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Acknowledgement

The 2019 Budget Review and Outlook Paper (BROP), has been prepared in accordance with the Public Finance Management (PFM) Act, 2012 and its Regulations. The document provides the fiscal outturn for the FY 2018/19, the macro-economic projections and sets the sector ceilings for the FY 2020/21 and the Medium Term Budget. The document also provides an overview of how the actual performance of the FY 2018/19 affected our compliance with the fiscal responsibility principles and the financial objectives spelt out in the PFM Act as well as information showing adjustments made in the projections outlined in the 2019 Budget Policy Statement.

We are operating under tight resource constraints amidst significant expenditure demands including financing of the Government's "Big Four" Plan. This calls for proper prioritization to ensure that our expenditures goes to the most impactful programmes with highest welfare benefits to Kenyans. Additionally, the issue of low absorption especially of Development Partners funded projects remains a top priority of the Government. The National Treasury and Planning will in this regard continue to strengthen planning, budgeting, implementation and monitoring of planned programmes to ensure that that challenges associated to slow uptake of funds and completion of projects are addressed .

In developing the Sector Budget Proposals for the FY 2020/21 and the medium term, Sector Working Groups (SWGs) are expected to review their sector budget performance for the past three years. Lessons from the review should inform budget priorities for all the Government MDAs for the ensuing period while taking into account the available resources. Further, MDAs are required to ensure that externally financed projects are in line with the overall Government priorities, and have adequate provision for Government of Kenya counterpart funding in accordance with the financing agreement. Performance for Results (PFRs) Projects as well as programmes with disbursement linked indicators (DLIs) should be properly identified with supporting financing agreement and adequately funded.

The preparation of the 2019 BROP was a collaborative effort of various Government Agencies. We thank all the Government Ministries, Departments and Agencies as well as other spending units for the timely provision of useful data and information on their budget execution for the FY 2018/19. We are also grateful to the Macro Working Group, for reviewing this document to ensure it satisfies the PFM Act, 2012 and sets out the sector ceilings that will guide the rest of the sectors in the preparation of their FY 2020/21 and the Medium Term Budget.

This document also benefitted from key inputs from various Directorates and Departments within the National Treasury and Planning. I wish to thank the core team from the Macro and Fiscal Affairs Department and the Budget Department that coordinated the finalization of this document. Further, allow me to thank all institutions that we consulted as well as the public for the useful comments and inputs.

Finally, I wish to reiterate the importance of public participation in FY 2020/21 Medium Term Budget preparation process by calling on all Sector Working Groups to devise an engagement framework that will deepen open public and stakeholders' participation and incorporation of the proposals received.


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Foreword

The 2019 Budget Review and Outlook Paper has been prepared at a time when the global economy is weakening amid rising trade tensions, tighter global financial conditions and higher policy uncertainty across many economies. Global economic activity is expected to slow down to 3.2 percent in 2019 from 3.6 percent in 2018 with prospects across countries and regions remaining uneven. On the domestic scene, despite the challenging global environment, Kenya's economy has remained strong and resilient. The economy expanded by 6.3 percent in 2018 up from the 4.9 percent registered in 2017. The growth momentum continued in the first half of 2019, with the economy expanding by an average of 5.6 percent. The latest economic indicators in the third quarter of 2019 point to continued economic recovery that will culminate to an overall projected growth of about 5.9 percent in the FY 2019/20. Economic growth is further projected to rise to 6.2 percent in the FY 2020/21 and 7.0 percent in the medium term.

The fiscal performance of the FY 2018/19 budget was below target on account of revenue shortfalls and rising expenditure pressures. In order to contain the resultant fiscal gap and public debt, we have initiated a number of revenue and expenditure measures in line with our fiscal consolidation plan. The expenditure control and policy measures include budget rationalization on non-core expenditures which include foreign and domestic travel, hospitality, training, communication supplies, printing and advertising, purchase of furniture, office and general supplies, use of Government vehicles, and size of Government Delegation in meetings outside the country. To this effect, the National Treasury has already issued Guidelines on expenditure control measures.

In the FY 2019/20 and over the medium-term, the Government shall continue with the fiscal consolidation plan. Revenue collection in the FY 2019/20 is expected to recover buoyed by the improving economic environment, tax policy and revenue administration measures that have been put in place. Together with expenditure rationalization measures introduced in the FY2019/20 budget, funding pressures are expected to ease and create fiscal space for priority programmes in the FY2020/21 Medium-Term Budget. Consequently, the fiscal deficit (including grants) is expected to decline to 3.4 percent of GDP in the FY 2023/24 from the 7.7 percent of the GDP registered in FY 2018/19. This will create more fiscal space for priority social and economic projects.

As we prepare for the FY 2020/21 budget, emphasis will be on strategic programmes that aid achievement of the "Big Four" Plan as prioritized in the third Medium Term Plan (MTP III) of the Vision 2030. We are faced by the need to support the "Big Four" Plan, emerging expenditure pressures, the underperformance of revenue and the rising public debt and it is therefore, inevitable to tighten public spending. This will ensure that the Government budgets within its means and safeguards macroeconomic stability. In this regard, the Sector Working Groups are required to carefully scrutinize all proposed Ministries, Departments and Agencies (MDAs) budgets for FY 2020/21 and the medium term to ensure that they are not only directed towards improving productivity but are also aligned to the achievement of the objectives of the "Big Four" Plan and remain within the ceilings provided. I therefore, call upon all to adhere to the hard sector ceilings, and the strict deadlines provided in this document to facilitate the finalization and appropriation of the FY 2020/21 and the medium term budget.


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I. INTRODUCTION

Objective of the 2019 Budget Review and Outlook Paper

1. The objective of the 2019 Budget Review and Outlook Paper (BROP) is to provide a review of fiscal performance for the FY 2018/19 and how this performance impacts on the financial objectives and fiscal responsibility principles set out in the PFM Act and outlined in the 2019 Budget Policy Statement (BPS). This, together with updated macroeconomic developments and outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the FY 2020/21 and the medium-term budget. Details of the fiscal framework and the medium term policy priorities will be firmed up in the 2020 BPS.
2. The 2019 BROP is a key policy document that will guide the development of the 2020 BPS. The 2020 BPS will highlight the progress in the implementation of the “Big Four” Plan and other projects prioritized in the Third Medium Term Plan (MTP III 2018-2022), while also taking into account the recent macroeconomic developments.
3. The underperformance in revenue collection and expenditure pressures in the FY 2018/19 had implications on the financial objectives outlined in the 2019 BPS and the fiscal projections of the 2019/20 Budget. The BROP therefore, presents a revised fiscal outlook underpinned by tax policy and administration measures to boost the performance of revenues. To complement the tax reforms, the Government has cut down on non-priority expenditures, thereby availing resources for high priority projects that have the highest impact on Kenyans.
4. As required by the PFM Act, 2012, budget process aims to promote efficient and effective use of resources. To meet the resource requirements of the FY 2020/21 and the medium budget, the Government will continue to implement prudent measures aimed at enhancing the tax revenue and rationalizing expenditures. In this regard, this BROP provides sector ceilings which will set in motion the budget preparation process for the FY 2020/21 and the medium term. The sector ceilings are guided by the overall resource envelope that is informed by the macroeconomic and fiscal outlook as presented in Section III and IV of this document. Budgetary allocations in this BROP are in line with the needs of the “Big Four” Plan to enable the Government create more jobs, support manufacturing activities, enhance universal health coverage, improve food security and enhance living conditions through affordable housing.
5. With this background, the rest of the document is organized as follows: Section II provides a review of the fiscal performance for the FY 2018/19 and its implications on the financial objectives set out in the 2019 BPS. Section III provides highlights of the recent economic developments and outlook while Section IV and V provide for the proposed resource allocation framework and the conclusion respectively.

II. REVIEW OF FISCAL PERFORMANCE FOR THE FY 2018/19

A. FY 2018/19 Fiscal Performance

Performance of Revenues

6. By the end of June 2019, total cumulative revenue including A-i-A collected amounted to Ksh 1,671.1 billion against a revised target of Ksh 1,794.5 billion (**Table 1a**). This represented a revenue shortfall of Ksh 123.5 billion. Ordinary revenue collection amounted to Ksh 1,496.9 billion against a target of Ksh 1,588.1 billion

7. Tax revenues were largely below the revised target in all the broad categories. Income tax (comprising of PAYE and other income tax) recorded the highest shortfall of Ksh 56.8 billion, majorly attributed to underperformance in other income tax (Ksh. 46.9 billion).

8. The performance of income tax was affected negatively by various factors; first the delayed enactment of the Finance Act 2018 and thereafter the court injunctions which followed its enactment frustrated the implementation of the revenue yielding policy measures especially withholding tax on winnings. The high increase in investment deductions further affected negatively the collection of income tax.

9. The introduction of the anti-adulteration levy was effective as annual kerosene volumes dropped by over 60 percent, much higher than the envisaged forecast of 20 percent. This fall in import volumes of kerosene negatively affected collection of the levy and therefore the overall Excise duty taxes.

10. VAT recorded a shortfall of Ksh 12.3 billion against the Supplementary II target. Although Import duty collection was broadly on target, it is believed that the spirited fight against sub-standard and counterfeit goods in the first quarter of the year depressed the performance of this tax item. The revenue collection in FY 2018/19 represented a year on year growth of 9.8 percent.

11. The appropriation in aid (A-i-A) shortfall of Ksh 32.3 billion is explained in part by delayed reporting by the collecting MDAs and is expected to narrow significantly when the MDAs present their final financial statements.

Table 1a: Government Revenue and External Grants, FY 2018/19 (Ksh Million)

Revenue Head	2017/2018 Actual	2018/2019		Deviation KSh	Deviation in percent
		Actual	Target		
Total Revenue (a+b)	1,522,419	1,671,071	1,794,522	(123,452)	(6.9)
(a) Ordinary Revenue	1,365,063	1,496,930	1,588,132	(91,201)	(5.7)
Import Duty	99,215	107,702	108,504	(802)	(0.7)
Excise Duty	162,484	194,289	198,362	(4,073)	(2.1)
PAYE	350,631	393,362	403,344	(9,983)	(2.5)
Other Income Tax	289,962	292,028	338,886	(46,859)	(13.8)
VAT Local	206,257	230,600	241,124	(10,524)	(4.4)
VAT Imports	150,599	182,586	184,374	(1,788)	(1.0)
Investment Revenue	24,123	24,575	36,716	(12,141)	(33.1)
Traffic Revenue	3,077	4,062	3,688	374	10.1
Taxes on Intl. Trade & Trans.(IDF Fee)	23,782	24,182	26,509	(2,327)	(8.8)
Others ¹	54,934	43,545	46,624	(3,079)	(6.6)
(b) Appropriation In Aid ²	157,356	174,140	206,391	(32,250)	(15.6)
o/w Railway Development Levy	20,773	21,303	24,719	(3,416)	(13.8)
(c) External Grants	26,484	19,702	34,990	(15,288)	(43.7)
Total Revenue and External Grants	1,548,903	1,690,773	1,829,513	(138,740)	(7.6)

1/ includes rent of buildings, fines and forfeitures, other taxes, reimbursements and other fund contributions, and miscellaneous revenue.

Source: National Treasury

12. During the FY 2018/19, the Government received investment income in form of dividends, surplus funds and directors' fees of Ksh 24.6 billion against a revised target of Ksh 36.7 billion, resulting in a negative variance of Ksh 12.1 billion (**Table 1b**). The shortfall is explained in part by the payment of Ksh 800 million by Central Bank of Kenya instead of the expected Ksh 5.8 billion.

Table 1b: Investment Income for the FY 2018/19 (Ksh Million)

	2017/18	2018/19		
	Actual	Revised Estimate	Actual	Variance
Dividends	17,333	27,703	16,553	(11,128)
Surplus Funds	6,766	8,985	8,000	(985)
Directors Fees	24	29	22	(7)
Total	24,123	36,716	24,575	(12,141)

Source: National Treasury

13. Similarly, external grants amounted to Ksh 19.7 billion against a revised target of Ksh 35.0 billion, translating into a shortfall of 15.3 billion. Of these external grants, programme grants (AMISOM reimbursements) amounted to Ksh 4.3 billion against a target of Ksh 6.5 billion, project grants revenue of Ksh 8.4 billion against a target of 13.4 billion and project grants (A-i-A) of Ksh 6.9 billion against a target of Ksh 15.0 billion.

Sectoral Analysis of Revenues

14. A comparison between sectoral contributions to GDP versus revenue over the last three years show that manufacturing, information and communication, and financial services sectors are the major contributors to revenue while agriculture is the lead contributor to GDP followed by manufacturing and transport and storage (**Table 2**). In FY 2018/19, manufacturing, information and communication, and financial services sectors contributed 51.6 percent of revenue collected and 15.0 percent to GDP. In contrast, agricultural sector contributed 34.2 percent to GDP against a contribution of 2.6 percent to revenue in 2018/19.

15. However, manufacturing and financial and insurance sectors' contributions to both revenue and GDP has been on a downward trend in the last three years. This partly explains the shortfall in revenues for the FY 2018/19.

Table 2: Revenue Performance by Sector - Ksh Million

Economic Sector	Revenue by Sector			Revenue Contribution			GDP Contribution		
	2016/17	2017/18	2018/19	2016/17	2017/18	2018/19	2016	2017	2018
Agriculture	17,854	19,614	23,125	2.3%	2.3%	2.6%	31.1%	34.8%	34.2%
Manufacturing	163,631	154,013	163,935	20.9%	18.4%	18.2%	9.3%	8.0%	7.7%
Electricity, Gas, Steam	31,111	33,565	34,080	4.0%	4.0%	3.8%	2.6%	2.5%	2.5%
Construction	38,722	42,717	44,693	4.9%	5.1%	5.0%	5.1%	5.6%	5.4%
Wholesale and Retail Trade	39,404	50,348	60,653	5.0%	6.0%	6.7%	7.2%	7.4%	7.4%
Transportation and Storage	44,322	41,212	40,868	5.7%	4.9%	4.5%	8.1%	7.5%	8.0%
Information and Communication	109,353	116,582	134,636	14.0%	13.9%	15.0%	1.5%	1.3%	1.3%
Financial And Insurance	150,874	148,667	165,894	19.3%	17.8%	18.4%	7.1%	6.1%	6.0%
o/w banks	118,869	112,647	127,388	15.2%	13.5%	14.1%			
o/w insurance	32,005	36,020	38,507	4.1%	4.3%	4.3%			
Real Estate Activities	22,580	23,996	24,834	2.9%	2.9%	2.8%	7.6%	7.1%	7.0%
Professional and Technical	29,970	31,278	33,873	3.8%	3.7%	3.8%	1.8%	1.7%	1.7%
Public Administration	11,258	12,638	12,520	1.4%	1.5%	1.4%			
Education	21,499	24,882	22,899	2.7%	3.0%	2.5%	4.4%	4.0%	4.3%
Others	155,544	191,481	197,091	21.2%	22.9%	21.9%			
Totals	783,574	835,719	900,394	100%	100%	100%	100%	100%	100%

Source: Kenya Revenue Authority

Expenditure Performance

16. Total expenditure and net lending in the FY 2018/19 totalled to Ksh 2,405.9 billion against a revised target of Ksh 2,555.1 billion, representing an under spending of Ksh 149.2 billion (or 5.8 per cent deviation from the revised budget) (**Table 3**). This shortfall was attributed to lower absorption in both recurrent and development expenditures by the National Government.

17. The National Government's recurrent expenditure amounted to Ksh 1,455.0 billion (excluding Ksh 41.2 billion by Parliament and Judiciary) against a target of Ksh 1,537.4 billion (excluding Ksh 45.6 billion for Parliament and Judiciary), representing an under-spending of Ksh 82.4 billion mainly recorded in operations and maintenance (Ksh 65.2 billion including Ksh 31.1 A-i-A), pensions and other contribution funds (Ksh 13.8 billion), as well as wages and salaries (10.5 billion). However, the shortfall in A-i-A is expected to reduce significantly once MDAs submit their financial statements. The reported shortfall in A-I-A (shortfall of 4.2 billion) is largely attributable to the lag between spending at the Sub-County level and reporting to the headquarters.

18. Expenditure on domestic interest payments was above target by Ksh 7.5 billion while foreign interest was below target by Ksh 0.34 billion. Foreign interest payments amounted to Ksh 103.4 billion, compared to Ksh 84.4 billion in the same period of the FY 2017/18. The domestic interest payments were Ksh 272.4 billion, higher than Ksh 239.5 billion paid in the corresponding period of the previous financial year.

19. Ministerial Appropriation-in-Aid in recurrent expenditure recorded an under spending of Ksh 31.1 billion. This underspending is the main cause of the huge shortfall in operation and maintenance.

20. Development expenditures were below target by Ksh 60.5 billion on account of lower than programmed absorption by MDAs of domestically financed programmes by Ksh 34.9 billion and lower than programmed execution of externally funded programmes by Ksh 25.6 billion.

Table 3: Expenditure and Net Lending, FY 2018/19 (Ksh Million)

Expenditure Head	2017/2018 Actual	2018/2019		Deviation	% Growth
		Actual	Targets		
1. RECURRENT	1,312,082	1,454,984	1,537,390	(82,406)	10.9
Domestic Interest	239,470	272,351	264,831	7,520	13.7
Foreign Interest	84,420	103,372	103,718	(346)	22.5
Pensions	65,099	70,804	84,605	(13,801)	8.8
Wages and Salaries	388,938	417,526	428,068	(10,542)	7.4
Operation and Maintenance	534,155	590,931	656,169	(65,238)	10.6
O/W : Appropriation-in-Aid	109,669	112,906	143,983	(31,077)	3.0
2. DEVELOPMENT	469,673	542,007	602,499	(60,492)	15.4
Development Projects (Net)	216,366	300,137	339,508	(39,371)	38.7
Payment of Guaranteed Loans	2,529	2,485	2,483	2	(1.7)
Appropriation-in-Aid	250,778	239,386	260,509	(21,123)	(4.5)
3. County Governments	327,274	360,740	364,958	(4,218)	10.2
4. Parliamentary Service	25,678	28,525	32,088	(3,563)	11.1
5. Judicial Service	11,944	12,713	13,495	(782)	6.4
6. Equalization Fund	-	6,962	4,700	2,262	-
7. CF	-	-	-	-	-
TOTAL EXPENDITURE	2,146,651	2,405,933	2,555,131	(149,198)	12.1

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

Source: National Treasury

Ministerial Expenditure

21. The total cumulative ministerial and other public agencies expenditure including A-i-A was Ksh 1,605.4 billion (89.5 percent absorption) against a target of Ksh 1,794.4 billion. Recurrent expenditure was Ksh 1,037.8 billion (90.7 percent absorption) against a target of Ksh 1,144 billion, while development expenditure was Ksh 567.6 billion (87.3 percent absorption) against a target of Ksh 650.5 billion. The discrepancy between actual and target expenditures is partly due to the non-capture of the Sub-County expenditures leading to under reporting by Ministries.

22. As at the end of FY 2018/19, expenditures by the Ministry of Education, Teachers Service Commission and Ministry of Health (Social Sector) accounted for 44.6 percent of total recurrent expenditure, while the State Department for Interior and the Ministry of Defence accounted for 10.4 percent and 9.8 percent of total recurrent respectively.

23. Analysis of development outlay indicates that the State Department for Transport accounted for the largest share of the total development expenditures (21.4 percent), followed by the State Department for Infrastructure (18.8), State Department for Energy (8.7 percent), the State Department for Devolution (6 percent) and the Ministry of Water and Sanitation (5.1 percent). The development expenditures by the large Ministries were below target because of non-inclusion of expenditures from Sub-National and some donor-funded projects. Details of various Ministerial/Departmental and Commissions expenditures for the FY 2018/19 are provided in **Table 4**.

Table 4: Ministerial Expenditures, Period Ending 30th June, 2019 (Ksh Millions)

Head	MINISTRY/DEPARTMENT/COMMISSIONS	Jun-19		Variance	Jun-19		Variance	Jun-19		Variance	% of total expenditure to target
		Recurrent			Development			Total			
		Actual*	Target	Actual*	Target	Actual*	Target				
1011	The Presidency	9,011	9,531	(520)	651	1,137	(486)	9,662	10,668	(1,006)	90.6
1021	State Department for Interior	107,877	123,736	(15,859)	12,847	16,920	(4,072)	120,725	140,656	(19,931)	85.8
1023	State Department for Correctional Services	22,233	26,004	(3,771)	449	640	(190)	22,682	26,644	(3,962)	85.1
1024	State Department for Immigration and Citizen Services	2,099	2,221	(121)	1,482	1,493	(11)	3,582	3,714	(133)	96.4
1032	State Department for Devolution	3,954	4,219	(265)	34,134	40,701	(6,567)	38,087	44,920	(6,832)	84.8
1035	State Department for Development of the ASAL	1,228	1,231	(3)	3,296	5,187	(1,891)	4,524	6,418	(1,894)	70.5
1041	Ministry of Defence	101,524	101,549	(24)	11,107	17,241	(6,134)	112,631	118,790	(6,159)	94.8
1052	Ministry of Foreign Affairs	11,610	16,122	(4,511)	335	2,238	(1,903)	11,945	18,360	(6,414)	65.1
1064	State Department for Vocational And Technical Training	7,733	8,960	(1,227)	9,239	11,612	(2,373)	16,971	20,571	(3,600)	82.5
1065	State Department for University Education	87,416	100,471	(13,055)	10,186	11,392	(1,206)	97,602	111,864	(14,261)	87.3
1066	State Department for Early Learning & Basic Education	83,452	88,395	(4,943)	9,445	10,443	(998)	92,897	98,838	(5,941)	94.0
1068	State Department for Post Training and Skills Development	59	75	(17)	-	-	-	59	75	(17)	77.8
1071	The National Treasury	41,006	44,132	(3,126)	14,337	20,734	(6,397)	55,343	64,865	(9,522)	85.3
1072	State Department for Planning	8,969	10,131	(1,162)	1,764	1,821	(57)	10,733	11,952	(1,219)	89.8
1081	Ministry of Health	50,520	53,199	(2,679)	22,780	31,943	(9,164)	73,300	85,142	(11,843)	86.1
1091	State Department for Infrastructure	50,224	58,585	(8,361)	106,528	112,941	(6,413)	156,753	171,526	(14,774)	91.4
1092	State Department for Transport	1,116	11,048	(9,932)	121,335	120,885	450	122,452	131,934	(9,482)	92.8
1093	State Department for Marine Affairs	243	1,914	(1,670)	-	-	-	243	1,914	(1,670)	12.7
1094	State Department for Housing & Urban Development	707	781	(73)	23,659	32,890	(9,232)	24,366	33,671	(9,305)	72.4
1095	State Department for Public Works	1,547	1,619	(72)	1,123	1,369	(246)	2,670	2,988	(318)	89.4
1096	State Department for Housing, Urban Development and Public Works	703	837	(134)	10,112	2,043	8,069	10,815	2,879	7,935	375.6
1107	Ministry of Water and Sanitation	3,426	5,310	(1,885)	28,874	35,806	(6,932)	32,300	41,116	(8,817)	78.6
1108	Ministry of Environment and Forestry	9,042	10,199	(1,156)	3,211	4,370	(1,160)	12,253	14,569	(2,316)	84.1
1112	Ministry of Lands and Physical Planning	2,245	2,710	(465)	2,259	2,763	(505)	4,503	5,473	(970)	82.3
1122	State Department for Information Communication and Technology & Innovation	1,590	1,794	(203)	21,098	23,317	(2,219)	22,688	25,110	(2,422)	90.4
1123	State Department for Broadcasting & Telecommunications	4,794	5,440	(646)	686	688	(2)	5,480	6,128	(648)	89.4
1132	State Department for Sports Development	3,489	10,605	(7,116)	675	695	(20)	4,164	11,300	(7,136)	36.9
1134	State Department for Culture and Heritage	3,312	3,479	(166)	810	882	(72)	4,122	4,360	(238)	94.5
1152	State Department of Energy	2,165	2,878	(713)	49,593	58,984	(9,391)	51,758	61,862	(10,104)	83.7
1162	State Department for Livestock	1,967	2,185	(217)	4,065	4,742	(677)	6,032	6,926	(895)	87.1
1165	State Department for Crop Development	12,022	12,258	(236)	13,861	19,940	(6,079)	25,883	32,199	(6,316)	80.4
1166	State Department for Fisheries, Aquaculture & the Blue Economy	536	691	(155)	469	1,509	(1,040)	1,004	2,200	(1,196)	45.6
1167	State Department for Irrigation	1,252	1,659	(407)	6,197	6,835	(639)	7,449	8,495	(1,046)	87.7
1168	State Department for Agricultural Research	5,877	5,882	(5)	705	869	(164)	6,582	6,752	(169)	97.5
1173	State Department for Cooperatives	359	594	(235)	339	378	(39)	698	972	(274)	71.8
1174	State Department for Trade	1,465	1,644	(179)	258	272	(14)	1,722	1,916	(194)	89.9
1175	State Department for Industrialization	2,468	3,317	(850)	3,003	3,303	(300)	5,470	6,620	(1,150)	82.6
1184	State Department for Labour	1,957	2,427	(470)	1,243	1,541	(299)	3,200	3,968	(769)	80.6
1185	State Department for Social Protection	18,072	18,796	(724)	12,633	12,888	(255)	30,705	31,684	(980)	96.9
1192	State Department for Mining	825	1,017	(193)	326	308	18	1,150	1,325	(175)	86.8
1193	State Department for Petroleum	250	282	(32)	2,763	3,208	(446)	3,012	3,491	(478)	86.3
1202	State Department for Tourism	3,014	3,398	(384)	766	1,270	(504)	3,780	4,668	(888)	81.0
1203	State Department for Wildlife	2,219	6,340	(4,121)	873	1,053	(180)	3,093	7,394	(4,301)	41.8
1204	Ministry of Tourism and Wildlife	1,038	1,041	(3)	377	177	200	1,415	1,218	197	116.2
1211	State Department of Public Service and Youth Affairs	1,417	1,562	(146)	1,217	1,391	(174)	2,634	2,954	(320)	89.2
1212	State Department for Gender	1,400	1,435	(35)	2,813	2,813	-	4,213	4,248	(35)	99.2
1213	State Department for Public Service	6,106	6,330	(224)	1,074	1,162	(87)	7,180	7,492	(312)	95.8
1214	State Department for Youth	6,115	12,253	(6,138)	2,186	2,783	(598)	8,300	15,036	(6,736)	55.2
1221	State Department for East African Community	891	896	(5)	-	16	(16)	891	912	(22)	97.6
1222	State Department for Regional and Northern Corridor Development	1,847	2,295	(448)	6,476	7,542	(1,066)	8,322	9,837	(1,515)	84.6
1252	State Law Office and Department of Justice	3,882	4,673	(791)	99	76	23	3,981	4,749	(768)	83.8
1261	The Judiciary	12,382	13,086	(704)	2,242	3,009	(767)	14,624	16,095	(1,471)	90.9
1271	Ethics and Anti-Corruption Commission	3,150	3,167	(17)	-	41	(41)	3,150	3,208	(58)	98.2
1281	National Intelligence Service	33,753	34,521	(768)	-	-	-	33,753	34,521	(768)	97.8
1291	Directorate of Public Prosecutions	2,406	2,942	(536)	-	25	(25)	2,406	2,967	(561)	81.1
1311	Registrar of Political Parties	1,044	1,072	(28)	-	-	-	1,044	1,072	(28)	97.4
1321	Witness Protection Agency	23	433	(410)	-	-	-	23	433	(410)	5.3
2011	Kenya National Commission on Human Rights	396	398	(2)	-	-	-	396	398	(2)	99.6
2021	National Land Commission	1,237	1,239	(2)	-	-	-	1,237	1,239	(2)	99.9
2031	Independent Electoral and Boundaries Commission	4,644	4,894	(250)	-	-	-	4,644	4,894	(250)	94.9
2041	Parliamentary Service Commission	9,810	11,587	(1,777)	1,172	1,650	(478)	10,983	13,237	(2,255)	83.0
2042	National Assembly	18,546	20,501	(1,955)	-	-	-	18,546	20,501	(1,955)	90.5
2051	Judicial Service Commission	377	409	(32)	-	-	-	377	409	(32)	92.2
2061	Commission on Revenue Allocation	400	413	(13)	-	-	-	400	413	(13)	96.8
2071	Public Service Commission	1,188	1,193	(5)	47	61	(13)	1,235	1,254	(19)	98.5
2081	Salaries and Remuneration Commission	551	483	68	-	-	-	551	483	68	114.0
2091	Teachers Service Commission	241,466	241,112	354	7	40	(33)	241,473	241,152	321	100.1
2101	National Police Service Commission	643	700	(57)	-	-	-	643	700	(57)	91.8
2111	Auditor General	5,473	5,420	53	381	462	(81)	5,854	5,882	(28)	99.5
2121	Controller of Budget	549	594	(45)	-	-	-	549	594	(45)	92.5
2131	The Commission on Administrative Justice	468	492	(24)	-	-	-	468	492	(24)	95.2
2141	National Gender and Equality Commission	352	361	(8)	0	1	(1)	353	362	(9)	97.5
2151	Independent Policing Oversight Authority	658	863	(205)	-	-	-	658	863	(205)	76.2
	Total	1,037,785	1,144,029	(106,244)	567,606	650,503	(82,897)	1,605,391	1,794,532	(189,141)	89.5

