



REPUBLIC OF KENYA

THE NATIONAL TREASURY AND ECONOMIC PLANNING

OPENING REMARKS BY DR. CHRIS KIPTOO, CBS, THE PRINCIPAL SECRETARY/NATIONAL TREASURY DURING THE LAUNCH OF THE FY 2024/25 AND THE MEDIUM TERM SECTOR BUDGET PROPOSALS PUBLIC HEARINGS - 13TH DECEMBER, 2023

Cabinet Secretary/National Treasury and Economic Planning;

Chairperson Budget and Appropriations Committee;

Principal Secretaries and Accounting Officers;

Development Partners;

Members of the Media;

Distinguished guests;

Ladies and Gentlemen;

1. Let me take this opportunity to welcome you all to the Public Sector Hearings of the FY 2024/25 and the medium term. I wish to thank all of you for finding time to be with us during this important event in our budget making process.
2. We officially launched the Sector Working Groups process on **18th August, 2023**. Sector Working Groups were given the mandate to develop budget proposals for the FY 2024/25 and the Medium Term. Consequently, Sector Working Groups have finalized and submitted the draft sector budget proposals. In this regard, I wish to commend the SWGs for this achievement.

3. Public Sector Hearings are meant to provide a platform for stakeholders to validate and give feedback on the sector budget proposals. This gives stakeholders the opportunity to participate and contribute to the formulation of the National Budget.

Ladies and Gentlemen;

4. You will recall that this year we held Country-Wide Public Participation in the Counties. The reports from the Counties were used by Sectors in coming up with draft budget proposals.
5. Further, in developing the proposals for the medium-term, Sector Working Groups reviewed budget performance for the past three years and reflected on priorities for the ensuing period while taking into account the available resources. The Sector Working Groups were guided by Kenya Vision 2030 and its priorities for the medium term.
6. Additionally, the groups took into account the Bottom-Up Economic Transformation Agenda (BETA) priorities of the Government. The sector budget proposals will provide valuable information that will be used in the finalization of the Budget.

Ladies and Gentlemen;

7. This year's hearings will be held from today **13th to 15th December, 2023**. I wish to request you to critically analyse the budget proposals and give us your inputs for incorporation in the finalization of the National Budget.

Ladies and Gentlemen;

8. Before I invite the CS/National Treasury and Economic Planning to Make his remarks I allow me to emphasize the following:

- ***FY 2023/24 Budget implementation:***

9. Implementation of the FY 2023/24 Budget is on course but with challenges relating revenue performance, depreciation of the Kenyan against the major currencies leading to escalation in debt service costs, settlement of expenditure carryovers from FY 2022/23 and clearing of pending bills as well as increased demand for additional funding for priority interventions. The recent more than expected rainfall (El Nino). In spite of this, the Government is implementing appropriate measures to address the negative impacts of the on-going El Nino rains including restoration of critical infrastructure, humanitarian assistance and public health interventions.

- **Settlement of Outstanding Pending Bills**

10. Settlement of outstanding pending bills remains a big challenge to the Government. It is estimated that the National Government and County Governments could be owing suppliers, merchants and contractors close to 640 billion in form of pending bills since June 2005 to June 2022. Recognizing the magnitude of this problem, Cabinet recently approved the establishment of the **Pending Bills Verification Committee** which has been tasked with the auditing of all unpaid liabilities for the period between 2005 and 2022.

11. The Multi-Agency Committee which has also representatives from the Ethics and Anti-Corruption Commission, the Law Society of Kenya, the Institute of Engineers of Kenya and the Institute of Certified Public Accountants of Kenya has been given a timeline of one year to examine and establish the integrity of all pending bills. The Government will honour the obligation verified as payable and come up with a mechanism to stop accumulation of future pending bills.

- **Stalled Projects**

12. During the FY2018/2019, the National Treasury undertook a review of the stock of projects in all MDAs and established that projects which had stopped being implemented for various reasons or have been receiving token budget allocations which cannot facilitate meaningful implementation and therefore stalled amounted to over **KSh.1.3 trillion**. These projects can also be attributed to escalation of pending bills noted above.

13. Going forward, the Government is going to reappraise all stalled projects to establish whether they are aligned with the development agenda. Those projects which will not be aligned to the development agenda will be cancelled or suspended until such a time when resources are available for their implementation. Those aligned with the development agenda will be taken on board and allocated necessary resources for implementation.

- **Expenditure Carryovers from FY 2022/23 Budget**

14. You may wish to note that we crossed over from FY 2022/23 with expenditure Carryovers amounting to KSh.77.5 billion. To address this, Ministries, Department and Agencies have been instructed to clear all the carryovers for FY2022/23 within the budgetary provision of the current Financial Year. This will ensure that going forward, businesses and enterprises are cushioned against liquidity inadequacies.

