Outlook

115. The global economic outlook remains highly uncertain with growth projected to slowdown from 3.2 percent in 2022 to 2.7 percent in 2023. This projected growth in 2023 was revised downwards from the initial projection of 2.9 percent largely reflecting a slowdown in advanced economies despite a gradual pick up in the emerging market and developing economies.

116. Domestically, the economy continued to expand, albeit at a slower pace than the 7.5 percent recorded in 2021. Real GDP grew by 5.5 percent in the first three quarters of 2022 (6.7 percent in quarter one, 5.2 percent in quarter two and 4.7 percent in quarter three) supported by the ongoing recovery in the services sector, driven by accommodation and food services, wholesale and retail trade, finance and insurance, education and transport and storage.

117. The economy is expected to grow by 5.5 percent in 2022 and recover in 2023 to 6.1 percent and maintain that momentum over the medium-term (in terms of fiscal years the economic growth is projected at 5.8 percent in the FY 2022/23 and 6.1 percent in the FY 2023/24). This growth will be supported by a broad-based private sector growth, including recoveries in agriculture while the public sector consolidates. From an expenditure perspective, private consumption is expected to support aggregate demand, supported by the ongoing labour market recovery, improved consumer confidence, and resilient remittances **(Table 2.5 and Annex Table 1)**.

118. The growth outlook will be reinforced by the Government's development agenda geared towards economic turnaround and inclusive growth. Special focus will be placed on increased employment, more equitable distribution of income, social security while also expanding the tax revenue base, and increased foreign exchange earnings. The economic turnaround programme will seek to increase investments in at least five sectors envisaged to have the biggest impact on the economy as well as on household welfare. These include Agriculture; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry.

119. In furtherance of the agenda on inclusive growth and innovation in Micro, Small, and Medium Enterprises (MSMEs), the Government has launched the Hustlers Fund, as an intervention to correct market failure problems at the bottom of the pyramid. This program aims to lift those at the bottom of the pyramid through structured products in personnel finance that includes savings, credit, insurance and investment. To address the adverse impact of the ongoing drought, the Government in partnership with the Development Partners and the private sector under the auspices of the National Steering Committee on Drought Response has provided response to affected persons, regions and communities. The Committee will work with both the National and County Governments in strengthening the national capacity for resilient recovery to protect development gains from recurrent drought.

Table 2.5: Macroeconomic Framework

	2020/21	2021/22		2022/23		2023/24		2024/25		2025/26		2026/27	
	Prel. Act	Approved Revised II	Prel. Act	Budget	Supp I Budget	BROP'22	BPS'23	BROP'22	BPS'23	BROP'22	BPS'23	BROP'22	BPS'23
annual percentage change, unless otherwise indicated													
National Account and Prices													
Real GDP	3.6	6.8	6.5	5.8	5.8	6.1	6.1	6.2	6.2	6.1	6.1	6.2	6.2
GDP deflator	5.0	4.8	6.2	6.1	6.9	5.8	5.8	4.8	4.8	5.9	5.9	6.0	6.0
CPI Index (eop)	6.3	5.2	6.9	5.5	6.4	5.4	5.4	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	5.7	5.4	6.8	6.0	7.0	5.8	5.8	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	-3.6	1.1	1.1	-0.4	1.1	-0.6	-0.6	-1.8	-1.8	-0.7	-0.7	0.6	0.6
in percentage of GDP, unless otherwise indicated													
Investment and Saving													
Investment	20.1	23.9	18.8	19.3	17.9	18.9	18.9	18.9	18.9	18.6	18.6	18.6	18.6
Central Government	4.9	4.7	4.2	4.7	3.9	4.7	4.7	4.8	4.8	5.2	5.2	4.9	4.9
Other	15.2	19.1	14.6	14.6	14.1	14.2	14.2	14.1	14.1	13.4	13.4	13.6	13.6
Gross National Saving	14.1	19.1	12.9	14.2	13.1	13.6	13.6	13.5	13.5	13.3	13.3	13.2	13.2
Central Government	-2.2	-5.3	-1.5	-0.7	-1.1	1.1	1.1	1.6	1.6	2.1	2.1	1.7	1.7
Other	16.3	24.4	14.5	14.9	14.2	12.5	12.5	11.9	11.9	11.2	11.2	11.5	11.5
Central Government Budget													
Total revenue	15.9	17.1	17.3	17.6	17.3	17.8	17.8	17.8	17.8	18.0	18.0	18.3	18.3
Total expenditure and net lending	24.4	25.6	23.8	24.0	23.3	22.4	22.4	21.8	21.8	21.7	21.7	22.3	22.3
Overall Fiscal balance excl. grants	-8.5	-8.5	-6.5	-6.4	-6.0	-4.6	-4.6	-4.1	-4.1	-3.7	-3.7	-3.9	-3.9
Overall Fiscal balance, incl. grants, cash basis	-8.2	-8.0	-6.2	-6.2	-5.8	-4.3	-4.3	-3.8	-3.8	-3.5	-3.5	-3.6	-3.6
Primary budget balance	-3.8	-3.3	-1.6	-1.2	-1.1	0.3	0.3	0.7	0.7	0.8	0.8	0.7	0.7
External Sector													
Current external balance, including official transfers	-6.0	-4.8	-5.9	-5.0	-4.8	-5.2	-5.2	-5.4	-5.4	-5.3	-5.3	-5.4	-5.4
Gross reserves in months of this yr's imports	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.9	5.9	5.9	5.9	6.0	6.0
Memorandum Items:													
Nominal GDP (in Ksh Billion)	11,370	12,646	12,736	14,002	14,522	16,290	16,290	18,180	18,180	20,437	20,437	22,872	22,872
Source: National Treasury													
Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper; SGR = Standard Gauge Railway													

Source of Data: The National Treasury

2.6 Risks to the Economic Outlook

120. There are down side risks to this macroeconomic outlook emanating from domestic as well as external sources. On the domestic front, risks emanate from climate change resulting in unfavourable weather conditions. This could affect agricultural production and result to domestic inflationary pressures.

121. On the external front, uncertainties in the global economic outlook have also increased which could impact on the domestic economy. These risks include: the possible worsening of the Russia - Ukraine conflict which could heighten the risk of oil and commodity price volatility and elevated inflationary pressures; lingering effects of COVID-19 (coronavirus) pandemics; and global monetary policy tightening, especially in the United States, could increase volatility in the financial markets.

122. The upside risk to the domestic economy relate to faster than projected rebound in economic activities that would result in higher Government revenues providing fiscal space that would support fiscal consolidation. The Kenyan Government continues to monitor the domestic and external environment and will take appropriate policy measures to safeguard the economy against the adverse effects of the risks if they were to materialize.

III. BUDGET FOR FY 2023/24 AND THE MEDIUM TERM

3.1 Fiscal Framework Summary

123. The fiscal framework for the FY2023/24 and the medium-term budget is based on the Government's policy priorities and macroeconomic policy framework set out in Chapter I and Chapter II. To support the economic recovery agenda, the Government will continue with the fiscal consolidation plan by containing expenditures and enhancing mobilization of revenues in order to slow down growth in public debt without compromising service delivery. This is expected to boost the country's debt sustainability position and ensure that Kenya's development agenda honours the principle of inter-generation equity.

Revenue Projections

124. In the FY 2023/24 revenue collection including Appropriation-in-Aid (A.i.A) is projected to increase to Ksh 2,897.7 billion (17.8 percent of GDP) up from the projected Ksh 2,512.7 billion (17.3 percent of GDP) in the FY 2022/23. Revenue performance will be underpinned by the on-going reforms in tax policy and revenue administration measures geared towards expanding the tax base. Ordinary revenues will amount to Ksh 2,566.0 billion (15.8 percent of GDP) in FY 2023/24 from the estimated Ksh 2, 191.9 billion (15.1 percent of GDP) in FY 2022/23.

Expenditure Projections

125. While the Government expenditure as a share of GDP for FY 2023/24 is projected to decline to 22.4 percent, the overall nominal expenditure and net lending is projected at Ksh 3,641.0 billion from the projected Ksh 3,390.0 billion (23.3 percent of GDP) in the FY 2022/23 budget. The expenditures comprise of recurrent of Ksh 2,422.3 billion (14.9 percent of GDP) and development of Ksh 796.4 billion (4.9 percent of GDP).

Deficit Financing

126. Reflecting the projected expenditures and revenues, the fiscal deficit (including grants), is projected at Ksh 695.2 billion (4.3 percent of GDP) in FY 2023/24 against the estimated overall fiscal balance of Ksh 849.2 billion (5.8 percent of GDP) in FY 2022/23.

127. The fiscal deficit in FY 2023/24, will be financed by net external financing of Ksh 198.6 billion (1.2 percent of GDP), and net domestic borrowing of Ksh 496.6 billion (3.0 percent of GDP)

3.2 FY 2023/24 and Medium-Term Budget Priorities

128. The FY 2023/24 and the Medium Term Budget framework builds up on the Government's efforts to stimulate and sustain economic activity, mitigate the adverse impact of COVID-19 pandemic on the economy and re-position the economy on a sustainable and inclusive growth trajectory. This will be achieved through implementation of programmes supporting economic recovery and additional priority programs of the Government. The government will eliminate

the remaining unsustainable and consumption driven fuel subsidy by end of December 2022, but will continue to offer support to agricultural production through the fertilizer subsidy programme. In addition, the Government through the Financial Inclusion Fund will inspire growth and innovation in the Micro, Small and Medium Enterprises (MSME) sector and boost economic growth and entrance the saving culture among Kenyans. These priority programmes aim at bringing down the cost of living; eradicating hunger; creating jobs; and provide the greater majority of our citizens with much needed social security while expanding the tax revenue base and improving foreign exchange balance.

129. Additionally, public spending will be directed towards the most critical needs of the country with the aim of achieving quality outputs and outcomes with optimum utilization of resources. Further, the MDAs will be encouraged to adopt efficiency in allocation of resources through cost budgeting and reviewing the portfolio of externally funded projects to restructure and re-align with the Government priority programmes and reduce non-priority spending.

3.3 Budgetary Allocations for the FY2022/23 and the Medium-Term

130. The total budget for FY 2023/24 is projected at Ksh 3,641.0 billion. The allocations to the three arms of Government including sharable revenues to the County Governments is summarized in **Table 3.1**.

Table 3.1: Summary Budget Allocations for the FY 2023/24 – 2025/26 (Ksh Million)

S/NO.	Details	Financial Years			
		Approved Original Budget	BPS Projection		
		2021/22	2022/23	2023/24	2024/25
1.0	National Government	1,942,008.8	2,075,014.6	2,192,370.0	2,306,421.9
	Executive	1,886,207.9	2,017,653.3	2,132,412.3	2,242,698.8
	Parliament	37,882.8	38,476.6	39,883.9	41,349.4
	Judiciary	17,918.2	18,884.7	20,073.8	22,373.7
2.0	Consolidated Fund Services	718,316.8	864,125.0	908,804.0	982,520.0
3.0	County Government	370,000.0	370,000.0	375,000.0	380,220.0
	Total……………….Kshs.	**3,030,325.6**	**3,309,139.6**	**3,476,174.0**	**3,669,161.9**
% Share in the Total Allocation					
1.0	National Government	64.1	62.7	63.1	62.9
	Executive	62.2	61.0	61.3	61.1
	Parliament	1.3	1.2	1.1	1.1
	Judiciary	0.6	0.6	0.6	0.6
		-	-	-	-
2.0	Consolidated Fund Services	23.7	26.1	26.1	26.8
3.0	County Government	12.2	11.2	10.8	10.4
Notes**					
**** Consolidated Fund Services(CFS)is composed of domestic interest, foreign interest and pension***					
*****County Government allocation is composed of sharable allocation***					

Source of Data: National Treasury

Criteria for Resource Allocation

131. The following criteria guided the allocation of resources within the three arms of Government and among MDAs for FY 2023/24 and over the medium term:

i. Linkage of Programmes that support Economic Recovery Agenda;
ii. Linkage of the programme with the priorities of Medium-Term Plan IV of the Vision 2030;
iii. Degree to which a programme addresses job creation and poverty reduction;
iv. Degree to which a programme addresses the core mandate of the MDAs,
v. Cost effectiveness and sustainability of the programme;
vi. Extent to which the Programme seeks to address viable stalled projects and verified pending bills; and
vii. Requirements for furtherance and implementation of the Constitution.

132. The baseline estimates reflect the current ministerial spending levels in sector programmes. In the recurrent expenditure category, non-discretionary expenditures take first charge. These include payment of public debts and interest therein, salaries for Constitutional office holders and pensions.

133. Development expenditures have been allocated on the basis of the flagship projects in Vision 2030, the Economic Recovery Agenda and the MTP IV priorities. The following criteria was used in apportioning capital budget:

a. *On-going projects:* emphasis was given to completion of on-going capital projects and in particular infrastructure projects with high impact on poverty reduction, equity and employment creation;

b. *Counterpart funds:* priority was also given to adequate allocations for donor counterpart funds which is the portion that the Government must finance in support of the projects financed by development partners;

c. *Post COVID-19 Recovery:* Consideration was further given to interventions supporting Post COVID-19 recovery; and

d. *Strategic policy interventions:* further priority was given to policy interventions covering the entire nation, regional integration, social equity and environmental conservation.

3.4 Details of Sector Priorities

134. **Table 3.2** provides the projected baseline ceilings for the FY2023/24 and the medium-term, classified by sector. The BPS Sector ceilings were enhanced on account of additional programmes, completion of ongoing projects and additional expenditures tied to A-i-A revenue collection.

Table 3.2: Summary of Budget Allocations for the FY2023/24 – 2025/26 (Ksh Million)

Code	Sector		Approved Budget	BROP Ceiling			%Share In Total Ministerial Expenditure			
			2022/23	2023/24	2024/25	2025/26	2022/23	2023/24	2024/25	2025/26
010	AGRICULTURE, RURAL & URBAN DEVELOPMENT (ARUD)	**Sub_Total**	**68,959.5**	**67,671.2**	**81,834.3**	**90,855.2**	**3.3**	**3.0**	**3.3**	**3.4**
		Rec_Gross	27,059.7	28,229.2	29,409.0	30,644.2	1.9	1.9	1.9	1.8
		Dev_Gross	41,899.8	39,442.0	52,425.3	60,211.0	5.9	5.0	5.8	6.5
020	ENERGY, INFRASTRUCTURE AND ICT	**Sub_Total**	**407,760.1**	**398,252.7**	**426,379.7**	**444,752.3**	**19.2**	**17.7**	**17.2**	**16.7**
		Rec_Gross	131,010.0	110,344.4	115,217.2	120,330.6	9.3	7.5	7.3	6.9
		Dev_Gross	276,750.1	287,908.4	311,162.5	324,421.7	38.7	36.5	34.7	35.2
030	GENERAL ECONOMIC AND COMMERCIAL AFFAIRS (GECA)	**Sub_Total**	**26,032.0**	**33,894.8**	**36,937.7**	**37,571.6**	**1.2**	**1.5**	**1.5**	**1.4**
		Rec_Gross	19,076.8	19,396.3	19,776.0	20,299.5	1.4	1.3	1.3	1.2
		Dev_Gross	6,955.2	14,498.5	17,161.7	17,272.1	1.0	1.8	1.9	1.9
040	HEALTH	**Sub_Total**	**122,519.3**	**148,293.3**	**158,166.5**	**166,713.2**	**5.8**	**6.6**	**6.4**	**6.3**
		Rec_Gross	68,503.0	74,155.7	77,091.1	80,164.8	4.9	5.1	4.9	4.6
		Dev_Gross	54,016.3	74,137.6	81,075.4	86,548.4	7.6	9.4	9.0	9.4
050	EDUCATION	**Sub_Total**	**544,519.5**	**580,568.0**	**590,361.3**	**604,059.6**	**21.7**	**22.3**	**23.1**	**22.5**
		Rec_Gross	515,600.7	544,255.0	556,197.8	569,549.5	38.3	36.4	35.9	36.7
		Dev_Gross	28,918.8	36,313.0	34,163.5	34,510.1	1.4	1.6	1.4	1.3
060	GOVERNANCE, JUSTICE, LAW AND ORDER (GJLO)	**Sub_Total**	**234,408.1**	**234,746.1**	**245,246.2**	**255,750.1**	**11.1**	**10.4**	**9.9**	**9.6**
		Rec_Gross	224,127.2	222,813.9	230,379.7	239,853.8	16.0	15.2	14.6	13.8
		Dev_Gross	10,280.9	11,932.3	14,866.5	15,896.3	1.4	1.5	1.7	1.7
070	PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS (PAIR)	**Sub_Total**	**356,857.6**	**371,396.9**	**478,202.0**	**611,526.2**	**16.8**	**16.5**	**19.3**	**22.9**
		Rec_Gross	177,982.1	205,757.2	283,932.8	410,430.8	12.7	14.1	18.0	23.5
		Dev_Gross	178,875.5	165,639.7	194,269.2	201,095.4	25.0	21.0	21.7	21.8
080	NATIONAL SECURITY	**Sub_Total**	**177,811.0**	**220,748.7**	**243,449.2**	**229,229.3**	**8.4**	**9.8**	**9.8**	**8.6**
		Rec_Gross	174,343.0	187,732.7	193,964.2	199,014.3	12.4	12.8	12.3	11.4
		Dev_Gross	3,468.0	33,016.0	49,485.0	30,215.0	0.5	4.2	5.5	3.3
090	SOCIAL PROTECTION, CULTURE AND RECREATION	**Sub_Total**	**73,213.5**	**74,358.2**	**79,033.0**	**79,872.1**	**3.5**	**3.3**	**3.2**	**3.0**
		Rec_Gross	41,674.0	43,560.7	44,638.9	45,224.5	3.0	3.0	2.8	2.6
		Dev_Gross	31,539.5	30,797.5	34,394.1	34,647.6	4.4	3.9	3.8	3.8
0100	ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	**Sub_Total**	**107,178.2**	**122,877.8**	**136,559.7**	**144,394.4**	**5.1**	**5.5**	**5.5**	**5.4**
		Rec_Gross	24,527.5	26,705.0	28,749.1	28,846.6	1.7	1.8	1.8	1.7
		Dev_Gross	82,650.7	96,172.8	107,810.6	115,547.8	11.6	12.2	12.0	12.6
	GRAND TOTAL	**Sub_Total**	**2,119,258.8**	**2,252,807.8**	**2,476,169.6**	**2,664,724.1**	**100.0**	**100.0**	**100.0**	**100.0**
		Rec_Gross	1,403,904.0	1,462,950.1	1,579,355.8	1,744,358.7	**66.2**	**64.9**	**63.8**	**65.5**
		Dev_Gross	715,354.8	789,857.7	896,813.8	920,365.4	**33.8**	**35.1**	**36.2**	**34.5**

Source of Data: National Treasury

Programme Performance Information for FY 2023/24 - FY 2026/27 MTEF Period

135. **Annex Table 4a** provides a summary of expenditures by programmes for the FY 2023/24– 2026/27 period. **Annex Table 4b** provides a detailed report with information on programmes outputs, key performance indicators, and the set targets for the FY 2023/24 – 2026/27 period.

3.5 Public Participation/ Sector Hearings and Involvement of Stakeholders

136. Public participation and involvement of stakeholders in the medium-term budget process is a constitutional requirement. In fulfilment of this requirement, Sector Working Groups (SWGs) were convened to develop the sector reports, which were subjected to public hearings for the FY 2023/24 and medium-term budget were held between 11th and 13th January, 2023. **Annex Table 5** provides a summary of policy issues raised during the Public Hearings and the responses.

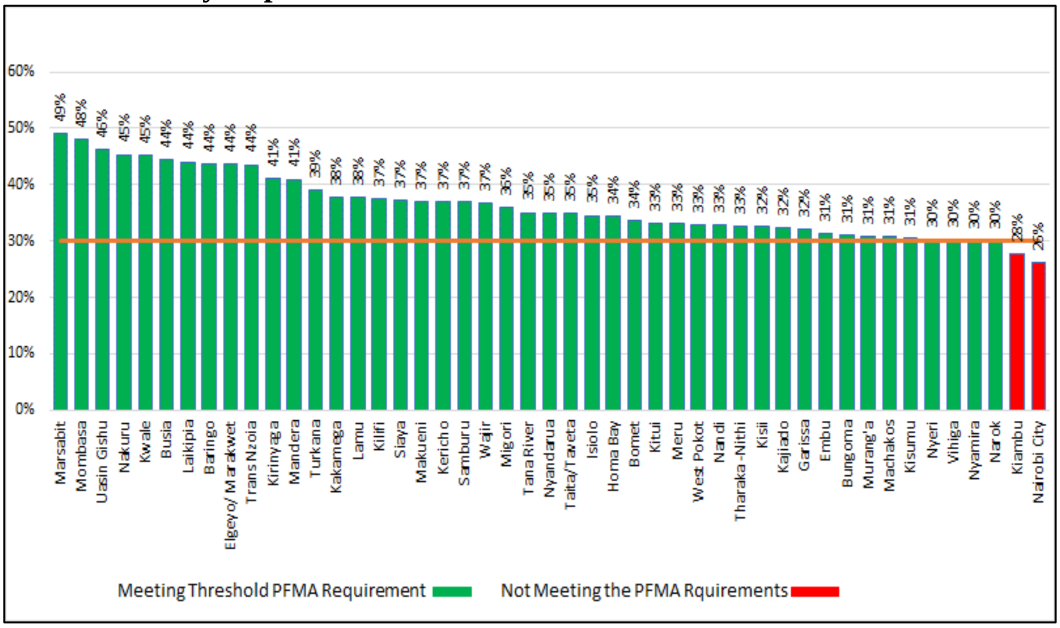
IV. COUNTY FINANCIAL MANAGEMENT AND DIVISION OF REVENUE

4.1 County Governments’ Compliance with Fiscal Responsibility Principles

4.1.1 Compliance with the Requirement on Development Spending Allocations

137. County Governments are required to allocate a minimum of 30 percent of their budget over medium-term to development expenditure as provided for under Section 107 (2) (b) of the PFMA, 2012. All the County Governments except Nairobi City County and Kiambu complied with this legal requirement and allocated at least 30 percent of their approved budget to development in FY 2021/22 **(Figure 4.1)**.