Source: National Treasury

Overall Balance and Financing

24. In line with performance in revenue and expenditure, fiscal deficit (excluding grants) amounted to Ksh 734.9 billion (equivalent to 7.7 percent of GDP). This deficit was lower than the projected deficit of Ksh 760.6 billion (equivalent to 8.0 percent of GDP) (Table 5). Excluding expenditures related to SGR the fiscal deficit was 6.8 percent of GDP. Including grants, the fiscal balance (on commitment basis) deficit stood at 7.7 percent of GDP against a targeted deficit of 6.8 percent of GDP.

Table 5: Budget Outturn for the FY 2018/19

BOT Item	2017/2018 Actual	2018/2019		Deviation	% growth	2018/2019 as a % of GDP		2017/2018 Actual as a % of GDP
		Actual*	Targets			Actual	Targets	
A. TOTAL REVENUE AND GRANTS	1,548,903	1,690,773	1,829,513	(138,740)	9.2	18.1	19.2	18.2
1. Revenue	1,522,419	1,671,071	1,794,522	(123,452)	9.8	17.9	18.9	17.9
Ordinary Revenue	1,365,063	1,496,930	1,588,132	(91,202)	9.7	16.1	16.7	16.0
Import Duty	99,215	107,702	108,504	(802)	8.6	1.2	1.1	1.2
Excise Duty	162,484	194,289	198,362	(4,073)	19.6	2.1	2.1	1.9
Income tax	640,593	685,389	742,230	(56,841)	7.0	7.4	7.8	7.5
VAT	356,856	413,186	425,498	(12,312)	15.8	4.4	4.5	4.2
Investment Revenue	24,123	24,575	36,716	(12,141)	1.9	0.3	0.4	0.3
Others	81,793	71,789	76,821	(5,032)	(12.2)	0.8	0.8	1.0
Appropriation-in-Aid	157,356	174,140	206,391	(32,250)	10.7	1.9	2.2	1.8
2. Grants	26,484	19,702	34,991	(15,289)	(25.6)	0.2	0.4	0.3
Programme Grants/AMISOM Receipts	4,728	4,315	6,500	1,937	78.5	0.1	0.1	0.1
Projects Grants(Revenue)	9,374	8,437	13,449	(6,500)	(25.9)	0.1	0.1	0.1
Projects Grants(AIA)	12,383	6,949	15,042	(8,093)	(43.9)	0.1	0.2	0.1
B. EXPENDITURE and NET LENDING	2,146,651	2,405,932	2,555,131	(149,199)	12.1	25.8	26.9	25.2
1. Recurrent	1,349,704	1,496,223	1,582,974	(86,750)	10.9	16.1	16.6	15.8
Domestic Interest	239,470	272,351	264,831	7,520	13.7	2.9	2.8	2.8
Foreign Interest	84,420	103,372	103,718	(346)	22.4	1.1	1.1	1.0
Pension	65,099	70,804	84,605	(13,801)	8.8	0.8	0.9	0.8
Wages and Salaries	388,938	417,526	428,068	(10,541)	7.4	4.5	4.5	4.6
O & M/Others	571,777	632,170	701,752	(69,583)	8.7	6.7	7.4	6.7
2. Development and Net Lending	469,673	542,007	602,499	(60,492)	15.4	5.8	6.3	5.5
3. Equalization Fund	0	6,962	4,700	2,262	-	0.1	0.0	-
4. County Governments	327,274	360,740	364,958	(4,218)	10.2	3.9	3.8	3.8
5. CF	-	-	-	-	-	-	-	-
C. DEFICIT EXCL.GRANT (Commitment basis)	(624,232)	(734,862)	(760,609)	25,747	17.7	(7.9)	(8.0)	(7.3)
D. DEFICIT INCL.GRANTS (Commitment basis)	(597,748)	(715,160)	(725,618)	10,459	19.6	(7.7)	(7.6)	(7.0)
E. ADJUSTMENT TO CASH BASIS	(34,678)	(5,894)	75,104	-	-	-	0.8	-
F. DEFICIT INCL.GRANTS (Cash basis)	(632,426)	(721,054)	(650,514)	10,459	14.0	(7.7)	(6.8)	(7.4)
G. FINANCING	631,309	721,053	650,515	70,538	14.2	7.7	6.8	7.4
1. Foreign financing	354,977	414,518	444,851	(30,334)	16.8	4.4	4.7	4.2
Disbursements	493,330	680,759	704,253	(23,495)	38.0	7.3	7.4	5.8
Programme Loans	8,524	84,784	82,143	2,641	894.7	0.9	0.9	0.1
Project Cash Loans	24,214	41,681	54,220	(12,539)	72.1	0.4	0.6	0.3
Project Loans AIA	92,778	100,622	112,084	(11,463)	8.5	1.1	1.2	1.1
Project Loans SGR_AIA	63,818	35,201	35,201	-	(44.8)	0.4	0.4	-
Project Loans SGR_PHASE_2A_AIA	-	44,759	44,759	-	-	0.5	0.5	0.7
Commercial Financing	303,996	373,712	375,846	(2,134)	22.9	4.0	4.0	3.6
of which Export Credit- Commercial Financing	5,912	11,107	13,241	(2,134)	87.9	0.1	0.1	0.1
Sovereign Bond/Syndicated	201,981	212,329	212,329	(0)	5.1	2.3	2.2	2.4
TDB Refinancing	75,947	25,325	25,325	-	(66.7)	0.3	0.3	0.9
TDB & Standard Bank Refinancing	-	124,951	124,951	-	-	1.3	1.3	-
Kenya Airways Refinancing	20,156	-	-	-	-	-	-	0.2
Debt repayment - Principal	(138,353)	(266,241)	(259,402)	(6,839)	92.4	(2.9)	(2.7)	(1.6)
2. Other Domestic Financing	2,623	2,878	3,925	(1,047)	9.7	0.0	0.0	0.0
Public Works Deposits	230	-	-	-	-	-	-	0.0
Domestic Loan Repayments (Receipts)	2,393	2,878	3,925	(1,047)	-	0.0	0.0	0.0
4. NET DOMESTIC FINANCING	273,710	303,658	201,739	101,919	10.9	3.3	2.1	3.2
MEMO ITEM								
NOMINAL GDP	8,524,678.00	9,316,518	9,510,446.00					

*Provisional

/Equalization Fund expenditures represent actual disbursements to the Fund

Source: National Treasury

25. The fiscal deficit by the end of June 2019 was financed through net external financing equivalent to Ksh 414.6 billion. Total disbursements (inflows) including A-i-A amounted to Ksh 680.8 billion by end June 2019 against a target of Ksh 704.3 billion. The actual disbursement amount included Ksh 41.7 billion project cash loans, Ksh 100.6 billion project loans A-i-A, Ksh 80.0 billion project loans A-i-A for SGR, Ksh 373.7 billion commercial financing and Ksh 84.8 billion programme loans. External repayments (outflows) of principal debt amounted to Ksh 266.2 billion including principal repayments due to bilateral and multilateral organizations and to commercial sources amounting to Ksh 31.1 billion, Ksh 17.9 billion and Ksh 217.2 billion respectively.

26. The net domestic financing amounted to Ksh 303.7 billion by end June 2019 against a target of Ksh 201.7 billion. This included Ksh 13.6 billion from the Central Bank, 126.9 billion from Commercial Banks, Ksh 160.3 billion from Non-Banking Financial Institutions and Ksh

2.8 billion from Non-residents. This is compared to the net domestic borrowing in the FY 2017/18 consisting of net repayments of Ksh 26.3 billion to the Central Bank, and a borrowing of Ksh 3 billion from Non-Residents, Ksh 124.3 billion from commercial banks and Ksh 172.8 billion from non-banking financial institutions.

B. Fiscal Performance for the FY 2018/19 in Relation to Financial Objectives

27. The fiscal performance in the FY 2018/19 has affected the financial objectives set out in the PFM Act 2012 and outlined in the 2019 BPS and the Budget for FY 2019/20 in the following ways:

- i. The base for ordinary revenue projections is higher than the actual outcome by about Ksh 91.2 billion; forcing a downward adjustment of ordinary revenues base for FY 2019/20 and in the medium term. This adjustment in revenues is expected to translate to a mix of downward adjustment in expenditure projections and upward adjustment in financing measures for the FY 2019/20. In addition, adjustments will be made to fiscal aggregates to mirror revisions in the macroeconomic projections as well as revenue performance for the first two months of FY 2019/20;
- ii. The baseline ceilings for spending agencies will be adjusted in line with the revised resource envelope under the updated macroeconomic framework that will be provided in the 2020 BPS taking into account the performance in project execution in the FY 2019/20 budget by MDAs and any identified one-off expenditures; and,
- iii. The under-spending in both recurrent and development budget for the FY 2018/19 has implications on the base used to project expenditures in the FY 2019/20 and the medium term. Appropriate revisions have been undertaken in the context of this BRPOP taking into account the budget outturn for the FY 2018/19.

28. As highlighted above, the reasons for the deviations from the financial objectives include: lower than projected revenue collection; under-spending in both recurrent and development; under-reporting on A-i-A expenditures by MDAs; and slow uptake of external resources in the FY 2018/19.

29. To remedy these deviations, the fiscal outlook will focus on strengthening the tax and revenue administration reforms contained in the 2019 BPS. In addition, the National Treasury has established the Public Investment Management Unit (PIMU) to enhance transparency and accountability. Further, the National Treasury has issued Public Investment Management Regulations, which provide a framework for appraising and approving capital projects. The PIMU and the Regulations will facilitate prioritization of ongoing projects and in evaluation of all new projects in the context of their alignment to the “Big Four” Plan, medium and long term development agenda; their impact on poverty alleviation; promotion of growth and job creation.

C. Fiscal Responsibility Principles

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

31. The National Government’s development expenditure as a percent of Ministerial Government expenditure was 35.2 percent in FY 2018/19 and is projected to increase to 38.6

percent in the FY 2019/20 and remain above the 30 percent statutory benchmark over the medium term (Table 6).

Table 6: Fiscal Performance in Relation to Financial Objectives

	FY 2017/18	FY 2018/19		FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	
	Actual	Revised Budget	Prel. Actual	Budget BROP'19	BROP'19	BROP'19	BROP'19	BROP'20	
Ksh. Billions									
1.0 Total Expenditure & Net Lending	2,147	2,555	2,406	2,790	2,836	2,791	3,002	3,290	3,579
1.1 Total Ministerial National Govt Expenses	1,453	1,795	1,643	1,929	1,969	1,872	2,003	2,194	2,376
Total Recurrent	1,368	1,600	1,513	1,775	1,760	1,837	1,997	2,192	2,390
CFS (Interest & Pensions)	392	456	449	551	551	600	669	751	832
Ministerial Recurrent	977	1,144	1,064	1,225	1,209	1,236	1,328	1,441	1,557
o/w Wages & Salaries	389	424	418	484	484	511	541	574	591
Wages as % National Government Revenues¹	32.5%	29.7%	31.9%	27.7%	28.2%	29.0%	27.3%	25.4%	23.1%
Development	477	651	579	704	759	636	674	753	819
Development as % Ministerial NG expenditures	32.8%	36.2%	35.2%	36.5%	38.6%	34.0%	33.7%	34.3%	34.5%
Domestic	269	356	324	397	452	345	366	418	464
External	201	251	225	256	256	243	260	288	306
Contingencies	-	-	-	5	5	5	5	5	5
1.2 County Allocation	327	365	361	372	378	375	388	402	430
Equitable share	302	305	314	310	317	318	331	345	371
Conditional Grants	25	60	47	62	62	57	57	57	58
2.0 Total Revenues	1,522	1,795	1,671	2,116	2,091	2,135	2,372	2,665	2,985
3.0 Total National Government Revenues (Incl. A-I-A)	1,195	1,430	1,310	1,744	1,712	1,760	1,984	2,263	2,556
4.0 National Government Domestic Borrowing (net)	274	202	304	300	306	370	399	371	494

Source: National Treasury

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

32. The PFM Act provides 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 requirement, the National Government share of wages and benefits to revenues was at 31.9 per cent in the FY 2018/19 and is projected to decline to below 30 percent by FY 2022/23.

33. The fiscal responsibility principle of ensuring the national government's borrowing is used only for financing development expenditures continues to be adhered to. The Medium Term Debt Management Strategy and other policy documents spell out the purposes of external and domestic financing. The resources mobilized through borrowing during the fiscal year 2018/19 were used to finance development expenditures as defined in the development estimates of the budget.

34. The Government is required to maintain public debt at a sustainable level as approved by Parliament (for National Government) and County Assemblies (for County Governments) in the PFM Act regulations, 2015.

35. The Kenya's external debt is within sustainable levels and the country is rated as a strong performer in comparison to internationally recognized thresholds. The total public debt as a proportion of GDP remains well below the Lower-Middle Income country debt sustainability benchmark of 70 percent of GDP in NPV terms (**Table 7**). Nevertheless, the debt sustainability indicators show that Kenya faces a moderate risk of external debt distress. .

Table 7: Kenya's External debt sustainability (Calendar years)

Indicators	Thresholds for Kenya	2017	2018	2019	2020	2021
PV of debt-to-GDP ratio	55	25.9	31.4	32.3	29.1	25.6
PV of debt-to-exports ratio	240	165.4	191.1	191.4	168.5	146.9
PPG Debt service-to-exports ratio	21	16.5	19.9	26.2	25.6	24.9
PPG Debt service-to-revenue ratio	23	13.3	16.2	21.6	22.0	21.6

Source: IMF Country Report No. 18/295, October 2018

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

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

38. The National Government fiscal projections (**Table 8**) provide comparisons between the updated projections in the 2019 BROP and the 2019 BPS which inform the projections for the FY 2020/21 and the medium term. The deviations, in the revision in revenues and expenditures are due to the base effect on revenue forecast and macroeconomic assumptions contained in this BROP, which will be firmed up in the context of the 2020 BPS. The Government will not deviate from the fiscal responsibility principles, but will make appropriate modifications to the financial objectives contained in the latest BPS to reflect the changed circumstances.

Table 8: Government Fiscal Projections, Ksh Billion

	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19		FY 2019/20		FY 2020/21		FY 2021/22		FY 2022/23	FY 2023/24
	Actual	Actual	Prel	Rev. Budget	Prel Actual	Budget	BROP 19	BPS 19	BROP 19	BPS 19	BROP 19	BROP 19	BROP 19
TOTAL REVENUE	1,233	1,440	1,522	1,795	1,671	2,116	2,091	2,370	2,135	2,718	2,372	2,665	2,985
<i>Total Revenue as a % of GDP</i>	18.4%	18.8%	17.9%	18.9%	17.9%	19.7%	20.2%	18.5%	18.5%	18.8%	18.3%	18.4%	18.3%
Ordinary revenue	1,153	1,307	1,365	1,588	1,497	1,877	1,852	2,143	1,884	2,465	2,106	2,382	2,691
<i>Ordinary Revenue as a % of GDP</i>	17.2%	17.1%	16.0%	16.7%	16.1%	17.4%	17.9%	16.7%	16.3%	17.0%	16.3%	16.4%	16.5%
Tax Revenue	1,069	1,220	1,259	1,477	1,401	1,758	1,667	2,026	1,776	2,337	1,989	2,253	2,549
Non-Tax Revenue	84	87	106	111	96	119	185	117	107	129	118	129	142
AIA	80	133	157	206	174	239	239	227	252	253	266	283	294
Expenditure	1,782	2,148	2,147	2,555	2,406	2,790	2,836	2,922	2,791	3,251	3,002	3,290	3,579
<i>Expenditure as a % of GDP</i>	26.6%	28.1%	25.2%	26.9%	25.8%	25.9%	27.4%	22.8%	24.1%	22.5%	23.2%	22.7%	21.9%
Recurrent (incl of conditional transfer to c	1,031	1,220	1,366	1,597	1,511	1,775	1,759	1,832	1,837	2,057	1,997	2,192	2,390
Development	486	648	479	653	581	700	755	767	631	864	669	748	814
Equalization Fund	6	6	-	5	7	6	6	7	7	7	7	7	8
County Transfer (Equitable share only)	260	280	302	305	314	310	317	318	318	326	331	345	371
Contingencies	5	-	-	-	-	5	5	5	5	5	5	5	5
Budget Balance (Deficit (-) excl Grants	(549)	(709)	(624)	(761)	(735)	(674)	(745)	(553)	(655)	(533)	(630)	(625)	(594)
<i>Deficit as % of GDP</i>	-8.2%	-9.3%	-7.3%	-8.0%	-7.9%	-6.3%	-7.2%	-4.3%	-5.7%	-3.7%	-4.9%	-4.3%	-3.6%
Grants	30	27	28	35	20	39	39	52	41	54	43	47	47
Adjustment to cash basis		(14)	(35)	75	-		66	-	-	-	-	-	-
Balance incl.Grants (cash basis)	(520)	(696)	(631)	(651)	(715)	(635)	(640)	(500)	(614)	(479)	(587)	(578)	(547)
<i>Deficit as % of GDP</i>	-7.7%	-9.1%	-7.4%	-6.8%	-7.7%	-5.9%	-6.2%	-3.9%	-5.3%	-3.3%	-4.5%	-4.0%	-3.4%
Net Foreign Financing	270	386	355	445	415	331	331	284	241	246	185	204	50
Domestic Loan Repayments (receipts)	2	2	2	4	3	4	4	4	4	4	4	4	4
Domestic Borrowing (net)	202	309	274	202	304	300	306	217	370	239	399	371	494
<i>Domestic Borrowing % of GDP</i>	3.0%	4.0%	3.2%	2.1%	3.3%	2.8%	3.0%	1.7%	3.2%	1.7%	3.1%	2.6%	3.0%
Public Debt (net Deposits)	3,211	3,973	4,488	5,211	5,302	5,824	5,939	6,731	6,550	7,291	7,133	7,708	8,252
<i>Public Debt to GDP (net Deposits)</i>	47.9%	51.9%	52.7%	54.8%	56.9%	54.1%	57.3%	52.6%	56.6%	50.4%	55.1%	53.1%	50.5%
Nominal GDP (Ksh. billion)*	6,710	7,658	8,525	9,510	9,317	10,766	10,355	12,796	11,564	14,475	12,935	14,522	16,326

/* GDP revised beginning FY 2018/19 following release Q2 GDP for 2019 by KNBS

Source: National Treasury

D. County Governments' Fiscal Performance

39. As reflected in the County Allocation of Revenue Act (CARA), 2018, County Governments were allocated a total of Ksh 376.48 billion. This included: a) Ksh 314.0 billion as equitable share of revenues raised nationally; b) Ksh 17.23 billion being conditional allocations that are part of National Government's shareable revenue; c) Ksh 8.27 billion from Roads Maintenance Fuel Levy Fund (RMLF) collected by the Kenya Roads Board (KRB), of which 15 percent is set aside for County roads; and d) Ksh 36.98 billion from proceeds of loans and grants from development partners. In addition, Ksh 4.7 billion was allocated to the Equalisation Fund in FY 2018/19 in line with Article 204 of the Constitution.

40. Actual disbursements to the County Governments during the FY 2018/19 totalled Ksh 360.1 billion comprising of; a) Ksh 314 billion as equitable share of revenue raised nationally; b) Conditional allocations amounting to Ksh 15 billion derived from the National Government's equitable revenue share; c) Ksh 7.4 billion from the Roads Maintenance Levy Fund (RMLF); and; d) Proceeds from external loans and grants totalling Ksh 23.6 billion earmarked to supplement financing of devolved functions (Table 9).

Table 9: Total Transfers to County Governments from FY 2013/14 to FY 2018/19 (Ksh Million)

Transfer Type	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	Grand Total	%
1. Equitable share transfer	190,000	226,660	259,774	280,300	302,000	314,000	1,572,735	92.52%
2. GoK-funded conditional allocations	5,665	3,261	10,901	13,705	12,008	15,017	60,557	3.56%
a) Level Five Hospital	3,419	1,863	3,600	4,000	4,200	4,326	21,409	1.26%
b) Free Maternal Healthcare	2,246	1,398	3,321	4,105	-	-	11,070	0.65%
c) Managed Equipment Services	-	-	3,080	4,500	4,908	8,830	21,318	1.25%
d) Foregone User Fees Compensation	-	-	900	900	900	900	3,600	0.21%
e) Rehabilitation of Youth Polytechnics	-	-	-	-	2,000	961	2,961	0.17%
f) Emergency Medical Service Grant	-	-	-	200	-	-	200	0.01%
g) Construction of County HQs	-	-	-	-	-	-	-	0.00%
3. Additional conditional allocations	-	1,137	5,547	6,063	17,797	31,070	61,614	3.62%
a) Road Maintenance Levy Fund	-	-	3,300	4,307	10,262	7,424	25,293	1.49%
b) External Loans and Grants	-	1,137	2,247	1,756	7,535	23,646	36,321	2.14%
-World Bank (KDSP Level I)	-	-	-	-	2,148	-	2,148	0.13%
-World Bank (KDSP Level II)	-	-	-	-	1,950	4,000	5,950	0.35%
-World Bank (NUTRIP)	-	-	1,045	791	-	-	1,836	0.11%
-Danida (HSPS III)	-	734	664	408	-	-	1,806	0.11%
-World Bank (KHSSP-HSSF)	-	404	508	556	8	-	1,476	0.09%
-World Bank (THUSCP)	-	-	-	-	1,250	1,958	3,208	0.19%
-Danida (UHDSP)	-	-	-	-	1,116	1,040	2,157	0.13%
-World Bank (NARIGP)	-	-	-	-	1,063	1,052	2,114	0.12%
-Italy (KIDDP; Rehab. of Sub-Dist. Hosp)	-	-	30	-	-	-	30	0.00%
World Bank, KUSP-UIG	-	-	-	-	-	1,854	1,854	0.11%
World Bank, KUSP-UDG	-	-	-	-	-	11,465	11,465	0.67%
World Bank-KCSAP	-	-	-	-	-	1,000	1,000	0.06%
EU - IDEAS	-	-	-	-	-	941	941	0.06%
IDA (World Bank)-WSDP	-	-	-	-	-	-	-	0.00%
SIDA -ASDSP II	-	-	-	-	-	335	335	0.02%
EU-WaTER	-	-	-	-	-	-	-	0.00%
4. Allowances for County medical personnel	-	-	-	4,842	-	-	4,842	0.28%
5. Coffee Cess	-	-	-	107	-	-	107	0.01%
Grand Total (= 1+2+3+4+5)	195,665	231,059	276,223	305,016	331,805	360,086	1,699,854	100.00%

Source: The National Treasury

Notes:

- In FY 2017/18 and FY 2018/19, Ksh. 3.4 billion and Ksh 4.3 billion, respectively, from the National Government's revenue share was paid to the National Hospital Insurance Fund (NHIF) as a special grant for Free Maternal Healthcare, to be disbursed directly to Counties on reimbursement basis..