- ***Austerity Measures to Contain Wastage***

15. Challenges in revenue generation has contributed to delays in Exchequer releases, settlement of expenditure carryovers from FY 2022/23 and clearing of pending bills. In view of these challenges, it has become necessary to scale down on non-strategic spending to ensure sustainable management of the available resources. It is in this

regard the Government has instituted austerity measures to contain spending on non-strategic areas including 50% cutbacks on foreign and domestic travelling, training, hospitality, supplies and services; purchase of motor vehicles; refurbishment of buildings and purchase of furniture and general equipment. The National Treasury will work with the Spending Units as recently directed by Cabinet to further review these expenditures with a view to eliminating wastage.

- **Zero-Based Budgeting Approach**

16. In finalizing the Budget for FY2024/25, all MDAs will be required to submit their requirements through a costing tool which has been developed in IFMIS. The costing tool will ensure that a Zero-Based Budgeting approach is used in arriving at final estimates which involves justifying each and every item to be included in the budget. This includes justifying for each and every programme to align it with BETA and the Value Chain priorities.

17. Considering the limited resources, the Sector Working Groups (SWGs) and Government Ministries, Departments and Agencies (MDAs) were directed to critically review, evaluate and prioritize all budget allocations to achieve the BETA priorities.

18. I wish to emphasize that prioritization of planned activities and aligning them to the available resources is imperative. This will curtail MDAs from seeking for additional funding under Article 223 of the Constitution as soon as the budget is appropriated. The National Treasury working with the relevant Government Entities and Stakeholders will develop a Framework that will tighten and seal loopholes in the use of this Article. It is therefore my hope that this has been fully adhered to.

19. To enhance completion of projects and deliver on the expected benefits, and absorption of funds, Sectors Working Groups should ensure adequate allocation of resources to counterpart funding, and Monitoring and Evaluation of Projects.
20. The contribution of the public is welcome as it will help refocus spending proposals in the Budget Policy Statement and ultimately the FY 2024/25 Budget to be submitted to Parliament in April, 2024.
21. With those remarks, it is now my humble duty to invite the Cabinet Secretary National Treasury and Economic Planning to make his remarks.

Thank You



REPUBLIC OF KENYA

THE NATIONAL TREASURY AND ECONOMIC PLANNING

KEYNOTE ADDRESS BY PROF. NJUGUNA NDUNG'U, CBS CABINET SECRETARY THE NATIONAL TREASURY & ECONOMIC PLANNING DURING THE OFFICIAL OPENING OF THE PUBLIC SECTOR HEARINGS ON THE FY 2024/25 AND THE MEDIUM-TERM BUDGET ON 13TH DECEMBER 2023

Chairperson, Budget and Appropriations Committee,

Principal Secretaries and Accounting Officers,

Development Partners,

Members of the Media,

Distinguished Guests,

Ladies and Gentlemen:

Good Morning

1. It is my pleasure to be with you this morning as we commence on the Public Sector Hearings on the budget proposals for the FY 2024/25 and the Medium-Term which will run for the next three days.

2. I wish to take this early opportunity to appreciate our stakeholders who are with us this morning both in person and in the virtual platforms for having responded positively to our invitation to participate in the Public Hearings.

Ladies and Gentlemen

3. Article 201 (a) of the Constitution of Kenya provides for openness and accountability, including public participation as principles that guide all aspects of public finance. It is in this

regard that we have organized this forum to give members of the public and other key stakeholders an opportunity to provide additional views and critique the budget proposals for the next Financial Year and the Medium Term.

4. To deepen public participation in the budget process, the National Treasury held Country-Wide Public Participation meetings on the FY 2024/25 and the Medium Term Budget in all the Counties from **30th October to 6th November, 2023** except for Mandera County where this was not possible due to the on-going El Nino rains. During these meetings, the public provided priorities and specific interventions for consideration by the Sector Working Groups during prioritization and resource allocation.

5. During the next three days, Members of the Public will be expected to formally engage with Ministries, Departments and Agencies on the implementation of programmes over the last three years, validate the Sector Budget Proposals to ensure they are aligned to the priorities identified during the Country-wide Stakeholder Participation and consequently chart the way forward for the next Medium-Term budget.

Ladies and Gentlemen

6. Allow me to briefly indulge you in the recent economic development even as we look forward to the next budget cycle.

7. The FY 2024/25 Budget is being prepared at a time when the global economy is experiencing challenges arising from global supply chain disruptions due to the prolonged Russia -Ukraine conflict, elevated global interest rates on account of inflationary pressures limiting access to credit and exacerbating debt servicing costs; and significant losses and damages due to frequent extreme weather events leading to increased fiscal pressures. As such, global growth is projected to slow down to **3.0 percent** in 2023 and **2.9 percent** in 2024 from 3.5 percent in 2022.