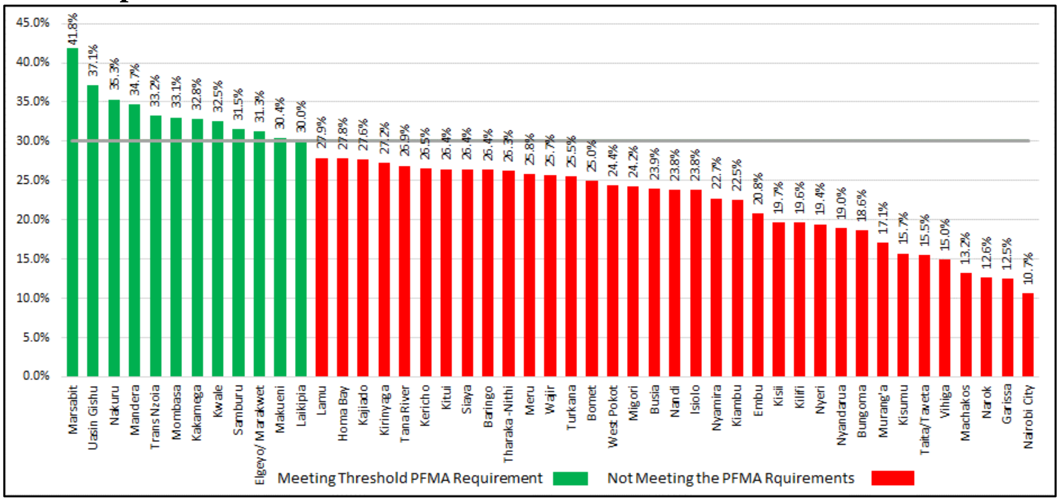
Figure 4.1: FY 2021/22 Budgeted Development Expenditure as a Percentage of Total County Expenditure



Source of Data: Controller of Budget

138. Even though most county governments allocate a minimum of 30 percent to development expenditure, a majority of them do meet this requirement in terms of actual expenditure on development. During the FY 2021/22, only 12 County Governments were able to utilize at least 30 percent of their total expenditure on development. The County Government of Marsabit spent 41.8 percent, Uasin Gishu 37.1 percent and Nakuru 35.3 percent. On the other hand, a total of 35 County Governments spent less than 30 percent on development in FY 2021/22. Nairobi City County Government had the lowest expenditure at 10.7 percent while Narok and Garissa Counties spent 12.6 percent and 12.5 percent respectively **(Figure 4.2)**.

Figure 4.2: FY 2021/22 Actual Development Expenditures as a Percentage of Total Expenditure

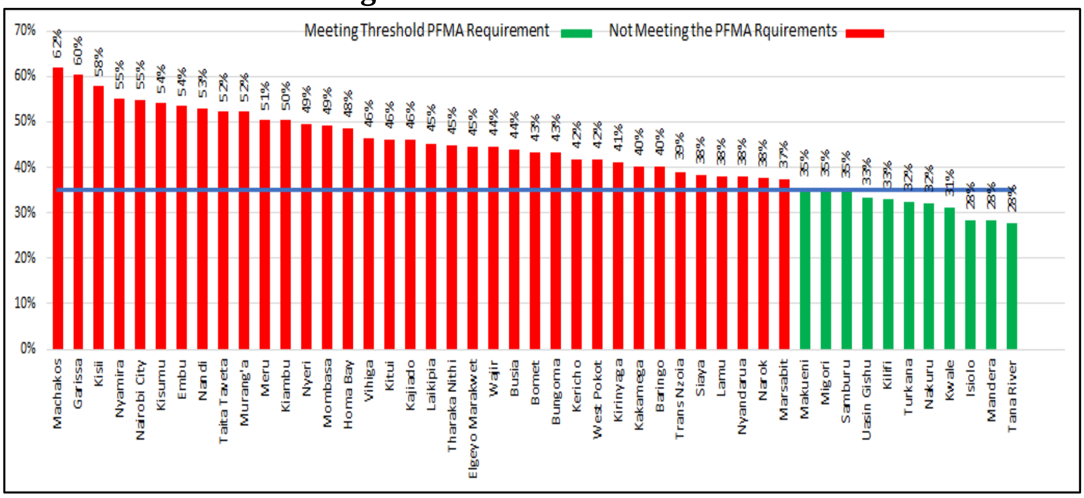


Source of Data: Controller of Budget

4.1.2 Compliance with the Requirement on Expenditure on Wages and Benefits

139. County Governments are required under Regulation 25(1) (b) of the PFM (County Governments) Regulations, 2015 to ensure that expenditure on wages and benefits does not exceed 35 percent of their total revenue. A report by the Controller of Budget on review of County Government's budget implementation for FY 2021/22 shows that only 11 County Government's expenditure on wages and benefits were within the legal threshold. The County Governments of Tana River, Mandera and Isiolo had the lowest expenditure on wages and benefits at 28% percent. The report further revealed that 36 County Governments spent beyond the legal threshold. Machakos spent 62 percent followed by Garissa at 60 percent and Kisii at 58 percent **(Figure 4.3)**. County Governments are called upon to put in place measures that can move them towards meeting the legal threshold as provided by law.

Figure 4.3: FY 2021/22 County Governments' Actual Expenditures on Wages and Benefits as a Percentage of Total Actual Revenue

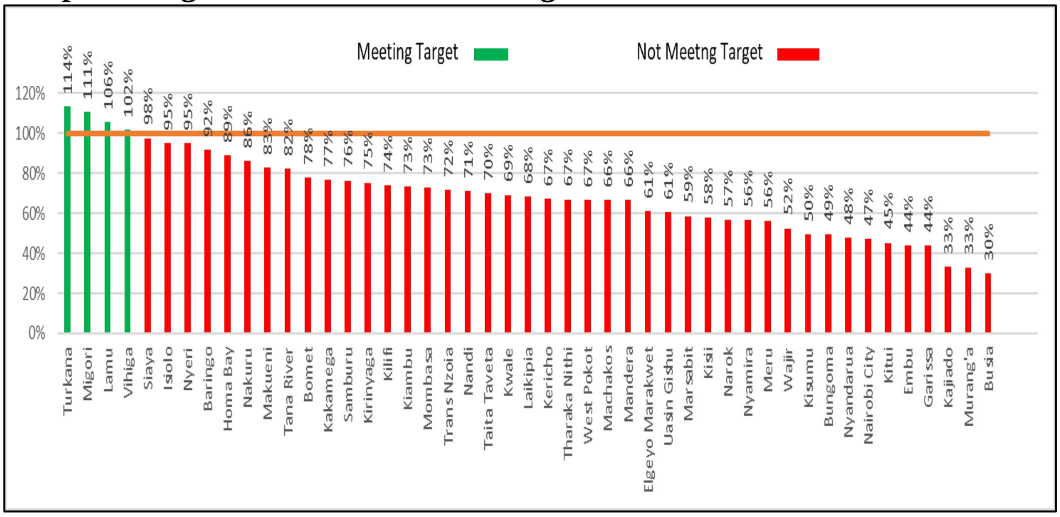


Source of Data: Controller of Budget

4.2 Enhancement of County Governments' Own-Source-Revenue

140. During the FY 2021/22 County Governments were able to raise a total of Ksh 35.9 billion in Own Source Revenue (OSR) against an annual target of Ksh 60.4 billion **(Figure 4.4)**. This represents 59 percent of the annual OSR target in FY 2021/22. Only four County Governments were able to collect more than one hundred percent of their annual OSR target in FY. These County Governments are Turkana, Migori, Lamu and Vihiga Counties.

Figure 4.4: FY 2020/21 Actual Revenue Collected by the County Governments as a percentage of Annual Revenue Target



Source of Data: Controller of Budget

141. A report of the County Governments by the Commission on Revenue Allocation on Comprehensive Own Source Revenue Potential and Tax Gap published in June 2022, estimates the revenue potential of all the 47 County Governments at Ksh. 215.6 billion against the current OSR collections of Ksh 35.9 billion in FY 2021/22. In order to improve on their OSR collections, the report recommends the adoption of automatic and cashless payments systems as well as streamlining of taxation and fees structure by the County Governments. In addition, the report recommends the need to strengthen collaboration and data sharing between different organizations and departments within and outside the County Governments in order to enable the Counties to monitor their revenue base, evaluate their revenue raising activities and adopt an evidence-based approach to OSR policy decision making.

142. In order to support the County Governments to enhance their Own Source Revenue, the National Treasury in consultation with the County Governments and other stakeholders developed the National Rating Bill and the County Governments (Revenue Raising Process), Bill. The objective of the National Rating Bill is to unlock more revenues for the county governments from property taxes. On the other hand, the County Governments (Revenue Raising Process), Bill outlines the process to be followed by counties in exercising their power under Articles 209 and 210 of the Constitution to impose, vary or waiver taxes, fees, levies and other charges.

143. Since the two bills lapsed in the 12th Parliament, the National Rating Bill has been republished by Parliament while the County Governments (Revenue Raising Process), Bill has been resubmitted to Cabinet to consider and approve its re-submission to the 13th Parliament for enactment into law.

144. Contribution in Lieu of Rates (CILOR) are rates payable to the County Governments in respect of public land as provided for under the Valuation for Rating Act (Cap 266); Rating Act (Cap 267) and the Valuation for Rating (Public Land) Rules. Prior to devolution, the defunct local authorities received CILOR from the Central Government for public land within their jurisdiction. However, since devolution, only Laikipia County Government received CILOR from the National Government through a supplementary budget. This is mainly due to inadequate legal framework for claiming CILOR, widespread lack of up-to-date valuation rolls to support imposition of property rates and counties being unfamiliar with payment of CILOR procedures. The National Treasury together with the other stakeholders are working on the modalities of how the outstanding CILOR will be paid to the respective counties.

145. As part of the implementation of the National Policy to Support County Governments enhance their Own Source Revenue, the Commission on Revenue Allocation (CRA) in collaboration with the National Treasury and other stakeholders is in the process of developing a model tariffs and pricing policy. The County Governments are expected to customize this model policy to develop their respective tariffs and pricing policy in line with Section 120 of the County Government Act, 2012. The tariffs and pricing policy will form the basis for levying fees and charges by the County Governments.

4.3 Prudent Management of Fiscal Risks

4.3.1 Pending Bills

146. According to Section 94 (1) (a) of the PFM Act, 2012, failure to make any payments as and when due by a State organ or a public entity may be an indicator of a serious material breach or a persistent material breach of measures established under the Act. In this context, Article 225 of the Constitution read together with Section 96 of the PFM Act gives the Cabinet Secretary responsible for Finance powers to stop transfer of funds to the concerned State organ. A special audit by Office of the Auditor General (OAG) verified eligible pending bills by County Governments amounting to Ksh 48.1 billion as at 30th June, 2020. In addition, Ksh 108.1 billion worth of pending bills was found to be ineligible for payment due to lack of documentation to support services rendered or work done.

147. A report by the Controller of Budget (CoB) indicates that by 21st December 2022, Counties had settled Ksh. 22.9 billion (47.6% of the eligible pending bills) leaving an outstanding balance of Kshs. 25.1 billion. During this period, the National Government released to the Counties significant resources to enable them clear their pending bills.

148. In relation to the ineligible pending bills, the Intergovernmental Budget and Economic Council (IBEC) through a resolution of 18th June 2019 instructed all County Governments to establish an Ineligible Pending Bills Committee to verify

these bills. Once verified, it was resolved that the arrears should be prioritized and paid. As at 21st December, 2022, a total of Ksh. 1.8 billion of the ineligible pending bills had been paid by the County Governments, leaving a balance of Ksh. 106.2 billion.

149. In order to ensure that pending bills do not accumulate, a number of mechanisms have been put in place. In a Circular No.2/2022 dated 24th March 2022, the National Treasury informed all Governors and County Executive Committee Members (CECMs) for Finance to urgently ensure outstanding pending bills are paid as soon as possible so as to comply with the PFM act and most importantly avoid disrupting the operations and other financial obligations of the county government due to stoppage of monthly disbursements. Other measures geared at ensuring that there is no further accumulation of pending bills include:

a) All Counties are to regularly report on pending bills in accordance with the financial reporting template by the Public Service Accounting Standards Board (PSASB). Further to this, the National Treasury issued a Circular Ref: AG.3/83/1/Vol.VII (22) dated 11th May 2022 to all CECMs for Finance on Year End Closing Procedures for Financial Year 2021/2022. According to this Circular Part 3.15 (ix), County Governments are required to disclose in a note to the financial statements, details of all pending bills, including the date, beneficiary, description and amount and the reason why the amount was not settled by the due date.
b) The CoB will continue to provide regular updates on the progress made on settlement of eligible pending bills; and,
c) County Governments are to provide monthly payment plans for outstanding pending bills which aim at settling the pending bills on a First-In First-Out basis.

Table 4.1: Payment of 2020 Audited Pending Bills by County Governments as at 21st December 2021

A Summary of OAG County Government Pending Bills as at 30th June 2020(EXECUTIVE)							
Updated Report as of 21st December 2022							
County Name	**Eligible Pending Bills**	**Amount Paid so far**	**Balance**	**Ineligible Pending Bills**	**Amount Paid so far**	**Balance**	**Total Outstanding**
Baringo	404,682,061	171,302,755	233,379,306	57,709,448	-	57,709,448	291,088,754
Bomet	575,277,293	540,142,991	35,134,302	177,803,997	-	177,803,997	212,938,299
Bungoma	280,568,664	247,016,877	33,551,787	102,669,258	-	102,669,258	136,221,045
Busia	735,462,434	497,454,553	238,007,881	160,041,266	-	160,041,266	398,049,147
Elgeyo/Marakwet	97,250,631	62,848,774	34,401,857	11,657,517	-	11,657,517	46,059,374
Embu	376,985,675	289,645,685	87,339,990	260,720,598	119,943,842	140,776,756	228,116,746
Garissa	1,173,876,512	622,602,867	551,273,645	4,428,629,228	-	4,428,629,228	4,979,902,873
Homa Bay	525,179,984	286,039,857	239,140,127	400,219,060	-	400,219,060	639,359,187
Isiolo	963,669,236	562,336,466	401,332,770	208,912,399	-	208,912,399	610,245,169
Kajiado	1,389,961,092	420,893,832	969,067,260	1,627,807,464	-	1,627,807,464	2,596,874,724
Kakamega	1,198,949,826	1,015,355,470	183,594,356	251,246,426	9,807,390	241,439,036	425,033,392
Kericho	1,259,577,667	544,182,280	715,395,387	268,911,420	-	268,911,420	984,306,807
Kiambu	3,365,130,484	53,055,801	3,312,074,683	881,170,421	56,081,899	825,088,522	4,137,163,205
Kilifi	610,835,144	464,842,712	145,992,432	581,780,751	-	581,780,751	727,773,183
Kirinyaga	983,032,372	493,656,554	489,375,818	494,719,011	-	494,719,011	984,094,829
Kisii	758,725,977	466,730,539	291,995,438	516,389,488	-	516,389,488	808,384,926
Kisumu	1,064,082,741	558,541,319	505,541,422	817,392,020	-	817,392,020	1,322,933,442
Kitui	1,068,323,966	625,807,850	442,516,116	1,652,024,506	27,769,948	1,624,254,558	2,066,770,674
Kwale	30,395,083	-	30,395,083	2,929,346,292	-	2,929,346,292	2,959,741,375
Laikipia	857,616,477	387,029,211	470,587,266	1,187,938,976	137,228,268	1,050,710,708	1,521,297,974
Lamu	166,052,981	163,862,932	2,190,049	126,554,441	99,256,365	27,298,076	29,488,125
Machakos	1,829,505,555	1,104,322,827	725,182,728	519,755,508	-	519,755,508	1,244,938,236
Makueni	300,407,810	280,416,891	19,990,919	11,921,955	258,823,577	- 246,901,622	- 226,910,703
Mandera	195,606,061	195,606,061	-	211,731,110	-	211,731,110	211,731,110
Marsabit	427,725,791	219,826,370	207,899,421	561,882,902	-	561,882,902	769,782,323
Meru	1,645,514,751	1,489,716,055	155,798,696	252,142,550	-	252,142,550	407,941,246
Migori	606,362,615	582,590,982	23,771,633	791,428,051	490,545,104	300,882,947	324,654,580
Mombasa	3,629,365,578	2,228,797,144	1,400,568,434	273,639,725	-	273,639,725	1,674,208,159
Murang'a	591,589,896	488,702,066	102,887,830	1,683,941,778	8,291,985	1,675,649,793	1,778,537,623
Nairobi City	10,609,369,860	975,251,721	9,634,118,139	75,142,481,171	-	75,142,481,171	84,776,599,310
Nakuru	504,225,508	422,996,705	81,228,803	309,435,561	-	309,435,561	390,664,364
Nandi	999,961,375	738,865,952	261,095,423	424,863,941	-	424,863,941	685,959,364
Narok	911,820,629	237,684,009	674,136,620	983,780,638	-	983,780,638	1,657,917,258
Nyamira	278,105,607	275,698,124	2,407,483	67,438,141	-	67,438,141	69,845,624
Nyandarua	1,104,557,249	434,777,239	669,780,010	849,222,218	-	849,222,218	1,519,002,228
Nyeri	477,332,318	455,817,752	21,514,566	20,507,256	-	20,507,256	42,021,822
Samburu	100,097,274	95,476,412	4,620,862	638,141,800	485,194,368	152,947,432	157,568,294
Siaya	239,440,577	211,564,138	27,876,439	69,732,235	-	69,732,235	97,608,674
Taita/Taveta	713,199,641	649,923,111	63,276,530	192,854,197	-	192,854,197	256,130,727
Tana River	594,862,915	139,064,907	455,798,008	1,663,178,525	-	1,663,178,525	2,118,976,533
Tharaka -Nithi	619,348,506	396,653,397	222,695,109	244,289,602	-	244,289,602	466,984,711
Trans Nzoia	619,607,056	549,360,530	70,246,526	372,066,151	-	372,066,151	442,312,677
Turkana	472,120,183	316,914,391	155,205,793	585,037,816	-	585,037,816	740,243,609
Uasin Gishu	494,815,241	453,581,511	41,233,730	140,056,169	125,575,115	14,481,054	55,714,784
Vihiga	1,278,738,001	844,279,732	308,458,269	410,172,194	-	410,172,194	718,630,463
Wajir	329,022,136	-	329,022,136	4,335,524,264	-	4,335,524,264	4,664,546,400
West Pokot	673,361,710	607,434,712	65,926,998	153,836,525	16,516,318	137,320,207	203,247,205
Total	**48,131,700,143**	**22,868,672,065**	**25,137,028,078**	**108,052,705,970**	**1,835,034,179**	**106,217,671,791**	**131,354,699,869**

Source of Data: Office of the Auditor General and Controller of Budget

4.3.2 Statutory Remittances

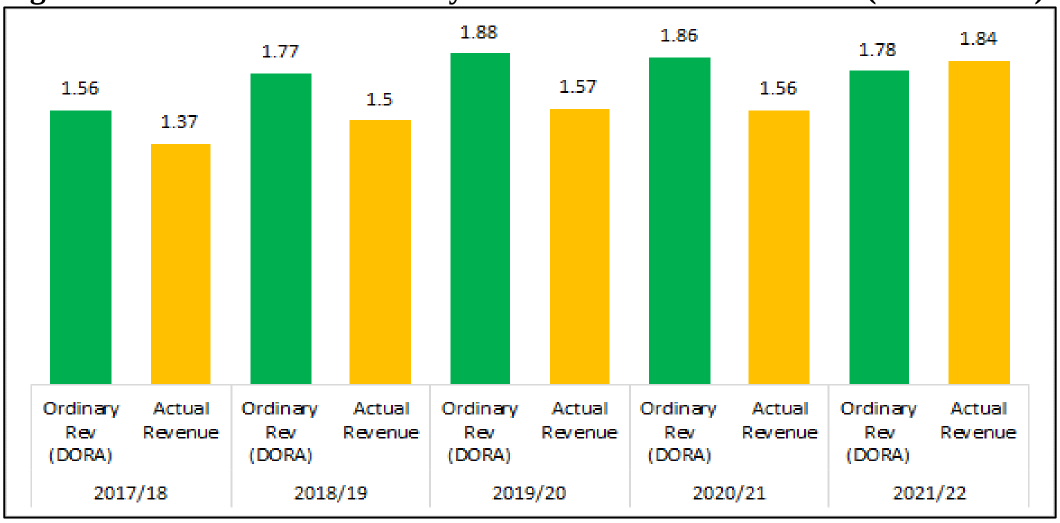
150. Most of the County Governments owe money to the various pension funds (LAPTRUST, LAPFUND and County Pension Fund) which have accumulated over the years. Some County Governments are not reflecting these pension liabilities in their pending bills stock hence posing a great risk that these liabilities may not be prioritized for payment. In addition, the County Governments' Retirement Scheme Act (2019) which was expected to provide clarity on the County pension was challenged in court thus hindering the effective implementation of this legal framework. There is need for the County Governments to take stock of all the pension liabilities and ensure proper recording in the stock of County pending bills. In addition, Counties should prioritize the settling of these liabilities to ensure County staff do not retire without a pension. The court case on the County Governments' Retirement Scheme Act, 2019 needs to have a speedy resolution in order to have a legal framework in place to provide for the implementation of the pension fund for the County Governments.

4.4 Division of Revenue between the National and County Governments

4.4.1 Performance of Shareable Revenue

151. Ordinary revenue collected over the years has been below target except for FY 2021/22 when the target was surpassed as indicated in **Figure 4.5**. This has been resulting in revenue shortfalls that called for fiscal consolidation by both levels of government.

Figure 4.5: Estimates of Ordinary Revenue vs. Actual Revenue (Ksh trillion)



Source of Data: National Treasury

4.4.2 Division of Revenue for FY 2023/24

152. Based on a revenue projection of Ksh 2,566 billion in FY 2023/24, Ksh 2,178.5 billion has been allocated to National Government, Ksh 380.0 billion to County Governments as equitable revenue share to the two levels of Government and Ksh 7.5 billion to the Equalization Fund. The allocation to County

Governments' equitable revenue share of Ksh 380.0 billion in FY 2023/24 is informed by the following prevailing circumstances:

a) The proposal to increase the equitable share to Ksh 380 billion in the FY 2023/24 is equivalent to 26.8 percent of the last audited accounts (Ksh 1,414 billion for FY 2017/18) and as approved by Parliament. The proposed allocation therefore meets the requirement of Article 203(2) of the Constitution;
b) High level of debt financing, and noting that the overdraft at the Central Bank is exhausted. The Government has already reduced borrowing by Ksh 119 billion in FY 2022/23 in order to ensure public debt is maintained at sustainable levels;
c) Priority government expenditure relating to drought intervention, fertilizer subsidy and the Hustlers Fund;
d) In the medium term, sharing of resources will be pegged on the financing constraints and not on the budget. Availability of resources is key and it should be remembered that National Treasury did not disburse Kshs 29.6 billion to county governments in the FY 2021/22 due to financial constraints; and
e) The fact that the National Government continues to solely bear shortfalls in revenue in any given financial year. County Governments continue to receive their full allocation despite the budget cuts affecting the National Government entities.

17. Based on the proposal on the division of revenue, County Governments will therefore receive a total of Ksh 380.0 billion in FY 2023/24 as equitable share of revenue raised nationally **(Table 4.2)**.