41. The Ksh 314.0 billion equitable share disbursed to County Governments represents 100 percent of the appropriation as per the CARA, 2018, for which Counties have autonomous budgeting and expenditure responsibilities, as well as accountability obligations under the Public Finance Management Act, 2012 and its Regulations.

42. The total transfers to County Governments in FY 2018/19 translates to 96 percent of the total allocations in CARA, 2018 (both Equitable share and conditional grants). The reasons for the less than 100 percent transfer included: i) failure by some Counties to adhere to requirements of specific conditional allocations; ii) adjustment in the amount to be paid to County Governments against one of the Disbursement Linked Indicators (DLI) under the Kenya Devolution Support Program (KDSP); iii) and failure by Accounting Officers of some Ministries responsible for specific conditional grants to submit written instructions in time to the National Treasury to release payments as stipulated in the Guidelines for the Management of Intergovernmental Fiscal Transfers.

43. In total for the period FY 2013/14 to FY 2018/19, County Governments have received Ksh 1.7 trillion cumulatively, 92.52 percent of which is equitable share, 3.56 percent being conditional grants that are part of shareable revenue, and a further 3.62 percent being the additional conditional allocations that are not part of shareable revenue. The remaining 0.29

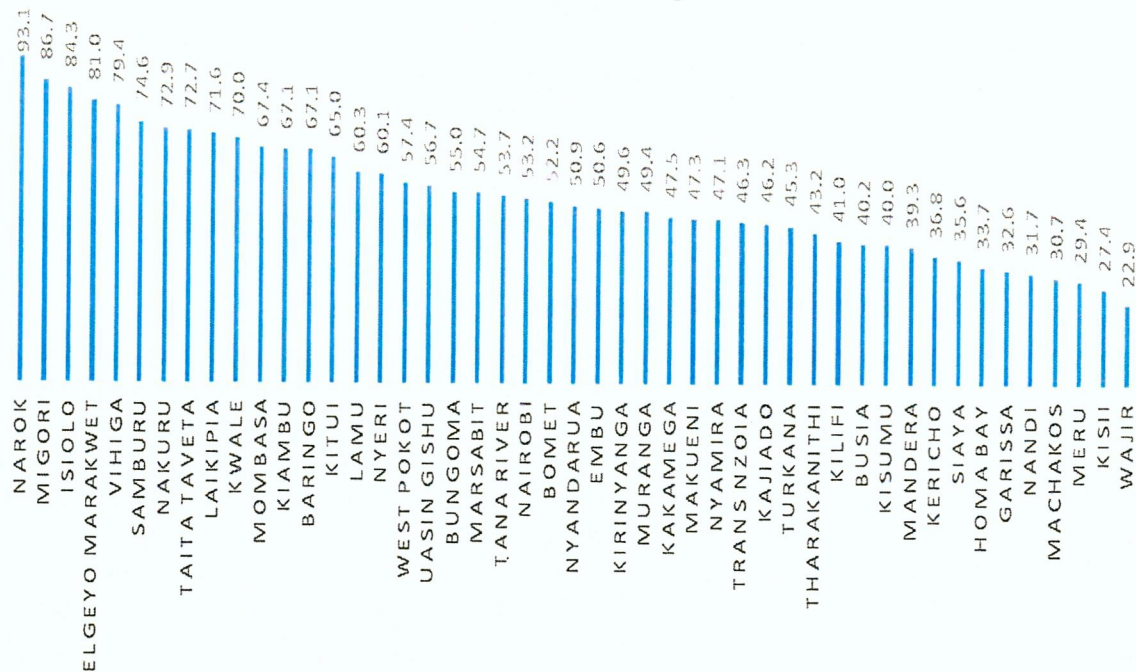
percent represents a one-off payment made in FY 2016/17 in respect to allowances to medical personnel and coffee cess.

44. During the period July 2018 to March 2019, the County Governments generated a total of Ksh 28.94 billion in Own Source Revenue (OSR) against an annual target of Ksh. 52.18 billion (**Chart 1**). This represents 55.5 percent of the annual OSR target in FY 2018/19, which is an increase from 42.3 percent of the annual OSR target for a similar period in the FY 2017/18.

45. Unlike the FY 2017/18 where only twelve (12) County Governments were able to generate more than half of their own source revenue annual target, twenty five (25) County Governments in FY 2018/19 were able to generate more than fifty percent of their annual OSR target for the first three quarters of the financial year. While this indicates an improvement in OSR collections, it is worth noting that the OSR target for FY 2018/19 was Ksh. 52.18 billion which was slightly lower than the FY 2017/18 OSR target of Ksh 52.52 billion. The challenge of County Governments not achieving their OSR targets is partially attributed to overestimation of OSR, which could be due to insufficient skills in revenue forecasting.

46. The National Policy to Support Enhancement of County Governments' Own-Source Revenue highlights a number of challenges that are contributing to the underperformance of OSR among the Counties. These include; i) absence of revenue policies and legislation; ii) low automation and integration of revenue administration; iii) inappropriate institutional arrangements; and, iv) lack of effective internal controls and audit mechanisms among others.

Chart 1: Actual Revenue Collected (First Nine Months of FY 2018/19) by the County Governments as a percentage of Annual Revenue Target for FY 2018/19



Source: Controller of Budget

47. The overall absorption rate (actual expenditure over budget) for the County Governments combined for the first nine months of FY 2018/19 was 48.4 percent up from 44.4 percent in FY 2017/18 (**Annex Table 7**). The absorption rate for development expenditure for the period July 2018 to March 2019 remained low at 24.4 percent while that of recurrent expenditure increased from 59.1 percent for the same period of the FY 2017/18 to 64.5 percent in FY 2018/19.

E. County Governments' Compliance with Fiscal Responsibility Principles

Allocation on Development Expenditure

48. In managing the County Government's finances, the Public Finance Management Act, 2012 Section 107(b) requires that over the medium term, a minimum of 30 percent of each County Government's budget shall be allocated to development expenditure. All the forty-seven county governments complied with this legal requirement in their FY 2018/19 budgets unlike the FY 2017/18 where four County Governments failed to meet the legal threshold as reported by the Controller of Budget. Nonetheless, actual expenditure on development spending was less than 30 percent for about 40 County Governments for the review period July 2018 to March 2019. Even though this means that a majority of the county governments are not meeting this requirement for actual expenditure, this was an improvement from the previous FY 2017/18 where only three (3) County Governments were able to spend at least 30 percent on development expenditure.

Allocation on Compensation of Employees

49. Regulation 25(1) (b) of the PFM (County Governments) Regulations, 2015, requires that the county government's expenditure on wages and benefits for its public officers should not exceed thirty five (35) percent of the county government's total revenue. According to the Report by the Controller of budget on County Government's budget implementation for the first nine months of FY 2018/19, Counties incurred a total of Ksh. 120.5 billion on personnel emoluments which represented 52.3 percent of the total expenditure for that period. This was a slight decrease from the previous financial year when the personnel emoluments took up 58.8 percent of the total expenditure for the first nine months of the FY. In this regard, the wage bill remains a major challenge being faced by most county governments hence the need for concerted effort to find viable solutions to keep the wage bill within the legal threshold.

Other Challenges encountered by County Governments in Public Finance Management

a) Pending Bills of County Governments

50. The Office of the Auditor General (OAG) in accordance with a request from the National Treasury and the provisions of Article 229 (7) of the Constitution of Kenya undertook a special audit and produced a Special Report on the Pending Bills of County Governments. Out of the total pending bills of Ksh 89.89 billion presented to the Auditor General by the County Governments, Ksh 40.5 billion has been classified as eligible pending bills (**Table 10**). In this regard, 40.5 percent of the pending bills audited by the OAG are eligible and thus county governments are expected to develop a repayment plan and prioritize the payment of these pending bills. In terms of the proportion of eligible pending bills borne by each County Government, Nairobi City County has the largest share at 26.75 percent of the total eligible pending bills as at 15th February 2019.

51. There is a challenge of not classifying pending bills by age (FY's and Quarters). The PSASB can prescribe a template that would present an opportunity for detailed analysis on the extent each of the pending bills impacted negatively on development budgets of specific years. Secondly, it would inform questions as to why bills of previous financial years are still being carried forward to subsequent FY's.

b) Submission of Financial Reports

52. According to the *County Governments' Budget Implementation Review Report* for the first nine months of FY 2018/19 published by the Controller of Budget, some County Governments are not submitting quarterly financial and non-financial reports while some submitted incomplete reports.

c) Use of IFMIS

53. There is also misalignment between the financial reports prepared by County Governments and the financial records as captured in the Integrated Financial Management Information System (IFMIS). Some transactions by the County Governments (both receipts and payments) are not reflected in the IFMIS system, which underscores the need for more stringent enforcement of the use of IFMIS. In addition, some counties have procured ICT revenue systems, which might not be serving the counties well and thus offer no value for money.

Table 10: Pending Bills of the County Governments' as at 30th June 2018

No.	County	Total Pending Bills	Eligible Bills as at 30th June 2018	Eligible Bills paid after 30th June 2018	Eligible Bills as at 15th Feb 2019	Proportion of Each County's Eligible Bills to the Total Eligible Bills as at 15th Feb 2019	Non-Eligible Bills
1	Baringo	45,765,998	24,046,826	10,598,744	13,448,082	0.03%	21,719,172
2	Bomet	1,253,551,181	1,190,167,877	505,625,519	684,542,358	1.69%	63,383,304
3	Bungoma	601,481,507	376,038,793	146,402,323	229,636,470	0.57%	225,442,714
4	Busia	1,013,493,163	972,895,883	501,427,507	471,468,376	1.16%	40,597,280
5	Elgeyo Marakwet	908,679,275	225,216,395	98,557,638	126,658,757	0.31%	683,462,880
6	Embu	1,362,958,792	435,114,432	63,599,575	371,514,857	0.92%	927,844,360
7	Garissa	2,553,348,202	2,307,530,407	380,393,315	1,927,137,092	4.76%	245,817,795
8	Homabay	1,663,245,610	40,447,020	-	40,447,020	0.10%	1,622,798,590
9	Isiolo	1,334,674,795	1,258,372,703	200,021,433	1,058,351,270	2.61%	77,902,092
10	Kajiado	366,353,651	88,191,609	88,191,609	-	0.00%	278,162,041
11	Kakamega	593,950,376	583,093,452	401,989,630	181,103,822	0.45%	10,856,924
12	Kericho	1,094,470,974	490,184,743	306,946,159	183,238,584	0.45%	604,286,232
13	Kiambu	3,312,759,531	1,831,618,030	669,556,431	1,162,061,599	2.87%	481,141,501
14	Kilifi	1,377,012,031	1,116,043,558	582,339,222	533,704,336	1.32%	260,968,473
15	Kirinyaga	1,328,459,563	741,080,963	227,245,701	513,835,262	1.27%	587,378,600
16	Kisii	1,412,777,875	1,200,573,919	531,973,136	668,600,783	1.65%	213,530,710
17	Kisumu	2,475,722,126	1,792,200,077	89,160,603	1,703,039,474	4.21%	683,522,048
18	Kitui	1,443,011,641	572,033,419	150,057,871	421,975,548	1.04%	870,978,222
19	Kwale	2,501,631,906	809,734,393	795,090,445	14,643,948	0.04%	1,691,897,514
20	Laikipia	989,444,917	77,539,708	18,137,049	59,402,659	0.15%	911,905,209
21	Lamu	143,663,524	85,050,899	36,116,896	48,934,003	0.12%	58,612,625
22	Machakos	1,286,526,181	942,363,607	-	942,363,607	2.33%	344,162,574
23	Makueni	34,902,732	33,018,202	32,642,842	375,360	0.00%	1,884,530
24	Mandera	552,137,062	349,433,313	0	349,433,313	0.86%	202,703,749
25	Marsabit	776,411,111	728,259,831	243,021,969	485,237,862	1.20%	48,151,280
26	Meru	2,265,112,691	1,845,545,178	315,523,679	1,530,021,499	3.78%	419,567,513
27	Migori	1,275,275,208	1,007,373,410	42,110,881	965,262,529	2.38%	267,876,798
28	Mombasa	5,347,786,393	3,545,800,427	213,166,328	3,332,634,099	8.23%	1,801,985,966
29	Muranga	2,038,047,918	1,531,778,008	659,373,424	872,404,584	2.16%	506,269,910
30	Nairobi	23,139,794,066	11,783,829,072	954,064,754	10,829,764,318	26.75%	11,355,964,991
31	Nakuru	2,504,561,905	420,164,604	151,333,479	268,831,125	0.66%	2,084,397,301
32	Nandi	1,447,847,605	942,307,841	313,735,751	628,572,090	1.55%	505,539,764
33	Narok	2,056,439,795	1,980,736,070	428,455,121	1,552,280,949	3.83%	75,703,725
34	Nyamira	345,328,993	275,698,127	110,697,900	165,000,227	0.41%	69,630,866
35	Nyandarua	1,138,159,128	297,078,779	0	297,078,779	0.73%	841,080,349
36	Nyeri	360,535,590	152,196,769	52,098,703	100,098,066	0.25%	208,338,821
37	Samburu	846,492,795	762,579,174	396,023,751	366,555,423	0.91%	83,913,621
38	Siaya	709,770,239	637,310,697	64,882,386	572,428,311	1.41%	72,459,541
39	Taita Taveta	451,282,264	390,269,112	15,025,709	375,243,403	0.93%	61,013,152
40	Tana River	1,202,679,386	507,082,631	12,133,078	494,949,553	1.22%	695,596,755
41	Tharaka Nithi	1,112,652,892	701,871,919	93,103,430	608,768,489	1.50%	410,780,973
42	Trans Nzoia	1,079,983,912	666,047,614	172,967,492	493,080,122	1.22%	413,936,297
43	Turkana	5,660,295,757	1,816,400,453	99,087,340	1,717,313,113	4.24%	3,843,895,304
44	Uasin Gishu	366,384,594	76,566,231	-	76,566,231	0.19%	289,818,363
45	Vihiga	2,037,052,291	1,151,148,522	151,278,752	999,869,770	2.47%	885,903,769
46	Wajir	2,357,171,365	2,039,742,167	320,293,330	1,719,448,837	4.25%	317,429,198
47	West Pokot	1,725,540,240	483,053,261	160,843,401	322,209,860	0.80%	1,242,486,979
	TOTAL	89,894,628,751	51,284,830,125	10,805,294,306	40,479,535,819	100.00%	37,612,700,375

Source: Office of the Auditor General

Measures to address some of the challenges faced by County Governments

54. To ensure that the County Governments have a reliable and predictable own source revenue, the National Treasury through a multi-agency team, developed the National Policy to Support Enhancement of County Governments' Own Source Revenue (OSR) which is currently being implemented. The Policy is geared towards supporting the county governments to enhance their own source revenue through adoption of more effective and efficient revenue management systems with common standards for all the County Governments as well as ensuring that all Counties have established appropriate institutional arrangement for collecting OSR. In addition, the Policy will support Counties to develop principal laws to anchor their revenue measures in line with Article 210(1) of the Constitution. Some of the activities envisaged to be implemented under the Policy include; review of the existing legal framework on OSR; sensitization of the Counties on the OSR National Policy; development of standardized guidelines on organizational structure for OSR; support to County Governments in development of Tariffs and Pricing Policy among others.

55. The National Treasury and Planning in partnership with UNICEF is in the process of revising the Standard Chart of Accounts (SCOA). The exercise which commenced in July 2018, among other objectives, is expected to: i) better address the financial reporting needs of County Governments including facilitating the generation of sector specific reports; ii) improve support to programme-based budgeting; iii) align accounting and reporting to 2014 Government Finance Statistics (GFS) Manual; and, iv) prepare for a possible future migration from cash- to accrual-based accounting as proposed by the Public Sector Accounting Standards Board (PSASB). This exercise is expected to be completed by December 2019.

56. One of the mandates of the National Treasury as indicated in the PFM Act, 2012, is to assist county governments to develop their capacity for efficient, effective and transparent financial management. To this end, in the FY 2018/19, the National Treasury, trained the County Governments' staff specifically the County Executive Committee Members of Finance, Chief Officers of Finance and other senior officers of the County Treasuries on various areas of PFM. In order to ensure that the capacity building initiatives are more focused to the specific needs of the County Governments, the National Treasury will undertake a training needs assessment of the County Governments on PFM to inform future capacity building strategies.

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Overview

58. Global economic growth is expected to slow down to 3.2 percent in 2019 down from 3.6 percent in 2018 and projected to increase to 3.5 percent in 2020. The sluggish growth reflects the continued global trade sanctions on certain imports between the United States and China, subdued investment and demand for consumer durables in emerging markets and developing economies, rising energy prices and the continued Brexit-related uncertainties. Growth in the Sub-Saharan African region is expected to remain relatively robust, expanding by 3.4 percent in 2019 and 3.6 percent in 2020 from 3.1 percent in 2018.

59. On the domestic scene, despite the challenging global environment, Kenya's economy has remained strong and resilient. The economy expanded by 6.3 percent in 2018 up from the 4.9 percent registered in 2017. The growth momentum continued in the first half of 2019, with the economy expanding by an average of 5.6 percent. The latest economic indicators in the third quarter of 2019 point to continued economic recovery that will culminate to an overall projected growth of about 5.9 percent in the FY 2019/20. Economic growth is further projected to rise to 6.2 percent in the FY 2020/21 and 7.0 percent in the medium term.

60. This growth outlook for 2019 and the medium term, will be supported by the stable macroeconomic environment, investments in the strategic areas under the "Big Four" agenda, the ongoing public investments in infrastructure projects, existing business and consumer confidence, growth in tourism, resilient exports and the associated benefits from regional economic integration in the sub region. These factors will push up consumer demand and increase both public and private sector investment reinforcing the projected growth.

B. Recent Economic Developments

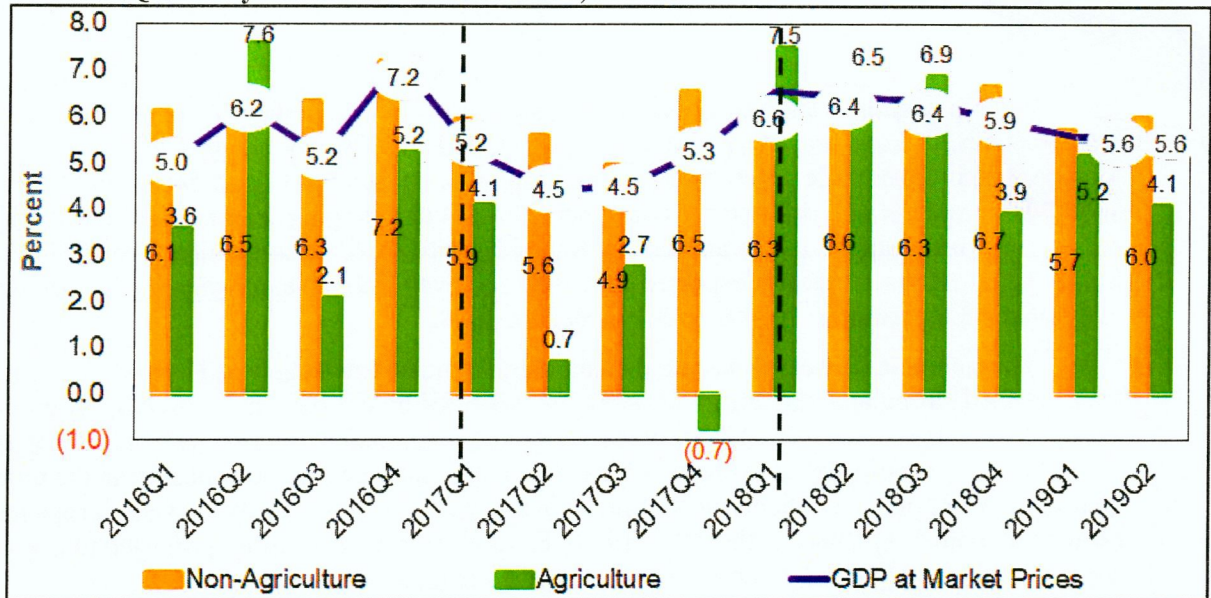
Real Sector Developments

61. The economy remains resilient and recorded a fairly stable growth of an average of 5.6 percent in the first half of 2019 compared to an average growth of 6.5 percent in the corresponding half of 2018. The growth was mostly supported by growth in the service sector industries such as information and communication, transportation, construction, accommodation and food services, financial and insurance activities.

62. The first half of 2019, was characterized by slowdown in agricultural activities following delay in the onset of long rains, leading to reduced production of key food crops and livestock products such as coffee, sugarcane, carrots, potatoes, maize, cabbages and milk. Agricultural sector grew by an average of 4.7 percent in the first half of 2019 down from an average growth of 7.0 percent over the same period in 2018 (**Chart 2**). Nevertheless, growth in tea and horticultural production augmented the sector's performance.

63. The contribution of agricultural sector to the overall GDP growth was at 1.2 percentage points in the first half of 2019, a decline from 1.8 percentage points in the same half of 2018 (**Table 11**).

Chart 2: Quarterly Economic Growth Rates, Percent



Source of Data: Kenya National Bureau of Statistics

64. The non-agricultural sector (service and industry) remained resilient and grew by an average of 6.0 percent in the first half of 2019, down from 6.5 percent in the same half of 2018. The services and industry sector contributed 3.9 percentage points to real GDP growth in the first half of 2019 mainly supported by strong performance in the services sector.

Table 11: Sectoral GDP Performance

Sectors	Real GDP Growth by Sectors								Sector Contribution to Real GDP Growth							
	2016		2017		2018		2019		2016		2017		2018		2019	
	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
Primary Industry	3.7	7.6	4.2	0.8	7.3	6.4	5.1	4.2	1.0	1.9	1.1	0.2	2.0	1.5	1.4	1.0
Agriculture, Forestry and Fishing	3.6	7.6	4.1	0.7	7.5	6.5	5.2	4.1	1.0	1.8	1.1	0.2	2.0	1.5	1.4	1.0
Mining and Quarrying	5.8	9.4	5.8	4.3	2.4	2.9	2.2	5.7	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.1
Secondary Sector (Industry)	4.7	6.5	4.3	3.8	5.0	5.5	4.3	5.3	0.8	1.2	0.8	0.7	0.9	1.0	0.7	1.0
Manufacturing	1.4	4.9	1.6	0.1	3.8	4.7	3.2	4.2	0.2	0.5	0.2	0.0	0.4	0.5	0.3	0.4
Electricity and Water supply	10.3	11.5	8.2	8.3	6.5	8.4	6.1	5.6	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Construction	9.2	7.3	7.9	9.1	6.6	5.4	5.6	7.2	0.4	0.4	0.4	0.5	0.3	0.3	0.3	0.4
Tertiary sector (Services)	6.7	6.2	6.1	5.7	6.6	6.8	5.9	6.6	3.1	3.0	2.9	2.8	3.1	3.3	2.8	3.2
Wholesale and Retail trade	2.9	1.8	3.4	5.0	5.9	6.2	5.5	5.8	0.2	0.1	0.2	0.4	0.4	0.4	0.4	0.4
Accommodation and Restaurant	8.3	14.0	24.2	12.3	13.1	15.4	10.1	10.6	0.1	0.1	0.3	0.1	0.2	0.1	0.1	0.1
Transport and Storage	8.2	5.9	7.3	6.5	8.5	8.4	6.7	7.2	0.5	0.4	0.4	0.4	0.5	0.6	0.4	0.5
Information and Communication	10.5	9.0	13.4	11.5	12.5	11.0	10.5	11.6	0.4	0.3	0.5	0.4	0.5	0.4	0.4	0.4
Financial and Insurance	7.8	7.5	3.8	3.3	5.2	4.6	5.0	6.7	0.5	0.4	0.2	0.2	0.3	0.3	0.3	0.4
Public Administration	6.0	7.2	3.8	4.8	6.2	5.9	6.5	6.0	0.2	0.3	0.1	0.2	0.2	0.3	0.2	0.3
Others	6.7	6.6	5.4	5.5	5.0	6.2	4.6	5.7	1.3	1.3	1.1	1.1	1.0	1.3	0.9	1.2
of which Real Estate	9.6	8.9	6.4	6.3	5.3	4.6	4.2	5.4	0.7	0.7	0.5	0.5	0.4	0.4	0.3	0.4
Taxes less subsidies	2.2	1.7	4.0	6.0	5.7	5.5	5.8	4.5	0.2	0.2	0.4	0.7	0.6	0.6	0.6	0.5
GDP at market price	5.0	6.2	5.2	4.5	6.6	6.4	5.6	5.6	5.0	6.2	5.2	4.5	6.6	6.4	5.6	5.6
of which Non-Agricultural GDP	6.1	6.5	5.9	5.6	6.3	6.6	5.7	6.3	3.8	4.2	3.7	3.6	4.0	4.3	3.6	4.1

Source of Data: Kenya National Bureau of Statistics

65. The performance of the industry sector declined to an average of 4.8 percent in the first half of 2019 compared to an average growth of 5.3 percent in the same half in 2018, and accounted for 0.9 percentage points to real GDP growth in the first half of 2019. This was occasioned by the slowdown in the agricultural sector, which curtailed agro-processing and consequently led to a slowdown in manufacturing activities during the review period. The construction sector remained vibrant mainly supported by the second phase of the Standard Gauge Railway (SGR) and other public infrastructural developments especially road construction. Electricity and Water supply growth was driven by increased consumption of hydro and wind electricity, which are cheaper to produce relative to non-renewable sources.