8. In Sub-Saharan Africa, growth is projected to decline to **3.5 percent** in 2023 from 3.9 percent in 2022 before picking up to **4.1 percent** in 2024. Oil prices remain elevated on account of increased geopolitical fragmentation and global oil supply cuts by major oil exporters particularly Saudi Arabia and Russia.

9. Despite the challenging environment, the Kenyan Economy is demonstrating resilience with economic growth well above the global and Sub-Saharan Africa average. In the first half of 2023, the economic growth averaged **5.4 percent** (5.5 percent in Q1 and 5.4 percent in Q2). This growth was primarily underpinned by a rebound in the agricultural activities, following improved weather conditions and the impact of fertilizer and seed subsidies provided to farmers by the Government. The service sector remained vibrant during the period thereby supporting growth. All economic sectors recorded positive growths, though the magnitudes varied across sectors.

10. The economy is projected to further expand by **5.5 percent** in both 2023 and 2024 from a growth of 4.8 percent in 2022. This growth outlook will be supported by a broad-based private sector growth, including continued strong performance of the services sector and recovery in agriculture. The outlook will be reinforced by implementation of policies and reforms under the priority sectors of the Bottom-Up Economic Transformation Agenda (BETA).

- **Performance of Other Macroeconomic Indicators**

11. In order to anchor inflation expectations, the Monetary Policy Committee (MPC) gradually raised the policy rate (Central Bank Rate (CBR)) from 7.50 percent in May 2022 to 10.50 percent in June 2023 and further 12.50 percent in December 2023. The tightening of the monetary policy was to address the pressures on the exchange rate and mitigate second round effects including from global prices. This will ensure that inflationary expectations

remain anchored, while setting inflation on a firm downward path towards the 5.0 percent mid-point of the target range.

12. Inflation eased gradually to **6.8 percent in November 2023** from a peak of 9.6 percent in October 2022, but has remained sticky in the upper bound of the Government's target range since July 2023. The easing of inflation has been supported by the impact of monetary policy tightening and lower food prices. The lower food prices are as a result of improved food supply due to favourable weather conditions and Government interventions.

13. **The foreign exchange market** remained under pressure as uncertainties in the global financial markets and strengthening US dollar put pressure on the exchange rate. As a result, the Kenya Shilling weakened by 24.7 percent against the US Dollar in November 2023 compared to a similar period in 2022.

The current account deficit narrowed to **4.1 percent** of GDP in September 2023 compared to 5.3 percent of GDP in September 2022 on account of improved receipts from tea and manufactured exports, lower imports as well as resilient remittances. The **usable foreign exchange reserves**, which stood at USD 6,746 million (3.62 months of import cover) by end November, continue to provide adequate cover and a buffer against any short-term shocks in the foreign exchange market.

- **Risks to the Outlook**

14. There are downside risks emanating from domestic as well as external sources. **On the domestic front**, risks relate to unpredictable weather conditions due to the impact of climate change which could adversely affect agricultural production and result to domestic inflationary pressures and food insecurity. Additionally, tight fiscal space due to the impact of the multiple shocks that have affected the global and the domestic economy might lead to tight liquidity conditions for financing the budget.

15. **On the external front**, uncertainties in the global economic outlook stemming from the escalating geopolitical fragmentations could result in higher commodity prices which pose a risk to domestic inflation outcomes leading to further tightening of financial conditions. Additionally, weaker global demand due to the slowdown in the global economic recovery could adversely affect Kenya's exports, foreign direct investments and remittances. Continued strengthening of US dollar against other global currencies arising from aggressive monetary policy tightening present significant risks to financial flows and puts pressures on the exchange rate with implication to growth and inflation.

Ladies and Gentlemen

FY 2023/24 Budget implementation:

16. Implementation of the FY 2023/24 Budget has progressed smoothly but with significant pressure points and risks. These include challenges in revenue generation, escalation in debt service costs, settlement of expenditure carryovers from FY 2022/23 and clearing of pending bills as well as increased demand for additional funding for priority interventions.

17. In the recent past, the Country has also been receiving more than average rainfall (El Nino). This has caused flooding in most parts of the country causing displacement of persons, loss of lives and livelihoods as well as destruction of our physical infrastructure. In spite of this, the Government is implementing appropriate measures to address the negative impacts of the on-going El Nino rains including restoration of critical infrastructure, humanitarian assistance and public health interventions.

18. **Revenues:** As at 31st October 2023, the total cumulative revenue was below target by **Ksh.47.6 billion** mainly due to the underperformance in ordinary revenues. Equally expenditures, both Recurrent and Development, and County Disbursement were below target due to low absorption, and cash flow constraint.