Table 4.2: County Governments' Equitable Revenue Share (Ksh Million)

Budget Item	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24
Baseline (*i.e. allocation in the previous FY*)	**314,000**	**316,500**	**316,500**	**370,000**	**370,000**
1. Adjustments for revenue growth	2,500	-	36100	-	10,000
2. Revenue Share (RMLF, Level-5 Hospital Grant, Compensation for foregone user fees and Rehabilitation of Village Polytechnics	-	-	17,400	-	-
Computed Equitable Revenue Share Allocation	**316,500**	**316,500**	**370,000**	**370,000**	**380,000**

Source of Data: National Treasury

153. In addition to their proposed equitable share of revenue, County Governments will receive the following additional conditional allocations:

- From the National Governments' equitable revenue share, conditional allocations amounting to Ksh 776 million for construction of county headquarters (**Table 4.3**);
- Equalization Fund to the marginalized areas amounting to Ksh 7.5 billion; and
- Ksh 32.9 billion from proceeds of external loans and grants.

Table 4.3: Division of Revenue Raised Nationally for FYs 2020/21 – 2023/24 (Ksh Million)

Type/Level of allocation	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24
National Government	1,533,700	1,398,799	1,764,516	2,178,457
of which				
Leasing of Medical Equipment	6,205	7,205	5,200	-
Supplement for construction of County Headquarters	300	332	454	776
Equalization Fund	6,500	6,825	7,068	7,502
County Equitable share	316,500	370,000	370,000	380,000
Total Shareable revenue	**1,856,700**	**1,775,587**	**2,141,585**	**2,565,959**

154. **Table 4.4** shows the disaggregation of total proposed transfers to the Counties.

Table 4.4: Disaggregation of County Governments' Allocation (Ksh Million)

Type/Level of Allocation	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24
County Equitable Share	316,500	316,500	370,000	370,000	380,000
Additional conditional allocations, of which					
Leasing of medical equipment	6,205	6,205	7,205	5,200	-
Supplement of construction of county headquaters	300	300	332	454	776
Allocations from loans and grants	39,090	30,204	32,334	31,382	32,916
Total County Allocations	362,095	353,209	409,871	407,036	413,692

4.5 Horizontal Allocation of Revenue among the County Governments FY 2023/24

155. Horizontal allocation of revenue among the County Governments for FY 2023/24 is based on the Third Basis, which was considered and approved by Parliament in September, 2020. The third basis takes into account the following parameters: Population (18 percent); Health Index (17 percent); Agriculture Index (10 percent); Urban Index (5 percent); Poverty Index (14 percent); Land Area Index (8 percent); Roads Index (8 percent); and Basic Share Index (20 percent).

156. The Third Basis for revenue sharing has a baseline allocation to each county equivalent to 50 percent of a county's actual allocation for FY 2019/20. Based on an allocation of Ksh 380.0 billion for FY 2023/24, Ksh 160.36 billion is therefore shared based on the FY 2019/20 county allocation index and the balance of Ksh 219.64 billion shared using the approved Third Basis. The County Governments equitable shares for FY 2023/24 are as shown in **Table 4.5**.

Table 4.5: Revenue Allocation for Each County Government

S/No.	County	2022/2023					2023/2024				
		0.5 (Allocation Ratio)		(Equitable Share-0.5 Allocation Ratio) *(Formula)		Total Equitable Share	0.5 (Allocation Ratio*)		(Equitable Share**-0.5 Allocation Ratio) *(Formula***)		Total Equitable Share***
		Allocation ratio	Equitable Share	Allocation ratio	Equitable Share		Allocation ratio	Equitable Share	Allocation ratio	Equitable Share	
		column A	column B	column C	column D	column E = B+D	column F	column G	column H	column I	column J = G+I
1	Baringo	1.61	2,547,825,000	1.8	3,821,569,592	6,369,394,592	1.61	2,547,825,000.00	1.80	4,002,044,213	6,549,869,213
2	Bomet	1.74	2,753,550,000	1.86	3,937,549,118	6,691,099,118	1.74	2,753,550,000.00	1.86	4,123,501,123	6,877,051,123
3	Bungoma	2.81	4,446,825,000	2.93	6,212,610,192	10,659,435,192	2.81	4,446,825,000.00	2.93	6,506,003,080	10,952,828,080
4	Busia	1.9	3,006,750,000	1.97	4,165,412,009	7,172,162,009	1.9	3,006,750,000.00	1.97	4,362,126,298	7,368,876,298
5	Elgeyo Marakwet	1.22	1,930,650,000	1.26	2,675,882,480	4,606,532,480	1.22	1,930,650,000.00	1.26	2,802,252,533	4,732,902,533
6	Embu	1.36	2,152,200,000	1.4	2,973,043,762	5,125,243,762	1.36	2,152,200,000.00	1.40	3,113,447,613	5,265,647,613
7	Garissa	2.22	3,513,150,000	2.08	4,414,062,254	7,927,212,254	2.22	3,513,150,000.00	2.08	4,622,518,453	8,135,668,453
8	Homa bay	2.13	3,370,725,000	2.09	4,434,628,300	7,805,353,300	2.13	3,370,725,000.00	2.09	4,644,054,813	8,014,779,813
9	Isiolo	1.34	2,120,550,000	1.22	2,589,838,265	4,710,388,265	1.34	2,120,550,000.00	1.22	2,712,144,420	4,832,694,420
10	Kajiado	2.03	3,212,475,000	2.24	4,742,293,229	7,954,768,229	2.03	3,212,475,000.00	2.24	4,966,250,910	8,178,725,910
11	Kakamega	3.29	5,206,425,000	3.39	7,182,987,168	12,389,412,168	3.29	5,206,425,000.00	3.39	7,522,207,935	12,728,632,935
12	Kericho	1.7	2,690,250,000	1.77	3,740,414,924	6,430,664,924	1.7	2,690,250,000.00	1.77	3,917,058,525	6,607,308,525
13	Kiambu	2.98	4,715,850,000	3.31	7,001,675,720	11,717,525,720	2.98	4,715,850,000.00	3.31	7,332,332,280	12,048,182,280
14	Kilifi	3.3	5,222,250,000	3.03	6,419,342,941	11,641,592,941	3.3	5,222,250,000.00	3.03	6,722,499,823	11,944,749,823
15	Kirinyaga	1.34	2,120,550,000	1.45	3,075,627,952	5,196,177,952	1.34	2,120,550,000.00	1.45	3,220,876,618	5,341,426,618
16	Kisii	2.46	3,892,950,000	2.36	5,001,324,509	8,894,274,509	2.46	3,892,950,000.00	2.36	5,237,515,468	9,130,465,468
17	Kisumu	2.16	3,418,200,000	2.18	4,607,939,240	8,026,139,240	2.16	3,418,200,000.00	2.18	4,825,550,535	8,243,750,535
18	Kitui	2.79	4,415,175,000	2.82	5,978,795,413	10,393,970,413	2.79	4,415,175,000.00	2.82	6,261,146,730	10,676,321,730
19	Kwale	2.46	3,892,950,000	2.06	4,372,635,516	8,265,585,516	2.46	3,892,950,000.00	2.06	4,579,135,283	8,472,085,283
20	Laikipia	1.32	2,088,900,000	1.44	3,047,365,679	5,136,265,679	1.32	2,088,900,000.00	1.44	3,191,279,645	5,280,179,645
21	Lamu	0.82	1,297,650,000	0.85	1,807,999,643	3,105,649,643	0.82	1,297,650,000.00	0.85	1,893,383,548	3,191,033,548
22	Machakos	2.45	3,877,125,000	2.5	5,285,179,232	9,162,304,232	2.45	3,877,125,000.00	2.50	5,534,773,560	9,411,898,560
23	Makueni	2.34	3,703,050,000	2.09	4,429,733,562	8,132,783,562	2.34	3,703,050,000.00	2.09	4,638,930,170	8,341,980,170
24	Mandera	3.23	5,111,475,000	2.87	6,078,907,598	11,190,382,598	3.23	5,111,475,000.00	2.87	6,365,987,913	11,477,462,913
25	Marsabit	2.14	3,386,550,000	1.84	3,890,454,032	7,277,004,032	2.14	3,386,550,000.00	1.84	4,074,181,705	7,460,731,705
26	Meru	2.54	4,019,550,000	2.59	5,474,307,338	9,493,857,338	2.54	4,019,550,000.00	2.59	5,732,834,008	9,752,384,008
27	Migori	2.14	3,386,550,000	2.18	4,618,470,448	8,005,020,448	2.14	3,386,550,000.00	2.18	4,836,580,380	8,223,130,380
28	Mombasa	2.23	3,528,975,000	1.91	4,038,379,061	7,567,354,061	2.23	3,528,975,000.00	1.91	4,229,094,038	7,758,069,038
29	Murang'a	1.99	3,149,175,000	1.9	4,030,980,855	7,180,155,855	1.99	3,149,175,000.00	1.90	4,221,346,093	7,370,521,093
30	Nairobi	5.03	7,959,975,000	5.33	11,289,702,414	19,249,677,414	5.03	7,959,975,000.00	5.33	11,822,865,133	19,782,840,133
31	Nakuru	3.31	5,238,075,000	3.68	7,788,041,323	13,026,116,323	3.31	5,238,075,000.00	3.68	8,155,836,385	13,393,911,385
32	Nandi	1.69	2,674,425,000	2.04	4,316,444,041	6,990,869,041	1.69	2,674,425,000.00	2.04	4,520,289,485	7,194,714,485
33	Narok	2.54	4,019,550,000	2.28	4,825,239,456	8,844,789,456	2.54	4,019,550,000.00	2.28	5,053,114,820	9,072,664,820
34	Nyamira	1.52	2,405,400,000	1.29	2,729,940,036	5,135,340,036	1.52	2,405,400,000.00	1.29	2,858,863,090	5,264,263,090
35	Nyandarua	1.54	2,437,050,000	1.53	3,233,394,228	5,670,444,228	1.54	2,437,050,000.00	1.53	3,386,093,673	5,823,143,673
36	Nyeri	1.71	2,706,075,000	1.66	3,522,653,555	6,228,728,555	1.71	2,706,075,000.00	1.66	3,689,013,043	6,395,088,043
37	Samburu	1.46	2,310,450,000	1.45	3,060,896,037	5,371,346,037	1.46	2,310,450,000.00	1.45	3,205,449,470	5,515,899,470
38	Siaya	1.83	2,895,975,000	1.92	4,070,532,531	6,966,507,531	1.83	2,895,975,000.00	1.92	4,262,764,558	7,158,739,558
39	Taita taveta	1.34	2,120,550,000	1.29	2,721,624,698	4,842,174,698	1.34	2,120,550,000.00	1.29	2,850,154,968	4,970,704,968
40	Tana River	1.85	2,927,625,000	1.7	3,600,783,765	6,528,408,765	1.85	2,927,625,000.00	1.70	3,770,832,140	6,698,457,140
41	Tharaka Nithi	1.24	1,962,300,000	1.06	2,251,898,593	4,214,198,593	1.24	1,962,300,000.00	1.06	2,358,244,725	4,320,544,725
42	Trans Nzoia	1.82	2,880,150,000	2.03	4,306,007,670	7,186,157,670	1.82	2,880,150,000.00	2.03	4,509,361,645	7,389,511,645
43	Turkana	3.33	5,269,725,000	3.47	7,339,580,994	12,609,305,994	3.33	5,269,725,000.00	3.47	7,686,196,495	12,955,921,495
44	Uasin Gishu	2	3,165,000,000	2.32	4,903,858,318	8,068,858,318	2	3,165,000,000.00	2.32	5,135,446,160	8,300,446,160
45	Vihiga	1.47	2,326,275,000	1.29	2,741,081,827	5,067,356,827	1.47	2,326,275,000.00	1.29	2,870,531,575	5,196,806,575
46	Wajir	2.7	4,272,750,000	2.46	5,201,976,151	9,474,726,151	2.7	4,272,750,000.00	2.46	5,447,641,333	9,720,391,333
47	West Pokot	1.58	2,500,350,000	1.79	3,796,934,329	6,297,284,329	1.58	2,500,350,000.00	1.79	3,976,245,818	6,476,595,818
	Total	100	158,250,000,000	100	211,750,000,000	370,000,000,000	100	158,250,000,000.00	100.00	221,750,000,000.00	380,000,000,000

Source of Data: National Treasury

4.6 Intergovernmental Fiscal Transfers

157. Article 202 (2) of the Constitution provides that County Governments may be given additional allocations from the National Government's share of revenue, either conditionally or unconditionally. Management of intergovernmental fiscal transfers is provided in the PFM Act, 2012, its Regulations and National Treasury Circular No. 8 of 2017 on "Guidelines for the Management of Intergovernmental Fiscal Transfers in Kenya". To ensure efficiency, accountability and impact of programs and services funded through grants, all grants to counties shall be coordinated by the line ministries. The ministries are responsible for development of grant frameworks and conditions to be met by counties. The Accounting Officers in the respective ministries have the sole authority for the approval of funds, review and approval of financial and non-financial reports prior to submission to the National Treasury.

4.6.1 Conditional Grants

158. In FY 2023/24, the National Treasury proposes to allocate Ksh 776 million as additional allocations from the National Government share of revenue and Ksh 32.9 billion as additional allocations from proceeds of loans and grants to County Governments as seen in Table 4.6 below. The additional conditional allocations are meant to support specific national policy objectives to be implemented by County Governments.

159. The legal instrument that will be used to allocate and disburse additional allocations to the county governments is the County Governments Additional Allocations Act. The Act provides for a mechanism for disbursing, accounting and oversight for the additional conditional allocations to the County Governments. The FY 2023/24 additional allocations are as captured in **Table 4.6**.

160. The proposed additional conditional allocations shall be disbursed to counties based on the objectives, criteria for selecting beneficiary counties and distribution mechanisms determined in the Project Appraisal Documents, intergovernmental agreements and respective financing agreements between the National Treasury and development partners.

Table 4.6: Additional Allocations to County Governments

Additional Conditional Allocations from the National Government Share of revenue	
Additional Allocation	**Amount in Ksh**
Construction of County Headquarters	776,000,000
Total	**776,000,000**
Additional Conditional Allocations Financed from proceeds of loans and grants from Development Partners for Financial Year 2023/24	
Additional Allocation	**Amount in Ksh**
IDA (World Bank) credit (National Agricultural and Rural Inclusive Growth Project (NARIGP)	3,150,000,000
IDA (World Bank) credit National Agricultural Value Chain Development Project (NAVCDP)	6,500,000,000
IDA (World Bank) - Kenya Climate Smart Agriculture Project (KCSAP)	2,160,000,000
IDA (World Bank) credit: Water & Sanitation Development Project	5,350,000,000
DANIDA Grant - Primary Health Care in Devolved Context	577,500,000
IDA (World Bank) Credit (Financing Locally- Led Climate Action (FLLoCA) Program, County Climate Resilience Investment (CCRI)Grant	8,206,250,000
Sweden- Agricultural Sector Development Support Programme (ASDSP) II	72,797,253
German Development Bank (KfW)- Drought Resilience Programme in Northern Kenya (DRPNK)	765,000,000
World Bank - Emergency Locust Response Project (ELRP)	2,302,630,288
World bank - Kenya Informal Settlement Improvement Project (KISIP II)	3,269,530,746
Kenya Livestock Commercialization Project (KELCLOP)	316,300,000
Aquaculture Business Development Project (ABDP)	245,879,120
TOTAL	**32,915,887,407**

Source of Data: National Treasury

4.6.2 Equalisation Fund

161. The Equalisation Fund is established under Article 204 of the Constitution with an allocation of one-half percent of all revenue collected by the National Government each year on the basis of most recently audited accounts of revenue received as approved by the National Assembly. The Fund was initially operationalized using guidelines on administration of Equalisation Fund published in gazette notice No. 1711 of 13th March 2015. However, the High Court ruling on petition No. 272/2016 on 5th November, 2019 quashed the guidelines. This in effect disbanded the Equalisation Fund Advisory Board (EFAB) and stopped any further expenditures from the Equalisation Fund.

162. In line with the High Court ruling, the National Treasury through a multi-agency committee developed the PFM (Equalisation Fund Administration) Regulations 2021 which were approved by Parliament in October 2021. The Regulations provide for: (i) guidance on the administration and management of the Equalisation Fund; (ii) the completion of ongoing projects under the first policy; and (iii) implementation of new projects under the second policy and subsequent policies.

163. The Equalisation Fund Advisory Board has now been fully constituted in accordance with Regulations 4 and 5 of the PFM (Equalisation Fund Administration) Regulations 2021. The Board is currently working to implement the Regulations and ensure completion of projects as identified by the first policy and the implementation of programmes in the second and subsequent policies. The Board will also oversee the preparation of operational guidelines, strengthening of public participation, deliberately targeting minorities within marginalized areas and efficient utilization of funds.

4.7 Emerging Issues and Policy Interventions

4.7.1 Transfer of Functions and Cooperation between National and County Governments

164. Articles 187 and 189 of the Constitution provides for the transfer of functions and powers between levels of Government as well as cooperation between the National and County Governments. To operationalize these provisions, Parliament enacted the Intergovernmental Relations Act (IGRA), 2012 to establish a framework for consultation and cooperation between the National and County Governments and amongst County Governments. The IGRA also provides the mechanisms for the resolution of intergovernmental disputes pursuant to Articles 6 and 189 of the Constitution, and for connected purposes.

165. In order to bring clarity on transfer of functions and cooperation between and amongst either level of government, the National Treasury in collaboration with other stakeholders is in the process of developing a legislation for operationalization of Articles 187 and 189. The draft amendment bill to the PFM Act, 2012 is currently being processed for submission to the public for comments. In addition to the amendment bill, the National Treasury in collaboration with other stakeholders will develop the relevant policy to anchor the legislation.

166. The enactment of this law by Parliament will facilitate the financing of transferred functions and cooperation between the two levels of governments. It will also provide for cooperation among counties that intend to implement inter-county projects.

4.7.2 Analysis of County Governments Fiscal Documents

167. The National Government has the responsibility to enhance county capacities. In this regard, the National Treasury is analyzing fiscal documents from the County Governments to identify their training needs. This analysis entails assessing the quality of the fiscal documents, their compliance with the requirements in the PFM Act, 2012, their correctness, relevance and alignment to the national and county policies. The training needs analysis will inform capacity building initiatives for the counties.

4.7.3 Integrated County Governments Revenue Management System

168. The County Governments continue to use unintegrated revenue management systems with high administrative costs and revenue leakages. There is need therefore to fast track the development of the integrated county governments revenue management system to ensure that the County Governments use a uniform system that seals revenue leakages and provides value for money invested in it.

4.7.4 Sharing of Mineral Royalty Revenue with County Governments and Communities

169. The Mining Act 2016 provides for the sharing of revenues arising from mineral royalties amongst the National Government, beneficiary counties and communities. The National Treasury put in place a taskforce constituting representatives from: the National Treasury; Ministry of Petroleum and Mining; Ministry of Industrialization, Trade and Enterprise Development; CRA; State Law Office; and CoG. The Taskforce prepared a Framework for sharing of the mineral royalty revenues among National Government, county governments, and communities.

170. The Attorney General's office advised that there was need to develop the regulations to the Act to provide the mechanism for the transfer of these mineral royalties to the communities. In this regard, the Cabinet Secretary, Ministry of Mining, Blue Economy and Maritime Affairs has already constituted a taskforce to develop the regulations that will unlock the sharing of revenue from mineral royalties as envisaged by the Mining Act 2016.

4.7.5 Capacity Building of County Governments

171. The National Treasury is mandated by the PFM, Act 2012 to build the capacity of County Governments' on matters of public finance management. In this regard, The National Treasury and Economic Planning will undertake to train the relevant public officers within the County Governments on prudent management of public funds as well as provide advisory on the same from time to time.

ANNEX 1: ADHERENCE TO FISCAL RESPONSIBILITY PRINCIPLES

1. In line with the Constitution, the Public Finance Management (PFM) Act, 2012, the PFM (National Government) Regulations, 2015 and in keeping with prudent and transparent management of public resources, the Government has adhered to the fiscal responsibility principles as set out in the statute as follows **(Table 1):**

Table 1: Performance of Fiscal Responsibility Indicators

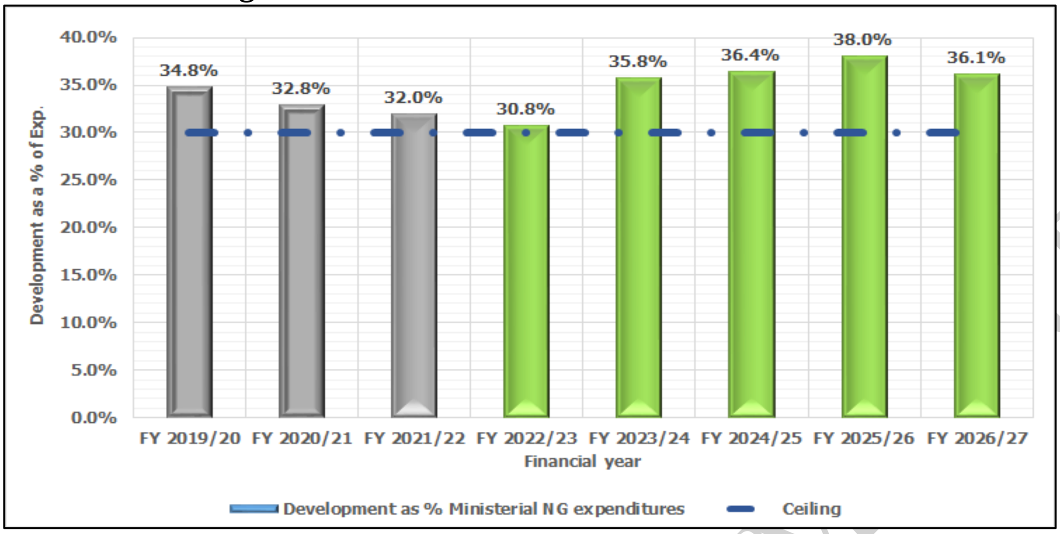
	FY 2019/20	FY 2020/21	FY 2021/22		FY 2022/23			FY 2023/24		FY 2024/25		FY 2025/26		FY 2026/27	
	Actual	Prel. Actual	Revised Budget	Prel. Actual	Budget	BROP'22	BPS'23	BROP'22	BPS'23	BROP'22	BPS'23	BROP'22	BPS'23	BROP'22	BPS'23
	Ksh. Billions														
1.0 Total Expenditure & Net Lending	2,629	2,769	3,286	3,028	3,359	3,390	3,390	3,641	3,641	3,970	3,970	4,434	4,434	5,096	5,096
1.1 Total Ministerial National Govt Expenses	1,815	1,812	2,153	1,961	2,156	2,144	2,144	2,294	2,294	2,532	2,532	2,874	2,874	3,301	3,301
Total Recurrent	1,711	1,828	2,227	2,135	2,273	2,367	2,367	2,440	2,440	2,668	2,668	2,936	2,936	3,390	3,390
CFS (Interest & Pensions)	527	611	763	727	869	883	883	967	967	1,058	1,058	1,155	1,155	1,281	1,281
Ministerial Recurrent	1,184	1,217	1,464	1,409	1,404	1,485	1,485	1,473	1,473	1,610	1,610	1,781	1,781	2,110	2,110
o/w Wages & Salaries	450	493	525	520	537	561	561	600	600	645	645	703	703	915	915
Wages as % National Government Revenues/1	***29.8%***	***33.8%***	***28.8%***	***28.0%***	***25.7%***	***26.5%***	***26.5%***	***23.8%***	***23.8%***	***22.6%***	***22.6%***	***21.5%***	***21.5%***	***24.9%***	***24.9%***
Development	631	595	689	552	752	660	660	821	821	922	922	1,093	1,093	1,192	1,192
Development as % Ministerial NG expenditures	***34.8%***	***32.8%***	***32.0%***	***28.2%***	***34.9%***	***30.8%***	***30.8%***	***35.8%***	***35.8%***	***36.4%***	***36.4%***	***38.0%***	***38.0%***	***36.1%***	***36.1%***
1.2 County Allocation	325	399	401	352	407	437	437	417	417	417	417	442	442	552	552
Equitable share	287	346	370	340	370	400	400	380	380	380	380	405	405	515	515
Conditional Grants	38	53	31	12	37	37	37	37	37	37	37	37	37	37	37
2.0 Total Revenues	1,798	1,804	2,192	2,200	2,462	2,513	2,513	2,898	2,898	3,231	3,231	3,670	3,670	4,195	4,195
3.0 Total National Government Revenues (Incl. A-I-A)	1,511	1,457	1,822	1,859	2,092	2,113	2,113	2,518	2,518	2,851	2,851	3,265	3,265	3,681	3,681
4.0 National Government Domestic Borrowing (net)	450	627	688	605	582	551	551	497	497	590	590	585	585	663	663

Source: The National Treasury

a) A minimum of 30 percent of the national Government's budget allocated to the development expenditure over the medium term.