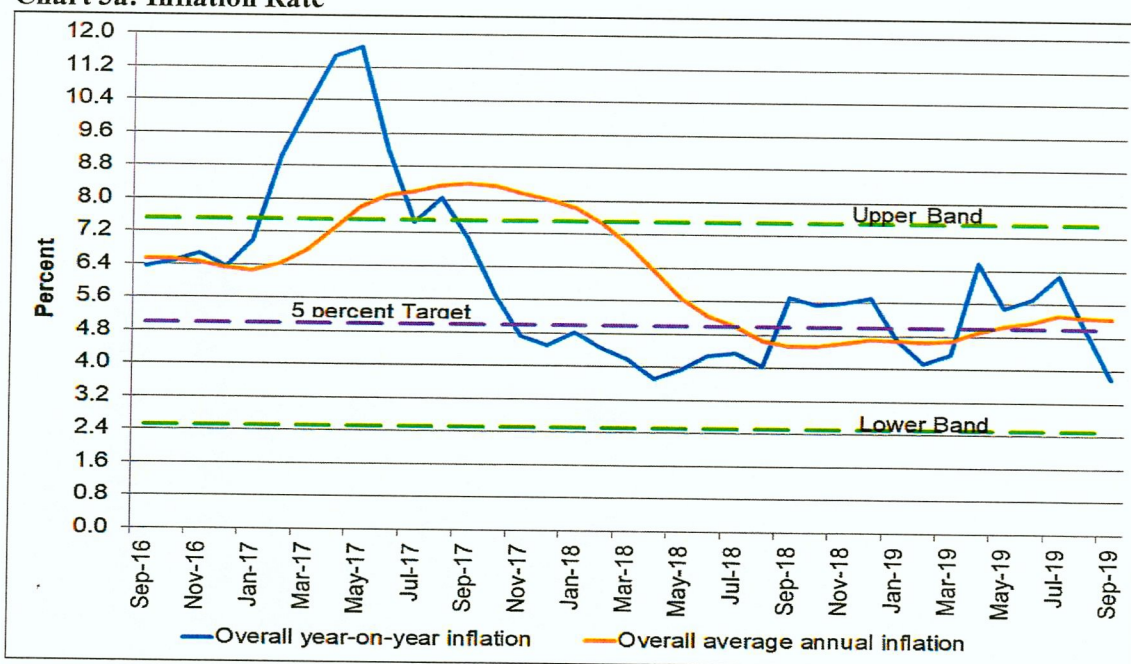
66. Services sector expanded by an average of 6.3 percent in the first half of 2019 compared to an average growth of 6.7 percent in the same half in 2018. Average growth of activities in information and communication (11.1 percent), accommodation and food service activities (10.4 percent), financial and insurance (5.9 percent), transport and storage (7.0 percent), wholesale and retail trade (5.7 percent), and real estate (4.8 percent) remained vibrant supporting the growth in the services sector.

67. Services sector contributed 3.0 percentage points to real GDP growth in the first half of 2019 largely supported by wholesale and retail trade (0.4 percentage points), Information and Communication (0.4 percentage points) and Transport and storage (0.5 percentage points).

Inflation Rate

68. Year-on-year overall inflation remained within the Government target range at 3.8 percent in September 2019 from 5.7 percent in September 2018. The inflation rate for September 2019 was lower than the 5.0 percent rate recorded in August 2019 reflecting lower prices of food crops due to improved supply (**Chart 3a**).

Chart 3a: Inflation Rate



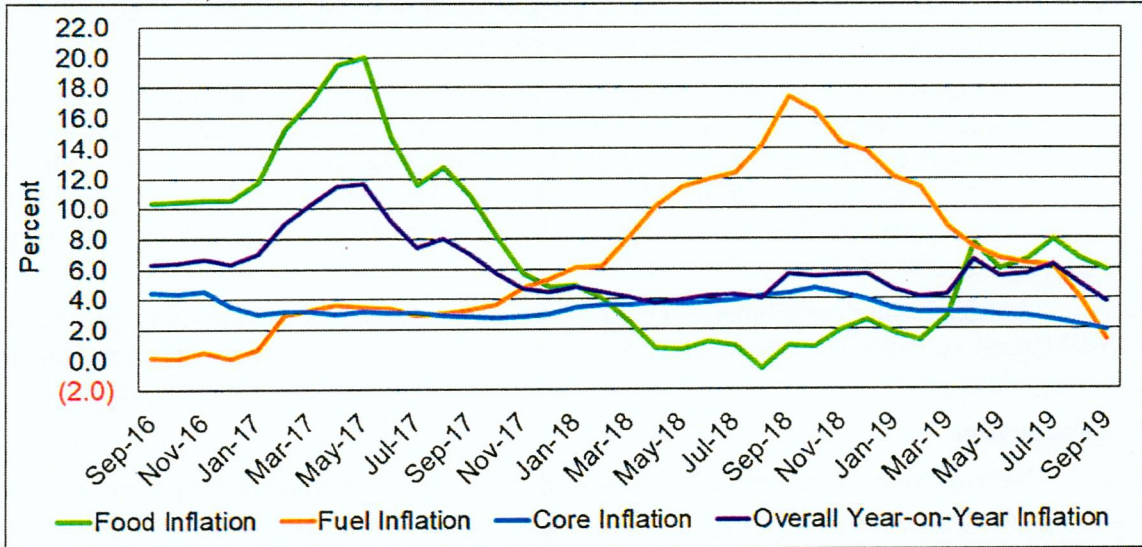
Source of Data: Kenya National Bureau of Statistics

69. Core inflation (Non-Food-Non-Fuel) remained below 5.0 percent in the period under review reflecting subdued demand pressures in the economy, spill over effects of the excise tax

indexation in July and recent increase in fuel prices. Fuel inflation declined from 17.4 percent in September 2018 to 1.3 percent in September 2019 on account of declining energy prices.

70. The delay in the onset of rains resulted in lower agricultural activities and raised food inflation from March 2019. However, food inflation declined from 7.9 percent in July 2019 to 5.9 percent in September 2019 reflecting declining prices of key food items due to favourable weather conditions (Chart 3b).

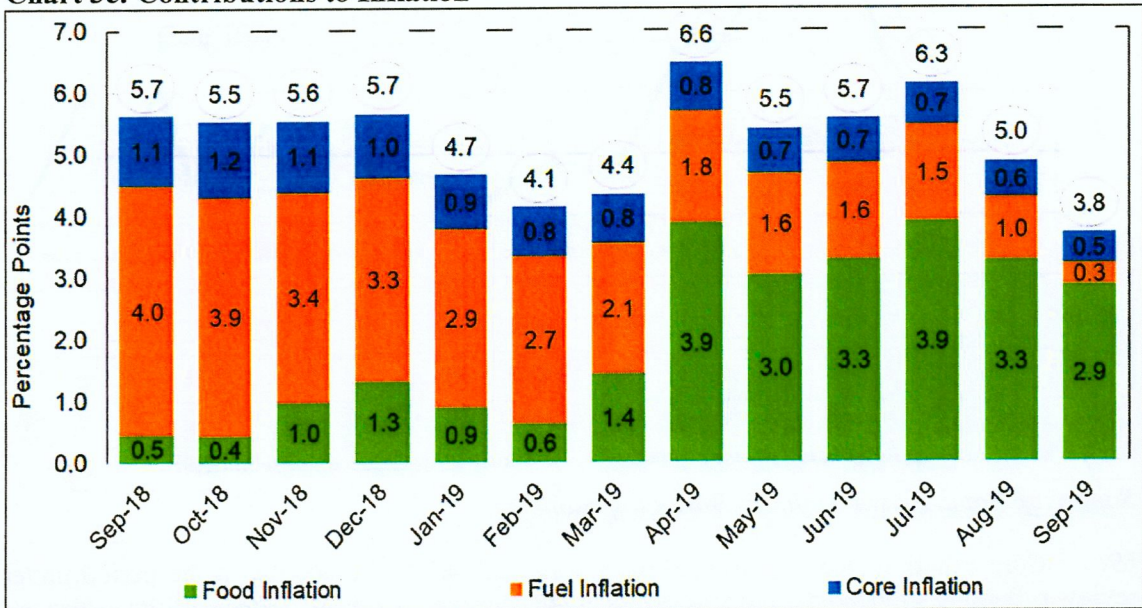
Chart 3b: Core, Fuel and Food Inflation Rate



Source of Data: Kenya National Bureau of Statistics

71. The contribution of core inflation to overall inflation has been low and stable reflecting muted demand pressures in the economy on account of prudent monetary policies. The major driver of overall inflation from September 2018 to March 2019 was fuel inflation. However, beginning March 2019 food inflation has been the major driver of inflation (Chart 3c).

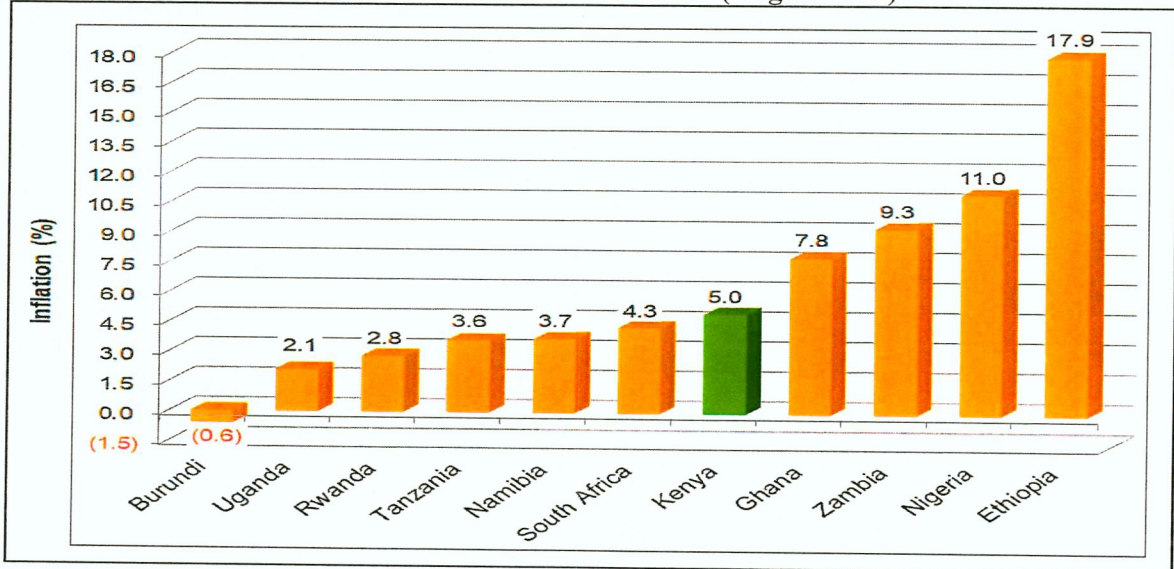
Chart 3c: Contributions to Inflation



Source of Data: Kenya National Bureau of Statistics

72. Kenya's rate of inflation compares favourably with the rest of Sub-Saharan African countries and its peers such as Nigeria and Ghana whose inflation rates were 11.0 percent and 7.8 percent, respectively in August 2019 (Chart 3d).

Chart 3d: Inflation Rates in selected African Countries (August 2019)

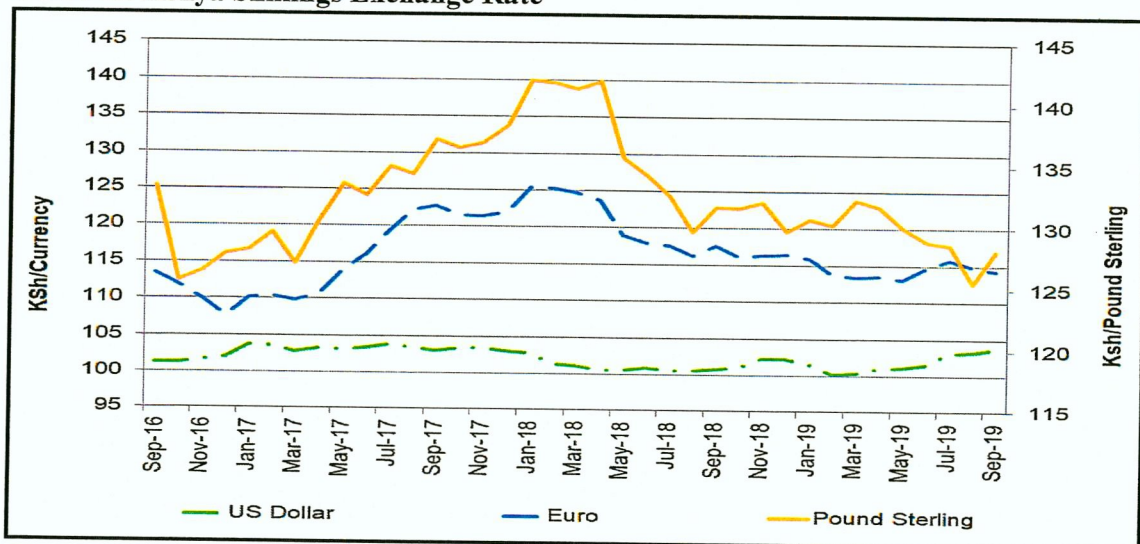


Source of Data: National Central Banks

Kenya Shilling Exchange Rate

73. The Kenya Shilling has been relatively stable supported by continued narrowing of the current account deficit and adequate foreign reserve buffer. The Shilling appreciated against the Euro and the Sterling Pound exchanging at an average of Ksh 114.4 and Ksh 128.2 in September, 2019 from Ksh 117.7 and Ksh 131.7 in September 2018, respectively. However, against the US Dollar, the Shilling weakened exchanging at an average of Ksh 103.3 in September, 2019 compared to Ksh 100.8 in September 2018. The depreciation of the Shilling is attributed to increased demand for import and excess liquidity in the money market (Chart 4a).

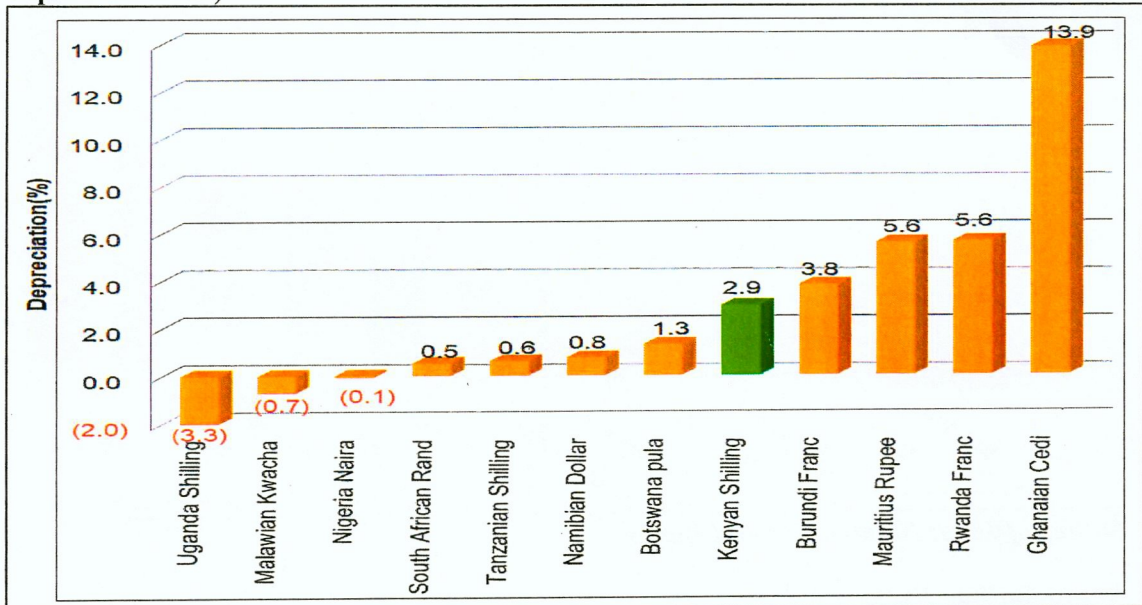
Chart 4a: Kenya Shillings Exchange Rate



Source of Data: Central Bank of Kenya.

74. The Kenyan Shilling exchange rate has continued to display relatively less volatility, compared to most Sub-Saharan African currencies (**Chart 4b**). This stability reflects strong inflows from tea and horticulture exports, sturdy diaspora remittances and tourism receipts.

Chart 4b: Performance of Selected Currencies against the US Dollar (September 2018 to September 2019)

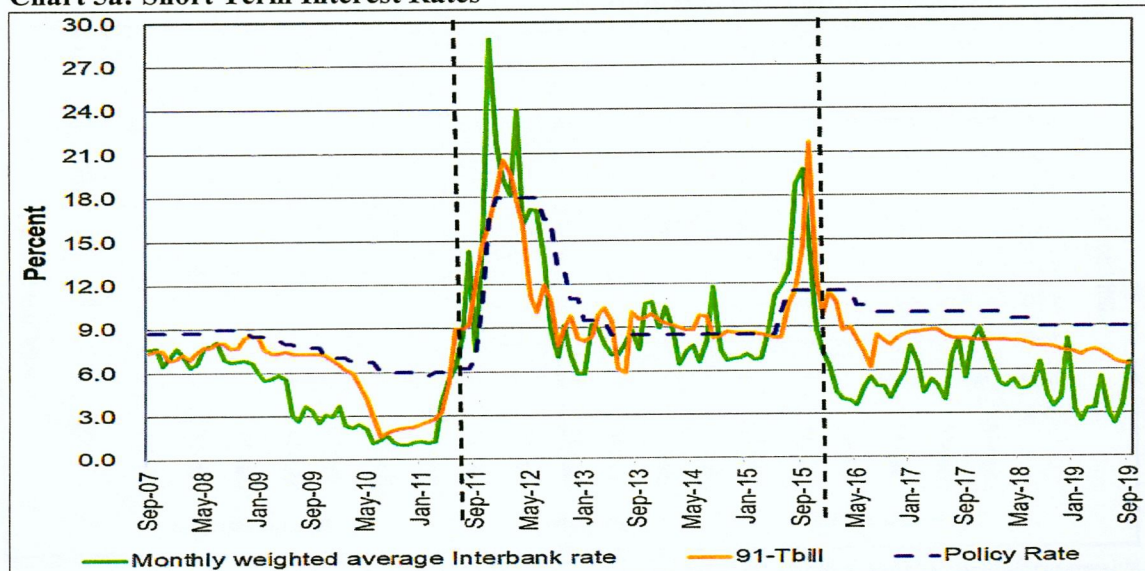


Source of Data: National Central Banks

Interest Rates

75. Short-term interest rates have remained fairly low and stable. The Monetary Policy Committee in September 2019 retained the Central Bank Rate at 9.0 percent. The interbank rate remained relatively low at 6.6 percent in September 2019 from 4.3 percent in September 2018 due to ample liquidity in the money market (**Chart 5a**). The 91-day Treasury bill rate declined to 6.4 percent in September 2019 from 7.6 percent over the same period in September 2018.

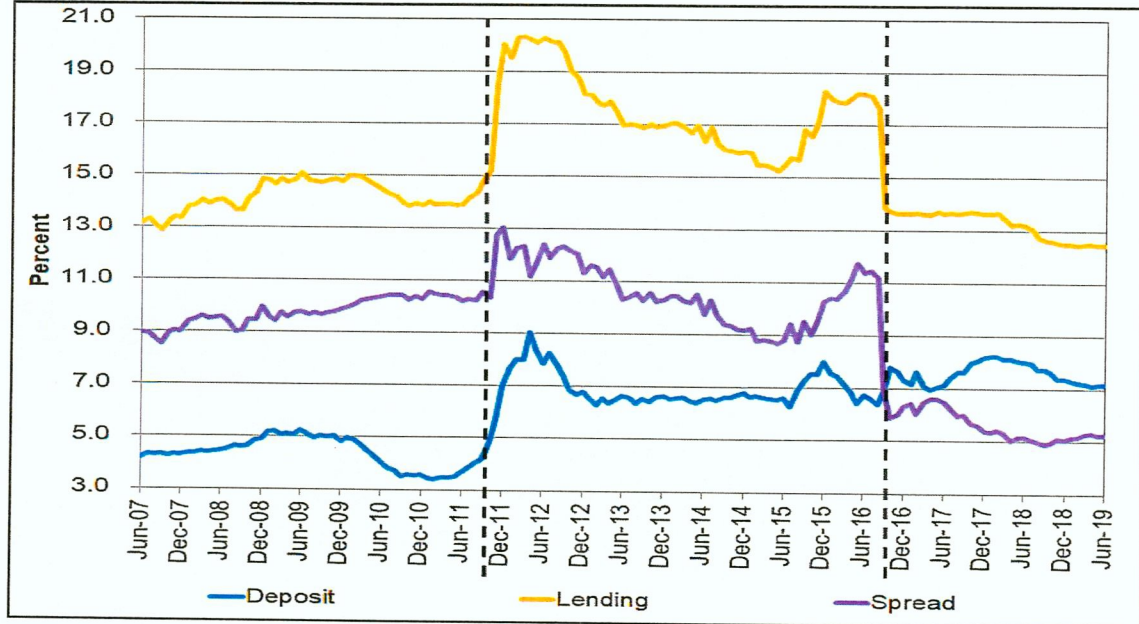
Chart 5a: Short Term Interest Rates



Source of Data: Central Bank of Kenya

76. The improved liquidity in the money market has resulted in stable commercial bank rates. The average lending rate declined from 13.2 percent in June 2018 to 12.5 percent in June 2019 which is lower than 0.85 percent decline in the average deposit rate. This led to an increase in the average interest rates spread by 0.1 percent over the review period (Chart 5b).

Chart 5b: Commercial Bank Rates



Source of Data: Central Bank of Kenya

Money Supply

77. Broad money supply, M3, slowed down to a growth of 7.0 percent in the year to July 2019 compared to a growth of 10.1 percent in the year to July 2018. The slowdown in growth of M3 in the year to July 2019 was due to the decline in both net foreign assets (NFA) and net domestic assets (NDA). The dampening growth in NDA was largely reflected in the decreased growth of net domestic credit to other public sector. Despite the slowdown, growth in M3 was supported by an improvement in the growth of the rate of demand deposits despite a decline in the foreign currency deposits, time and savings deposits and currency outside banks.

Private Sector Credit

78. Annual credit to the private sector grew by 6.3 percent in the year to August 2019, compared to a growth of 6.1 percent in the year to July 2019. In particular, it was observed that credit to consumer durables, manufacturing, trade, private household, and finance and insurance sectors experienced strong growth of 23.0 percent, 7.5 percent, 8.4 percent, 8.6 percent, and 6.3 percent, respectively. This offset the substantial loan repayments recorded in the building and construction and mining and quarrying sectors in the year to August 2019. Private sector credit growth is expected to strengthen in 2019 relative to 2018, due to the innovative new credit products, anticipated higher economic activities and easing credit risk.