19. The overall fiscal balance amounted to a deficit of 0.4 per cent of GDP against a targeted deficit of 1.6 per cent of GDP.

20. ***The Government will continue to pursue the Fiscal Consolidation Programme:***

Fiscal consolidation, through revenue mobilization and expenditure rationalization therefore remain a priority in order to stabilize growth in public debt. The Government has set a fiscal consolidation path aimed at gradually reducing the fiscal deficit from 5.5% of GDP in FY 2023/24 (as at Supplementary Budget I) to 3.9% of GDP in the FY 2024/25 and will decline to 3.4% of GDP in the FY 2026/27.

21. ***Revision in revenue and expenditures:*** In view of these developments, the revenue projections for FY 2023/24 have been revised taking into account the prevailing economic environment. Expenditure projections for FY 2023/24 have also been revised to accommodate the projected revenue performance through trade-offs and reallocations of the existing budgetary provisions and additional expenditure on productive areas of spending across the Government.

22. These have been reflected in the FY 2023/24 Supplementary Estimates No.1 which was recently approved by Parliament.

Ladies and Gentlemen

The FY 2024/25 and the Medium Term Budget

23. The focus of the FY 2024/25 budget will be on the implementation of priority programmes under the Bottom-Up Economic Transformation Agenda (BETA) by increasing investments in Agricultural Transformation and Inclusive Growth; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry.

24. This will strictly be through a value chain approach under five clusters, namely, Finance and Production Economy; Infrastructure; Land and Natural Resource; Social Sectors; and Governance and Public Administration. Adequate resources will be directed towards the nine value chains, namely, (i) Leather; (ii) Cotton; (iii) Dairy; (iv) Edible Oils; (v) Tea; (vi) Rice; (vii) Blue Economy; (viii) Natural Resources Including Minerals & Forestry); and (ix) Building Materials that are under implementation in the FY 2023/24 budget.

25. Ladies and Gentlemen

26. In the FY 2024/25 and the Medium Term Budget, the Government will continue to emphasize on the implementation of policy measures such as the zero-based budgeting process and adoption of the “no new projects” policy, a review of portfolio of externally funded projects to restructure, re-alignment with BETA priorities and reducing non-priority spending.

27. In the FY 2024/25, total revenue collection including Appropriation-in-Aid (A-i-A) is projected at **Ksh.3,445.6 billion** (19.1 per cent of GDP). Of this, ordinary revenues are projected at **Ksh.2,958.6 billion** (16.4 per cent of GDP). This revenue performance will be underpinned by the on-going reforms in tax policy and revenue administration.

28. On the other hand, the overall expenditure and net lending is projected at **Ksh.4,198.8 billion** (23.3 per cent of GDP). Of this, Recurrent Expenditure will amount to **Ksh.2,873.6 billion** (16.0 per cent of GDP) while, Development Expenditure will amount to **Ksh.881.3 billion** (4.9 per cent of GDP). Transfer to Counties and Contingency Fund are projected at **Ksh.438.9 billion** and **Ksh.5.0 billion** respectively.

29. As a result, the overall fiscal deficit is expected to decline to 3.9 per cent of GDP) in FY 2024/25 from 5.5 per cent of GDP in FY 2023/24. This will boost our debt sustainability position and give flexibility for counter cyclical fiscal policy interventions when appropriate. The fiscal deficit in FY 2024/25 will be financed by a net external financing of **Ksh.326.2**

billion (1.8 per cent of GDP) and a net domestic financing of **Ksh.377.4 billion** (2.1per cent of GDP).

Ladies and Gentlemen

30. Considering the limited resources, the Sector Working Groups (SWGs) and Government Ministries, Departments and Agencies (MDAs) were directed to critically review, evaluate and prioritize all budget allocations to achieve the BETA priorities. It is my hope that this has been fully adhered to.

31. I therefore wish to urge our stakeholders to interrogate the Sector Budget proposals due for presentation in the next 3 days with a view to examine the extent to which they have addressed the current development agenda of the Government and pressing socio-economic objectives.

32. During the Meetings, Sector Teams will have an opportunity to exhaustively discuss the sectoral performance, prioritized programmes and projects for funding in FY2024/25 and the Medium-Term, expected outputs and outcomes from public spending; and other emerging issues. The contribution of the public is welcome as it will help refocus spending proposals in the Budget Policy Statement and ultimately the FY 2024/25 Budget to be submitted to Parliament in April, 2024.

Ladies and Gentlemen:

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

34. Finally, I want to once again urge members of the public to feel free in giving their input and raising issues where necessary in the discussions that will be taking place today and the

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

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

THANK YOU