Consistent with the requirements of the law, the National Government's allocation to development expenditures has been above the 30 percent of its Ministerial expenditures. In the FY 2021/22, development expenditures as a total expenditure was 32.0 percent meeting the set threshold. In the fiscal outlays presented in this BPS, the National Government continues to observe this requirement. The allocation to development expenditures is projected to increase to 35.8 percent in the FY 2023/24 and remain above the recommended threshold over the medium term as shown in **Figure 1** and **Table 1**.

Figure 1: Development Expenditures as a Percent of Total National Government Budget

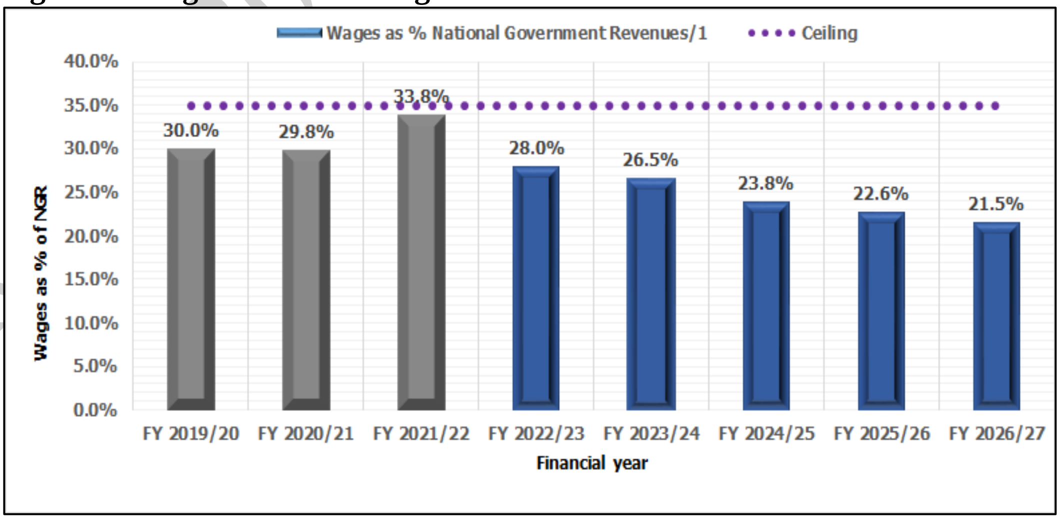


Source: National Treasury

b) The National Government's expenditure on wages and benefits for its employees not to exceed 35 percent of the national Government equitable share of the revenue.

The law requires that the National Government's expenditure on the compensation of employees (including benefits and allowances) shall not 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. In conformity to this regulation, the National Government share of wages and benefits to revenues was 33.8 percent in the FY 2021/22, and is projected at 28.0 percent in the FY 2022/23, and to further decline to 21.5 percent by FY 2026/27 **(Figure 2)**.

Figure 2: Wages as a Percentage of National Government Revenues



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

Source: National Treasury

c) 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.

The Government is committed and continues to adhere to the principle as per the PFM Act section 15(2) (c) which requires that national government`s borrowed resources be used only for purposes of financing development and not for recurrent expenditure. In the FY 2021/22, a total of Ksh 540.1 billion was spent on development expenditure. In the FY 2022/23, this amount is projected to increase to Ksh 596.6 billion and further increase to Ksh 1,149.6 billion over the medium term.

d) Public debt and obligations shall be maintained at a sustainable level as approved by Parliament for National Government

The National Treasury raises resources through borrowing to finance development projects as approved by parliament in the National budget as per the PFM Act Section 15(2) (c) principle of ensuring that the national government`s borrowings is used only for purposes of financing development expenditure and not for recurrent expenditure.

The PFM Act requires that the National Treasury maintains public debt and obligations at sustainable levels at all times. Kenya's debt remains sustainable but categorized as facing high risk of debt distress (IMF Country Report No. 22/383). As shown in **Table 2**, the Present Value (PV) of external debt-to-export and Public and Publicly Guaranteed (PPG) of debt-service-to-exports indicators remain above the thresholds over the medium-term projection period. However, compared to the last DSA assessment, the PV of external debt to exports has improved due to faster recovery of the tourism sector and the boost to exports as a result of higher export prices in 2022.

Table 2: External Debt Sustainability Analysis

Indicators	Thresholds	2021	2022	2023*	2024*	2025*	2026*
PV of debt–to-GDP ratio	40	27.4	26.6	26.8	26.1	25.6	25.1
PV of debt-to-exports ratio	180	256.1	221.5	208.6	195.9	186.5	179.8
PPG Debt service-to-exports ratio	15	23.5	22.6	20.5	29.6	21.2	19.2
PPG Debt service-to-revenue ratio	18	15.3	15.7	15.2	22.3	16.5	15.2

** Projection*
Source: IMF Country Report No. 22/383, December 2022

The PV of total public debt to GDP ratio remains above the 55 percent benchmark until 2025 as shown in **Table 3**.

Table 3: Kenya's Public Debt Sustainability

Indicators	Benchmark	2021	2022	2023	2024	2025	2026
PV of debt–to-GDP ratio	**55**	61.6	61.7	60.0	57.8	55.9	54.0

Source: IMF Country Report No. 22/383, December 2022

As the economy recover from global shocks and fiscal consolidation continues, Kenya's debt indicators are expected to improve. However, Kenya debt sustainability is vulnerable to exogenous shocks e.g., export and exchange rate.

e) Fiscal risks shall be managed prudently

Kenya's risk remains high due to volatile international commodity prices, tighter external financing conditions, elevated inflation and continued drought. The Government continues to respond to these adverse impacts through fiscal measures such as fertilizer subsidy and provision of certified seeds to farmers to enhance agricultural productivity. In addition, the Government will continue with the fiscal consolidation programme which is expected to reduce debt vulnerabilities and ensure a stronger debt sustainability position going forward. 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. Further, the recently established Fiscal Risk Committee will play a key role in identification, quantification and management of fiscal risks going forward.

f) 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

On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, the National Tax Policy that is being finalised will guide tax reforms and ensure certainty in taxation. Further, the Government continues to carry out tax reforms through modernizing and simplifying tax laws in order to lock in predictability and enhance compliance within the tax system. Further, the Government is in the process of developing a Medium-Term Revenue Strategy (MTRS) that will outline revenue-raising tax policy and administrative reforms to be undertaken over the medium-term.

The Government will continue to maintain stable tax rates and build confidence in the Kenyan tax system, enhance compliance and improve predictability while improving tax administration. The Government will also use tax policy initiatives to address areas where the tax base has been eroded, to strengthen revenue mobilization.

ANNEX 2: STATEMENT OF SPECIFIC FISCAL RISKS

Introduction

1. The Kenyan economic growth recovered from the effects of COVID-19 pandemic to record a growth of 7.5 percent in 2021 from a contraction of 0.3 percent in 2020. Growth momentum was disrupted in 2022 by multiple shocks including a severe drought that affected most parts of the Country and the Russia-Ukraine conflict that has seen disruption in global trade with increased fuel, fertiliser, and food prices. The economy is projected to rebound and grow by 6.1 percent in 2023 from the estimated growth of 5.5 percent in 2022. There are however, downside risks to the macroeconomic outlook envisaged in this 2023 BPS emanating from domestic as well as external shocks.

2. For prudent management of risks, the PFM Act, 2012 requires the preparation of a "Statement of Fiscal Risks. Thus, this section provides an assessment of fiscal risks that the Kenyan economy is exposed to that may affect the achievement of the macroeconomic targets and objectives detailed in this BPS. The fiscal risks arise from assumptions that underlie fiscal projections, the dynamics of public debt, and operations of state corporations, contingent liabilities, financial sector vulnerabilities and natural risks. Emergence of these risks could make it difficult for the Government to actualize and sustain macroeconomic policies detailed in this BPS. Thus, this section also details the measures that the Government is implementing to mitigate such risks.

Risk in Changes in Macroeconomic Assumptions

3. Macroeconomic variables play a key role in the formulation of the budget. The Kenyan economy is estimated to have grown by 5.5 percent in 2022 and is projected to grow by 6.1 percent in 2023 and maintain that momentum over the medium-term**.** Inflation rate is expected to gradually ease towards the Government target range while the external sector is expected to remain stable despite the tight global financial conditions. The macroeconomic projections in this BPS may be altered by the uncertainties in the economy as a result of the projected global economic slowdown and volatile financial markets. The unexpected changes in these outcomes may pose risks to both revenue and expenditure projected as projected. **Table 1** summarizes the likely impact of changes in the 2023 BPS outcomes on the fiscal projections.

Table 1: Fiscal Sensitivity to Key Macroeconomic Variables, FY 2023/24 – 2026/27 (Ksh billion)

	Revenue				Expenditures				Budget Balance			
	2023/24	2024/25	2025/26	2026/27	2023/24	2024/25	2025/26	2026/27	2023/24	2024/25	2025/26	2026/27
Reduction in real GDP (%) by 1.0 % point	-11.2	-12.5	-13.8	-15.4	-6.1	-6.8	-7.6	-7.6	-5.1	-5.7	-6.2	-6.9
Increase in inflation rate (%) by 1.0 % Point	11.2	12.5	13.8	15.4	6.4	7.1	8.0	8.0	4.8	5.4	5.9	6.6
Depreciation in exchange rate (Ksh/US$) by 10%	20.3	22.6	24.3	27.2	2.8	3.0	3.3	3.3	17.5	19.6	20.9	23.5
Increase in value of imported goods (US$) by 10%	12.1	-1.3	-1.4	-1.6	0.0	0.0	0.0	0.0	12.1	-1.3	-1.4	-1.6
All shocks Combined	33.6	21.1	22.7	25.4	3.1	3.4	3.7	3.7	30.5	17.7	19.0	21.4

Source of Data: National Treasury

4. Stress test **(Table 1)** shows that if the projected real GDP growth in 2023 was to reduce by one percent (from 6.1 percent to 5.1 percent), revenues would decline by 11.2 billion more than the decline in expenditure by Ksh 6.1 billion resulting to an increase in fiscal deficit of 5.1 billion in FY 2023/24. Going forward, this shock would result to a decline in revenues and expenditures of Ksh 12.5 billion and Ksh 6.8 billion in FY 2024/25, Ksh 13.8 billion and Ksh 7.6 billion in FY 2025/26 and Ksh 15.4 billion and Ksh 7.6 billion in FY 2026/27, respectively. The fiscal deficit would worsen as we move from FY 2023/24 towards FY 2026/27.

5. A shock of a one percent increase in the projected inflation rate for 2023, from 6.5 percent to 7.5 percent, would result in an increase in revenues and expenditures by Ksh 11.2 billion and Ksh 6.4 billion respectively in FY 2023/24, reducing the projected fiscal deficit by Ksh 4.8 billion. Revenues and expenditures would also increase by Ksh 12.5 billion and Ksh 7.1 billion in FY 2024/25, Ksh 13.8 billion and Ksh 8.0 billion in FY 2025/26 and Ksh 15.4 billion and Ksh 8.0 billion in FY 2026/27, respectively. This would further decline the fiscal deficit by Ksh 6.6 billion in FY 2026/27.

6. A 10 percent depreciation of the Kenya shilling to the dollar would increase revenues and expenditures by Ksh 20.3 billion and Ksh 2.8 billion respectively in FY 2023/24 thereby reducing the projected fiscal deficit by Ksh 17.5 billion. Subsequently in FY 2024/25, FY 2025/26 and FY 2026/27 revenues would increase by Ksh 22.6 billion, Ksh 24.3 billion and Ksh 27.2 billion respectively while expenditures would increase by Ksh 3.0 billion, Ksh 3.3 billion and Ksh 3.3 billion respectively. Fiscal deficit would reduce by Ksh 19.6 billion, Ksh 20.9 billion and Ksh 23.5 billion over the same period.

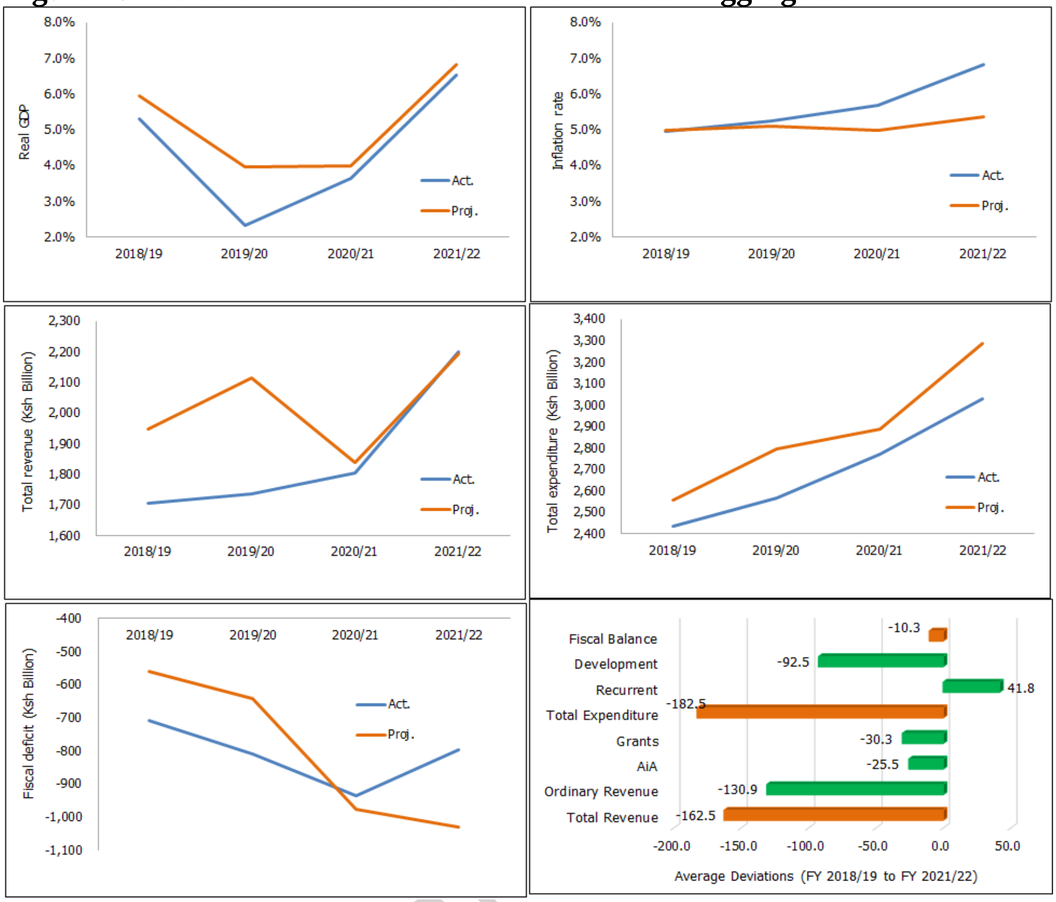
7. A shock of 10 percent increase in the value of imported goods would increase revenues by Ksh 12.1 billion in FY 2023/24, and then decline by Ksh 1.3 billion, Ksh 1.4 billion and Ksh 1.6 billion in FY 2024/25, FY 2025/26, and FY 2026/27 respectively. The shock would not significantly affect expenditures in the outer years.

8. Overall, if all the four shocks were to hit the economy concurrently, revenues would increase by Ksh 33.6 billion, Ksh 21.1 billion, Ksh 22.7 billion and Ksh 25.4 billion in FY 2023/24, FY 2024/25, FY 2025/26, and FY 2026/27 respectively. On the other hand, expenditure would increase by Ksh 3.1 billion, Ksh 3.4 billion, Ksh 3.7 billion and Ksh 3.7 billion over the same period. The combined shocks reduce the fiscal deficit more in the FY 2023/24. On net basis, the fiscal deficit would decline by Ksh 30.5 billion in FY 2023/24 and Ksh 21.4 billion by FY 2026/27.

Assessment of Past Forecast Accuracy of Underlying Assumptions and Budgetary Aggregates

9. Overall, the macroeconomic assumptions underlying the recent budgets and actual budget outturn have generally been below target with minimal deviations as shown in **Figure 1**.

Figure 1: Deviations in Macroeconomic and Fiscal Aggregates



Source: National Treasury

10. Over the period 2018/19-2021/22, the average deviation between the assumed and provisional actual real GDP growth rates was -0.7 percentage point with a standard deviation of 0.9 percentage point. With respect to inflation assumptions, the standard deviation was at 0.8 percentage point over the four years, with the largest deviation being recorded in FY 2021/22 at 1.4 percent mainly due to the unanticipated inflationary pressures resulting from the adverse effects of the Russia-Ukraine conflict **(Table 2)**. Due to the strong dollar, the exchange rate to the Kenya shilling like all world currencies weakened to Ksh 114.1 in FY 2021/22 compared to Ksh 107.6 in FY 2020/21.

11. The actual performance of fiscal aggregates against their targets was mainly below target. Total revenue between FY 2018/19 and FY 2020/21 fell short of its target mainly on account of underperformance in ordinary revenue. However, revenues were above target by Ksh 7.9 billion in FY 2021/22 with the ordinary revenues recording an over performance of Ksh 66.4 billion. The average deviation of total expenditure and net lending between FY 2018/19 and FY 2021/22 was an underspending of Ksh 182.5 billion. This shortfall was mainly due to lower absorption in development expenditures by Ksh 92.5 billion.

12. The lower-than-projected spending on development expenditure poses a risk to the fiscal program, going forward. In order to prevent this risk from materializing and improve efficiency of public investments, the National Treasury

froze initiation of new capital projects until the completion of the ongoing ones. The Public Investment Management Unit will ensure that all capital projects are planned, appraised and evaluated before funds are finally committed in the budget.