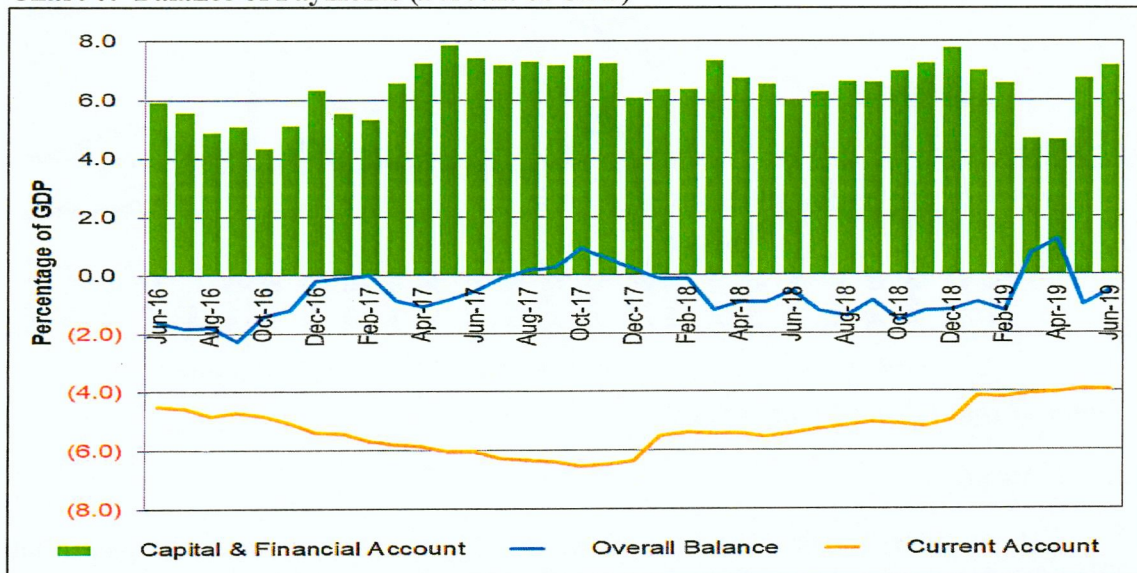
External Sector Developments

79. The overall balance of payments position recorded a deficit of US\$ 524.6 million (0.5 percent of GDP) in the year to June 2019 from a deficit of US\$ 483.4 million (0.9 percent of GDP) in the year to June 2018 (Chart 6). The increase in deficit was occasioned by a

deterioration in the financial account that more than offset the improvements in the current and capital account.

80. Flows in the financial account also declined to US\$ 6,674.3 million in June 2019 compared with US\$ 5,037.7 million in June 2018. The financial inflows were mainly in the form of other investments, direct investments and portfolio investments which stood at US\$ 4,196.6 million, US\$ 1,558.9 million and US\$ 910.2 million, respectively in June 2019. Other investment inflows mainly include foreign financing for Government infrastructure projects. Conversely, the capital account improved by US\$ 32.0 million to US\$ 256.8 million in the year to June 2019, reflecting an increase in project grants (Table 12).

Chart 6: Balance of Payments (Percent of GDP)



Source of Data: Central Bank of Kenya

81. The current account deficit narrowed by 20.7 percent to a deficit of US\$ 3,788.2 million in the year to June 2019 compared to a deficit of US\$ 4,777.5 million in the year to June 2018. This reflects resilient performance of exports particularly horticulture and manufactured goods, strong diaspora remittances, higher receipt from tourism and transport services and lower imports of food and SGR-related equipment. As a percentage of GDP, the current account deficit narrowed down to 3.9 percent in June 2019, from 5.4 percent in June 2018.

82. The deficit in the merchandise account improved by US\$ 353.9 million to US\$ 10,109.5 million in the year to June 2019 reflecting a decline in merchandise imports. Net services recorded an improvement of 25.5 percent in the year to June 2019 mainly on account of higher receipts from transport and travels.

Table 12: Balance of Payments (US\$ million)

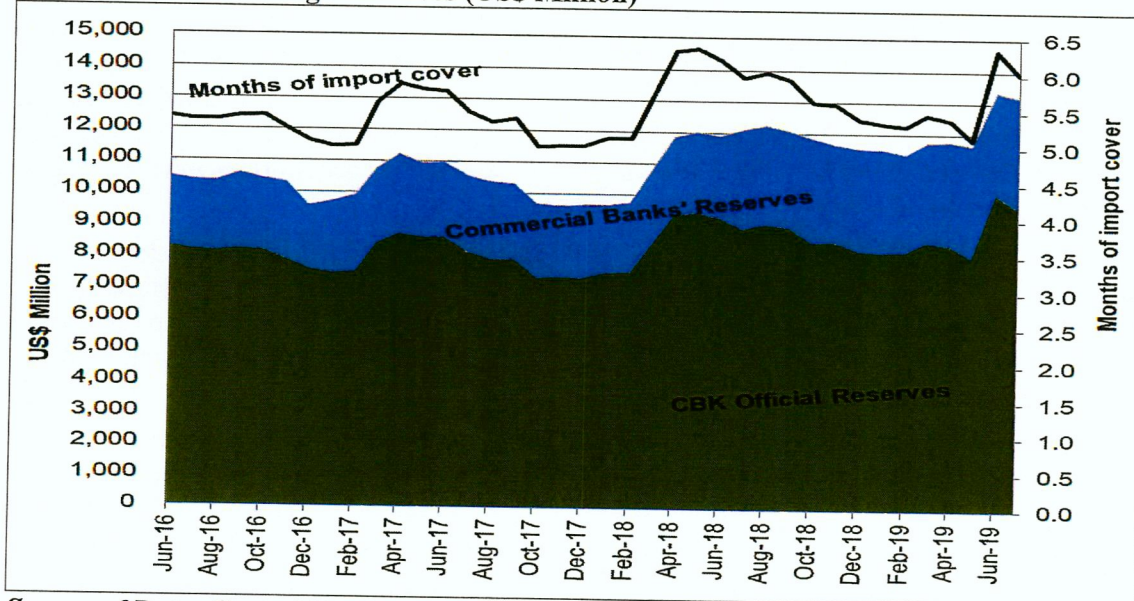
	Jun-18	Jul-18	Aug-18	Oct-18	Jan-19	Mar-19	Apr-19	May-19	Jun-19	Year to June 2019	
										Absolute Change	% Change
Overall Balance	(483.4)	(1,085.4)	(1,227.8)	(1,352.4)	(902.2)	721.0	1,184.7	(997.3)	(524.6)	-41.2	8.5
Current Account	-4,777.5	-4,683.8	-4,565.9	-4,452.8	-4,056.5	-3,984.0	-3,923.0	-3,808.8	-3,788.2	989.3	-20.7
of which: Merchandise account (a-b)	-10,463.5	-10,346.0	-10,305.4	-10,218.2	-10,239.8	-10,172.3	-10,172.2	-10,097.9	-10,109.5	353.9	-3.4
a) Goods: exports.	6,053.6	6,068.1	6,173.9	6,169.8	6,111.7	6,075.7	6,062.4	5,972.1	5,953.3	-100.3	-1.7
b) Goods: imports.	16,517.1	16,414.0	16,479.3	16,388.0	16,351.5	16,248.1	16,234.7	16,070.1	16,062.9	-454.2	-2.7
Services: credit	4,973.9	4,973.7	5,073.1	5,269.8	5,603.6	5,677.2	5,689.9	5,776.0	5,738.2	764.4	15.4
Services: debit	3,439.1	3,492.6	3,514.3	3,644.1	3,865.6	3,779.4	3,783.1	3,802.4	3,811.5	372.4	10.8
Balance on goods and services	-8,928.7	-8,864.9	-8,746.6	-8,592.5	-8,501.9	-8,274.5	-8,265.4	-8,124.3	-8,182.8	745.9	-8.4
Primary income: credit	652.3	664.4	675.6	696.9	728.4	744.1	745.8	737.4	739.5	87.2	13.4
Primary income: debit	1,365.6	1,405.4	1,484.7	1,510.7	1,417.5	1,634.6	1,619.0	1,630.0	1,587.9	222.3	16.3
Balance on goods, services & prim	-9,642.0	-9,605.8	-9,555.7	-9,406.3	-9,191.0	-9,165.1	-9,138.7	-9,017.0	-9,031.2	610.8	-6.3
Secondary income: credit	4,916.6	4,975.3	5,044.3	5,004.9	5,155.7	5,228.5	5,261.8	5,253.0	5,285.8	369.3	7.5
Secondary income: debit	52.2	53.3	54.4	51.4	48.4	47.4	46.1	44.8	42.9	-9.3	-17.8
Capital Account	224.8	236.1	240.1	262.2	245.9	222.2	181.1	181.7	256.8	32.0	14.2
Financial Account	-5,037.7	-5,329.9	-5,608.8	-5,829.5	-6,599.3	-4,361.1	-4,346.6	-6,389.3	-6,674.3	-1,636.6	32.5

Source of Data: Central Bank of Kenya

Foreign Exchange Reserves

83. The CBK foreign exchange reserves continue to provide an adequate buffer against short-term shocks in the foreign exchange market. By end June 2019, the official reserves stood at US\$ 9,656 million (6.0 months of import cover), while commercial banks holdings were at US\$ 3,531 million in June 2019 up from US\$ 3,145 million in June 2018 (Chart 7).

Chart 7: Official Foreign Reserves (US\$ Million)

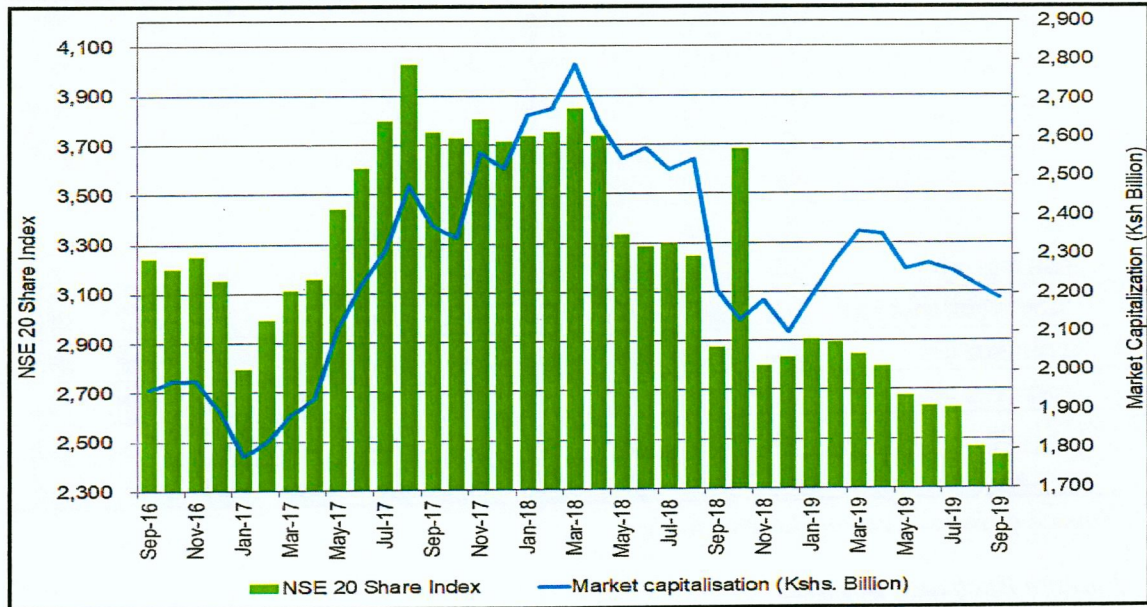


Source of Data: Central Bank of Kenya

Capital Markets Developments

84. Activity in the capital market slowed down with equity share prices declining as shown by the NSE 20 Share Index, which stood 2,432 points by end September, 2019 compared to 3,245 points by end September, 2018. The depressed share prices resulted in lower market capitalization of Ksh 2,190.0 billion from Ksh 2,546.0 billion over the same period in 2018 (Chart 8).

Chart 8: Performance of the NSE



Source of Data: Nairobi Security Exchange

C. Medium Term Economic Outlook

Global Growth Outlook

85. Owing to weaker trade and investment at the start of the year, global economic growth is expected to slow down to 3.2 percent in 2019 down from 3.6 percent in 2018 and projected to increase to 3.5 percent in 2020. The sluggish growth reflects the continued global trade sanctions between the United States and China, subdued investment and demand for consumer durables in emerging markets and developing economies, rising energy prices and the continued Brexit-related uncertainties.

86. Growth in the advanced economies is projected at 1.9 percent in 2019 and down to 1.7 percent in 2020. This reflects weaker prospects in the United States as its fiscal stimulus fades and the forthcoming increase in the consumption tax rate in Japan. Growth in the Euro area is expected to rise from 1.3 percent in 2019 to 1.6 percent in 2020 as external demand recovers and temporary factors unwind.

87. The emerging markets and developing economies expect a slug in their growth in 2019 of 4.1 percent down from 4.5 percent in 2018. Better prospects are however expected in 2020 with growth forecasted at 4.7 percent; this improved growth is well echoed in the forecasted growths of Latin America, Middle East, North Africa and Pakistan.

88. Growth in the Sub-Saharan African region is expected to remain relatively robust with the economy expanding by 3.4 percent in 2019 and projected to grow by 3.6 percent in 2020 from 3.1 percent in 2018.

Domestic Growth Outlook

89. On the domestic scene, despite the challenging global environment, Kenya's economy has remained strong and resilient. The economy expanded by 6.3 percent in 2018 up from the 4.9 percent registered in 2017. The growth momentum continued in the first half of 2019, with the economy expanding by an average of 5.6 percent. The latest economic indicators in the third quarter of 2019 point to continued economic recovery that will culminate to an overall projected growth of about 5.9 percent in the FY 2019/20. Economic growth is further projected to rise to 6.2 percent in the FY 2020/21 and 7.0 percent in the medium term.

90. The growth outlook for the FY 2019/20 and the medium term, will be supported by the stable macroeconomic environment, investments in the strategic areas under the "Big Four" Plan and existing business and consumer confidence in the economy. Further, the ongoing public investments in infrastructure projects, growth in tourism, resilient exports and the associated benefits from regional economic integration in the sub region will reinforce the projected growth. The economic growth projections over the medium term are aligned to those of the Third Medium Term Plan (2018-2022) which is implementing Vision 2030 (Table 13 and Annex Table 1).

Table 13: Macroeconomic Indicators, in Fiscal Years

	2016/17	2017/18	2018/19		2019/20		2020/21		2021/22		2022/23		2023/24
	Act	Prel. Act	Rev. Budget II	Prel. Act	Printed Estimates	BROP'19	BPS'19	BROP'19	BPS'19	BROP'19	BPS'19	BROP'19	BROP'19
Annual percentage change													
National Account and Prices													
Real GDP /*	5.4	5.6	6.3	6.0	6.2	5.9	6.4	6.2	6.7	6.4	7.0	6.7	6.9
GDP Deflator	8.1	6.7	4.9	3.8	6.5	4.9	6.0	5.1	6.0	5.1	5.8	5.1	5.2
CPI Index (eop)	6.7	5.2	5.3	5.3	5.2	5.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	8.1	5.2	5.2	5.2	5.3	5.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of Trade (-deterioration)	0.7	0.8	-3.5	0.6	0.4	0.5	-1.8	0.3	1.1	1.1	-2.2	0.0	-0.2
Percentage of GDP													
Investment and saving													
Investment	18.4	18.6	21.9	21.3	24.4	24.2	23.3	24.1	25.0	25.5	27.9	28.7	31.2
Gross National Savings	14.5	13.5	17.1	16.4	19.8	19.2	17.4	19.1	19.7	21.2	22.8	24.9	26.5
Central Government Budget													
Total revenue	18.8	17.9	18.9	17.9	19.7	20.2	18.5	18.5	18.8	18.3	18.8	18.4	18.3
Total expenditure and net lending	28.1	25.2	26.9	25.8	25.9	27.4	22.8	24.1	22.5	23.2	22.2	22.7	21.9
Overall Fiscal balance excl. grants	-9.3	-7.3	-8.0	-7.9	-6.3	-7.2	-4.3	-5.7	-3.7	-4.9	-3.4	-4.3	-3.6
Overall Fiscal balance, incl. grants, cash basis	-9.1	-7.4	-6.8	-7.7	-5.9	-6.2	-3.9	-5.3	-3.3	-4.5	-3.1	-4.0	-3.4
Nominal debt (eop), net of deposits	51.9	52.7	54.8	56.9	54.1	57.3	52.6	56.6	50.4	55.1	48.2	53.1	50.5
External sector													
Current external balance, incl. official transfers	-3.9	-5.1	-4.8	-4.9	-4.6	-4.9	-5.9	-5.0	-5.4	-4.3	-5.1	-3.9	-4.7
Gross reserves in months of imports	5.9	6.3	7.0	6.4	7.1	6.4	7.2	6.4	7.3	6.4	7.4	6.4	6.4

/* GDP revised beginning FY 2018/19 following release Q2 GDP for 2019 by KNBS

Source: National Treasury

Monetary Policy Outlook

91. Year-on-year overall inflation has remained relatively stable and within the target range in the foregoing months of 2019. Food inflation has been declining in recent months reflecting improved food production. Core inflation has remained below 5.0 percent due to the fading demand pressures on account of the economy operating at close to its potential. Overall inflation is expected to remain within the target range in the medium term largely due to expectations of lower food prices following expected improved weather conditions, lower electricity prices with the reduced reliance on expensive power sources and stable exchange rates supported by adequate foreign exchange reserves. The indexation of excise tax will have a moderate impact on inflation. The recent increase in international oil prices is expected to exert moderate upward pressure on fuel prices, but with limited pass-through effects on inflation.

92. The main risks to inflation include erratic weather that affects agricultural production and related prices, possible effects of the recent increases in fuel prices, increased external uncertainties and the ongoing demonetization.

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

External Sector Outlook

94. The Kenya Shilling is expected to be stable in 2019 on account of a narrower current account deficit and resilient foreign exchange inflows. The current account deficit is expected to narrow to 4.5 percent of GDP in 2019 from 5.0 percent of GDP in 2018 largely due to strong growth in diaspora remittances, resilient performance of exports particularly horticulture, higher receipts from tourism and transport services and slower growth in imports of food and SGR-related equipment.

95. The main risks to the foreign exchange market in 2019 relate to continued uncertainties in the global financial markets with regard to the pace of normalization of monetary policy in advanced economies especially in the U.S. and the Brexit outcome. Nevertheless, the official foreign exchange reserves, currently at around 6 months of import cover, will continue to provide an adequate buffer against short term shocks in the foreign exchange market.

Fiscal Policy Outlook

96. The revenue projections over the medium term takes into account the consistent decline in the share of revenue to GDP in the last five years. As such, the Government will take a cautious and realistic revenue projections for FY 2020/21 and the medium term to manage expectations and improve budget credibility. Fiscal policy over the medium-term aims at enhancing revenue mobilisation and further strengthening fiscal consolidation so as to reduce budget deficit and strengthen debt sustainability while supporting economic growth. The fiscal consolidation will benefit from the revenue mobilization being undertaken by the Kenya Revenue Authority, the revenue policy measures in the budget and complemented by expenditure rationalization to reduce non-core expenditure items from the budget.

D. Risks to the Domestic Economic Outlook

97. This macroeconomic outlook is not without risks from both external and domestic sources. Risks from the global economies relate to increased volatility in the global financial markets due to tensions between the U.S. and China, the slower growth of the Chinese economy, uncertainties over the nature and timing of Brexit and the pace of normalization of monetary policy in the advanced economies. Further, the uncertainty of trade agreements such as between the United Kingdom and the European Union, the free trade area encompassing Canada,

Mexico, and the United States as well as uneven and sluggish growth in advanced and emerging market economies could hamper the forecasted growth. The low commodity prices and the risk of energy prices taking an upward trend if the rising geopolitical tensions are not subdued could impact on our exports.

98. Domestically, the economy will continue to be exposed to risks arising from public expenditure pressures, particularly wage related recurrent expenditures and the erratic weather related shocks that could have negative impact on energy generation and agricultural output leading to higher inflation that could slow down growth.

99. The Government is continually monitoring these risks and taking appropriate monetary and fiscal policy measures to preserve macroeconomic stability and strengthen resilience in the economy. To cushion the country against the downsides of the risks emanating from the global sphere, the Government is deepening reforms in the financial sector to ensure a stable and strong financial system in Kenya. The Government is also undertaking appropriate measures to safeguard macroeconomic stability through prudent fiscal and monetary policies. In particular, the Government has continued to accumulate foreign exchange reserves to deal with any external shocks. Additionally, the diversified nature of our economy continues to offer resilience to any global challenges.

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

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustments to the FY 2019/20 Budget

101. The Medium Term Fiscal Framework (MTFF) for the FY 2019/20 emphasizes on efficiency and effectiveness of public spending and improving revenue collection to ensure the debt position remains sustainable while at the same time supporting rapid and inclusive economic growth and continued fiscal discipline.

102. The underperformance in both revenue collection and expenditure in the FY 2018/19 has implications on the financial objectives outlined in the 2019 BPS and the 2019/20 Budget. In particular, the baseline for projecting both the revenue and expenditures for the FY 2019/20 and the medium term has changed given the outcome of FY 2018/19 and the first two months of FY 2019/20.

103. In light of these challenges, the revenue projections for FY 2019/20 have been revised taking into account a lower projection base (on account of the Ksh 123.5 billion shortfall in FY 2018/19), revenue performance by end August 2019 and the amendments to the Finance Bill, 2019.

104. Expenditure projections for FY 2019/20 have been revised to accommodate the weak revenue performance through trade-offs and reallocations of the existing budgetary provisions and additional expenditure on productive areas of spending across the Government.

105. Revenues for the FY 2019/20 are therefore, projected at Ksh 2,090.5 billion or 20.2 percent of GDP with ordinary revenues at Ksh 1,851.8 billion or 17.9 percent of GDP. On the other hand, expenditures are projected at Ksh 2,835.7 billion or 27.4 percent of GDP with recurrent expenditures projected at Ksh 1,744.9 billion (16.9 percent of GDP) while development expenditures are projected at Ksh 707.4 billion (6.8 percent of GDP). Transfer to the County Governments is projected at Ksh 378.4 billion (3.7 percent of GDP).

106. Fiscal deficit is therefore projected at Ksh 640.2 billion (equivalent to 6.2 percent of GDP). The fiscal deficit in FY 2019/20 will be financed by net external financing of Ksh 331.3 billion (3.2 percent of GDP), Ksh 305.7 billion (3.0 percent of GDP) as net domestic borrowing and other net domestic receipts of Ksh 3.2 billion.

B. Medium Term Fiscal Projections

107. The Medium-Term Fiscal Policy aims at supporting rapid and inclusive economic growth, continue the fiscal consolidation programme that creates fiscal space for the implementation of the “Big Four” Plan. In this regard, and driven by continued reforms in revenue administration and revenue enhancement measures, revenue collection is projected at 18.4 percent of GDP by FY 2022/23 (**Annex Tables 2 and 3**). Overall expenditures are projected to decline from 27.4 percent of GDP in FY 2019/20 to 22.7 percent of GDP in FY 2022/23. Of this, recurrent expenditures are expected to decline from 16.9 percent of GDP in FY 2019/20 to 15.0 percent of GDP in the medium term while development and net lending expenditure is projected at 4.9 percent of GDP by FY 2022/23.

108. Given the expenditure and revenue enhancement measures the Government has put in place, fiscal deficit inclusive of grants is projected to reduce from 6.2 percent of GDP in FY 2019/20 to 4.0 percent of GDP in the FY 2022/23 and further to 3.4 percent of GDP in the FY 2023/24. The lower deficit reflects the enhanced revenue collection and prudent public spending. Particular emphasis will be placed on:

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

C. FY 2020/21 Budget Framework

109. The FY 2020/21 budget framework builds up on the fiscal consolidation agenda, which the Government has been implementing to contain growth of expenditure and raise revenues. Some of the policy measures that the Government has been implementing include adoption of the zero-based budgeting process, adoption of the “no new projects” policy, a review of portfolio of externally funded projects to restructure and re-align them with the “Big Four” Plan and reducing spending on programmes, which are not of high priority. As a result, the overall fiscal deficit is expected to decline from 6.2 percent of GDP in FY 2019/20 to 5.3 percent of GDP in FY 2020/21. Further, with the fiscal consolidation strategy, MDAs are required to adopt the culture of doing more with less that is available with a view to promote sustainability and optimality. This will boost our debt sustainability position and give flexibility for counter cyclical fiscal policy interventions when appropriate.

110. In the FY 2020/21 revenue collection including Appropriation-in-Aid (A-i-A) is projected to increase to Ksh 2,135.5 billion (18.5 percent of GDP) up from Ksh 2,090.5 billion (20.2 percent of GDP) in the FY 2019/20. Of this, ordinary revenues is projected at Ksh 1,883.7 billion (16.3 percent of GDP) in FY 2020/21. This revenue performance will be underpinned by on-going reforms in tax policy and revenue administration.

111. On the other hand, the overall expenditure and net lending for FY 2020/21 are projected at Ksh 2,790.6 billion (24.1 percent of GDP) up from Ksh 2,835.7 billion (27.4 percent of GDP) in the FY 2019/20. These expenditures comprise among others, recurrent of Ksh 1,823.0 billion (15.8 percent of GDP) and development of Ksh 587.5 billion (5.1 percent of GDP). Inclusive of conditional transfers Ministerial recurrent expenditures amount to Ksh 1,053.8 billion, while ministerial development expenditures amounts to Ksh 636.0 billion (inclusive of Equalization and Contingencies fund).

112. Including grants, the overall fiscal deficit is projected at Ksh 614.1 billion (5.3 percent of GDP) in FY 2020/21 against the estimated overall fiscal balance of Ksh 640.2 billion (6.2 percent of GDP) in FY 2019/20.

113. The fiscal deficit in FY 2020/21 will be financed by net external financing of Ksh 240.8 billion (2.1 percent of GDP), net domestic financing of Ksh 370.1 billion (3.2 percent of GDP) and other net domestic receipts of Ksh 3.2 billion.

D. Public Participation and Involvement of Stakeholders

114. As required by the Public Finance Management (PFM) Act, 2012 this Budget Review and Outlook Paper was shared with various stakeholders and the public for comments before its finalization. We have provided a summary of the comments received and the actions taken in a matrix form as **Annex Table 8**.

E. Medium-Term Expenditure Framework

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

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

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

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

117. Reflecting on the above, we have developed the Medium-Term Expenditure Framework as provided in **Table 14 and Annex Tables 4 and 5.**

Table 14: Medium Term Sector Ceilings, FY 2020/21 – FY 2022/23 (Ksh Million)

Code	Sector		Original	BROP Projections				% Share in Total Ministerial Expenditure			
			Approved	2019/20	2020/21	2021/22	2022/23	2019/20	2020/21	2021/22	2022/23
010	Agriculture, Rural & Urban Development	Sub_Total	59,638	48,285	52,842	53,912	3.1%	2.6%	2.7%	2.7%	
		Rec_Gross	18,957	17,522	17,912	18,351	1.0%	0.9%	0.9%	0.9%	
		Dev_Gross	40,682	30,763	34,930	35,561	2.1%	1.6%	1.8%	1.8%	
020	Energy, Infrastructure & ICT	Sub_Total	435,107	404,634	430,377	428,815	22.6%	21.7%	21.9%	21.3%	
		Rec_Gross	89,726	87,835	92,500	92,356	4.7%	4.7%	4.7%	4.6%	
		Dev_Gross	345,381	316,799	337,877	336,459	17.9%	17.0%	17.2%	16.7%	
030	General Economic & Commercial Affairs	Sub_Total	29,890	23,024	26,158	28,636	1.5%	1.2%	1.3%	1.4%	
		Rec_Gross	15,015	13,899	14,141	14,296	0.8%	0.7%	0.7%	0.7%	
		Dev_Gross	14,875	9,125	12,018	14,340	0.8%	0.5%	0.6%	0.7%	
040	Health	Sub_Total	92,725	112,653	120,114	126,278	4.8%	6.0%	6.1%	6.3%	
		Rec_Gross	58,084	62,472	63,926	65,425	3.0%	3.4%	3.2%	3.3%	
		Dev_Gross	34,641	50,180	56,188	60,853	1.8%	2.7%	2.9%	3.0%	
050	Education	Sub_Total	494,807	507,521	529,436	544,240	25.7%	27.2%	26.9%	27.1%	
		Rec_Gross	469,272	487,844	507,048	519,499	24.3%	26.2%	25.8%	25.8%	
		Dev_Gross	25,535	19,677	22,389	24,741	1.3%	1.1%	1.1%	1.2%	
060	Governance, Justice, Law & Order	Sub_Total	209,625	195,581	219,118	224,557	10.9%	10.5%	11.1%	11.2%	
		Rec_Gross	192,380	187,120	209,187	214,740	10.0%	10.0%	10.6%	10.7%	
		Dev_Gross	17,245	8,461	9,932	9,817	0.9%	0.5%	0.5%	0.5%	
070	Public Administration & International Relations	Sub_Total	288,821	259,845	261,456	265,248	15.0%	13.9%	13.3%	13.2%	
		Rec_Gross	185,080	169,528	160,758	164,894	9.6%	9.1%	8.2%	8.2%	
		Dev_Gross	103,741	90,318	100,698	100,355	5.4%	4.8%	5.1%	5.0%	
080	National Security	Sub_Total	159,270	149,320	155,096	160,021	8.3%	8.0%	7.9%	8.0%	
		Rec_Gross	142,191	135,345	140,122	145,046	7.4%	7.3%	7.1%	7.2%	
		Dev_Gross	17,079	13,974	14,974	14,974	0.9%	0.7%	0.8%	0.7%	
090	Social Protection, Culture & Recreation	Sub_Total	68,690	67,474	71,966	74,166	3.6%	3.6%	3.7%	3.7%	
		Rec_Gross	29,768	39,288	39,778	40,290	1.5%	2.1%	2.0%	2.0%	
		Dev_Gross	38,921	28,186	32,188	33,876	2.0%	1.5%	1.6%	1.7%	
0100	Environment Protection, Water & Natural Resources	Sub_Total	90,247	96,467	102,005	104,394	4.7%	5.2%	5.2%	5.2%	
		Rec_Gross	24,133	24,615	24,896	25,394	1.3%	1.3%	1.3%	1.3%	
		Dev_Gross	66,114	71,852	77,109	79,000	3.4%	3.9%	3.9%	3.9%	
		Grand Total	1,928,821	1,864,805	1,968,570	2,010,266	100.0%	100.0%	100.0%	100.0%	
		Rec_Gross	1,224,607	1,225,468	1,270,268	1,300,291	63.5%	65.7%	64.5%	64.7%	
		Dev_Gross	704,214	639,336	698,302	709,975	36.5%	34.3%	35.5%	35.3%	

Source: The National Treasury

The sector ceilings in this table reflect expenditure allocations to functions under the National Government

V. CONCLUSION AND NEXT STEPS

118. The FY 2020/21 and the medium term budget is being prepared against the backdrop of a slowdown in the growth of the global economy. The Government will continue to sustain fiscal consolidation efforts while concentrating resources to the implementation of the “Big Four” Plan. Deliberate steps will be undertaken to narrow the budget deficit and stabilize public debt, prioritize development expenditures while protecting social spending and investments. Changes to the ceilings for the outer years in the budget will be adjusted to align to the resource needs of The “Big Four” projects and any unforeseen macroeconomic shifts in the economy.

119. Expenditures in the FY 2020/21 will be scrutinized carefully to ensure quality and alignment with the Third Medium Targets. In addition, the Government will continue to implement public sector and governance reforms in the areas of administration of justice and law and order as to improve the ease of doing business and to sustain a favourable business environment that will promote investment, growth, and employment creation.

120. The Government will pursue prudent fiscal and monetary policies aimed at supporting rapid and inclusive economic growth, devolution, reducing fiscal deficit and ensuring sustainable debt position. More measures will be instituted in tax policy reforms to improve revenue administration and contain the growth of total expenditure. This will involve shifting the composition of expenditure from recurrent to capital expenditure, and eliminating unproductive expenditures. The fiscal policy will also target to rationalize and direct resource allocation to projects with high economic impact. The resource envelope and ceilings for each Sector provided in this Budget Review and Outlook Paper will form inputs into the next Budget Policy Statement, which will be finalized by mid-February 2020.

Annex Table 1: Macroeconomic Indicators for the FY 2020/21- 2023/24 Period

	2016/17	2017/18	2018/19		2019/20		2020/21		2021/22		2022/23		2023/24
	Act	Prel. Act	Rev. Budget II	Prel. Act	Printed Estimates	BROP'19	BPS'19	BROP'19	BPS'19	BROP'19	BPS'19	BROP'19	BROP'19
<i>annual percentage change, unless otherwise indicated</i>													
National Account and Prices													
Real GDP	5.4	5.6	6.3	6.0	6.2	5.9	6.4	6.2	6.7	6.4	7.0	6.7	6.9
GDP deflator	8.1	6.7	4.9	3.8	6.5	4.9	6.0	5.1	6.0	5.1	5.8	5.1	5.2
CPI Index (eop)	6.7	5.2	5.3	5.3	5.2	5.2	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	8.1	5.2	5.2	5.2	5.3	5.4	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	0.7	0.8	-3.5	0.6	0.4	0.5	-1.8	0.3	1.1	1.1	-2.2	0.0	-0.2
Money and Credit (end of period)													
Net domestic assets	3.9	9.3	17.6	4.7	12.0	18.3	13.3	7.1	11.9	13.2	11.1	12.5	6.8
Net domestic credit to the Government	15.3	15.3	15.3	19.5	14.0	14.2	9.1	15.1	9.2	14.1	9.2	11.5	13.7
Credit to the rest of the economy	7.8	4.3	13.9	4.3	11.5	13.9	14.6	4.6	13.0	12.0	12.1	12.2	5.1
Broad Money, M3 (percent change)	6.0	11.1	11.6	9.2	13.2	11.2	12.8	11.7	13.1	11.9	13.2	12.3	12.4
Reserve money (percent change)	2.4	7.4	9.7	2.5	12.5	4.0	12.1	7.4	12.4	7.6	12.6	8.0	8.2
<i>in percentage of GDP, unless otherwise indicated</i>													
Investment and Saving													
Investment	18.4	18.6	21.9	21.3	24.4	24.2	23.3	24.1	25.0	25.5	27.9	28.7	31.2
Central Government	8.3	5.5	6.6	5.9	6.1	7.0	5.9	5.3	5.8	5.1	6.0	5.1	4.9
Other	10.1	13.1	15.3	15.4	18.3	17.1	17.4	18.8	19.2	20.4	21.9	23.7	26.3
Gross National Saving	14.5	13.5	17.1	16.4	19.8	19.2	17.4	19.1	19.7	21.2	22.8	24.9	26.5
Central Government	3.0	1.8	2.7	1.9	3.4	3.3	4.3	2.7	4.8	3.1	5.0	3.4	3.8
Other	11.5	11.7	14.4	14.5	16.4	15.9	13.1	16.5	14.9	18.2	17.9	21.4	22.7
Central Government Budget													
Total revenue	18.8	17.9	18.9	17.9	19.7	20.2	18.5	18.5	18.8	18.3	18.8	18.4	18.3
Total expenditure and net lending	28.1	25.2	26.9	25.8	25.9	27.4	22.8	24.1	22.5	23.2	22.2	22.7	21.9
Overall Fiscal balance excl. grants	-9.3	-7.3	-8.0	-7.9	-6.3	-7.2	-4.3	-5.7	-3.7	-4.9	-3.4	-4.3	-3.6
Overall Fiscal balance, incl. grants, cash basis	-9.1	-7.4	-6.8	-7.7	-5.9	-6.2	-3.9	-5.3	-3.3	-4.5	-3.1	-4.0	-3.4
Primary budget balance	-5.4	-3.2	-3.8	-3.6	-1.8	-2.6	-0.3	-1.2	0.2	-0.4	0.2	0.1	0.7
Net domestic borrowing	4.0	3.2	2.1	3.3	2.8	3.0	1.7	3.2	1.7	3.1	1.6	2.6	3.0
Total external support (grant & loans)	3.3	2.4	3.0	2.6	3.7	2.8	2.5	2.4	2.5	2.3	2.5	2.2	2.1
External Sector													
Exports value, goods and services	15.4	14.6	14.9	15.0	15.3	15.6	14.9	16.1	16.0	17.5	16.8	18.6	18.6
Imports value, goods and services	22.9	23.0	22.5	22.8	22.5	23.1	23.0	23.3	23.3	23.7	23.7	24.2	24.9
Current external balance, including official transfers	-3.9	-5.1	-4.8	-4.9	-4.6	-4.9	-5.9	-5.0	-5.4	-4.3	-5.1	-3.9	-4.7
Gross reserves in months of next yr's imports	5.3	5.2	6.2	5.0	6.2	4.7	6.3	5.6	6.3	5.6	6.4	5.6	5.6
Gross reserves in months of this yr's imports	5.9	6.3	7.0	6.4	7.1	6.4	7.2	6.4	7.3	6.4	7.4	6.4	6.4
Public debt													
Nominal debt (eop), net of deposits	51.9	52.7	54.8	56.9	54.1	57.3	52.6	56.6	50.4	55.1	48.2	53.1	50.5
Domestic (gross)	27.6	29.1	28.9	29.9	28.3	29.9	27.3	29.9	26.4	29.8	25.5	29.1	28.9
Domestic (net)	21.9	22.6	23.6	24.5	23.5	25.0	23.1	25.5	22.8	25.9	22.2	25.6	25.8
External	30.0	30.0	31.2	32.4	30.6	32.4	29.5	31.1	27.6	29.2	26.0	27.4	24.7
Memorandum Items:													
Nominal GDP (in Ksh Billion)/*	7,658	8,525	9,510	9,317	10,766	10,355	12,796	11,564	14,475	12,935	16,393	14,522	16,326
Nominal GDP (in US\$ Million)	74,816	83,277	92,907	91,013	104,748	100,868	124,638	112,533	140,251	125,145	157,655	139,421	155,246

Source: National Treasury

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

/* GDP revised beginning FY 2018/19 following release Q2 GDP for 2019 by KNBS

Annex Table 2: Government Operations for the FY 2020/21 - 2023/24 Period, Ksh Billion

	2016/17	2017/18	2018/19		2019/20		2020/21		2021/22		2022/23		2023/24
	Act	Prel. Act	Rev. Budget II	Prel. Act	Printed Estimates	BROP'19	BPS'19	BROP'19	BPS'19	BROP'19	BPS'19	BROP'19	BROP'19
TOTAL REVENUE	1,439.6	1,522.5	1,794.5	1,671.1	2,115.9	2,090.5	2,369.6	2,135.5	2,718.0	2,372.3	3,079.4	2,665.0	2,985.2
Ordinary Revenue	1,306.6	1,365.1	1,588.1	1,496.9	1,877.2	1,851.8	2,142.8	1,883.7	2,465.4	2,106.1	2,798.0	2,381.8	2,690.9
Income Tax	625.1	640.6	742.2	685.4	884.4	808.2	1,027.6	863.9	1,194.2	981.9	1,361.9	1,121.3	1,280.6
Import duty (net)	89.9	93.9	108.5	107.7	135.4	129.3	152.1	137.5	170.8	147.7	191.8	164.1	182.3
Excise duty	165.5	167.8	200.6	194.3	242.2	266.5	274.6	260.0	313.0	272.0	357.7	303.1	338.1
Value Added Tax	339.0	356.9	425.5	413.2	496.0	462.7	571.8	514.9	658.8	587.0	744.6	664.1	747.8
Investment income	28.9	24.1	30.9	23.8	33.0	19.7	20.4	18.5	21.4	18.4	22.5	19.3	20.2
Other	58.2	81.8	80.4	72.6	86.1	165.6	96.3	88.8	107.2	99.2	119.4	109.9	121.8
Railway Development Levy	18.9	20.8	24.7	21.3	27.7	27.7	31.1	27.8	35.0	29.2	39.3	32.5	36.1
Ministerial and Departmental Fees (AIA)	114.1	136.6	181.7	152.8	211.0	211.0	195.6	224.0	217.6	237.0	242.2	250.8	258.3
EXPENDITURE AND NET LENDING	2,148.2	2,146.7	2,555.1	2,405.9	2,789.5	2,835.7	2,922.3	2,790.6	3,251.5	3,002.2	3,641.5	3,290.5	3,579.4
Recurrent expenditure	1,201.3	1,349.9	1,583.0	1,496.2	1,760.3	1,744.9	1,818.4	1,823.0	2,043.0	1,982.8	2,284.4	2,177.7	2,374.3
Interest payments	271.2	323.9	368.5	375.7	441.5	441.5	460.9	476.0	507.6	529.7	531.1	598.4	661.6
Domestic interest	212.9	239.5	264.8	272.4	290.5	290.5	315.0	313.6	359.4	359.4	374.4	403.4	454.2
Foreign interest	58.4	84.4	103.7	103.4	150.9	150.9	145.9	162.4	148.2	170.2	156.6	195.0	207.5
Wages and Salaries/1	336.6	388.9	424.1	417.5	483.5	483.5	493.9	510.7	518.5	541.3	544.5	573.8	591.0
Contribution to civil service pension fund	0.0	0.0	0.0	0.0	10.3	4.8	25.4	20.4	33.8	21.6	50.7	22.9	24.3
Pensions etc	64.0	65.1	84.6	70.8	108.6	108.6	124.5	124.5	139.0	139.0	152.9	152.9	170.5
Other	399.3	445.9	569.4	496.9	574.2	570.1	569.5	556.1	698.1	614.3	857.2	689.6	784.8
Defense and NSIS	130.2	126.1	136.4	135.3	142.2	136.4	144.3	135.3	145.9	136.9	148.1	140.0	142.0
Development and Net lending	641.8	469.5	607.2	549.0	652.3	707.4	723.8	587.5	819.6	626.1	955.4	705	770.4
Domestically financed	387.0	266.0	349.0	314.1	390.2	445.3	429.8	338.4	485.1	359.2	577.8	410.3	456.0
o/w Domestically Financed (Net)	353.2	229.2	295.6	262.2	323.0	378.1	371.9	269.2	421.6	286.6	508.2	332.2	372.9
o/w Exchequer Issues	353.2	229.2	295.6	262.2	323.0	378.1	371.9	269.2	421.6	286.6	508.2	332.2	372.9
Ministerial Development AIA	33.9	36.9	53.4	51.9	67.2	67.2	57.9	69.2	63.5	72.7	69.6	78.1	83.1
Foreign financed	246.4	201.0	251.0	225.4	255.8	255.8	286.3	242.6	326.0	260.1	368.2	287.7	306.4
Net lending	2.4	2.5	2.5	2.5	0.6	0.6	1.1	0.0	1.1	0.0	1.1	0.0	0.0
Contingencies	0.0	0.0	0.0	0.0	5.0	5.0	5.0	5.0	5.0	5.0	8.0	5.0	5.0
County Allocation	305.0	327.3	365.0	360.7	371.8	378.3	375.0	375.0	383.8	388.2	393.7	402.3	429.7
Sharable	280.3	302.0	305.0	314.0	310.0	316.5	317.8	317.8	325.7	330.7	333.8	344.8	371.2
Conditional Allocation	24.7	25.3	60.0	46.7	61.8	61.8	57.3	57.3	58.1	57.5	59.9	57.5	58.5
Level Five Hospital	4.0	4.2	4.3	4.3	4.5	4.5	4.6	4.6	4.7	4.7	5.1	4.8	5.0
Road Maintenance Levy 15%	4.3	10.6	9.0	9.4	9.0	9.0	8.3	8.3	8.3	8.6	9.0	9.0	9.4
Capital Transfers	4.5	2.0	8.8	8.8	8.8	8.8	8.7	8.7	8.7	7.7	9.2	6.5	6.3
Recurrent Transfers	10.2	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Foreign Financed Transfers	1.8	7.5	37.0	23.3	38.7	38.7	34.8	34.8	35.5	35.5	35.7	36.2	37.0
Equalization Fund for Marginal areas	6.0	0.0	4.7	7.0	5.8	5.8	6.5	6.5	7.4	6.8	8.2	7.5	8.0
Fiscal Balance (commitment basis excl. grants)	-708.6	-624.2	-760.6	-734.9	-673.6	-745.2	-552.7	-655.1	-533.4	-629.8	-562.1	-625.4	-594.2
Grants	27.0	27.6	35.0	19.7	38.8	38.8	52.4	40.9	54.4	43.1	57.6	46.9	46.9
Of which: Project grants	19.1	22.9	28.5	15.4	33.8	33.8	48.9	37.9	51.4	42.1	54.6	46.9	46.9
Programme grants	7.4	4.7	6.5	4.3	5.0	5.0	3.5	3.0	3.0	1.0	3.0	0.0	0.0
County Health Facilities - DANIDA	0.4	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Balance (incl. grants)	-681.7	-596.6	-725.6	-715.2	-634.8	-706.4	-500.2	-614.1	-479.0	-586.8	-504.5	-578.5	-547.2
Adjustment to Cash Basis	-14.2	-34.7	-75.1	5.9	0.0	66.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Balance (incl. grants) Cash Basis	-695.8	-631.3	-650.5	-721.1	-634.8	-640.2	-500.2	-614.1	-479.0	-586.8	-504.5	-578.5	-547.2
Statistical discrepancy	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCING	697.2	631.3	650.5	721.1	634.8	640.2	500.2	614.14	479.0	586.8	504.5	578.5	547.2
Net Foreign Financing	385.7	355.0	444.9	414.5	331.3	331.3	284.2	240.83	245.6	184.7	248.0	204.4	50.4
Project loans	228.6	180.8	246.3	222.3	247.6	247.6	272.1	239.13	310.1	253.5	349.3	277.0	296.4
IDA counterpart refinancing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Programme loans	6.8	8.5	82.1	84.8	2.0	2.0	2.0	2.0	3.5	3.5	3.5	3.5	3.5
Commercial Financing	186.3	304.0	375.8	373.7	213.1	213.1	200.1	180.3	150.0	150.0	100.0	200.0	250.0
Repayments due	-35.9	-138.4	-259.4	-266.2	-131.4	-131.4	-190.0	-180.6	-218.0	-222.3	-204.8	-276.2	-499.6
Other Domestic Financing	2.3	2.6	3.9	2.9	3.2	3.2	-1.2	3.2	-5.5	3.3	-5.5	3.3	3.3
Net Domestic Financing	309.2	273.7	201.7	303.7	300.3	305.7	217.2	370.1	239.0	398.7	262.1	370.8	493.5
Financing gap	15.6	34.7	-75.1	5.9	0.0	-66.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items													
External Debt	2,294.7	2,560.2	3,023.1	3,023.1	3,354.5	3,354.5	3,472.4	3,595.3	3,699.5	3,780.0	3,945.1	3,984.4	4,034.8
Domestic Debt (gross)	2,112.3	2,478.8	2,785.9	2,785.9	3,086.3	3,091.6	3,283.7	3,461.7	3,522.6	3,860.4	3,784.7	4,231.2	4,724.8
Domestic Debt (net)	1,677.8	1,928.1	2,278.5	2,278.5	2,578.8	2,584.2	2,774.6	2,954.3	3,013.6	3,353.0	3,275.7	3,723.8	4,217.3
Primary budget balance	-410.4	-272.7	-357.1	-339.4	-193.4	-264.9	-39.4	-138.1	28.6	-57.1	26.6	19.9	114.4
Nominal GDP**	7,658.1	8,524.7	9,510.4	9,316.5	10,765.7	10,355.4	12,795.9	11,564.3	14,475.2	12,935.5	16,393.0	14,522.5	16,326.4

Source: The National Treasury

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

** GDP revised beginning FY 2018/19 following release Q2 GDP for 2019 by KNBS

Source: The National Treasury

Annex Table 3: Government Operations for the FY 2020/21 - 2023/24 Period (% of GDP)