Table 2: Deviations in Macroeconomic and Fiscal Aggregates

	2018/19			2019/20			2020/21			2021/22*			2022/2023	Average	Standard
	Proj.	Act.	Dev.	Proj.	Act	Dev.	Proj.	Act	Dev.	Proj.	Prel Actual	Dev.	Proj	Deviations	Deviations
I. Key Macroeconomic Assumptions															
Real GDP	5.9%	5.3%	-0.6%	4.0%	2.3%	-1.6%	4.0%	3.6%	-0.4%	6.8%	6.5%	-0.3%	5.8%	-0.7%	0.9%
Inflation Rate (avg)	5.0%	4.9%	-0.1%	5.1%	5.2%	0.1%	5.0%	5.7%	0.7%	5.4%	6.8%	1.4%	7.0%	0.6%	0.8%
Exchange rate (Ksh/US$), avg		102.4			104.2			107.6			114.1				
Export growth		0.6%			-0.3%			8.5%			13.3%				
Import growth		2.7%			-5.6%			6.3%			4.6%				
II. Fiscal Aggregates (in Ksh billion)															
Total Revenue	1949.2	1704.4	-244.8	2115.9	1737.0	-378.9	1837.8	1803.5	-34.3	2192.0	2199.8	7.9	2512.67	-162.5	226.25
Ordinary Revenue	1769.2	1499.8	-269.5	1877.2	1573.4	-303.8	1578.8	1562.0	-16.8	1851.5	1917.9	66.4	2191.89	-130.9	205.90
AiA	155.2	204.6	49.4	238.7	163.6	-75.2	259.0	241.5	-17.5	340.4	281.9	-58.5	320.78	-25.5	54.36
Grants	48.5	19.7	-28.8	38.8	19.8	-19.0	72.8	31.3	-41.5	62.9	31.0	-31.9	28.08	-30.3	31.33
Total Expenditure	2557.2	2433.7	-123.5	2796.0	2565.4	-230.6	2886.9	2769.3	-117.6	3286.1	3027.8	-258.2	3389.99	-182.5	192.97
Recurrent	1550.0	1759.3	209.3	1760.3	1762.3	2.0	1765.3	1813.3	47.9	2227.3	2135.3	-92.0	2352.74	41.8	116.80
Development	625.7	541.9	-83.8	652.3	594.9	-57.4	668.2	557.0	-111.3	657.5	540.1	-117.4	596.61	-92.5	95.50
Domestic	364.9	307.0	-57.9	390.2	396.6	6.5	417.8	390.0	-27.8	411.3	378.2	-33.1	387.86	-28.1	36.27
External	249.8	225.4	-24.4	255.8	197.6	-58.1	250.4	167.0	-83.4	239.4	161.9	-77.5	188.96	-60.9	65.08
Net Lending	2.5	2.5	0.0	0.6	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	14.73	0.0	0.01
Equalization Fund	8.5	7.0	-1.5	5.8	0.0	-5.8	0.0	0.0	0.0	6.8	0.0	-6.8	5.07	-3.5	4.53
County Allocation	376.5	360.7	-15.7	378.3	325.3	-53.1	399.6	399.0	-0.6	401.2	352.4	-48.8	436.64	-29.6	36.91
Balance	-559.6	-709.6	-150.1	-641.3	-808.6	-167.3	-976.2	-934.4	41.8	-1031.2	-797.0	234.2	-849.23	-10.3	163.64
Financing	559.6	721.1	161.5	641.3	790.8	149.5	976.2	950.2	-26.0	1031.2	747.8	-283.4	849.24	0.4	179.86
Net Foreign Financing	287.0	414.5	127.5	331.3	340.4	9.1	417.6	323.3	-94.2	343.1	142.5	-200.6	298.37	-39.5	127.92
Net Domestic Financing	268.7	306.5	37.9	310.0	450.4	140.3	558.7	626.9	68.3	688.1	605.3	-82.8	550.87	40.9	90.35
Memo Items:															
Nominal GDP (Ksh billion)	9726.6	9745.6	19.0	10765.7	10620.8	-144.8	11275.8	11370.3	94.5	12844.3	12736.1	-108.1	14521.62	-34.9	102.42

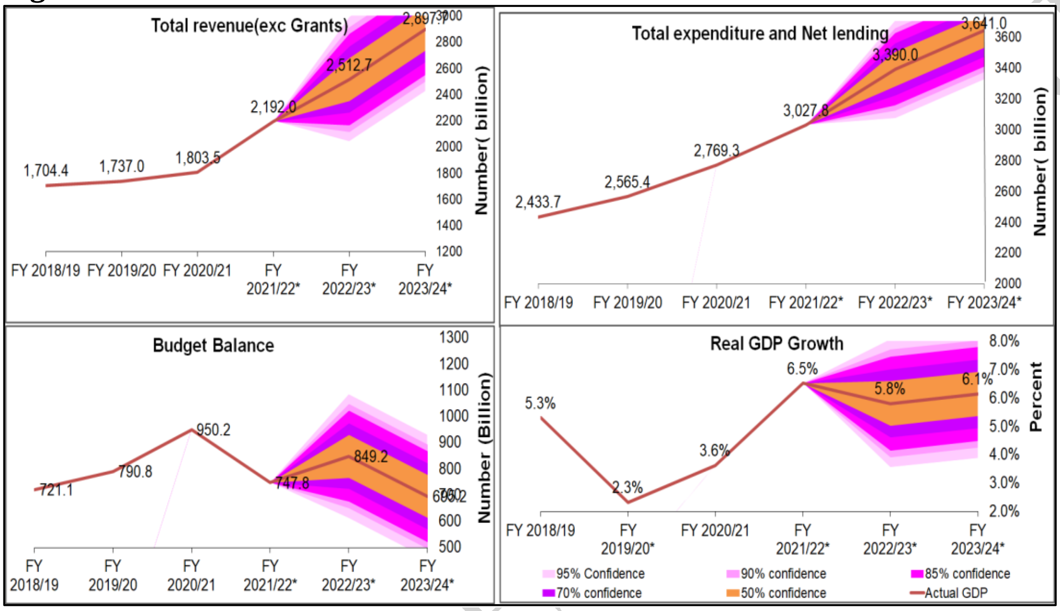
Source: National Treasury

13. The Kenyan economy recovered from the effects of COVID-19 Pandemic to register a growth of 6.5 percent in the FY 2021/22 from a growth of 3.6 percent in FY 2020/21. The economy is projected to slow down to 5.8 percent in FY 2022/23 with a 95 percent confidence level ranging between 8.1 percent and 3.6 percent at 0.9 percent standard deviation. The slowdown in growth is due to the multiple shocks that affected the economy in the second half of 2022. The economy is projected to improve and grow by 6.1 percent in FY 2023/24 and at a growth range of around 8.4 percent and 3.9 percent using the same standard deviation at 95 percent confidence interval **(Figure 2).**

14. There is a 95 percent chance that the forecasted total revenue of Ksh 2,512.7 billion in FY 2022/23 will be within the actual revenue range of Ksh 2,990.6 billion and Ksh 2,034.7 billion and a 50 percent possibility between Ksh 2,678.5 billion and Ksh 2,346.9 billion with a standard deviation of Ksh 226.3 billion. The Projected revenue of 2,897.7 billion for FY 2023/24 will fall at an actual range of Ksh 3,375.6 billion and Ksh 2,419.8 billion at 95 percent confidence interval.

15. The forecasted expenditure of Ksh 3,390.0 billion in FY 2022/23 has a 95 percent chance to range between Ksh 3,708.1 billion and Ksh 3,071.8 billion with a 193.0 billion standard deviation. The expenditure is projected to increase further in FY 2023/24 to Ksh 3,641.0 billion and to range between Ksh 3,959.2 and Ksh 3,322.8 billion at 95 percent confidence interval. The fiscal deficit at a standard deviation of 163.6 billion, will therefore fall between Ksh 931.8 billion and Ksh 458.6 billion in FY 2023/24 at a 95 percent confidence interval.

Figure 2: Confidence Intervals



Source of Data: National Treasury

SPECIFIC FISCAL RISKS

16. This section covers specific fiscal risk that Kenya faces and elevates the importance of effective risk management. The specific fiscal risks include:

a) Fiscal Risks Associated with Public Debt;
b) Crystallization of Contingent Liabilities;
c) Fiscal Risks Related to Devolution; and
d) Other fiscal risks.

a) Fiscal Risk Associated with Public Debt

17. Performance of the economy has a direct correlation with the debt sustainability. Poor performance of the economy deteriorates the debt indicators thus unsustainability while the reverse is true. However, the Government strategy to revive the economy and its commitment to fiscal consolidation will lead to improvement of the debt ratios.

18. Market pressures due to war in Ukraine and the monetary tightening in the USA and Europe have limited access to international market. The inflation rates have led to high interest rates and this has hindered the Government in performing liability management operation on its debt portfolio. However, the Government

will continue to monitor the financial conditions before performing any liability management operations whose aim is to lengthen the maturity structure and reduce the refinancing risks in the debt portfolio. Limited access coupled with illiquid international market may hinder the Government's plan to refinance the 2024 sovereign bond maturities. Governments to strategize for alternatives to avoid defaults. The on-going implementation of reforms in the domestic debt market are aimed at improving efficiency and deepen the market to cushion the Government against the downsides of the risks stemming from external factors.

19. The risk of continuous increase in the cost of debt service as a result of Kenya Shilling depreciating against major currencies as 50 per cent of the debt portfolio is from external sources. The rising interest rates both in the domestic and external market has an implication on the Governments` overall debt service. A large proportion of revenue will be used to service debt while denying Kenyans other priority expenditures. Uncertainty in the movement of interest rates have led to contraction of new debt on short term maturities thus increasing the refinancing risk.

20. Government's exposure to fiscal risks and contingent liabilities arising from State Owned Enterprises are recorded off balance sheet. Materialization of these liabilities may pose severe fiscal difficulties in the budget year. The government will continue monitoring the liabilities and will be able to mitigate the risk before they materialize.

b) Crystallization of Contingent Liabilities

21. Contingent liabilities are potential liabilities that may occur depending on the outcome of uncertain future events. They are not reflected in the BPS financial position but are adequately disclosed. However, a contingent liability is only recorded in the financial statements if the contingency is probable and the amount of the liability can reasonably be estimated. Contingent liability can be explicit or implicit. Explicit contingent liabilities are specific government obligations established by law or a contract authorized by law. The Government is legally mandated to settle such an obligation when it becomes due. On the other hand, implicit contingent liabilities represent a moral obligation or expected burden for the government not in the legal sense but based on public expectations and political intervention.

22. Contingent liabilities are frequently not recorded directly in the budget and thus are not subjected to budgetary oversight. These could lead to poor quantification of Contingent Liabilities and the possibility of large unplanned expenditures if the guarantee crystallizes. The Government will monitor these contingent liabilities to avoid fiscal difficulties in the budget year in the event they materialize in State Corporations/State Owned Enterprises (SOEs)

i. State Corporations/State Owned Enterprises (SOEs)

23. State Corporations can be a major source of fiscal risk to public finances if they underperform financially. While Government has a stake in state-owned enterprises and other Government investments in public companies, its contractual

obligations may be limited. However, due to the strategic nature of those state-owned enterprises and public companies given the national interest and the overall impact of their failure on the economy, the Government may be morally obligated to bail out those state-owned enterprises and public companies in financial distress. This may pose serious fiscal risk and challenge to budget implementation.

24. Further, Government may be required from time to time to provide budgetary allocations for Government of Kenya strategic investments, subscriptions, equity participation and other financial support. The Government has already received requests from Regional, International Bodies and other Government Linked Corporations for financial support for GOK strategic investments, subscriptions, equity participation and other financial support.

25. The total outstanding Government guaranteed debt to SOEs and Government linked entities amounted to Ksh. 1,081,831 million as of 30th June 2022. This includes: Direct GoK loans of Kshs. 120,759 million, on-lent foreign loans of Kshs. 796,003 million and Direct commercial domestic loans of Kshs. 165,069 million, SOEs also had a contingent liability of Kshs. 135,605 million.

26. Debt stricken state corporations constitute a potential source of fiscal risk. However, the government is cautious in issuance of guarantees and other support measures to state corporations upon such requests. However, as the principal owner of all State Corporations the Government is the natural underwriter of the risks they face. During the review period FY 2022/23 the stock of risk exposure is estimated to be Kshs 2,751,771 million, where 2,661,122 million is from SOEs, and 90,649 million is from government linked Corporations (GLCs).

27. In order to mitigate the fiscal risks among the State Corporations or State-Owned Enterprises:

i. The Government has established a High-Level Fiscal Risk Committee (FRC) at the National Treasury with a view of identifying, evaluating, and reporting and to a deeper extent proposing strategies for mitigating and tackling the same.

ii. Strengthen corporate governance of State Corporations through the Mwongozo guidelines and subsequent training in the area of governance. This will involve establishment and operationalization of audit committees and risk management frameworks for Government entities including State Corporations;

iii. Utilizing the Government Information Management Information System (GIMIS) to oversight SOEs by ensuring the government has comprehensive and consolidated data on SOEs to ensure timely identification, monitoring, mitigation, and reporting of fiscal risks from SOEs. More modules are being inbuilt to have a better chance of arresting fiscal risks in SOEs before they materialize.

iv. Using fiscal risks management tool kits developed by the IMF and the National Treasury. These tools are: SOE Health Check Tool (HCT), Fiscal Stress Test tool (FST tool) and Fiscal Risk Assessment Tool (FRAT). However, it was found that the tools were more likely to favour SOEs of commercial nature and unbundling/ unpacking requires a lot of technical training, and

v. Restructuring of State Corporations/State Owned Enterprises (SOEs) through amendment to State owned Enterprises (SOE) privatization Act 2005 aimed at reducing demand for government resources and facilitate privatization of SOEs.

ii. Public Private Partnerships (PPP) Projects

28. The Government has identified a number of key sectors including water, housing, roads, trade and industry in which it wishes to work with the private sector through the Public Private Partnerships framework. The PPP Directorate envisages mobilizing Ksh 50 billion within the FY 2023/24, based on the current projects in the PPP pipeline. To achieve this, all projects will be screened for commercial viability as PPPs, before being considered for implementation within the National Budget. Accordingly, the sectors of focus that the PPP Directorate will be looking for private capital, are in:

a. The Water sector - The Government intends to roll out water and irrigation projects in the next five years working together with the private sector. The National Treasury in collaboration with the Ministry of Water, has already identified major dams which will be launched for procurement through the PPP Model.
b. The Housing sector - There exists a deficit of approximately 2 million units of housing stock. The Government plans to work the private sector to raise production from the current rate of 50,000 to 200,000 units a year in order to reduce the deficit. In the PPP arrangement, the Government will provide land and bulk infrastructure such as water, sewer and power to reduce the cost of housing production and to ensure affordability of houses to the bottom of the pyramid.
c. Roads sector - The Government plans mobilize private sector resources to develop and expand key trunk networks in the country, in particular, the Mombasa - Nairobi – Malaba road corridor. This is intended to alleviate congestion, improve safety and enhance connectivity to boost trade and investment.
d. Trade and Industry sector - The Government plans to use the PPP model to deliver industrial parks and Special Economic zones across the country. In this arrangement, the Government will provide the private sector with appropriate land and create necessary incentives, through fiscal tax measures and special power tariffs, to stimulate private sector investment into SEZs.

29. There are potential fiscal risks stemming from the Public Private Partnership (PPP) Projects including possible breaching of contract obligations, unfunded additional obligations and those stemming from movements in inflation and exchange rate. To mitigate these risks, the Government will reduce implementation

bureaucracy, strengthens PPP institutions, improve governance, promote the framework for balancing risk with affordability and value for money, while guaranteeing rapid service delivery through cutting down execution timelines, and promoting local content for greater national value capture in PPPs. The PPP Directorate will be at the centre of PPP programme design and implementation going forward, and will play a central role in public investment programming and design, alongside the Public Investment Management function at the National Treasury.

iii. Pension Liabilities

30. The Government has made a strong commitment to social protection across the population. Included in the plan is a pension arrangement that covers the workforce in both formal and informal payrolls. Of those in formal employment, a majority of them serve in the public service and their pension is administered under the broad framework of the Public Service Pension Scheme (PSPS) in the Pensions Department of the National Treasury. The benefits accrued under the Scheme are therefore budgeted for and drawn directly from the Consolidated Funds Services (CFS). With the increasing number of retired officers, dependants, marriage gratuity, and the increased life expectancy rate, the pension wage bill has been rising exponentially posing a fiscal risk.

31. In the FY 2021/22, the Government allocated Ksh 120 billion to the Defined Benefit Pension Scheme. The allocation did not clear all the pension liabilities that accrued in the FY 2021/22 which amounted to Ksh 75.5 billion. The Government increased the budget allocation to the scheme from Ksh 120 billion to Ksh 146 billion in the FY 2022/23 to reduce the fiscal risk associated with the unexpected increase in pension payment. The Government plans to further increase allocation to the scheme in the FY 2023/24 and over the medium term as shown in **Table 3.** To further mitigate the fiscal risk, the Government will ensure timely remittance of the required contribution to defined contribution schemes to reduce possible litigation costs and encourage appropriate investment choices.

Table 3: GoK Contribution to PSSS FY 2023/24 to FY 2027/28

Financial Year	PSPS Projected Payments (Kshs million)	PSSS Projected GOK contributions (Kshs million)	Total (Kshs Millions)
2023/2024	163,529,546,177	28,464,677,993	191,994,224,170
2024/2025	179,858,290,795	31,311,145,793	211,169,436,588
2025/2026	183,819,909,875	34,442,260,372	218,262,170,247
2026/2027	188,413,369,604	37,886,486,409	226,299,856,013
2027/2028	191,008,609,713	41,675,135,050	232,683,744,763

32. In line with the Government policy to avail services online and through mobile platforms, the Government will scale up the modernization of pension services by amongst others re-engineering the Pension Management Information System (PMIS) to make it a modern ERP system with an end-to-end integration with all actors in the public pension ecosystem including the pensioners themselves. This will enable pensioners to interact with the Pensions Department through mobile and computer APPS for ease of administration.

c) Fiscal Risks Related to Devolution

33. County Treasuries are required under Section 107 of the PFM, Act 2012 to manage their public finances in accordance with the principles of fiscal responsibility. Among the fiscal responsibility principles set out in Section 107 (2) is the requirement for the County Treasury to manage its fiscal risks prudently. A number of fiscal risks that require prudence in its management by the County Governments are as follows;

i. High expenditure on personnel emoluments contrary to Regulation 25 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015 that sets the limit of the County Government's expenditure on wages and benefits at 35 percent of the County's total revenue.

ii. Below target Own Source Revenue Collections that results to unfunded budget deficits and accumulation of pending bills negatively affecting service delivery to the citizens

iii. County Governments continue to report high levels of pending bills that remain unpaid and have a negative impact on the business community as well as the economy in general.

iv. Low actual development expenditure which is not in line with the County Governments approved budgets and contrary to Section 107(2) (b) of the Public Finance Management (PFM) Act, 2012, that provides that over the medium term, a minimum of thirty percent of the County Government budget shall be spent on the development expenditure.

d) Other Fiscal Risks

i. Natural Disasters and Man-made Hazards

34. In the recent past, Kenya has been exposed to multiple disasters ranging from floods, desert locust invasion, COVID-19 and drought. The compounding effects of these disasters have had severe impact on lives, livelihoods and the economy. To strengthen the country's disaster risk management frameworks, the Government will fast track development and implementation of Disaster Risk Financing Management Framework in line with the PFM Act, 2012, and establishment of a Disaster Expenditure, Monitoring and Reporting Framework to strengthen data collection and reporting on disaster expenditures as well as enhancing fiscal transparency and efficiency in the budgetary process. The Government will also enhance coordination of disaster risk management and system, and early warnings, information and knowledge management.

ii. Climate Change Related Fiscal Risks to the Economy

35. Climate change has become a pressing issue globally, and like other economies, the Kenyan economy is vulnerable to its ravaging impacts. To minimize the economic and fiscal risks of climate change phenomenon, the Government will continue to pursue a low carbon- climate resilient development path. Climate financing has emerged as an important means of implementation for climate change and for promoting sustainable development and financial sector development.

36. To enhance increase of financial flows from the Green Climate Fund (GCF), the Government will continue to implement the National Green Climate Fund Strategy, which provides an elaborate framework of coordinating and attracting resources from the GCF. The Government will also implement the Financing Locally-led climate Action (FLLoCA) Program in collaboration with County Government and development partners to manage climate risks. To further deepen green financing, the Government will implement the Green Finance Programme geared towards transitioning to a low-carbon, climate resilient and green economy.

iii. Money Laundering

37. In order to fight money laundering, the Government will continue to promote financial integrity and cyber security surveillance in the financial services sector through improved capabilities to detect, mitigate, report and respond to cyber threats and Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) surveillance. This initiative will be achieved through: implementation of the AML/CTF National Risk Assessment Report 2021; the National AML/CFT Strategy and the Mutual Evaluation report 2022; development of sub-sector specific cyber security frameworks in line with National Cyber security Framework.

Annex Table 1: Macroeconomic Indicators

	2020/21	2021/22		2022/23		2023/24		2024/25		2025/26		2026/27	
	Prel. Act	Approved Revised II	Prel. Act	Budget	upp I Budg	BROP'22	BPS'23	BROP'22	BPS'23	BROP'22	BPS'23	BROP'22	BPS'23
	annual percentage change, unless otherwise indicated												
National Account and Prices													
Real GDP	3.6	6.8	6.5	5.8	5.8	6.1	6.1	6.2	6.2	6.1	6.1	6.2	6.2
GDP deflator	5.0	4.8	6.2	6.1	6.9	5.8	5.8	4.8	4.8	5.9	5.9	6.0	6.0
CPI Index (eop)	6.3	5.2	6.9	5.5	6.4	5.4	5.4	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	5.7	5.4	6.8	6.0	7.0	5.8	5.8	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	-3.6	1.1	1.1	-0.4	1.1	-0.6	-0.6	-1.8	-1.8	-0.7	-0.7	0.6	0.6
Money and Credit (end of period)													
Net domestic assets	11.7	11.1	18.8	9.4	13.9	10.0	10.0	10.6	10.6	11.9	11.9	10.6	10.6
Net domestic credit to the Government	27.1	19.6	26.3	13.1	12.4	10.0	10.0	10.8	10.8	9.6	9.6	10.9	10.9
Credit to the rest of the economy	7.7	10.8	12.3	12.8	18.9	11.6	11.6	15.1	15.1	17.6	17.6	12.4	12.4
Broad Money, M3 (percent change)	6.4	11.4	7.4	10.1	14.0	12.2	12.2	11.6	11.6	12.4	12.4	11.9	11.9
Reserve money (percent change)	5.4	11.4	15.4	4.7	8.4	12.1	12.1	11.5	11.5	12.3	12.3	11.8	11.8
	in percentage of GDP, unless otherwise indicated												
Investment and Saving													
Investment	20.1	23.9	18.8	19.3	17.9	18.9	18.9	18.9	18.9	18.6	18.6	18.6	18.6
Central Government	4.9	4.7	4.2	4.7	3.9	4.7	4.7	4.8	4.8	5.2	5.2	4.9	4.9
Other	15.2	19.1	14.6	14.6	14.1	14.2	14.2	14.1	14.1	13.4	13.4	13.6	13.6
Gross National Saving	14.1	19.1	12.9	14.2	13.1	13.6	13.6	13.5	13.5	13.3	13.3	13.2	13.2
Central Government	-2.2	-5.3	-1.5	-0.7	-1.1	1.1	1.1	1.6	1.6	2.1	2.1	1.7	1.7
Other	16.3	24.4	14.5	14.9	14.2	12.5	12.5	11.9	11.9	11.2	11.2	11.5	11.5
Central Government Budget													
Total revenue	15.9	17.1	17.3	17.6	17.3	17.8	17.8	17.8	17.8	18.0	18.0	18.3	18.3
Total expenditure and net lending	24.4	25.6	23.8	24.0	23.3	22.4	22.4	21.8	21.8	21.7	21.7	22.3	22.3
Overall Fiscal balance excl. grants	-8.5	-8.5	-6.5	-6.4	-6.0	-4.6	-4.6	-4.1	-4.1	-3.7	-3.7	-3.9	-3.9
Overall Fiscal balance, incl. grants, cash basis	-8.2	-8.0	-6.2	-6.2	-5.8	-4.3	-4.3	-3.8	-3.8	-3.5	-3.5	-3.6	-3.6
Statistical discrepancy	0.2	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall Fiscal balance, incl. grants, cash basis- adj. descrepancy	-8.2	-8.0	-6.2	-6.2	-5.8	-4.3	-4.3	-3.8	-3.8	-3.5	-3.5	-3.6	-3.6
Primary budget balance	-3.8	-3.3	-1.6	-1.2	-1.1	0.3	0.3	0.7	0.7	0.8	0.8	0.7	0.7
Net domestic borrowing	5.5	5.4	4.8	4.2	3.8	3.0	3.0	3.2	3.2	2.9	2.9	2.9	2.9
External Sector													
Exports value, goods and services	10.2	11.0	11.4	12.6	12.4	13.0	13.0	12.9	12.9	12.4	12.4	12.1	12.1
Imports value, goods and services	19.0	17.6	19.3	19.7	18.6	19.1	19.1	18.6	18.6	17.7	17.7	17.2	17.2
Current external balance, including official transfers	-6.0	-4.8	-5.9	-5.0	-4.8	-5.2	-5.2	-5.4	-5.4	-5.3	-5.3	-5.4	-5.4
Gross reserves in months of next yr's imports	5.2	5.5	5.7	5.7	5.3	5.5	5.5	5.7	5.7	5.6	5.6	5.5	5.5
Gross reserves in months of this yr's imports	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.9	5.9	5.9	5.9	6.0	6.0
Public debt													
Nominal central government debt (eop), gross	67.7	68.4	67.4	67.3	64.9	62.1	62.1	59.5	59.5	56.3	56.3	54.0	54.0
Nominal debt (eop), net of deposits	62.8	63.9	63.1	63.4	61.2	58.8	58.8	56.5	56.5	53.7	53.7	51.7	51.7
Domestic (gross)	32.5	34.5	33.7	34.7	33.3	32.8	32.8	32.6	32.6	31.9	31.9	31.6	31.6
Domestic (net)	27.6	30.0	29.4	30.8	29.6	29.4	29.4	29.6	29.6	29.2	29.2	29.3	29.3
External	35.2	33.9	33.7	32.6	31.6	29.4	29.4	26.9	26.9	24.5	24.5	22.4	22.4
Memorandum Items:													
Nominal GDP (in Ksh Billion)	11,370	12,646	12,736	14,002	14,522	16,290	16,290	18,180	18,180	20,437	20,437	22,872	22,872
Nominal GDP (in US$ Million)	105,677	114,595	111,617	114,898	117,984	126,508	126,508	136,689	136,689	148,463	148,463	159,922	159,922

Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper; SGR = Standard Gauge Railway

Source: National Treasury

Annex Table 2: Government Fiscal Operations, Ksh Billion

	2020/21	2021/22		2022/23		2023/24		2024/25		2025/26		2026/27	
	Prel. Act	Approved Revised II	Prel. Act	Budget	Supp I Budget	BROP'22	BPS'23	BROP'22	BPS'23	BROP'22	BPS'23	BROP'22	BPS'23
TOTAL REVENUE	**1803.5**	**2,192.0**	**2,199.8**	**2,462.4**	**2,512.7**	**2,897.7**	**2,897.7**	**3,231.1**	**3,231.1**	**3,670.0**	**3,670.0**	**4,195.2**	**4,195.2**
Ordinary Revenue	1562.0	1,851.5	1,917.9	2,141.6	2,191.9	2,566.0	2,566.0	2,878.6	2,878.6	3,294.2	3,294.2	3,775.7	3,775.7
Income Tax	694.1	836.7	876.7	997.3	1,004.3	1,198.5	1,198.5	1,305.7	1,305.7	1,500.1	1,500.1	1,734.5	1,734.5
Import duty (net)	108.4	115.9	118.3	144.9	145.9	173.3	173.3	199.4	199.4	229.0	229.0	258.1	258.1
Excise duty	216.3	255.9	252.1	297.2	297.2	352.7	352.7	401.1	401.1	460.0	460.0	521.5	521.5
Value Added Tax	410.8	514.1	523.1	584.7	587.7	703.3	703.3	804.7	804.7	926.2	926.2	1,061.3	1,061.3
Investment income	45.1	37.7	43.7	31.5	35.5	33.1	33.1	34.7	34.7	38.1	38.1	42.3	42.3
Other	87.4	91.2	104.1	86.0	121.3	105.1	105.1	133.1	133.1	140.8	140.8	158.1	158.1
Ministerial Appropriation in Aid	**241.5**	**340.4**	**281.9**	**320.8**	**320.8**	**331.7**	**331.7**	**352.5**	**352.5**	**375.8**	**375.8**	**419.5**	**419.5**
EXPENDITURE AND NET LENDING	**2,769.3**	**3,286.1**	**3,027.8**	**3,358.6**	**3,390.0**	**3,641.0**	**3,641.0**	**3,970.2**	**3,970.2**	**4,434.2**	**4,434.2**	**5,096.4**	**5,096.4**
Recurrent expenditure	1,813.3	2,227.3	2,135.3	2,271.0	2,352.7	2,422.3	2,422.3	2,646.3	2,646.3	2,916.4	2,916.4	3,390.3	3,390.3
Interest payments	495.1	605.3	578.0	690.6	690.6	750.5	750.5	811.9	811.9	883.4	883.4	984.7	984.7
Domestic interest	388.8	479.2	456.8	553.4	553.4	604.8	604.8	660.4	660.4	723.8	723.8	792.5	792.5
Foreign Interest	106.3	126.1	121.1	137.2	137.2	145.7	145.7	151.5	151.5	159.6	159.6	192.1	192.1
Pensions & Other CFS	112.9	137.3	122.4	150.6	145.3	170.6	170.6	192.9	192.9	217.6	217.6	250.3	250.3
Pensions	110.3	132.8	119.3	146.0	140.7	165.9	165.9	188.1	188.1	212.5	212.5	244.4	244.4
Other CFS	2.6	4.5	3.2	4.6	4.6	4.6	4.6	4.9	4.9	5.1	5.1	5.9	5.9
Contribution to Civil Service Pension Fund	3.3	20.8	26.4	25.9	31.9	28.5	28.5	31.3	31.3	34.4	34.4	45.7	45.7
Net Issues/Net Expenditure	1,051.7	1,231.2	1,211.0	1,178.4	1,259.3	1,250.3	1,250.3	1,382.8	1,382.8	1,541.4	1,541.4	1,842.8	1,842.8
O/W: Wages & Salaries	493.0	525.1	525.1	537.2	560.7	600.0	600.0	645.3	645.3	703.4	703.4	914.9	914.9
Free Secondary education	59.4	62.4	62.4	102.8	102.8	105.9	105.9	110.1	110.1	110.1	110.1	116.7	116.7
Free Primary Education	12.0	12.0	12.0	21.6	21.6	22.3	22.3	23.4	23.4	23.4	23.4	24.8	24.8
IEBC	4.9	14.2	14.2	16.5	16.5	6.5	6.5	6.9	6.9	6.9	6.9	7.3	7.3
Defense and NIS	157.7	157.1	175.8	174.3	161.9	170.0	170.0	170.0	170.0	170.0	170.0	176.8	176.8
Others	301.2	438.1	399.2	294.7	364.5	312.2	312.2	388.8	388.8	483.8	483.8	555.8	555.8
Ministerial Recurrent AIA	144.5	229.5	197.5	225.5	225.5	222.5	222.5	227.3	227.3	239.6	239.6	266.8	266.8
Ministerial Recurrent AIA - NMS	5.8	3.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development and Net lending	**557.0**	**657.5**	**540.1**	**676.6**	**596.6**	**796**	**796.4**	**901.5**	**901.5**	**1,070.3**	**1,070.3**	**1,149.6**	**1,149.6**
Domestically financed (Gross)	390.0	411.3	378.2	372.6	387.9	421.8	421.8	481.5	481.5	611.2	611.2	624.1	624.1
O/W Domestically Financed (Net)/NMS	308.2	281.5	290.4	287.4	302.7	323.1	323.1	367.3	367.3	486.4	486.4	484.2	484.2
Ministerial Development AIA	82.7	79.4	79.6	71.9	71.9	93.3	93.3	110.6	110.6	141.9	141.9	133.3	133.3
Foreign financed	167.0	239.4	161.9	294.7	189.0	349.9	349.9	390.0	390.0	431.7	431.7	512.7	512.7
Net lending	0.0	0.0	0.0	2.3	14.7	17.2	17.2	22.2	22.2	19.6	19.6	0.0	0.0
Equalization Fund	0.0	6.8	0.0	7.1	5.1	7.5	7.5	7.9	7.9	7.8	7.8	12.8	12.8
County Tranfers	**399.0**	**401.2**	**352.4**	**407.0**	**436.6**	**417.3**	**417.3**	**417.5**	**417.5**	**442.5**	**442.5**	**551.6**	**551.6**
Equitable Share	346.2	370.0	340.4	370.0	399.6	380.0	380.0	380.2	380.2	405.2	405.2	514.6	514.6
Conditional Allocation	52.8	31.2	12.0	37.0	37.0	37.3	37.3	37.3	37.3	37.3	37.3	37.0	37.0
Contingency Fund	**0.0**	**0.0**	**0.0**	**4.0**	**4.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**	**5.0**
Fiscal Balance ***(commitment basis excl. grants)***	**-965.7**	**-1,094.1**	**-828.0**	**-896.2**	**-877.3**	**-743.3**	**-743.3**	**-739.2**	**-739.2**	**-764.2**	**-764.2**	**-901.2**	**-901.2**
Grants	**31.3**	**62.9**	**31.0**	**33.3**	**28.1**	**48.1**	**48.1**	**49.3**	**49.3**	**53.2**	**53.2**	**68.6**	**68.6**
Fiscal Balance ***(incl. grants)***	**-934.4**	**-1,031.2**	**-797.0**	**-862.9**	**-849.2**	**-695.2**	**-695.2**	**-689.8**	**-689.8**	**-711.0**	**-711.0**	**-832.6**	**-832.6**
Adjustment to Cash Basis	5.1	0.0	11.9	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***	**-929.3**	**-1,031.2**	**-785.1**	**-862.9**	**-849.2**	**-695.2**	**-695.2**	**-689.8**	**-689.8**	**-711.0**	**-711.0**	**-832.6**	**-832.6**
Statistical discrepancy	20.9	0.0	-37.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL FINANCING	**950.2**	**1,031.2**	**747.8**	**862.9**	**849.2**	**695.2**	**695.2**	**689.8**	**689.8**	**711.0**	**711.0**	**832.6**	**832.6**
Net Foreign Financing	**323.3**	**343.1**	**142.5**	**280.7**	**298.4**	**198.6**	**198.6**	**99.7**	**99.7**	**125.9**	**125.9**	**169.7**	**169.7**
Disbursements	**451.6**	**545.2**	**327.1**	**521.8**	**539.4**	**674.2**	**674.2**	**381.1**	**381.1**	**415.4**	**415.4**	**481.0**	**481.0**
Commercial Financing	114.3	124.3	0.0	105.6	105.6	270.0	270.0	0.0	0.0	0.0	0.0	0.0	0.0
O/W Export Credt	6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sovereign Bond	107.6	124.3	0.0	105.6	105.6	270	270.0	0	0.0	0.0	0.0	0.0	0.0
Total Project loans (AIA + Revenue)	168.7	257.6	192.0	286.5	186.0	338.8	338.8	377.6	377.6	415.4	415.4	481.0	481.0
o/w: Project loans (AIA)	104.8	134.4	92.6	184.9	110.9	239.1	239.1	263.0	263.0	289.3	289.3	307.6	307.6
Project Loans Revenue	52.4	81.1	58.6	101.6	75.1	99.7	99.7	114.6	114.6	126.1	126.1	173.4	173.4
Project Loans SGR _Phase I_ AIA	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans SGR _ Phase 2A_AIA	6.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Use of IMF SDR Allocation		42.2	40.8		47.3								
Programme Loans	168.6	163.2	135.0	129.7	200.5	65.4	65.4	3.5	3.5	0.0	0.0	0.0	0.0
Debt repayment - Principal	-128.3	-202.1	-184.5	-241.1	-241.1	-475.6	-475.6	-281.5	-281.5	-289.5	-289.5	-311.3	-311.3
Net Domestic Financing	**626.9**	**688.1**	**605.3**	**582.2**	**550.9**	**496.6**	**496.6**	**590.2**	**590.2**	**585.0**	**585.0**	**662.9**	**662.9**
Memo items													
Gross Debt (Stock)	7,696.6	8,579.1	8,579.1	9,442.0	9,428.3	10,123.5	10,123.5	10,813.4	10,813.4	11,514.0	11,514.0	12,358.4	12,358.4
External Debt	3,999.5	4,290.7	4,290.7	4,571.5	4,589.1	4,787.7	4,787.7	4,887.4	4,887.4	5,003.0	5,003.0	5,120.9	5,120.9
Domestic Debt (gross)	3,697.1	4,288.3	4,288.3	4,870.5	4,839.2	5,335.8	5,335.8	5,926.0	5,926.0	6,511.0	6,511.0	7,237.4	7,237.4
Domestic Debt (net)	3,140.7	3,828.8	3,746.0	4,328.2	4,296.8	4,793.4	4,793.4	5,383.6	5,383.6	5,968.6	5,968.6	6,695.1	6,695.1
Financing gap	15.8	0.0	-49.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	**11,370.3**	**12,844.3**	**12,736.1**	**14,002.5**	**14,521.6**	**16,290.3**	**16,290.3**	**18,180.2**	**18,180.2**	**20,436.9**	**20,436.9**	**22,872.3**	**22,872.3**

Source: The National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper; SGR = Standard Gauge Railway

Source: National Treasury

Annex Table 3: Government Fiscal Operations, Percent of GDP

	2020/21	2021/22		2022/23		2023/24		2024/25		2025/26		2026/27	
	Prel. Act	Approved Revised II	Prel. Act	Budget	Supp I Budge	BROP'22	BPS'23	BROP'22	BPS'23	BROP'22	BPS'23	BROP'22	BPS'23
TOTAL REVENUE	**15.9**	**17.1**	**17.3**	**17.6**	**17.3**	**17.8**	**17.8**	**17.8**	**17.8**	**18.0**	**18.0**	**18.3**	**18.3**
Ordinary Revenue	**13.7**	**14.4**	**15.1**	**15.3**	**15.1**	**15.8**	**15.8**	**15.8**	**15.8**	**16.1**	**16.1**	**16.5**	**16.5**
Income Tax	6.1	6.5	6.9	7.1	6.9	7.4	7.4	7.2	7.2	7.3	7.3	7.6	7.6
Import duty (net)	1.0	0.9	0.9	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Excise duty	1.9	2.0	2.0	2.1	2.0	2.2	2.2	2.2	2.2	2.3	2.3	2.3	2.3
Value Added Tax	3.6	4.0	4.1	4.2	4.0	4.3	4.3	4.4	4.4	4.5	4.5	4.6	4.6
Investment income	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	0.8	0.7	0.8	0.6	0.8	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Ministerial Appropriation in Aid	**2.1**	**2.7**	**2.2**	**2.3**	**2.2**	**2.0**	**2.0**	**1.9**	**1.9**	**1.8**	**1.8**	**1.8**	**1.8**
EXPENDITURE AND NET LENDING	**24.4**	**25.6**	**23.8**	**24.0**	**23.3**	**22.4**	**22.4**	**21.8**	**21.8**	**21.7**	**21.7**	**22.3**	**22.3**
Recurrent expenditure	**15.9**	**17.3**	**16.8**	**16.2**	**16.2**	**14.9**	**14.9**	**14.6**	**14.6**	**14.3**	**14.3**	**14.8**	**14.8**
Interest payments	4.4	4.7	4.5	4.9	4.8	4.6	4.6	4.5	4.5	4.3	4.3	4.3	4.3
Domestic interest	3.4	3.7	3.6	4.0	3.8	3.7	3.7	3.6	3.6	3.5	3.5	3.5	3.5
Foreign Interest	0.9	1.0	1.0	1.0	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8
Pensions & Other CFS	1.0	1.1	1.0	1.1	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1
Pensions	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.1
Other CFS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution to Civil Service Pension Fund	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Net Issues/Net Expenditure	9.2	9.6	9.5	8.4	8.7	7.7	7.7	7.6	7.6	7.5	7.5	8.1	8.1
O/W: Wages & Salaries	4.3	4.1	4.1	3.8	3.9	3.7	3.7	3.5	3.5	3.4	3.4	4.0	4.0
Free Secondary education	0.5	0.5	0.5	0.7	0.7	0.6	0.6	0.6	0.6	0.5	0.5	0.5	0.5
Free Primary Education	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Defense and NIS	1.4	1.2	1.4	1.2	1.1	1.0	1.0	0.9	0.9	0.8	0.8	0.8	0.8
Others	2.6	3.4	3.1	2.1	2.5	1.9	1.9	2.1	2.1	2.4	2.4	2.4	2.4
Ministerial Recurrent AIA	1.3	1.8	1.6	1.6	1.6	1.4	1.4	1.3	1.3	1.2	1.2	1.2	1.2
Ministerial Recurrent AIA - NMS	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
Development and Net lending	**4.9**	**5.1**	**4.2**	**4.8**	**4.1**	**4.9**	**4.9**	**5.0**	**5.0**	**5.2**	**5.2**	**5.0**	**5.0**
Domestically financed (Gross)	3.4	3.2	3.0	2.7	2.7	2.6	2.6	2.6	2.6	3.0	3.0	2.7	2.7
O/W Domestically Financed (Net)/NMS	2.7	2.2	2.3	2.1	2.1	2.0	2.0	2.0	2.0	2.4	2.4	2.1	2.1
Ministerial Development AIA	0.7	0.6	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.7	0.7	0.6	0.6
Foreign financed	1.5	1.9	1.3	2.1	1.3	2.1	2.1	2.1	2.1	2.1	2.1	2.2	2.2
Net lending	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0
Equalization Fund	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
County Tranfers	**3.5**	**3.1**	**2.8**	**2.9**	**3.0**	**2.6**	**2.6**	**2.3**	**2.3**	**2.2**	**2.2**	**2.4**	**2.4**
Equitable Share	**3.0**	**2.9**	**2.7**	**2.6**	**2.8**	**2.3**	**2.3**	**2.1**	**2.1**	**2.0**	**2.0**	**2.3**	**2.3**
Conditional Allocation	0.5	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Contingency Fund	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Fiscal Balance (commitment basis excl. grants)	**-8.5**	**-8.5**	**-6.5**	**-6.4**	**-6.0**	**-4.6**	**-4.6**	**-4.1**	**-4.1**	**-3.7**	**-3.7**	**-3.9**	**-3.9**
Grants	**0.3**	**0.5**	**0.2**	**0.2**	**0.2**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Fiscal Balance (incl. grants)	**-8.2**	**-8.0**	**-6.3**	**-6.2**	**-5.8**	**-4.3**	**-4.3**	**-3.8**	**-3.8**	**-3.5**	**-3.5**	**-3.6**	**-3.6**
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
Fiscal Balance (incl. grants) Cash Basis	-8.2	-8.0	-6.2	-6.2	-5.8	-4.3	-4.3	-3.8	-3.8	-3.5	-3.5	-3.6	-3.6
Statistical discrepancy	0.2	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL FINANCING	**8.4**	**8.0**	**5.9**	**6.2**	**5.8**	**4.3**	**4.3**	**3.8**	**3.8**	**3.5**	**3.5**	**3.6**	**3.6**
Net Foreign Financing	**2.8**	**2.7**	**1.1**	**2.0**	**2.1**	**1.2**	**1.2**	**0.5**	**0.5**	**0.6**	**0.6**	**0.7**	**0.7**
Disbursements	**4.0**	**4.2**	**2.6**	**3.7**	**3.7**	**4.1**	**4.1**	**2.1**	**2.1**	**2.0**	**2.0**	**2.1**	**2.1**
Commercial Financing	**1.0**	**1.0**	**0.0**	**0.8**	**0.7**	**1.7**	**1.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
O/W Export Credt	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
Sovereign Bond	0.9	1.0	0.0	0.8	0.7	1.7	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Total Project loans (AIA + Revenue)	1.5	2.0	1.5	2.0	1.3	2.1	2.1	2.1	2.1	2.0	2.0	2.1	2.1
o/w: Project loans (AIA)	0.9	1.0	0.7	1.3	0.8	1.5	1.5	1.4	1.4	1.4	1.4	1.3	1.3
Project Loans Revenue	0.5	0.6	0.5	0.7	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.8	0.8
Project Loans SGR _Phase I_ AIA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans SGR _ Phase 2A_AIA	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
Use of IMF SDR Allocation	0.0	0.3	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Programme Loans	1.5	1.3	1.1	0.9	1.4	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Debt repayment - Principal	**-1.1**	**-1.6**	**-1.4**	**-1.7**	**-1.7**	**-2.9**	**-2.9**	**-1.5**	**-1.5**	**-1.4**	**-1.4**	**-1.4**	**-1.4**
Net Domestic Financing	**5.5**	**5.4**	**4.8**	**4.2**	**3.8**	**3.0**	**3.0**	**3.2**	**3.2**	**2.9**	**2.9**	**2.9**	**2.9**
Memo items													
Gross Debt (Stock)	67.7	69.8	67.4	67.4	64.9	62.1	62.1	59.5	59.5	56.3	56.3	54.0	54.0
External Debt	35.2	34.7	33.7	32.6	31.6	29.4	29.4	26.9	26.9	24.5	24.5	22.4	22.4
Domestic Debt (gross)	32.5	35.1	33.7	34.8	33.3	32.8	32.8	32.6	32.6	31.9	31.9	31.6	31.6
Domestic Debt (net)	27.6	30.5	29.4	30.9	29.6	29.4	29.4	29.6	29.6	29.2	29.2	29.3	29.3
Financing gap	0.1	0.0	-0.4	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

Source: The National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper; SGR = Standard Gauge Railway

Source: National Treasury

Annex Table 4a: Summary of Expenditure by Programmes (Ksh Million)