	2016/17	2017/18	2018/19		2019/20		2020/21		2021/22		2022/23		2023/24
	Act	Prel. Act	Rev. Budget II	Prel. Act	Printed Estimate	BROP'19	BPS'19	BROP'19	BPS'19	BROP'19	BPS'19	BROP'19	BROP'19
TOTAL REVENUE	18.8	17.9	18.9	17.9	19.7	20.2	18.5	18.5	18.8	18.3	18.8	18.4	18.3
Ordinary Revenue	17.1	16.0	16.7	16.1	17.4	17.9	16.7	16.3	17.0	16.3	17.1	16.4	16.5
Income tax	8.2	7.5	7.8	7.4	8.2	7.8	8.0	7.5	8.3	7.6	8.3	7.7	7.8
Import duty (net)	1.2	1.1	1.1	1.2	1.3	1.2	1.2	1.2	1.2	1.1	1.2	1.1	1.1
Excise duty	2.2	2.0	2.1	2.1	2.3	2.6	2.1	2.2	2.2	2.1	2.2	2.1	2.1
Value Added Tax	4.4	4.2	4.5	4.4	4.6	4.5	4.5	4.5	4.6	4.5	4.5	4.6	4.6
Investment income	0.4	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Other	0.8	1.0	0.8	0.8	0.8	1.6	0.8	0.8	0.7	0.8	0.7	0.8	0.7
Railway Development Levy	0.2	0.2	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Ministerial and Departmental Fees (AIA)	1.5	1.6	1.9	1.6	2.0	2.0	1.5	1.9	1.5	1.8	1.5	1.7	1.6
EXPENDITURE AND NET LENDING	28.1	25.2	26.9	25.8	25.9	27.4	22.8	24.1	22.5	23.2	22.2	22.7	21.9
Recurrent expenditure	15.7	15.8	16.6	16.1	16.4	16.9	14.2	15.8	14.1	15.3	13.9	15.0	14.5
Interest payments	3.5	3.8	3.9	4.0	4.1	4.3	3.6	4.1	3.5	4.1	3.2	4.1	4.1
Domestic interest	2.8	2.8	2.8	2.9	2.7	2.8	2.5	2.7	2.5	2.8	2.3	2.8	2.8
Foreign interest	0.8	1.0	1.1	1.1	1.4	1.5	1.1	1.4	1.0	1.3	1.0	1.3	1.3
Wages and Salaries/1	4.4	4.6	4.5	4.5	4.5	4.7	3.9	4.4	3.6	4.2	3.3	4.0	3.6
Contribution to civil service pension fund	0.0	0.0	0.0	0.0	0.1	0.0	0.2	0.2	0.2	0.2	0.3	0.2	0.1
Pensions etc	0.8	0.8	0.9	0.8	1.0	1.0	1.0	1.1	1.0	1.1	0.9	1.1	1.0
Other	5.2	5.2	6.0	5.3	5.3	5.5	4.5	4.8	4.8	4.7	5.2	4.7	4.8
Defense and NSIS	1.7	1.5	1.4	1.5	1.3	1.3	1.1	1.2	1.0	1.1	0.9	1.0	0.9
Development and Net lending	8.4	5.5	6.4	5.9	6.1	6.8	5.7	5.1	5.7	4.8	5.8	4.9	4.7
Domestically financed	5.1	3.1	3.7	3.4	3.6	4.3	3.4	2.9	3.4	2.8	3.5	2.8	2.8
o/w Domestically Financed (Net)	4.6	2.7	3.1	2.8	3.0	3.7	2.9	2.3	2.9	2.2	3.1	2.3	2.3
o/w Exchequer Issues	4.6	2.7	3.1	2.8	3.0	3.7	2.9	2.3	2.9	2.2	3.1	2.3	2.3
Ministerial Development AIA	0.4	0.4	0.6	0.6	0.6	0.6	0.5	0.6	0.4	0.6	0.4	0.5	0.5
Foreign financed	3.2	2.4	2.6	2.4	2.4	2.5	2.2	2.1	2.3	2.0	2.2	2.0	1.9
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingencies	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
County Allocation	4.0	3.8	3.8	3.9	3.5	3.7	2.9	3.2	2.7	3.0	2.4	2.8	2.6
Sharable	3.7	3.5	3.2	3.4	2.9	3.1	2.5	2.7	2.3	2.6	2.0	2.4	2.3
Conditional Allocation	0.3	0.3	0.6	0.5	0.6	0.6	0.4	0.5	0.4	0.4	0.4	0.4	0.4
Level Five Hospital	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
Road Maintenance Levy 15%	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Capital Transfers	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Recurrent Transfers	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
Foreign Financed Transfers	0.0	0.1	0.4	0.3	0.4	0.4	0.3	0.3	0.2	0.3	0.2	0.2	0.2
Equalization Fund for Marginal areas	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.0
Fiscal Balance (commitment basis excl. grants)	-9.3	-7.3	-8.0	-7.9	-6.3	-7.2	-4.3	-5.7	-3.7	-4.9	-3.4	-4.3	-3.6
Grants	0.4	0.3	0.4	0.2	0.4	0.4	0.4	0.4	0.4	0.3	0.4	0.3	0.3
Of which: Project grants	0.2	0.3	0.3	0.2	0.3	0.3	0.4	0.3	0.4	0.3	0.3	0.3	0.3
Programme grants	0.1	0.1	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)	-8.9	-7.0	-7.6	-7.7	-5.9	-6.8	-3.9	-5.3	-3.3	-4.5	-3.1	-4.0	-3.4
Adjustment to Cash Basis	-0.2	-0.4	-0.8	0.1	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Balance (incl. grants) Cash Basis	-9.1	-7.4	-6.8	-7.7	-5.9	-6.2	-3.9	-5.3	-3.3	-4.5	-3.1	-4.0	-3.4
Statistical discrepancy	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
FINANCING	9.1	7.4	6.8	7.7	5.9	6.2	3.9	5.3	3.3	4.5	3.1	4.0	3.4
Net Foreign Financing	5.0	4.2	4.7	4.4	3.1	3.2	2.2	2.1	1.7	1.4	1.5	1.4	0.3
Project loans	3.0	2.1	2.6	2.4	2.3	2.4	2.1	2.1	2.1	2.0	2.1	1.9	1.8
Programme loans	0.1	0.1	0.9	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Financing	2.4	3.6	4.0	4.0	2.0	2.1	1.6	1.6	1.0	1.2	0.6	1.4	1.5
Repayments due	-0.5	-1.6	-2.7	-2.9	-1.2	-1.3	-1.5	-1.6	-1.5	-1.7	-1.2	-1.9	-3.1
Other Domestic Financing	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
Net Domestic Financing	4.0	3.2	2.1	3.3	2.8	3.0	1.7	3.2	1.7	3.1	1.6	2.6	3.0
Financing gap	0.2	0.4	-0.8	0.1	0.0	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items													
Total Public Debt (net)	51.9	52.7	54.8	56.9	49.9	57.3	52.6	56.6	50.4	55.1	48.2	53.1	50.5
External Debt	30.0	30.0	31.8	32.4	31.2	32.4	27.1	31.1	25.6	29.2	24.1	27.4	24.7
Domestic Debt (gross)	27.6	29.1	29.3	29.9	28.7	29.9	25.7	29.9	24.3	29.8	23.1	29.1	28.9
Domestic Debt (net)	21.9	22.6	24.0	24.5	24.0	25.0	21.7	25.5	20.8	25.9	20.0	25.6	25.8
Primary budget balance	-5.4	-3.2	-3.8	-3.6	-1.8	-2.6	-0.3	-1.2	0.2	-0.4	0.2	0.1	0.7
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: The National Treasury

SECRET

Annex Table 4: Development Sector Ceilings for the FY 2020/21-2022/23 MTEF Period (Ksh M)

Sector Code	SECTOR	Classification	Original Approved Budget	BROP Projections			
			2019/20	2020/21	2021/22	2022/23	
010	Agriculture, Rural & Urban Development	Gross	40,681.7	30,763.3	34,930.1	35,560.7	
		GOK	2,184.6	-	-	-	
		Loans	15,453.1	12,885.6	12,885.6	12,885.6	
		Grants	3,295.4	3,095.4	3,095.4	3,095.4	
		Local A-I-A	-	-	-	-	
		S.I.	-	-	-	-	
		Big Four(GOK)	19,748.6	14,782.3	18,949.1	19,579.7	
020	Energy, Infrastructure & ICT	Gross	345,381	316,799	337,877	336,469	
		GOK	51,473	14,438	19,279	27,303	
		Loans	169,701	160,643	160,620	151,017	
		Grants	3,640	3,440	3,440	3,440	
		Local A-I-A	53,953	54,604	55,589	58,534	
		S.I.	3,465	11,702	17,716	17,918	
		Big Four(GOK)	63,150	71,972	81,233	78,249	
030	General Economic & Commercial Affairs	Gross	14,875	9,125	12,018	14,340	
		GOK	5,630	1,381	3,521	5,895	
		Loans	2,038	2,038	2,038	2,038	
		Grants	-	-	-	-	
		S.I.	-	-	-	-	
		Big Four(GOK)	7,207.0	5,706.0	6,458.5	6,407.0	
040	Health	Gross	34,640.7	50,180.4	56,187.7	60,852.7	
		GOK	3,089.0	2,089.0	2,309.0	4,200.0	
		Loans	6,878.5	6,878.5	6,878.5	6,878.5	
		Grants	8,370.2	8,370.2	8,370.2	8,370.2	
		S.I.	-	-	-	-	
		PFR	-	4,000.0	3,500.0	-	
		Big Four(GOK)	16,303.0	28,842.7	35,130.0	41,404.0	
050	Education	Gross	25,535.2	19,677.4	22,388.5	24,741.4	
		GOK	14,841.9	6,494.9	7,747.0	9,587.9	
		Loans	8,606.7	8,606.7	8,606.7	8,606.7	
		Grants	46.8	46.8	46.8	46.8	
		S.I.	2,039.8	2,039.0	3,000.0	3,500.0	
		Big Four(GOK)	-	2,490.0	2,988.0	3,000.0	
060	Governance, Justice, Law & Order	Gross	17,244.9	8,461.4	9,931.5	9,817.0	
		GOK	8,171.8	3,317.9	5,153.0	5,042.0	
		Loans	2,595.0	-	-	-	
		Grants	65.1	53.5	53.5	50.0	
		S.I.	6,413.0	5,090.0	4,725.0	4,725.0	
070	Public Administration & International Relations	Gross	103,740.6	90,317.6	100,698.3	100,354.7	
		GOK	22,552.2	4,413.3	6,395.6	8,321.8	
		Loans	4,835.9	4,835.9	4,835.9	4,835.9	
		Grants	10,026.7	10,119.7	10,119.7	10,119.7	
		S.I.	3,900.0	10,264.0	12,909.0	12,711.0	
		CF & EF	10,765.0	11,532.8	12,431.5	13,182.1	
		CDF	41,749.8	39,180.8	44,385.5	50,924.2	
		PFR	9,911.0	9,971.0	9,621.0	260.0	
080	National Security	Gross	17,079.0	13,974.3	14,974.3	14,974.3	
		GOK	4,000.0	3,000.0	4,000.0	4,000.0	
		Loans	13,079.0	10,974.3	10,974.3	10,974.3	
		Grants	-	-	-	-	
090	Social Protection, Culture & Recreation	Gross	38,921.2	28,185.8	32,188.1	33,875.6	
		GOK	3,737.4	1,071.0	2,165.3	3,102.8	
		Loans	4,728.6	4,728.6	3,950.6	3,950.6	
		Grants	1,514.2	1,514.2	1,514.2	1,514.2	
		Local A-I-A	13,200.0	14,000.0	15,000.0	15,750.0	
		S.I.	13,370.0	2,130.0	2,130.0	2,130.0	
		PFR	2,371.0	4,742.0	7,428.0	7,428.0	
0100	Environment Protection, Water & Natural Resources	Gross	66,114.3	71,862.0	77,108.9	78,999.6	
		GOK	5,564.0	1,301.2	2,947.9	3,780.2	
		Loans	32,780.0	35,347.6	35,347.6	35,347.6	
		Grants	6,826.3	7,026.3	7,026.3	7,026.3	
		S.I.	-	-	-	-	
		Big Four(GOK)	20,944.0	28,176.9	31,787.1	32,845.5	
TOTAL		Gross	704,214.1	639,336.4	698,301.9	709,976.0	
		GOK	121,243.9	37,507.0	53,517.9	71,232.8	
		Loans	260,695.8	246,937.8	246,136.8	236,533.8	
		Grants	33,784.5	33,666.2	33,666.2	33,662.7	
		Local A-I-A	67,153.0	68,604.0	70,589.0	74,284.0	
		S.I.	29,187.4	31,224.6	40,480.0	40,982.0	
		CF & EF	10,765.0	11,532.8	12,431.5	13,182.1	
		CDF	41,749.8	39,180.8	44,385.5	50,924.2	
		PFR	12,282.0	18,713.0	20,549.0	7,688.0	
		Big Four(GOK)	127,352.6	151,970.2	176,546.0	181,485.5	

Note (1) S.I.=Strategic Intervention, (2) CF&EF=Contingency Fund & Equalization Fund, (3) CDF=Constituency Development Fund, PFR=performance for Results

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Annex Table 5: Recurrent Sector Ceilings for the FY 2020/21-2022/23 MTEF Period (Ksh M)

Sector Code	SECTOR	Classification	Original Approved Budget	BROP Projections			
				2019/20	2020/21	2021/22	2022/23
010	Agriculture, Rural & Urban Development	Gross	18,956.7	17,521.9	17,911.8	18,351.1	
		A-I-A	1,360.0	1,052.0	1,052.0	1,043.0	
		Net	17,596.7	16,469.9	16,859.8	17,308.1	
		Salaries	6,560.4	6,486.7	6,681.2	6,901.4	
		Grants & Other Transfers	10,063.8	9,454.0	9,504.9	9,566.1	
		Other Recurrent	2,332.5	1,581.2	1,725.6	1,883.6	
		SI	-	-	-	-	
020	Energy, Infrastructure & ICT	Gross	89,725.9	87,835.1	92,500.1	92,355.7	
		A-I-A	75,923.0	75,923.0	79,524.0	78,900.0	
		Net	13,802.9	11,912.1	12,976.2	13,455.7	
		Salaries	4,401.4	4,538.9	4,675.0	4,815.3	
		Grants & Other Transfers	80,757.8	79,832.1	84,187.7	83,721.1	
		Other Recurrent	4,566.7	3,464.2	3,637.4	3,819.3	
		SI	-	-	-	-	
030	General Economic & Commercial Affairs	Gross	15,015.2	13,899.0	14,140.6	14,295.7	
		A-I-A	6,173.2	6,313.2	6,427.2	6,406.2	
		Net	8,842.1	7,585.9	7,713.4	7,889.6	
		Salaries	1,573.1	1,639.4	1,677.5	1,718.8	
		Grants & Other Transfers	11,189.4	10,802.9	10,936.2	10,978.5	
		Other Recurrent	2,252.8	1,456.7	1,526.9	1,600.5	
		SI	-	-	-	-	
040	Health	Gross	68,084.0	62,472.5	63,926.4	65,426.5	
		A-I-A	14,971.4	14,971.4	14,971.4	14,971.4	
		Net	43,112.5	47,501.0	48,955.0	50,454.0	
		Salaries	8,644.0	8,903.3	9,170.4	9,445.5	
		Grants & Other Transfers	36,777.0	37,082.7	38,195.2	39,341.0	
		Other Recurrent	1,664.0	1,487.4	1,561.8	1,639.9	
		Strategic Interventions	10,999.0	14,999.0	14,999.0	14,999.0	
050	Education	Gross	469,272.2	487,843.8	507,047.7	519,498.6	
		A-I-A	55,642.6	55,642.6	55,642.6	55,642.6	
		Net	413,629.6	432,201.2	451,405.1	463,856.2	
		Salaries	250,904.7	269,707.3	277,798.6	286,132.5	
		Grants & Other Transfers	108,854.2	104,982.5	107,818.7	110,740.0	
		Other Recurrent	23,767.9	22,778.4	23,917.3	25,113.2	
		Strategic Interventions	76,375.5	81,005.5	88,143.1	88,143.1	
060	Governance, Justice, Law & Order	Gross	192,380.3	187,120.1	209,166.9	214,739.7	
		A-I-A	2,172.9	2,172.9	2,172.9	2,172.9	
		Net	190,207.4	184,947.2	207,014.0	212,566.8	
		Salaries	124,203.1	129,548.2	133,444.2	137,457.7	
		Grants & Other Transfers	9,648.8	9,474.8	9,851.4	9,816.7	
		Other Recurrent	39,616.4	31,885.0	33,479.2	35,153.2	
		Strategic Interventions	10,716.0	10,516.0	26,716.0	26,616.0	
070	Public Administration & International Relations	Gross	185,079.9	169,527.9	160,768.1	164,893.7	
		A-I-A	6,718.2	6,718.2	6,748.2	6,718.2	
		Net	178,361.8	162,809.7	154,009.9	158,175.5	
		Salaries	33,973.8	34,943.7	35,992.0	37,063.2	
		Grants & Other Transfers	42,639.6	42,204.0	41,550.3	44,051.8	
		Other Recurrent	48,838.0	39,822.7	41,559.3	43,172.2	
		Strategic Interventions	22,341.2	16,106.5	16,106.5	16,106.5	
080	National Security	Gross	142,191.0	135,345.4	140,121.8	145,046.4	
		A-I-A	-	-	-	-	
		Net	142,191.0	135,345.4	140,121.8	145,046.4	
		Salaries	1,163.0	1,197.9	1,230.9	1,233.8	
		Grants & Other Transfers	140,789.0	134,028.0	138,765.4	143,680.8	
		Other Recurrent	239.0	119.5	125.5	131.8	
		Strategic Interventions	-	-	-	-	
090	Social Protection, Culture & Recreation	Gross	29,768.5	39,287.8	39,777.8	40,290.4	
		A-I-A	1,464.0	1,464.0	1,467.7	1,464.0	
		Net	28,304.5	37,823.8	38,310.1	38,826.5	
		Salaries	3,058.4	3,145.9	3,240.3	3,337.5	
		Grants & Other Transfers	7,036.4	6,515.7	6,786.6	7,071.1	
		Other Recurrent	3,657.8	2,494.2	2,618.9	2,749.9	
		Strategic Interventions	16,015.9	27,131.9	27,131.9	27,131.9	
0100	Environment Protection, Water & Natural Resources	Gross	24,132.9	24,615.0	24,896.4	25,394.1	
		A-I-A	7,147.1	7,455.1	7,253.2	7,455.1	
		Net	16,985.8	17,160.0	17,643.3	17,939.0	
		Salaries	2,251.7	2,564.1	2,641.0	2,720.3	
		Grants & Other Transfers	20,302.6	20,644.0	20,906.4	21,182.0	
		Other Recurrent	999.2	827.6	869.0	912.5	
		Strategic Interventions	579.4	579.4	480.0	579.4	
TOTAL		Gross	1,224,606.7	1,225,468.4	1,270,267.6	1,300,291.1	
		A-I-A	171,572.3	171,712.3	175,259.1	174,773.3	
		Net	1,053,034.4	1,053,756.1	1,095,008.5	1,125,517.8	
		Salaries	436,733.6	462,675.4	476,551.2	490,824.1	
		Grants & Other Transfers	468,058.5	455,020.6	468,502.9	480,149.2	
		Other Recurrent	127,934.2	105,917.1	111,020.9	116,176.9	
		Strategic Intervention	137,027.0	150,338.3	173,576.6	173,675.8	
		Medical Insurance	21,569.8	19,066.1	19,066.1	19,066.1	
		JE & Pension Contributory	32,237.4	31,401.0	20,500.0	20,500.0	
		PIR	1,050.0	1,050.0	1,050.0	-	

Annex Table 6: Budget Calendar for the FY 2020/21 Medium-Term Budget

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

Source: National Treasury

Annex Table 7: County Governments' Fiscal Performance (July 2018 to March 2019)

County	Own Source Revenue			Budget Estimates (Ksh m)					Expenditure (Ksh m)					Absorption Rate (%)		
	Target	Actual	% of actual OSR over Target	Rec't	% of Rec't over Budget	Dev't	% of Dev't over Budget	TOTAL	Rec't	% of Rec't over Total Expen.	Dev't	% of Dev't over Total Expen.	TOTAL	Rec't	Dev't	TOTAL
Baringo	401.15	268.98	67.1	4,525.58	55.5	3,629.45	44.5	8,155.03	2,857.2	84.0	545.4	16.0	3,402.6	63.1	15.0	41.7
Bomet	245.00	127.77	52.2	5,127.68	62.8	3,032.92	37.2	8,160.60	3,027.7	81.9	668.3	18.1	3,696.0	59.0	22.0	45.3
Bungoma	1,101.00	605.03	55.0	8,052.68	61.9	4,956.84	38.1	13,009.52	5,070.4	83.6	992.5	16.4	6,062.9	63.0	20.0	46.6
Busia	452.52	181.90	40.2	5,106.71	58.7	3,596.93	41.3	8,703.64	3,376.2	78.2	942.2	21.8	4,318.4	66.1	26.2	49.6
Elgeyo Marakwet	130.44	105.68	81.0	3,135.27	56.0	2,465.81	44.0	5,601.08	2,314.7	80.0	578.5	20.0	2,893.2	73.8	23.5	51.7
Embu	950.00	480.25	50.6	4,681.24	69.1	2,094.84	30.9	6,776.08	3,295.3	90.8	332.3	9.2	3,627.6	70.4	15.9	53.5
Garissa	250.00	81.40	32.6	5,760.17	56.7	4,402.57	43.3	10,162.74	4,700.7	80.3	1,151.2	19.7	5,851.9	81.6	26.1	57.6
Homa Bay	173.00	58.27	33.7	4,976.89	64.4	2,755.20	35.6	7,732.09	3,417.4	87.9	470.7	12.1	3,888.1	68.7	17.1	50.3
Isiolo	150.86	127.21	84.3	3,146.60	60.5	2,053.91	39.5	5,200.51	2,174.9	88.3	288.5	11.7	2,463.4	69.1	14.0	47.4
Kajiado	1,583.86	731.06	46.2	5,444.39	57.2	4,069.65	42.8	9,514.04	2,883.0	73.6	1,033.8	26.4	3,916.8	53.0	25.4	41.2
Kakamega	1,200.00	569.88	47.5	7,801.08	53.8	6,688.34	46.2	14,489.42	4,969.3	62.7	2,952.3	37.3	7,921.6	63.7	44.1	54.7
Kericho	829.82	305.37	36.8	4,799.41	56.1	3,752.36	43.9	8,551.77	3,288.0	83.4	653.8	16.6	3,941.8	68.5	17.4	46.1
Kiambu	2,736.73	1,837.34	67.1	11,127.37	66.9	5,497.42	33.1	16,624.79	6,821.4	79.9	1,713.7	20.1	8,535.1	61.3	31.2	51.3
Kilifi	1,345.07	551.58	41.0	8,719.58	60.5	5,700.40	39.5	14,419.98	3,633.2	69.8	1,570.1	30.2	5,203.3	41.7	27.5	36.1
Kirinyanga	650.00	322.33	49.6	3,671.39	59.7	2,481.53	40.3	6,152.92	2,810.1	84.1	531.5	15.9	3,341.5	76.5	21.4	54.3
Kisii	950.00	260.10	27.4	8,013.42	66.7	3,997.58	33.3	12,011.00	4,774.6	82.5	1,010.9	17.5	5,785.5	59.6	25.3	48.2
Kisumu	1,382.57	553.14	40.0	6,960.65	60.5	4,539.15	39.5	11,499.80	4,455.7	80.0	1,114.2	20.0	5,569.9	64.0	24.5	48.4
Kitui	500.00	324.84	65.0	6,805.63	57.8	4,969.60	42.2	11,775.23	4,899.6	69.8	2,122.0	30.2	7,021.6	72.0	42.7	59.6
Kwale	303.11	212.26	70.0	4,764.23	38.9	7,468.68	61.1	12,232.91	3,016.1	69.2	1,344.5	30.8	4,360.5	63.3	18.0	35.6
Laikipia	800.00	572.82	71.6	4,052.92	60.9	2,599.70	39.1	6,652.62	2,729.2	77.0	816.5	23.0	3,545.7	67.3	31.4	53.3
Lamu	70.00	42.23	60.3	2,559.54	52.8	2,285.60	47.2	4,845.14	1,484.5	82.5	314.2	17.5	1,798.7	58.0	13.7	37.1
Machakos	1,720.06	527.44	30.7	7,630.30	62.4	4,600.80	37.6	12,231.10	5,223.7	87.5	744.4	12.5	5,968.1	68.5	16.2	48.8
Makueni	670.50	317.28	47.3	5,895.51	56.0	4,630.21	44.0	10,525.72	4,025.1	75.4	1,310.0	24.6	5,335.1	68.3	28.3	50.7
Mandera	169.59	66.63	39.3	6,633.04	48.4	7,076.92	51.6	13,709.96	4,817.0	63.0	2,825.9	37.0	7,642.8	72.6	39.9	55.7
Marsabit	140.00	76.60	54.7	4,127.00	47.7	4,526.51	52.3	8,653.51	2,833.3	61.2	1,796.9	38.8	4,630.2	68.7	39.7	53.5
Meru	1,228.80	361.75	29.4	7,807.57	62.5	4,692.02	37.5	12,499.59	5,160.9	89.6	597.2	10.4	5,758.1	66.1	12.7	46.1
Migori	300.00	260.09	86.7	5,141.56	58.4	3,659.55	41.6	8,801.11	3,207.5	81.4	734.6	18.6	3,942.2	62.4	20.1	44.8
Mombasa	3,877.22	2,611.77	67.4	9,455.79	69.6	4,135.98	30.4	13,591.77	5,848.4	81.0	1,373.3	19.0	7,221.8	61.9	33.2	53.1
Muranga	1,000.00	493.58	49.4	5,262.20	59.5	3,588.58	40.5	8,850.78	3,358.5	67.8	1,597.8	32.2	4,956.2	63.8	44.5	56.0
Nairobi	15,496.71	8,242.39	53.2	22,410.40	67.2	10,934.45	32.8	33,344.85	16,132.4	87.4	2,316.6	12.6	18,449.0	72.0	21.2	55.3
Nakuru	2,685.00	1,958.64	72.9	10,467.35	56.6	8,011.58	43.4	18,478.93	5,821.9	88.6	751.5	11.4	6,573.5	55.6	9.4	35.6
Nandi	459.29	145.80	31.7	5,179.21	61.9	3,187.26	38.1	8,366.47	3,640.4	79.1	962.8	20.9	4,603.3	70.3	30.2	55.0
Narok	2,862.64	2,664.37	93.1	7,041.48	69.1	3,153.37	30.9	10,194.85	5,021.2	73.7	1,795.5	26.3	6,816.7	71.3	56.9	66.9
Nyamira	255.57	120.30	47.1	4,690.66	68.0	2,207.38	32.0	6,898.04	3,221.7	85.4	550.3	14.6	3,772.0	68.7	24.9	54.7
Nyandarua	410.00	208.75	50.9	4,478.77	58.4	3,190.76	41.6	7,669.53	2,739.6	90.1	302.6	9.9	3,042.2	61.2	9.5	39.7
Nyeri	1,000.00	601.00	60.1	5,976.95	67.6	2,859.59	32.4	8,836.54	3,863.8	86.5	603.0	13.5	4,466.7	64.6	21.1	50.5
Samburu	255.03	190.33	74.6	3,856.21	65.8	2,004.91	34.2	5,861.12	2,064.2	82.4	441.1	17.6	2,505.3	53.5	22.0	42.7
Siaya	325.00	115.73	35.6	4,555.82	54.9	3,747.26	45.1	8,303.08	3,115.2	94.6	179.3	5.4	3,294.5	68.4	4.8	39.7
Taita Taveta	300.00	217.97	72.7	3,955.76	66.1	2,031.69	33.9	5,987.45	2,734.4	80.3	670.1	19.7	3,404.5	69.1	33.0	56.9
Tana River	60.00	32.21	53.7	4,573.56	62.6	2,736.65	37.4	7,310.21	2,192.8	79.1	580.8	20.9	2,773.6	47.9	21.2	37.9
Tharaka Nithi	300.00	129.61	43.2	3,430.29	60.0	2,290.71	40.0	5,721.00	2,237.1	77.5	647.7	22.5	2,884.8	65.2	28.3	50.4
Trans Nzoia	500.00	231.66	46.3	4,867.14	60.5	3,175.42	39.5	8,042.56	3,013.1	81.2	696.9	18.8	3,710.0	61.9	21.9	46.1
Turkana	250.00	113.13	45.3	8,218.31	60.7	5,317.15	39.3	13,535.46	5,252.0	88.3	696.7	11.7	5,948.7	63.9	13.1	43.9
Uasin Gishu	1,200.00	679.88	56.7	5,469.52	54.9	4,488.54	45.1	9,958.06	3,793.6	77.1	1,128.8	22.9	4,922.4	69.4	25.1	49.4
Vihiga	153.67	122.04	79.4	4,478.07	63.9	2,524.50	36.1	7,002.57	2,688.0	86.7	413.7	13.3	3,101.8	60.0	16.4	44.3
Wajir	200.00	45.74	22.9	6,342.70	48.1	6,832.99	51.9	13,175.69	3,155.3	72.8	1,176.5	27.2	4,331.8	49.7	17.2	32.9
West Pokot	152.37	87.43	57.4	4,081.98	64.8	2,217.24	35.2	6,299.22	2,764.2	84.5	506.1	15.5	3,270.3	67.7	22.8	51.9
TOTAL	52,176.58	28,941.56	55.5	285,259.6	59.9	190,860.5	40.1	476,120.1	183,924.4	79.8	46,547.0	20.2	230,471.4	64.5	24.4	48.4