Sector Code	Sector/Vote/Programme Details	Printed Estimates 2021/2022			2022/2023			2023/2024			2024/2025		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
010	**AGRICULTURE, RURAL & URBAN DEVELOPMENT**	**24,847.2**	**50,878.6**	**75,725.9**	**26,353.0**	**37,545.0**	**63,898.0**	**28,713.8**	**27,951.2**	**56,665.0**	**31,341.3**	**34,919.4**	**66,260.7**
	1112 Ministry of Lands and Physical Planning	**3,045.0**	**2,431.1**	**5,476.1**	**3,160.4**	**2,731.8**	**5,892.2**	**3,312.4**	**3,908.6**	**7,221.0**	**3,464.6**	**4,718.6**	**8,183.2**
	0101000 Land Policy and Planning	3,045.0	2,431.1	5,476.1	3,160.4	2,731.8	5,892.2	3,312	3,909	7,221	3,465	4,719	8,183
	1162 State Department for Livestock.	**3,428.2**	**5,651.1**	**9,079.3**	**3,458.7**	**3,779.4**	**7,238.1**	**3,724.3**	**3,647.6**	**7,371.9**	**4,029.2**	**4,779.9**	**8,809.1**
	0112000 Livestock Resources Management and Development	3,428.2	5,651.1	9,079.3	3,458.7	3,779.4	7,238.1	3,724	3,648	7,372	4,029	4,780	8,809
	1166 State Department for Fisheries, Aquaculture & the Blue Economy	**2,267.4**	**10,736.2**	**13,003.6**	**2,192.6**	**8,967.0**	**11,159.6**	**2,408.1**	**9,138.5**	**11,546.6**	**2,653.7**	**13,420.7**	**16,074.4**
	0111000 Fisheries Development and Management	1,963.3	7,352.6	9,315.8	1,870.0	6,268.0	8,138.0	2,072	5,340	7,412	2,285	4,018	6,303
	0117000 General Administration, Planning and Support Services	187.9	50.0	237.9	217.6	50.0	267.6	209	92	301	211	106	317
	0118000 Development and Coordination of the Blue Economy	116.2	3,333.6	3,449.8	105.0	2,649.0	2,754.0	127	3,707	3,834	158	9,297	9,455
	1169 State Department for Crop Development & Agricultural Research	**13,436.4**	**31,496.7**	**44,933.1**	**14,331.6**	**21,376.0**	**35,707.6**	**15,802.0**	**10,328.0**	**26,130.0**	**17,446.3**	**10,493.0**	**27,939.3**
	0107000 General Administration Planning and Support Services	4,803.8	1,840.4	6,644.2	5,074.6	3,158.0	8,232.6	5,606	944	6,550	6,171	918	7,089
	0108000 Crop Development and Management	2,911.7	27,248.3	30,160.0	3,518.0	15,685.0	19,203.0	3,682	7,065	10,747	3,912	6,904	10,816
	0109000 Agribusiness and Information Management	118.9	1,485.0	1,603.9	140.0	1,459.0	1,599.0	122	1,483	1,605	122	1,465	1,587
	0120000 Agricultural Research & Development	5,602.1	923.0	6,525.1	5,599.0	1,074.0	6,673.0	6,392	836	7,228	7,241	1,206	8,447
	1173 State Department for Cooperatives	**1,226.3**	**524.6**	**1,750.9**	**1,741.7**	**600.5**	**2,342.2**	**1,935.4**	**823.5**	**2,758.9**	**2,160.7**	**1,336.0**	**3,496.7**
	0304000 Cooperative Development and Management	1,226.3	524.6	1,750.9	1,741.7	600.5	2,342.2	1,935	824	2,759	2,161	1,336	3,497
	2021 National Land Commission	**1,444.0**	**38.9**	**1,482.9**	**1,468.0**	**90.3**	**1,558.3**	**1,531.6**	**105.0**	**1,636.6**	**1,586.8**	**171.2**	**1,758.0**
	0116000 Land Administration and Management	1,444.0	38.9	1,482.9	1,468.0	90.3	1,558.3	1,531.6	105.0	1,637	1,586.8	171.2	1,758
020	**ENERGY, INFRASTRUCTURE AND ICT**	**88,624.6**	**247,187.6**	**335,812.3**	**107,807.0**	**260,493.0**	**368,300.0**	**114,630.0**	**249,659.0**	**364,290.0**	**130,435.0**	**240,104.0**	**370,539.0**
	1091 State Department for Infrastructure	**57,169.9**	**138,033.7**	**195,203.6**	**69,478.0**	**141,927.0**	**211,405.0**	**73,045.0**	**151,016.0**	**224,061.0**	**77,232.0**	**154,436.0**	**231,668.0**
	0202000 Road Transport	57,169.9	138,033.7	195,203.6	69,478.0	141,927.0	211,405.0	73,045	151,016	224,061	77,232	154,436	231,668
	1092 State Department for Transport	**9,428.2**	**1,346.3**	**10,774.5**	**9,442.0**	**1,350.0**	**10,792.0**	**9,459.0**	**1,610.0**	**11,069.0**	**9,486.0**	**1,737.0**	**11,223.0**
	0201000 General Administration, Planning and Support Services	271.8	70.0	341.8	276.0	431.0	707.0	287	450	737	304	309	613
	0204000 Marine Transport	801.7	327.0	1,128.7	802.0	258.0	1,060.0	803	-	803	803	-	803
	0205000 Air Transport	8,342.3	603.0	8,945.3	8,352.0	661.0	9,013.0	8,356	1,160	9,516	8,365	1,428	9,793
	0216000 Road Safety	12.4	346.3	358.7	12.0	-	12.0	13	-	13	14	-	14

Annex Table 4a: Summary of Expenditure by Programmes (Ksh Million)…Contd

Sector Code	Sector/Vote/Programme Details	Printed Estimates 2021/2022			2022/2023			2023/2024			2024/2025		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
020	**ENERGY, INFRASTRUCTURE AND ICT**	**88,624.6**	**247,187.6**	**335,812.3**	**107,807.0**	**260,493.0**	**368,300.0**	**114,630.0**	**249,659.0**	**364,290.0**	**130,435.0**	**240,104.0**	**370,539.0**
	1093 State Department for Shipping and Maritime	**2,037.3**	**750.2**	**2,787.5**	**2,167.0**	**1,219.0**	**3,386.0**	**2,260.0**	**1,240.0**	**3,500.0**	**2,372.0**	**1,139.0**	**3,511.0**
	0220000 Shipping and Maritime Affairs	2,037.3	750.2	2,787.5	2,167.0	1,219.0	3,386.0	2,260	1,240	3,500	2,372	1,139	3,511
	1094 State Department for Housing & Urban Development	**1,233.6**	**14,054.6**	**15,288.2**	**1,263.0**	**18,782.0**	**20,045.0**	**1,465.0**	**15,475.0**	**16,941.0**	**2,403.0**	**15,413.0**	**17,816.0**
	0102000 Housing Development and Human Settlement	632.6	8,178.0	8,810.6	715.0	13,663.0	14,378.0	732	11,921	12,654	756	11,031	11,787
	0105000 Urban and Metropolitan Development	223.9	5,876.6	6,100.5	285.0	5,119.0	5,404.0	443	3,554	3,997	1,335	4,382	5,717
	0106000 General Administration Planning and Support Services	377.1	-	377.1	263.0	-	263.0	290	-	290	312	-	312
	1095 State Department for Public Works	**3,111.7**	**1,127.8**	**4,239.5**	**3,363.0**	**1,310.0**	**4,673.0**	**4,145.0**	**1,460.0**	**5,605.0**	**7,979.0**	**1,692.0**	**9,671.0**
	0103000 Government Buildings	516.0	598.3	1,114.3	551.0	630.0	1,181.0	567	634	1,201	598	408	1,006
	0104000 Coastline Infrastructure and Pedestrian Access	159.5	158.5	318.0	173.0	321.0	494.0	178	326	504	187	579	766
	0106000 General Administration Planning and Support Services	309.0	14.0	323.0	360.0	14.0	374.0	427	15	442	550	30	580
	0218000 Regulation and Development of the Construction Industry	2,127.3	357.0	2,484.3	2,279.0	345.0	2,624.0	2,973	485	3,458	6,644	675	7,319
	1122 State Department for Information Communication Technology & Innovation	**1,585.4**	**21,204.0**	**22,789.4**	**2,028.0**	**14,206.0**	**16,234.0**	**2,009.0**	**4,992.0**	**7,001.0**	**3,803.0**	**5,685.0**	**9,488.0**
	0207000 General Administration Planning and Support Services	259.8	-	259.8	323.0	-	323.0	304	-	304	340	-	340
	0210000 ICT Infrastructure Development	535.5	19,947.5	20,483.0	574.0	12,904.0	13,478.0	679	3,736	4,415	946	4,307	5,253
	0217000 E-Government Services	790.1	1,256.5	2,046.6	1,131.0	1,302.0	2,433.0	1,026	1,256	2,282	2,517	1,378	3,895
	1123 State Department for Broadcasting & Telecommunications	**6,456.9**	**496.9**	**6,953.8**	**6,601.0**	**697.0**	**7,298.0**	**6,550.0**	**835.0**	**7,385.0**	**6,630.0**	**1,019.0**	**7,649.0**
	0207000 General Administration Planning and Support Services	197.8	-	197.8	213.0	-	213.0	249	-	249	309	-	309
	0208000 Information And Communication Services	5,143.9	271.4	5,415.3	5,213.0	398.0	5,611.0	5,142	405	5,547	5,156	439	5,595
	0209000 Mass Media Skills Development	224.5	120.5	345.0	228.0	110.0	338.0	231	200	431	234	200	434
	0221000 Film Development Services Programme	890.8	105.0	995.8	947.0	189.0	1,136.0	928	230	1,158	931	380	1,311
	1152 Ministry of Energy	**6,636.0**	**67,248.0**	**73,884.0**	**7,446.0**	**77,700.0**	**85,146.0**	**8,535.0**	**69,259.0**	**77,794.0**	**10,461.0**	**54,571.0**	**65,032.0**
	0211000 General Administration Planning and Support Services	413.0	130.0	543.0	411.0	208.0	619.0	429	360	789	455	449	904
	0212000 Power Generation	2,267.0	9,888.0	12,155.0	2,714.0	15,291.0	18,005.0	2,748	14,760	17,508	3,174	13,701	16,875
	0213000 Power Transmission and Distribution	3,744.0	54,693.0	58,437.0	4,109.0	59,824.0	63,933.0	5,132	52,420	57,552	6,599	38,193	44,792
	0214000 Alternative Energy Technologies	212.0	2,537.0	2,749.0	212.0	2,377.0	2,589.0	226	1,719	1,945	233	2,228	2,461
	1193 State Department for Petroleum												
	0215000 Exploration and Distribution of Oil and Gas												
	1194 Ministry of Petroleum and Mining	**965.6**	**2,926.1**	**3,891.7**	**6,019.0**	**3,302.0**	**9,321.0**	**7,162.0**	**3,772.0**	**10,934.0**	**10,069.0**	**4,412.0**	**14,481.0**
	0215000 Exploration and Distribution of Oil and Gas	336.0	2,649.4	2,985.4	87.0	2,925.0	3,012.0	102	3,265	3,367	90	3,660	3,750
	1007000 General Administration Planning and Support Services	275.6	23.3	298.9	5,583.0	-	5,583.0	6,666	-	6,666	9,617	-	9,617
	1009000 Mineral Resources Management	292.8	126.2	419.0	287.0	162.0	449.0	321	195	516	298	230	528
	1021000 Geological Survey and Geoinformation Management	61.2	127.2	188.4	62.0	215.0	277.0	73	312	385	64	522	586

Annex Table 4a: Summary of Expenditure by Programmes (Ksh Million)…Contd

Sector Code	Sector/Vote/Programme Details	Printed Estimates 2021/2022			2022/2023			2023/2024			2024/2025		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
030	**GENERAL ECONOMIC AND COMMERCIAL AFFAIRS**	**14,000.7**	**6,582.4**	**20,583.1**	**18,396.7**	**6,473.3**	**24,870.0**	**18,593.9**	**6,374.0**	**24,967.9**	**20,104.2**	**8,276.5**	**28,380.7**
	1174 State Department for Trade and Enterprise Development	**2,286.1**	**1,739.0**	**4,025.1**	**2,465.1**	**1,536.7**	**4,001.8**	**2,576.6**	**450.6**	**3,027.1**	**2,938.6**	**652.9**	**3,591.6**
	0307000 Trade Development and Promotion	2,286.1	1,739.0	4,025.1									
	P 1: Domestic Trade and Enterprise Development				570.2	1,436.7	2,006.9	632	351	983	742	653	1,395
	P 2: Fair Trade practices and compliance of Standards				496.6	100.0	596.6	547	100	647	646	-	646
	P 3: International Trade Development and Promotion				1,060.1	-	1,060.1	1,053	-	1,053	1,195	-	1,195
	P 4: General Administration, Support Services and Planning				338.3	-	338.3	345	-	345	356	-	356
	1175 State Department for Industrialization	**3,112.4**	**3,272.9**	**6,385.3**	**3,267.9**	**3,668.5**	**6,936.4**	**3,399.4**	**4,364.5**	**7,763.9**	**3,782.9**	**5,364.5**	**9,147.4**
	0301000 General Administration Planning and Support Services	426.5	-	426.5	514.3	-	514.3	471	-	471	498	-	498
	0302000 Industrial Development and Investments	1,439.2	840.3	2,279.4	1,468.6	1,182.3	2,650.9	1,548	1,358	2,906	1,684	3,502	5,187
	0303000 Standards and Business Incubation	1,246.8	2,432.6	3,679.4	1,285.0	2,486.2	3,771.2	1,381	3,006	4,387	1,601	1,862	3,463
	1202 State Department for Tourism	**5,207.3**	**475.0**	**5,682.3**	**8,755.6**	**302.2**	**9,057.8**	**8,875.3**	**371.5**	**9,246.8**	**9,121.3**	**538.4**	**9,659.7**
	0306000 Tourism Development and Promotion	5,207.3	475.0	5,682.3									
	Total P. 1: Tourism Promotion and Marketing				1,032.3	50.2	1,082.5	1,096	150	1,246	1,239	150	1,389
	Total P.2: Tourism Product Development and Diversification				7,324.1	200.0	7,524.1	7,349	100	7,449	7,431	300	7,731
	Total P.3: General Administration Planning and Support services				399.2	52.0	451.2	431	122	552	452	88	540
	1221 State Department for East African Community	**609.8**	**-**	**609.8**	**650.9**	**-**	**650.9**	**691.4**	**-**	**691.4**	**739.8**	**-**	**739.8**
	0305000 East African Affairs and Regional Integration	609.8	-	609.8	650.9	-	650.9	691	-	691	740	-	740
	1222 State Department for Regional and Northern Corridor Development	**2,785.0**	**1,095.5**	**3,880.5**	**3,257.3**	**965.9**	**4,223.1**	**3,051.3**	**1,187.4**	**4,238.7**	**3,521.7**	**1,720.7**	**5,242.3**
	1013000 Integrated Regional Development	2,785.0	1,095.5	3,880.5	3,257.3	965.9	4,223.1	3,051	1,187	4,239	3,522	1,721	5,242
040	**HEALTH**	**64,870.7**	**56,219.5**	**121,090.3**	**70,373.0**	**55,979.0**	**126,352.0**	**76,727.0**	**63,879.0**	**140,605.0**	**83,068.0**	**71,972.0**	**155,041.0**
	0401000 Preventive, Promotive & RMNCAH	3,020.7	22,498.3	25,519.0	3,322.0	28,657.0	31,979.0	3,929	39,383	43,312	4,280	44,188	48,468
	0402000 National Referral & Specialized Services	36,103.6	11,595.2	47,698.8	39,453.0	10,195.0	49,648.0	43,933	2,501	46,433	48,387	3,302	51,689
	0403000 Health Research and Development	9,665.5	787.5	10,453.0	10,470.0	899.0	11,369.0	11,028	1,078	12,106	11,988	1,082	13,070
	0404000 General Administration, Planning & Support Services	5,938.2	1,060.0	6,998.2	5,349.0	1,200.0	6,549.0	5,666	900	6,566	5,891	600	6,491
	0405000 Health Policy, Standards and Regulations	10,142.7	20,278.5	30,421.2	11,779.0	15,028.0	26,807.0	12,171	20,017	32,188	12,522	22,800	35,323

Annex Table 4a: Summary of Expenditure by Programmes (Ksh Million)…Contd

Sector Code	Sector/Vote/Programme Details	Printed Estimates 2021/2022			2022/2023			2023/2024			2024/2025		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
050	**EDUCATION**	**482,595.4**	**21,375.7**	**503,971.1**	**501,449.5**	**24,500.0**	**525,949.5**	**512,834.5**	**27,072.0**	**539,907.1**	**538,528.5**	**19,895.0**	**558,424.0**
	1064 State Department for Vocational and Technical Training	**18,647.5**	**4,648.4**	**23,295.9**	**18,912.2**	**6,495.0**	**25,407.2**	**19,842.4**	**3,975.0**	**23,818.0**	**21,471.0**	**2,932.0**	**24,403.0**
	0505000 Technical Vocational Education and Training	18,466.2	4,638.4	23,104.7	18,711.2	6,495.0	25,206.2	19,615	3,975	23,591	21,220	2,932	24,152
	0507000 Youth Training and Development	38.7	10.0	48.7	39.0		39.0	40		40	41		41
	0508000 General Administration, Planning and Support Services	142.6	-	142.6	162.0		162.0	187		187	210		210
	1065 State Department for University Education	**91,057.2**	**4,355.6**	**95,412.8**	**91,135.0**	**5,713.0**	**96,848.0**	**96,147.0**	**6,131.0**	**102,278.0**	**105,573.0**	**7,850.0**	**113,423.0**
	0504000 University Education	89,913.2	4,315.6	94,228.8	89,785.0	5,683.0	95,468.0	94,708	6,012	100,720	103,987	7,700	111,687
	0506000 Research, Science, Technology and Innovation	901.0	40.0	941.0	890.0	30.0	920.0	962	119	1,081	1,095	150	1,245
	0508000 General Administration, Planning and Support Services	243.0	-	243.0	460.0	-	460.0	477	-	477	491	-	491
	1066 State Department for Early Learning & Basic Education	**91,563.7**	**11,726.6**	**103,290.3**	**94,842.0**	**11,502.0**	**106,344.0**	**96,337.0**	**15,903.0**	**112,240.0**	**102,909.5**	**8,754.0**	**111,664.0**
	0501000 Primary Education	16,871.2	2,171.2	19,042.4	18,025.0	1,935.0	19,960.0	18,110	2,609	20,719	20,642	2,770	23,412
	0502000 Secondary Education	66,389.4	8,830.4	75,219.8	68,392.0	8,771.0	77,163.0	69,452	12,494	81,946	72,860	4,804	77,664
	0503000 Quality Assurance and Standards	3,701.0	650.0	4,351.0	3,701.0	646.0	4,347.0	3,895	650	4,545	4,271	950	5,221
	0508000 General Administration, Planning and Support Services	4,602.1	75.0	4,677.1	4,724.0	150.0	4,874.0	4,880	150	5,030	5,137	230	5,367
	1068 State Department for Post Training and Skills Development	**268.0**	**-**	**268.0**	**268.0**	**134.0**	**402.0**	**277.0**	**264.0**	**541.0**	**286.0**	**264.0**	**550.0**
	0508000 General Administration, Planning and Support Services	136.0	-	136.0	168.0	-	168.0	177	-	177	186	-	186
	0512000 Work Place Readiness Services	85.0	-	85.0	86.0	134.0	220.0	70	264	334	52	264	316
	0513000 Post Training Information Management	47.0	-	47.0	14.0	-	14.0	30	-	30	48	-	48
	Implementation of Curriculum Reforms				**339.3**	**-**	**339.3**	**142.1**	**-**	**142.1**	**145.0**	**-**	**145.0**
	P1: Coordination of the Curriculum reforms Implementation				339.3	-	339.3	142.1	-	142.1	145	-	145
	2091 Teachers Service Commission	**281,059.0**	**645.1**	**281,704.1**	**295,953.0**	**656.0**	**296,609.0**	**300,089.0**	**799.0**	**300,888.0**	**308,144.0**	**95.0**	**308,239.0**
	0509000 Teacher Resource Management	272,634.3	600.0	273,234.3	287,858.0	600.0	288,458.0	291,289	718	292,007	299,151	-	299,151
	0510000 Governance and Standards	1,012.5	-	1,012.5	1,161.0	-	1,161.0	1,178	-	1,178	1,196	-	1,196
	0511000 General Administration, Planning and Support Services	7,412.2	45.1	7,457.3	6,934.0	56.0	6,990.0	7,622	81	7,703	7,797	95	7,892

Annex Table 4a: Summary of Expenditure by Programmes (Ksh Million)…Contd

Sector Code	Sector/Vote/Programme Details	Printed Estimates 2021/2022			2022/2023			2023/2024			2024/2025		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
060	**GOVERNANCE, JUSTICE, LAW AND ORDER**	**206,319.4**	**10,999.6**	**217,319.0**	**221,351.1**	**10,579.3**	**231,930.4**	**207,392.4**	**12,883.2**	**220,275.6**	**215,732.3**	**16,164.4**	**231,896.7**
	1021 State Department for Interior and Citizen Services	**131,356.0**	**7,233.1**	**138,589.1**	**136,376.3**	**6,823.9**	**143,200.2**	**139,238.5**	**7,572.6**	**146,811.1**	**143,566.8**	**8,833.8**	**152,400.5**
	0601000 Policing Services	98,902.9	1,669.0	100,571.9	102,128.3	1,655.0	103,783.3	104,221	1,729	105,950	107,088	2,133	109,221
	0603000 Government Printing Services	694.3	50.0	744.3	708.1	300.0	1,008.1	730	500	1,230	768	500	1,268
	0605000 Migration & Citizen Services Management	2,037.1	852.2	2,889.2	2,492.5	750.0	3,242.5	2,565	775	3,341	2,684	914	3,598
	0625000 Road Safety	2,204.4	520.9	2,725.3	2,204.4	520.9	2,725.3	2,337	544	2,881	2,570	671	3,241
	0626000 Population Management Services	3,817.7	1,025.5	4,843.2	3,928.0	1,536.5	5,464.5	4,052	1,566	5,618	4,273	1,730	6,003
	0629000 General Administration and Support Services	22,737.0	3,015.5	25,752.6	23,952.4	2,011.5	25,964.0	24,313	2,397	26,710	25,061	2,761	27,822
	0630000 Policy Coordination Services	962.6	100.0	1,062.6	962.6	50.0	1,012.6	1,020	61	1,082	1,122	125	1,247
	1023 State Department for Correctional Services	**28,749.2**	**909.1**	**29,658.2**	**29,009.2**	**1,265.4**	**30,274.6**	**29,113.1**	**1,365.1**	**30,478.3**	**30,226.3**	**1,667.8**	**31,894.1**
	0623000 General Administration, Planning and Support Services	354.5	8.9	363.4	339.7	15.0	354.7	348	40	388	377	49	426
	0627000 Prison Services	26,529.1	693.2	27,222.3	26,970.2	980.4	27,950.6	27,046	975	28,021	28,063	1,368	29,430
	0628000 Probation & After Care Services	1,865.6	207.0	2,072.6	1,699.3	270.0	1,969.3	1,719	350	2,069	1,787	251	2,038
	1252 State Law Office and Department of Justice	**4,978.3**	**181.3**	**5,159.7**	**5,099.3**	**188.5**	**5,287.8**	**5,288.0**	**152.9**	**5,440.8**	**5,673.7**	**266.2**	**5,939.9**
	0606000 Legal Services	2,395.2	-	2,395.2	2,444.3	-	2,444.3	2,505	-	2,505	2,639	-	2,639
	0607000 Governance, Legal Training and Constitutional Affairs	1,876.2	90.5	1,966.7	1,879.5	98.5	1,978.0	1,987	42	2,029	2,182	42	2,224
	0609000 General Administration, Planning and Support Services	707.0	90.8	797.8	775.5	90.0	865.5	796	111	907	853	224	1,077
	1261 The Judiciary	**15,003.0**	**2,333.4**	**17,336.4**	**16,297.4**	**2,000.0**	**18,297.4**	**16,260.9**	**3,200.0**	**19,460.9**	**17,513.1**	**4,200.0**	**21,713.1**
	0610000 Dispensation of Justice	15,003.0	2,333.4	17,336.4	16,297.4	2,000.0	18,297.4	16,261	3,200	19,461	17,513	4,200	21,713
	1271 Ethics and Anti-Corruption Commission	**3,258.5**	**67.5**	**3,326.0**	**3,420.5**	**158.0**	**3,578.5**	**3,625.8**	**144.0**	**3,769.8**	**3,988.1**	**291.7**	**4,279.8**
	0611000 Ethics and Anti-Corruption	3,258.5	67.5	3,326.0	3,420.5	158.0	3,578.5	3,626	144	3,770	3,988	292	4,280
	1291 Office of the Director of Public Prosecutions	**3,126.0**	**150.3**	**3,276.2**	**3,282.0**	**143.5**	**3,425.5**	**3,478.9**	**226.0**	**3,704.8**	**3,826.6**	**454.1**	**4,280.7**
	0612000 Public Prosecution Services	3,126.0	150.3	3,276.2	3,282.0	143.5	3,425.5	3,479	226	3,705	3,827	454	4,281
	1311 Office of the Registrar of Political Parties	**1,961.7**	**-**	**1,961.7**	**2,076.9**	**-**	**2,076.9**	**2,042.6**	**-**	**2,042.6**	**2,081.3**	**-**	**2,081.3**
	0614000 Registration, Regulation and Funding of Political Parties	1,961.7	-	1,961.7	2,076.9	-	2,076.9	2,043	-	2,043	2,081	-	2,081
	1321 Witness Protection Agency	**489.0**	**-**	**489.0**	**614.1**	**-**	**614.1**	**521.7**	**-**	**521.7**	**548.4**	**-**	**548.4**
	0615000 Witness Protection	489.0	-	489.0	614.1	-	614.1	522	-	522	548	-	548