Source: Controller of Budget

Annex Table 8: Summary of Comments from Stakeholders and Public on 2019 BROP

POLICY AREA	PARAGRAPH	RECOMMENDATION	ACTION
Fiscal Performance – Revenues and Expenditures	7 – 9	<p>Explain reasons for revenue shortfalls in FY 2018/19 occurred and whether this is a different scenario when compared to other years. Also include explanations on what led to deficit in grants.</p> <p>Enhance revenue forecasting to enhance predictability and smooth budget implementation.</p>	<p>The paragraphs have been recasted providing explanations to the revenue shortfalls including those in grants.</p> <p>Revenue forecast have taken into account past revenue performance. The baseline for projecting both the revenues and expenditures for the FY 2019/20 and the medium term has changed given the Ksh 91.2 billion shortfall in FY 2018/19 and the performance in the first two months of FY 2019/20.</p>
	13	<p>Include impact of deviations in macroeconomic variables on revenue.</p> <p>Include a section that shows the contribution to revenues by sectors.</p>	<p>Impact of revisions in macroeconomic projections have been factored in the revised fiscal numbers.</p> <p>A new sub-section has been inserted to illustrate the sectoral contribution to revenues.</p>
	14	<p>Include an explanation on how reporting of delayed revenues by MDAs is corrected at a later date.</p> <p>Policy support is needed for key sectors in revenue mobilization</p>	<p>The National Treasury will liaise with MDAs to improve reporting of A-i-A.</p> <p>2019 BROP prioritizes implementation of the “Big Four” Plan which is expected to improve output of most of the sectors, thereby increasing their revenue contribution.</p>
	62- 68	Expand analysis to include sectoral consumption of government and contribution to revenue	A new section has been created to explain the sectoral contributions to revenues in the FY 2018/19

POLICY AREA	PARAGRAPH	RECOMMENDATION	ACTION
	107	Revenue enhancement strategies require more funding to ensure full implementation	The National Treasury has advanced additional funds to Kenya Revenue Authority (KRA) for the past two financial years to the tune of Ksh 3.1 billion and 4.7 billion to finance revenue enhancement strategies. In addition, the National Treasury will ensure KRA is adequately funded to support continued implementation of the revenue enhancement strategies. Implementation of these strategies is ongoing and the positive impact on revenues has already trickling in.
	16	Explain the viability of anti-adulteration levy considering you expected to collect an additional Ksh 1.0 billion in FY2018/19	The Ksh 1.0 billion projection was based on the expectation that the collection will commence on 1 st July 2018. But the provisional collection was delayed for three months due to legal issues.
	6-12	Amend paragraph 6 to read as follows “The fiscal performance for the FY 2018/19 was challenging in view of revenue shortfall and growing expenditure pressures resulting from broad policy measures and shortfall in projected revenues”. Delete overview (Part A) because same information is found in Part B	The comment has been considered and Section A deleted.
	20	Include growth rates as percentage of GDP in paragraph 20 (interest payments) especially the foreign interest given to be in tandem with paragraph 113.	Growth rates and ratio to GDP of the interest payments have been provided in Table 3 and Table 5.

POLICY AREA	PARAGRAPH	RECOMMENDATION	ACTION
	19	The shortfall in wages and salaries should be reviewed.	The projected expenditures on wages and salaries for FY 2018/19 was Ksh 427.9 billion. However, the actual expenditure amounted to Ksh 417.5 billion, resulting to a shortfall of Ksh 10.4 billion.
	Page 7	Indicate the 35 percent benchmark of the wage bill to Government revenue as prescribed in the PFM Regulations	PFM Regulations require that the National Government's expenditure on the compensation of employees shall not exceed 35 percent of the national Government's equitable share of revenues. Paragraph 33 indicates that the share of National Government's expenditure on wages and salaries to revenues stood at 31.9 percent in the FY 2018/19, thereby conform to this requirement.
	106	Provide more information on why GDP growth far outstrips revenue growth.	A section and a table have been inserted to explain this.
	Table 3	Explain ministerial expenditure that are more than 100 percent of the set targets.	It is evident from the Table that all total ministerial expenditures for the FY 2018/19 have been below target
	25	The paragraph correctly indicates that non-inclusion of expenditures from some donor funded projects partly explains the issue of development expenditures being below target. However, there is need to acknowledge the issue of lower absorption of donor funds.	The issue of lower absorption of donor funds has been correctly captured.

POLICY AREA	PARAGRAPH	RECOMMENDATION	ACTION
Debt Analysis	37	<p>Include a summary table on debt thresholds to support the write up.</p> <p>Indicate that the public sector debt service to tax revenue ratio is above the recommended threshold and this is putting pressure on Government discretionary spending as well as Government borrowing.</p>	<p>Table 7 has been inserted summarizing the debt performance.</p> <p>From the Table the ratio of debt to tax revenue is well within the recommended threshold.</p>
Deficit financing	43	Use 50.0% as threshold for national public debt/GDP in NPV terms according to PFM (National) Regulations 2015, Clause 26 (1)c and not the 70% in the paragraph	The 70% threshold refers to the Lower-Middle Income country debt sustainability benchmark set by the International Monetary Fund. It is not the same as the one in the PFM Regulations.
Deficit financing	29	Financial ceilings should be given by the spending agencies to ensure expenditure compliance with the set ceilings	The National Treasury proposes expenditure ceilings based on the expected resource envelope which is then forwarded to Cabinet for approval.
Fiscal Responsibility Principles	30 & 31	Include explanation how to increase absorption rate of the external finance in FY 2019/20.	A framework has already been put in place by the Public Investment Management to appraise and monitor all projects to improve their implementation
Fiscal Responsibility Principles	35	The paragraph should recheck the factual content of the statement indicating that the resources mobilized through borrowing during FY2018/19 were strictly used to finance infrastructural projects.	The paragraph has been amended. All borrowed resources were used to finance development expenditure.
County Government's Fiscal Performance	41 & 42	Harmonize paragraphs 41 & 42 so as there is a link in performance in terms of the revenue allocation and the actual disbursement	The paragraphs have been harmonized.

POLICY AREA	PARAGRAPH	RECOMMENDATION	ACTION
		<p>Rephrase the first sentence of paragraph 41 and include an analysis on utilization of Equalization Fund.</p>	
	46	<p>Give an explanation on what exactly affects OSR collections (sources of underperformance)</p> <p>Revise the paragraph using total preliminary annual revenue collection data from CBK CRF accounts</p>	<p>The explanation of the underperformance in OSR is already provided in the said paragraph</p> <p>This is a useful suggestion. The National Treasury will endeavor to work with CBK as well as the Counties to disaggregate CRF inflows between OSR and other receipts. At the same time, as Controller of Budget already has the full-year data, we are also working with them to obtain the 12-month information.</p>
	Table 5	<p>Explain why five County Governments have not accessed funds for the construction of County Headquarters and the future of this conditional grant</p>	<p>The Counties in question failed to adhere to conditions of the grant, hence the Exchequer could not disburse their respective allocations. In general, conditional allocations (unlike the unconditional equitable share) do not have to be disbursed entirely, because their transfer is subject to attainment of the access requirements.</p>
	Table 9	<p>Present total pending bills as a proportion of county's total revenue since counties pay their pending bills out of their total revenue</p>	<p>This is a useful suggestion, which the National Treasury will adopt in the subsequent documents.</p>
	44	<p>Highlight measures to address failure by accounting officers of Ministries to submit instructions for release of payments for specific conditional grants</p>	<p>The National Treasury will work closely with Ministries to ensure instructions for release of payments for conditional grants are submitted by respective accounting officers</p>

POLICY AREA	PARAGRAPH	RECOMMENDATION	ACTION
	54	Include the effort of the multi-Agency Taskforce on development of a single revenue collection system as one of the measures on County OSR forecasting	Included in the paragraph
		Introduce a section on the County disbursement schedule and adherence to it by the national government to aid in analysis on county absorption rates	This is a good suggestion. It is also useful to note that the National Treasury endeavors to make payments to Counties based on the Disbursement Schedule. However, in periods where Exchequer inflows are suboptimal (as has been the case in recent years), Counties with less balances in their CRF's are prioritized over those with significant balances. This is pursuant to the Constitutional requirement for prudence in financial management.
Real Sector Developments	62-68	Table 10 to be expanded to include the growth dynamics from 2018Q-2019Q1 to reflect the positive development in place of the negative message perceived from only comparing 2019Q1 to 2018Q1.	The paragraphs have been amended to relay a positive message. Growth in the agricultural sector is expected to pick up in the remaining quarters of 2019. Growth continues to be driven primarily by strong performance in non-agricultural sectors.
Inflation Rate	69	Rewrite the paragraph 69 to reflect developments in overall inflation. Include additional paragraphs to capture food inflation, fuel inflation, and non-food-non-fuel	Paragraph rewritten to show the developments in overall inflation Additional paragraphs and charts included decomposing inflation into its components
Kenya Shilling Exchange Rate	72	Amend Paragraph 72 bringing out the factors that have supported stability of the Kenya Shilling.	The paragraph has been amended to indicate the factors that supported the stability of the Kenya Shilling.

POLICY AREA	PARAGRAPH	RECOMMENDATION	ACTION
		Rephrase the paragraph to underscore the fact that the Shilling has strengthened against the Euro and Sterling Pound in the period under review.	
Interest Rates	74	For completeness of the discussion on interest rates, include a section on commercial banks interest rates	A section on commercial banks interest rates has been incorporated
Private Sector Credit	75	The performance of private sector credit should be incorporated in the document	The performance of private sector credit is explained in the document.
Foreign Exchange Reserves	81	<p>It could be appropriate to restrict the analysis covered in Chart 7 to a more recent period.</p> <p>Recast paragraph 81 to underscore that the foreign exchange reserves continue to provide an adequate buffer against short-term shocks in the foreign exchange market.</p> <p>Give a brief on why it is not at optimum coupled up with policy measure</p>	Paragraph 81 and Chart 7 has been amended showing foreign exchange reserves from June 2016 to June 2019.
Domestic growth outlook	87	Recast the paragraph to state that growth in the first half of the year was impacted by delayed onset and below average long rains which affected agricultural output.	Paragraph 87 recasted to explain that growth in the first quarter of 2019 was impacted by delayed rainfall.
	87-91	<p>Review projections in economic growth taking into account slowdown in economic activities to ensure planning is linked to current economic performance.</p> <p>Anchor the 6.1 percent growth outlook on the strategic interventions by the Government.</p>	Growth projections in the BROP have taken into consideration the recent economic performance. In this regard, economic growth projection for 2019 has been revised down to 6.0 percent from the earlier projection 6.2 percent contained in the 2019 Budget Policy Statement.

POLICY AREA	PARAGRAPH	RECOMMENDATION	ACTION
Monetary Outlook	92	Amend paragraph 92 to point out that food inflation has been declining in the recent months and that overall inflation will remain within the target band, though there are emerging challenges including the expected rise in international oil and food prices.	The 6.1 percent growth outlook is well anchored. This growth will be supported largely by the stable macroeconomic environment that supports private investments, expected improved weather conditions, growth in the non-agricultural sector.
	93	Relook at the main risks to inflation and come up with those that have not been considered but may disturb the outcome	Paragraph 92 has been amended to show that food inflation has been declining in the recent months.
	94	The paragraph is restricting the role of CBK and should focus on the core mandate of the Bank	The main risk to inflation remains largely the effects of the erratic weather to food prices and increases in energy prices
External Sector Outlook	95	Extend the analysis to cover the Medium Term Period similar to paragraph 98	The paragraph has been amended to reflect the central role of CBK in monetary policy
	Annex Table 1	Have more ambitious target for export of goods and services to GDP in FY 2023/24 to reflect investment in the "Big Four" Agenda and Special Economic Zones	The outlook in this paragraph points to stable exchange rate over the medium term and progressive decline in the current account deficit
Risks to the Domestic Economic Outlook	101	Rephrase the paragraph to avoid any interpretation which suggests that the Government/Central bank will switch to accommodative monetary policy in case risks materialize	The target for exports have been arrived at taking into consideration the prevailing economic environment including the investments in SEZs Paragraph rephrased for clarity.

POLICY AREA	PARAGRAPH	RECOMMENDATION	ACTION
Medium-Term Expenditure Framework		<p>Highlight indicative figures for resource allocation for FY 2020/21 and medium term to guide MDAs.</p>	<p>Ceilings for FY 2020/21 and the medium term well provided at sector level in Table 14, Annex Table 4 and Annex Table 5</p>
	120	<p>Enhance allocation for food security and the related expenditures due to the failure of the long rains and the likely frequent drought 2020 will be the middle term of the current Government and likely to be a very stable year for implementation of government projects. It is also two years away from the next general election. Enhance the budget allocation for 2020/21 to capture this opportunity and have the productive projects be taken care of this financial year.</p>	<p>Noted. The Government has prioritized implementation of the “Big Four” Plan and as such allocations to the drivers and enablers of the Plan have progressively been enhanced.</p>
Budget Calendar for FY 2020/21 and the Medium Term	Page 49	<p>Factor procedures of the House while approving the Budget, that is, highlight tentative dates when Parliament shall conduct its public hearings on FY 2020/21 and the medium term.</p> <p>Consider Standing Order 235(4) (a) of National Assembly which allows Departmental Committees 21 days to consider draft estimates before making their recommendations to the Budget and Appropriations Committee</p>	<p>Budget Calendar has been revised to indicate that the Finance Bill will be submitted to Parliament for approval by 30th April.</p>

POLICY AREA	PARAGRAPH	RECOMMENDATION	ACTION
		<p>Indicate in the Calendar when the Finance Bill for FY 2020/21 will be submitted to Parliament for approval. Through Statute Law (Miscellaneous Amendments) Act, 2019, section 39 of PFM Act, 2012 was amended to allow for the Finance Bill to be assented by 30th June. This therefore means that the Finance Bill must be submitted to Parliament for approval by 30th April</p>	
<p>General Clarifications and Editorials</p>	<p>Foreword</p>	<p>The Sector Working Group should have a criterion to adhere to when prioritizing ongoing projects</p> <p>Rephrase last sentence to read: “Additionally, we have initiated a set of reforms to promote the domestic debt market to fund our development programs”.</p> <p>Rephrase first sentence to read “Emphasis will be on high priority and strategic service delivery programmes.”</p> <p>Mention that “SWGs are also required to prioritize ongoing projects before considering new ones” in line with government policy direction</p>	<p>Guidelines for prioritization and appraisal of projects and monitoring had been developed by PIM Unit at the National Treasury.</p> <p>The phrase has been inserted in the paragraph.</p> <p>The sentence has been rephrased.</p> <p>The phrase has been inserted in the paragraph.</p>
<p>Executive Summary</p>		<p>In paragraph 3, rephrase the sentence to read “ while the share of National Government wages and benefits to National Government revenues was 31.9 percent, below the benchmark of 35.0 percent”.</p> <p>In paragraph 3, replace the word vis-à-vis with “out of which” in the second last sentence</p> <p>Paragraph 6 second sentence may read “Should these risks persist ...instead of materialize”</p>	<p>The phrase has been inserted in the paragraph.</p> <p>Word replaced.</p> <p>The phrase has been inserted in the sentence.</p>

POLICY AREA	PARAGRAPH	RECOMMENDATION	ACTION
		<p>Second but last paragraph; Amend the second sentence to read as follows “Growth momentum continued in the first quarter of 2019 with the economy expanding by 5.6 though at decelerated rate compared to a similar period in 2018.</p>	<p>This paragraph was amended.</p>
<p>Other Recommendations / Policy Proposals</p>	<p>27 & 120</p>	<p>Change the reference table from Table 5 to Table 4 Rename Table 12 as Table 13</p>	<p>Tables have been referenced correctly</p>
	<p>Task Central Bank of Kenya to provide particulars of how money circulates within various industries and subsectors in the economy</p>		<p>The National Treasury will coordinate with the Central Bank of Kenya to provide the information.</p>
	<p>Refer to Vision 2030 and how to bridge its underperformance whose target economic growth is at least 10% as from the year 2012.</p>		<p>MTP III of the Kenya Vision 2030 builds on the achievements of the first and second MTPs and prioritizes the implementation of “Big Four” initiatives. The MTP III targets economic growth of 7.0 percent by 2022.</p>
	<p>Since focus is on “Big Four”, give more details on what is being aimed at, and how it’s to be achieved in terms of exact food or levels/ value/products for the industrial output</p>		<p>This BRPOP focuses on reporting the actual fiscal performance of FY 2018/19, updated macro-fiscal forecasts and sector ceilings for the FY 2020/21 and over the medium term However, detailed information on initiatives under the “Big Four” Plan are contained in the 2018 & 2019 Budget Policy Statement (BPS) which are available on the National Treasury website. The 2020 BPS will provide an update on the implementation of these initiatives.</p>

POLICY AREA	PARAGRAPH	RECOMMENDATION	ACTION
	<p>Include a citizen BROP (simplified and visualised BROP) as an annex to the BROP to enable the engagement of a wider array of public stakeholders</p> <p>Provide explanatory notes on the BROP with respect to the Budget Policy Statement and Budget Appropriation Committee recommendations</p> <p>Provide a breakdown of functional spending by economic classification.</p> <p>Consider the resolution of the House <i>vide</i> Certificate : KNA/L&P/2018/ (013) which states that budgetary allocations for Parliament and Judiciary should be based on a 7.5 percent annual increase on their recurrent budgets and development budget allocation be contested on a need basis</p> <p>Give Parliament its own sector in the Sector Working Groups (SWG) to strengthen their budget oversight role</p> <p>Link Parliament's 2020/21 and medium term Budget to its Strategic Plan for FY 2019-2030 which sets strategic direction for the implementation of parliament's activities and projects</p> <p>Dedicate a chapter on revenue and taxation to include the revenue measures and tax proposals. The BROP glosses over the shrinking income-tax and PAYE which indicates rising formal unemployment due to government borrowing.</p>		<p>These are useful suggestions and will be considered in subsequent documents.</p> <p>Addressed in Table 3</p> <p>Noted for reflection</p> <p>Noted. The National Treasury and Parliament will consult on the matter</p> <p>Revenue raising measures/tax proposals contained in Budget Speech for FY 2019/20 and Finance Bill, 2019.</p>

THE NATIONAL TREASURY AND PLANNING

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Abbreviations and Acronyms

A-i-A	Appropriation in Aid
BPS	Budget Policy Statement
BROP	Budget Review and Outlook Paper
CARB	County Allocation of Revenue Bill
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CFS	Consolidated Fund Services
CG	County Government
DORB	Division of Revenue Bill
FISM	Financial Intermediation Services Indirectly Measured
FY	Financial Year
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GOK	Government of Kenya
ICT	Information, Communication and Technology
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
MDAs	Ministries, Departments and Agencies
MTP	Medium Term Plan
NG	National Government
NSE	Nairobi Securities Exchange
MTEF	Medium Term Expenditure Framework
NCDF	National Constituency Development Fund
NDA	Net Domestic Assets
OSR	Own Source Revenue
PAYE	Pay As You Earn
PFM	Public Finance Management
PV	Present Value
SGR	Standard Gauge Railway
SWG	Sector Working Groups
WEO	World Economic Outlook
VAT	Value Added Tax

Legal Basis for the Publication of the Budget Review and Outlook Paper

The Budget Review and Outlook Paper is prepared in accordance with Section 26 of the Public Finance Management Act, 2012. The law states that:

- 1) The National Treasury shall prepare and submit to -Cabinet for approval, by the 30th September in each financial year, a Budget Review and Outlook Paper, which shall include:
 - a. Actual fiscal performance in the previous financial year compared to the budget appropriation for that year;
 - b. Updated macro-economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent Budget Policy Statement
 - c. Information on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the latest Budget Policy Statement; and
 - d. The reasons for any deviation from the financial objectives together with proposals to address the deviation and the time estimated to do so.
- 2) Cabinet shall consider the Budget Review and Outlook Paper with a view to approving it, with or without amendments, not later than fourteen days after its submission.
- 3) Not later than seven days after the BROP has been approved by Cabinet, the National Treasury shall:
 - a. Submit the paper to the Budget Committee of the National Assembly to be laid before each house of Parliament; and
 - b. Publish and publicize the paper not later than fifteen days after laying the Paper before Parliament.

Fiscal Responsibility Principles in the Public Finance Management Act

In line with the Constitution, the Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The PFM law (Section 15) states that:

- 1) Over the medium term, a minimum of 30% of the national budget shall be allocated to development expenditure
- 2) The national government's expenditure on wages and benefits for public officers shall not exceed a percentage of the national government revenue as prescribed by the regulations.
- 3) Over the medium term, the national government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure
- 4) Public debt and obligations shall be maintained at a sustainable level as approved by Parliament (NG) and county assembly (CG)
- 5) Fiscal risks shall be managed prudently
- 6) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future

Executive Summary

The 2019 Budget Review and Outlook Paper, has been prepared in accordance with the Public Finance Management (PFM) Act, 2012 and its Regulations. The document provides actual fiscal performance for the FY 2018/2019, macro-economic projections and the sector ceilings for the FY 2020/21 and the medium term budget. The document also provides an overview of how the actual performance of the FY 2018/19 affected our compliance with the fiscal responsibility principles and the financial objectives spelt out in the PFM Act as well as information showing changes from the projections outlined in the 2019 Budget Policy Statement.

The fiscal performance of the FY 2018/19 budget was below target on account of revenue shortfalls and rising expenditure pressures. Total revenue collection including A-I-A amounted to Ksh 1,671.1 billion. This revenue was Ksh 123.5 billion below the revised target of Ksh 1,794.5 billion due to below target collections in major ordinary revenue categories and a shortfall in cumulative ministerial A-i-A (by Ksh 32.3 billion). Total expenditures and net lending by end of June 2019 was Ksh 2,405.9 billion against the target of Ksh 2,555.1 billion, translating into a shortfall of Ksh 149.2 billion. The shortfall was occasioned by the lower absorptions recorded in both the recurrent (wages and salaries, pensions and operations and maintenance) and development expenditures by the National Government. The fiscal deficit for the FY 2018/19 was Ksh 721.1 billion (equivalent to 7.7 percent of GDP) against a targeted deficit of Ksh 650.5 billion (6.8 percent of GDP).

The fiscal outcome for the FY 2018/19 largely adhered to the fiscal responsibility principles and financial objectives set out in the PFM Act, 2012. The National Government development expenditure as a percent of Ministerial Government expenditure was 35.2 percent above the benchmark of 30.0 percent while the share of National Government wages and benefits to National Government revenues was 31.9 percent, below the benchmark of 35.0 percent. The Government also maintained public debt and obligations at sustainable levels while managing fiscal risks cautiously.

The fiscal outcome for the FY 2020/21 is projected to improve supported by the fiscal consolidation policies. Driven by continued reforms in tax legislation and administration, revenue collection is projected at 18.5 percent of GDP in the FY 2020/21 from 20.2 percent of GDP in the FY 2019/20. Supported by rationalization measures, total expenditures are projected to decline to 24.1 percent of GDP in FY 2020/21 from 27.4 percent of GDP in FY 2019/20. As a result, fiscal deficit for the FY 2020/21 is projected to decline to 5.3 percent of GDP from 6.2 percent of GDP deficit in FY 2019/20.

The Kenyan economy remains resilient and is projected to grow by about 5.9 percent in the FY 2019/20, 6.2 percent in the FY 2020/21 and rise to 7.0 percent in the medium term. This growth outlook will be supported by the stable macroeconomic environment, investments in the strategic areas under the “Big Four” Plan and existing business and consumer confidence in the economy. This macroeconomic outlook is not without risks. The risks to this outlook include an escalation of global trade-related tensions, uncertainties in the global financial markets particularly with regard to the U.S. economic and trade policies, a rise in oil prices and weather related shocks. Should these risks persist, Kenya’s growth forecast could be constrained. However, the Government will monitor these risks and respond appropriately to mitigate any negative impact on growth.