Annex Table 4a: Summary of Expenditure by Programmes (Ksh Million)…Contd

Sector Code	Sector/Vote/Programme Details	Printed Estimates 2021/2022			2022/2023			2023/2024			2024/2025		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
060	GOVERNANCE, JUSTICE, LAW AND ORDER	206,319.4	10,999.6	217,319.0	221,351.1	10,579.3	231,930.4	207,392.4	12,883.2	220,275.6	215,732.3	16,164.4	231,896.7
	2011 Kenya National Commission on Human Rights	408.7	-	408.7	424.4	-	424.4	420.5	-	420.5	441.8	-	441.8
	0616000 Protection and Promotion of Human Rights	408.7	-	408.7	424.4	-	424.4	420	-	420	442	-	442
	2031 Independent Electoral and Boundaries Commission	14,226.7	125.0	14,351.7	21,686.8	-	21,686.8	4,465.9	222.6	4,688.5	4,738.4	450.9	5,189.2
	0617000 Management of Electoral Processes	14,124.7	125.0	14,249.7	21,365.4	-	21,365.4	3,967	223	4,189	4,656	451	5,107
	0618000 Delimitation of Electoral Boundaries	102.0	-	102.0	321.5	-	321.5	499	-	499	82	-	82
	2051 Judicial Service Commission	581.8	-	581.8	587.3	-	587.3	612.9	-	612.9	660.6	-	660.6
	0619000 General Administration, Planning and Support Services	581.8	-	581.8	587.3		587.3	612.9		612.9	660.6		660.6
	2101 National Police Service Commission	794.1	-	794.1	1,009.3	-	1,009.3	875.4	-	875.4	930.8	-	930.8
	0620000 National Police Service Human Resource Management	794.1	-	794.1	1,009.3	-	1,009.3	875	-	875	931	-	931
	2141 National Gender and Equality Commission	436.6	-	436.6	463.2	-	463.2	446.2	-	446.2	474.0	-	474.0
	0621000 Promotion of Gender Equality and Freedom from Discrimination	436.6	-	436.6	463.2	-	463.2	446	-	446	474	-	474
	2151 Independent Policing Oversight Authority	949.8	-	949.8	1,004.6	-	1,004.6	1,002.1	-	1,002.1	1,062.5	-	1,062.5
	0622000 Policing Oversight Services	949.8	-	949.8	1,004.6	-	1,004.6	1,002	-	1,002	1,063	-	1,063
070	PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	171,124.6	161,399.6	332,524.2	162,158.0	184,840.2	346,998.2	228,176.5	185,412.5	413,589.0	254,558.3	193,657.2	448,215.5
	1011 Executive Office of the President	25,267.7	9,327.2	34,595.0	7,580.6	556.0	8,136.6	8,304.0	853.8	9,157.8	9,321.1	689.4	10,010.5
	0702000 Cabinet Affairs	1,301.7	245.1	1,546.8	1,538.8	452.3	1,991.0	1,882	465	2,347	2,050.1	465.0	2,515.1
	0703000 Government Advisory Services	617.6	71.1	688.7	649.3	-	649.3	676		676	755.1		755.1
	0704000 State House Affairs	3,908.4	73.4	3,981.8	3,945.1	83.3	4,028.4	4,235	339	4,574	4,859.2	174.4	5,033.6
	0734000 Deputy President Services	1,400.6	17.6	1,418.2	1,447.4	20.4	1,467.9	1,511	50	1,561	1,656.7	50.0	1,706.7
	0745000 Nairobi Metropolitan Services	18,039.4	8,920.0	26,959.4	-	-	-	-		-	-		-
	1032 State Department for Devolution	1,753.9	1,489.7	3,243.6	1,479.3	420.4	1,899.7	1,243.5	312.1	1,555.6	1,326.5	236.5	1,563.0
	0712000 Devolution Services	1,303.2	1,384.7	2,687.9	285.2	420.4	705.7	188	312	500	195	237	432
	0732000 General Administration, Planning and Support Services	417.4	-	417.4	437.7	-	437.7	452	-	452	469	-	469
	0713000 Special Initiatives	33.2	105.0	138.2	44.4	-	44.4	45	-	45	46	-	46
	Management of Intergovernmental Relations				712.0	-	712.0	559	-	559	615	-	615

Annex Table 4a: Summary of Expenditure by Programmes (Ksh Million)…Contd

Sector Code	Sector/Vote/Programme Details	Printed Estimates 2021/2022			2022/2023			2023/2024			2024/2025		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
070	**PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS**	**171,124.6**	**161,399.6**	**332,524.2**	**162,158.0**	**184,840.2**	**346,998.2**	**228,176.5**	**185,412.5**	**413,589.0**	**254,558.3**	**193,657.2**	**448,215.5**
	1052 Ministry of Foreign Affairs	**17,023.9**	**1,796.1**	**18,820.0**	**17,754.1**	**1,796.1**	**19,550.2**	**17,971**	**1,957**	**19,928**	**18,677**	**3,018**	**21,695**
	0714000 General Administration Planning and Support Services	2,056.3	176.5	2,232.8	2,436.9	116.1	2,553.0	2,486	187	2,673	2,627	481	3,109
	0715000 Foreign Relation and Diplomacy	14,775.3	1,499.6	16,274.9	15,132.0	1,480.0	16,612.0	15,258	1,570	16,828	15,816	2,237	18,053
	0741000 Economic and Commercial Diplomacy	51.8	-	51.8	46.0	-	46.0	50	-	50	50	-	50
	0742000 Foreign Policy Research, Capacity Dev and Technical Cooperation	140.4	120.0	260.4	139.2	200.0	339.2	176	200	376	183	300	483
	1071 The National Treasury	**57,409.5**	**100,335.9**	**157,745.4**	**57,834.1**	**132,126.5**	**189,960.6**	**124,403.6**	**122,602.5**	**247,006.1**	**146,254.6**	**122,710.9**	**268,965.6**
	0717000 General Administration Planning and Support Services	49,135.7	13,524.5	62,660.2	47,010.6	8,824.5	55,835.1	98,701.7	13,524.5	112,226.2	110,881	13,525	124,405
	0718000 Public Financial Management	6,737.1	28,644.6	35,381.7	9,286.8	82,390.2	91,677.0	24,157.2	67,823.2	91,980.3	33,821	67,782	101,602
	0719000 Economic and Financial Policy Formulation and Management	1,159.9	428.8	1,588.7	1,159.9	428.8	1,588.7	1,166.8	428.8	1,595.6	1,174	429	1,603
	0720000 Market Competition	302.1	30.0	332.1	302.0	30.0	332.0	302.0	30.0	332.0	302	30	332
	0740000 Government Clearing Services	74.8	-	74.8	74.8	-	74.8	75.9	-	75.9	77	-	77
	0203000 Rail Transport	-	34,494.0	34,494.0	-	35,122.0	35,122.0	-	37,696.0	37,696.0	-	37,696	37,696
	0204000 Marine Transport	-	23,214.0	23,214.0	-	5,331.0	5,331.0	-	3,100.0	3,100.0	-	3,250	3,250
	1072 State Department for Planning	**3,598.0**	**42,387.2**	**45,985.2**	**3,811.0**	**45,088.6**	**48,899.6**	**4,201.9**	**54,427.5**	**58,629.3**	**4,539**	**61,966**	**66,506**
	0706000 Economic Policy and National Planning	1,804.1	42,095.5	43,899.6	1,991.6	44,781.1	46,772.7	2,297.6	54,102.4	56,400.0	2,555	61,634	64,190
	0707000 National Statistical Information Services	1,317.6	209.4	1,527.0	1,317.6	223.3	1,540.9	1,369.5	225.2	1,594.7	1,427	228	1,654
	0708000 Monitoring and Evaluation Services	172.0	82.3	254.2	169.3	84.3	253.5	180.0	99.4	279.4	188	105	293
	0709000 General Administration Planning and Support Services	304.4	-	304.4	332.5	-	332.5	354.7	-	354.7	369	-	369
	1213 State Department for Public Service	**18,325.0**	**568.0**	**18,893.0**	**24,578.1**	**602.9**	**25,181.1**	**21,383.3**	**724.8**	**22,108.1**	**21,874**	**771**	**22,646**
	0710000 Public Service Transformation	7,859.0	410.2	8,269.2	9,555.1	532.9	10,088.1	9,825.9	724.8	10,550.8	9,966	771	10,737
	0709000 General Administration Planning and Support Services	492.2	107.8	600.1	599.8	-	599.8	586.4	-	586.4	608	-	608
	0747000 National Youth Service	9,973.8	50.0	10,023.8	14,423.2	70.0	14,493.2	10,971.2	-	10,971.2	11,300	-	11,300
	1214 State Department for Youth Affairs	**1,439.9**	**3,210.5**	**4,650.4**	**1,504.3**	**1,937.8**	**3,442.1**	**1,497**	**1,388**	**2,884**	**1,549**	**1,115**	**2,663**
	0711000 Youth Empowerment	452.4	468.7	921.1	469.3	481.7	950.9	483	601	1,084	498	292	790
	Youth Development Services	740.7	2,741.8	3,482.6	749.9	1,456.1	2,206.0	764	787	1,550	796	823	1,619
	General Administration, Planning and Support Services	246.8	-	246.8	285.2	-	285.2	250	-	250	255	-	255
	Parliament	**35,817.2**	**2,065.6**	**37,882.8**	**36,411.0**	**2,065.6**	**38,476.6**	**37,818**	**2,066**	**39,884**	**39,284**	**2,066**	**41,349**
	2061 The Commission on Revenue Allocation	**485.6**	**-**	**485.6**	**492.0**	**-**	**492.0**	**509**	**-**	**509**	**529**	**-**	**529**
	0737000 Inter-Governmental Transfers and Financial Matters	485.6	-	485.6	492.0	-	492.0	509	-	509	529	-	529

Annex Table 4a: Summary of Expenditure by Programmes (Ksh Million)…Contd

Sector Code	Sector/Vote/Programme Details	Printed Estimates 2021/2022			2022/2023			2023/2024			2024/2025		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
070	**PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS**	**171,124.6**	**161,399.6**	**332,524.2**	**162,158.0**	**184,840.2**	**346,998.2**	**228,176.5**	**185,412.5**	**413,589.0**	**254,558.3**	**193,657.2**	**448,215.5**
	2071 Public Service Commission	**2,372.2**	**19.3**	**2,391.5**	**2,515.8**	**26.3**	**2,542.1**	**2,536.7**	**31.6**	**2,568.3**	**2,595.4**	**33.7**	**2,629.1**
	0725000 General Administration, Planning and Support Services	772.8	19.3	792.1	876.8	26.3	903.1	878	32	910	922	34	955
	0726000 Human Resource management and Development	1,419.3	-	1,419.3	1,445.7	-	1,445.7	1,458	-	1,458	1,468	-	1,468
	0727000 Governance and National Values	145.7	-	145.7	147.7	-	147.7	152	-	152	156	-	156
	0744000 Performance and Productivity Management	34.4	-	34.4	45.6	-	45.6	48	-	48	49	-	49
	2081 Salaries and Remuneration Commission	**621.4**	**-**	**621.4**	**612.5**	**-**	**612.5**	**633**	**-**	**633**	**658**	**-**	**658**
	0728000 Salaries and Remuneration Management	621.4	-	621.4	612.5	-	612.5	633	-	633	658	-	658
	2111 Auditor General	**5,706.5**	**200.0**	**5,906.5**	**6,158.5**	**219.9**	**6,378.3**	**6,283.6**	**1,050.0**	**7,333.6**	**6,505.7**	**1,050.0**	**7,555.7**
	0729000 Audit Services	5,706.5	200.0	5,906.5	6,158.5	219.9	6,378.3	6,284	1,050	7,334	6,506	1,050	7,556
	2121 Office of the Controller of Budget	**689.1**	**-**	**689.1**	**702.4**	**-**	**702.4**	**713**	**-**	**713**	**740**	**-**	**740**
	0730000 Control and Management of Public finances	689.1	-	689.1	702.4	-	702.4	713	-	713	740	-	740
	2131 The Commission on Administrative Justice	**614.8**	**-**	**614.8**	**724.3**	**-**	**724.3**	**679.3**	**-**	**679.3**	**704.7**	**-**	**704.7**
	0731000 Promotion of Administrative Justice	614.8	-	614.8	724.3	-	724.3	679	-	679	705	-	705
080	**NATIONAL SECURITY**	**157,122.7**	**5,080.0**	**162,202.7**	**170,743.0**	**32,354.0**	**203,097.0**	**182,716.5**	**47,885.0**	**230,601.5**	**188,208.8**	**30,215.0**	**218,423.8**
	1041 Ministry of Defence	**114,671.7**	**5,080.0**	**119,751.7**	**125,215.3**	**32,354.0**	**157,569.3**	**133,582**	**47,885**	**181,467**	**137,422**	**30,215**	**167,637**
	0801000 Defence	111,786.5	5,080.0	116,866.5	121,969.4	32,354.0	154,323.4	130,731	47,835	178,566	134,499	30,115	164,614
	0802000 Civil Aid	700.0	-	700.0	400.0		400.0	400		400	400		400
	0803000 General Administration, Planning and Support Services	1,985.2	-	1,985.2	2,625.9		2,625.9	2,101		2,101	2,174		2,174
	0805000 National Space Management	200.0	-	200.0	220.0		220.0	350	50	400	350	100	450
	1281 National Intelligence Service	**42,451.0**	**-**	**42,451.0**	**45,527.7**	**-**	**45,527.7**	**49,135**	**-**	**49,135**	**50,787**	**-**	**50,787**
	0804000 National Security Intelligence	42,451.0	-	42,451.0	45,527.7		45,527.7	49,135		49,135	50,787		50,787
090	**SOCIAL PROTECTION, CULTURE AND RECREATION**	**39,635.2**	**32,559.1**	**72,194.3**	**41,293.1**	**31,598.5**	**72,891.5**	**46,003.9**	**28,782.0**	**74,785.9**	**47,549.1**	**31,478.4**	**79,027.5**
	1035 State Department for Development of the ASAL	**1,061.2**	**9,080.1**	**10,141.2**	**1,092.5**	**9,294.2**	**10,386.7**	**1,092.5**	**6,531.8**	**7,624.3**	**1,124.6**	**7,111.0**	**8,235.6**
	0733000 Accelerated ASAL Development	1,061.2	9,080.1	10,141.2	1,092.5	9,294.2	10,386.7	1,092	6,532	7,624	1,125	7,111	8,236
	1132 State Department for Sports Development	**1,338.9**	**15,147.8**	**16,486.6**	**1,380.5**	**16,008.0**	**17,388.5**	**1,407.3**	**16,269.0**	**17,676.3**	**1,443.0**	**17,207.0**	**18,650.0**
	0901000 Sports	1,338.9	15,147.8	16,486.6	1,380.5	16,008.0	17,388.5	1,407	16,269	17,676	1,443	17,207	18,650
	1134 State Department for Culture and Heritage	**2,931.2**	**55.9**	**2,987.1**	**3,057.4**	**77.5**	**3,134.9**	**2,995.8**	**171.0**	**3,166.8**	**3,067.1**	**170.0**	**3,237.1**
	0902000 Culture/ Heritage	1,880.2	43.6	1,923.8	1,920.0	47.5	1,967.5	1,879	106	1,985	1,922	10	1,932
	0903000 The Arts	142.3	-	142.3	159.4	-	159.4	153	35	188	158	100	258
	0904000 Library Services	791.5	11.0	802.5	792.9	30.0	822.9	800	30	830	815	60	875
	0905000 General Administration, Planning and Support Services	117.2	1.3	118.5	185.2	-	185.2	164	-	164	171	-	171

Annex Table 4a: Summary of Expenditure by Programmes (Ksh Million)…Contd

Sector Code	Sector/Vote/Programme Details	Printed Estimates 2021/2022			2022/2023			2023/2024			2024/2025		
		Current	Capital	Total	Current	Capital	Total	Current	Capital	Total	Current	Capital	Total
090	**SOCIAL PROTECTION, CULTURE AND RECREATION**	**39,635.2**	**32,559.1**	**72,194.3**	**41,293.1**	**31,598.5**	**72,891.5**	**46,003.9**	**28,782.0**	**74,785.9**	**47,549.1**	**31,478.4**	**79,027.5**
	1184 State Department for Labour	**2,782.8**	**2,560.7**	**5,343.5**	**2,830.7**	**572.5**	**3,403.2**	**2,852.9**	**308.9**	**3,161.8**	**2,938.0**	**376.8**	**3,314.8**
	0910000 General Administration Planning and Support Services	442.9	0.3	443.2	488.6	-	488.6	482	-	482	512	-	512
	0906000 Promotion of the Best Labour Practice	669.1	63.8	732.9	661.7	111.8	773.4	670	163	834	687	227	914
	0907000 Manpower Development, Employment and Productivity Management	1,670.8	2,496.6	4,167.4	1,680.4	460.7	2,141.1	1,700	146	1,846	1,738	150	1,888
	1185 State Department for Social Protection, Pensions & Senior Citizens Affairs	**30,485.4**	**3,082.6**	**33,568.1**	**31,731.6**	**2,870.3**	**34,601.9**	**36,084.5**	**2,921.3**	**39,005.8**	**37,716.2**	**3,533.6**	**41,249.8**
	0908000 Social Development and Children Services	3,870.9	263.3	4,134.3	4,240.3	318.8	4,559.1	4,241	379	4,620	4,517	530	5,047
	0909000 National Social Safety Net	26,394.3	2,819.3	29,213.6	27,265.5	2,551.5	29,817.0	31,610	2,542	34,152	32,955	3,004	35,958
	0914000 General Administration, Planning and Support Services	220.2	-	220.2	225.8	-	225.8	234	-	234	245	-	245
	1212 State Department for Gender	**1,035.8**	**2,632.0**	**3,667.8**	**1,200.4**	**2,776.0**	**3,976.4**	**1,570.9**	**2,580.0**	**4,150.9**	**1,260.3**	**3,080.0**	**4,340.3**
	0911000 Community Development	-	2,130.0	2,130.0	-	2,130.0	2,130.0	-	2,130	2,130	-	2,130	2,130
	0912000 Gender Empowerment	729.9	502.0	1,231.9	874.2	646.0	1,520.2	1,234	450	1,684	906	950	1,856
	0913000 General Administration, Planning and Support Services	305.9	-	305.9	326.1	-	326.1	337	-	337	355	-	355
0100	**ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES**	**24,489.2**	**76,096.7**	**100,585.9**	**24,500.0**	**86,228.0**	**110,728.0**	**29,394.0**	**97,289.0**	**126,683.0**	**31,522.0**	**118,691.0**	**150,213.0**
	1108 Ministry of Environment and Forestry	**10,481.6**	**4,245.4**	**14,727.0**	**10,636.0**	**4,290.0**	**14,926.0**	**12,675.0**	**5,130.0**	**17,805.0**	**13,646.0**	**7,658.0**	**21,304.0**
	1002000 Environment Management and Protection	1,949.9	1,368.1	3,318.0	1,958.0	1,384.0	3,342.0	2,319	1,578	3,897	2,505	2,291	4,796
	1010000 General Administration, Planning and Support Services	421.7	-	421.7	460.0	-	460.0	861	-	861	962	-	962
	1012000 Meteorological Services	1,032.0	403.0	1,435.0	1,139.0	413.0	1,552.0	1,676	412	2,088	1,734	562	2,296
	1018000 Forests and Water Towers Conservation	7,078.0	2,474.3	9,552.3	7,079.0	2,493.0	9,572.0	7,819	3,140	10,959	8,445	4,805	13,250
	1008000 Resources Surveys and Remote Sensing												
	1109 Ministry of Water & Sanitation and Irrigation	**6,395.7**	**71,218.5**	**77,614.2**	**6,700.0**	**81,015.0**	**87,715.0**	**7,529.0**	**91,090.0**	**98,619.0**	**8,105.0**	**109,406.0**	**117,511.0**
	1001000 General Administration, Planning and Support Services	761.8	150.0	911.8	788.0	366.0	1,154.0	1,052	200	1,252	1,130	800	1,930
	1004000 Water Resources Management	1,663.9	14,667.0	16,330.9	1,777.0	14,478.0	16,255.0	1,870	24,494	26,364	2,015	32,545	34,560
	1017000 Water and Sewerage Infrastructure Development	3,227.3	33,539.5	36,766.8	3,375.0	45,132.0	48,507.0	3,585	54,832	58,417	3,859	54,907	58,766
	1014000 Irrigation and Land Reclamation	712.5	9,649.0	10,361.5	729.0	8,737.0	9,466.0	982	9,095	10,077	1,060	17,614	18,674
	1015000 Water Storage and Flood Control	-	10,783.0	10,783.0	-	9,872.0	9,872.0	-	1,270	1,270	-	1,890	1,890
	1022000 Water Harvesting and Storage for Irrigation	30.3	2,430.0	2,460.3	31.0	2,430.0	2,461.0	40	1,199	1,239	41	1,650	1,691
	1203 State Department for Wildlife	**7,611.8**	**632.8**	**8,244.6**	**7,164.0**	**923.0**	**8,087.0**	**9,190.0**	**1,069.0**	**10,259.0**	**9,771.0**	**1,627.0**	**11,398.0**
	1019000 Wildlife Conservation and Management	7,611.8	632.8	8,244.6	7,164.0	923.0	8,087.0	9,190	1,069	10,259	9,771	1,627	11,398
	TOTAL	**1,273,629.9**	**668,378.9**	**1,942,008.8**	**1,344,424.4**	**730,590.2**	**2,075,014.6**	**1,445,182.5**	**747,186.9**	**2,192,370.0**	**1,541,047.5**	**765,372.9**	**2,306,421.9**

THE NATIONAL TREASURY AND ECONOMIC PLANNING
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