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By Lom Otton
Aden Duale MP
24/10/18
Wednesday
Afternoon
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2018 BUDGET REVIEW AND OUTLOOK PAPER



SEPTEMBER 2018

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Foreword

This 2018 Budget Review and Outlook Paper has been prepared at a time when both the global and regional growth is on a recovery path. Global economic growth is projected at 3.9 percent in 2018 and 2019, up from 3.7 percent in 2017 while growth in sub-Saharan Africa is projected to recover to 3.4 percent in 2018 and 3.8 percent in 2019 up from 2.8 percent in 2017. The improved global and regional economic outlook will benefit Kenya's exports further strengthening our growth prospects and more specifically our manufacturing industry.

On the domestic scene, growth momentum continued in the second quarter of 2018. The economy expanded by 6.3 percent in the second quarter of 2018 up from 5.7 percent in the first quarter. We project the economy to therefore grow by 6.0 percent in 2018 up from the 4.9 percent growth in 2017. This strong growth will be supported mainly by the strong growth in activities in agriculture due to improved weather conditions in 2018 and pick up in performance in most of the sectors due to the stable macroeconomic environment and ongoing public and private sector investments.

The fiscal performance for the FY 2017/18 budget was generally satisfactory, despite the challenges emanating from revenue shortfalls and mounting expenditure pressures. The FY 2017/18 was particularly challenging because of the prolonged elections in 2017 and the adverse spillover effects of the severe drought. There were also expenditure pressures to implement several Collective Bargaining Agreements (CBAs).

We shall continue with fiscal consolidation and reduce fiscal deficit to 4.7 percent in FY 2019/20 down from the estimated deficit of 5.8 percent in FY 2018/19 and the preliminary outcome of 7.2 percent of GDP in FY 2017/18. This will support debt sustainability. The fiscal consolidation will benefit from the revenue mobilization being undertaken by the Kenya Revenue Authority and complemented by expenditure rationalization to reduce non-core expenditure items from the budget. We embarked on zero based budgeting approach for the FY 2018/19 budget and the same process will be adopted in FY 2019/20 budget.

Given the expenditure pressures that we face, we will continue to strengthen expenditure control and improve the efficiency of public spending through public financial management reforms in order to free fiscal space for priority social and economic projects. In particular, the Public Investment and Management Unit that we have established at the National Treasury shall ensure the appraisal of all projects before they are committed in the budget. Additionally, the adoption of the zero-based budgeting and a strict adherence to the directive by H.E. The President to freeze all new projects until completion of ongoing ones will be adhered to. This will improve efficiency of our public investment, streamline spending and reduce waste.

As outlined in the 2018 Budget Policy Statement, our economic policy will be anchored on the four thematic sectors covered under The "Big Four" as prioritized in the Third Medium Term Plan for the period 2018-2022. I call upon all the Sector Working Groups Chairpersons to ensure their respective sectors adhere to the hard sector expenditure ceilings provided in this document.



HENRY K. ROTICH, EGH
CABINET SECRETARY/ NATIONAL TREASURY & PLANNING

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Acknowledgement

The 2018 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 2017/2018, provides macro-economic projections and the sector ceilings for the FY 2019/20 Medium Term Budget. The document also provides an overview of how the actual performance of the FY 2017/18 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 2018 Budget Policy Statement.

I wish to note that as we embark on the preparations of the FY 2019/20 Medium Term budget, growth momentum of the economy is accelerating. The second quarter of 2018 recorded a growth of 6.3 percent up from 5.7 percent in the first quarter. We have continued to maintain macroeconomic stability with inflation remaining within target, interest rates remaining low and stable while exchange rate remains competitive. We currently hold foreign reserves of US\$ 8,652 billion or 5.8 months of imports. We shall continue with the fiscal consolidation process to lower fiscal deficit further to 4.7 percent of GDP in FY 2019/20 down from the estimated 5.8 percent of GDP in 2018/19. This will achieve a fiscal deficit of 3.1 percent of GDP by FY 2021/22. This will be from revenue mobilisation and expenditure rationalization by removing non-core expenditures from the budget.

The preparation of this 2018 BRBP was a collaborative effort among various Government Agencies. We thank all the spending units, the Ministries, Government Departments and Agencies for the timely provision of useful data and information through their budget execution for the FY 2017/18. We are also grateful to the Macro Working Group, a sector that reviewed this document to ensure it satisfies the PFM Act, 2012 and set out the sector ceilings that will guide the rest of the sectors in the preparation of their FY 2019/20 budget.

This document benefitted from inputs from various Directorates and Departments within the National Treasury. I wish to thank the core team from the Macro and Fiscal Affairs Department and Budget Department that coordinated the finalization of this document. Lastly, allow me to thank all institutions that we consulted as well as the public for the useful comments and inputs that continued to come right from the Launch of the Sector Working Groups at the Kenyatta International Convention Centre on 13th September, 2018.

As I conclude, allow me to reiterate the importance of public participation in this FY 2019/20 Medium Term Budget preparation process by calling on all Sector Working Groups to devise an engagement framework that will allow open public and stakeholders' participation and incorporation of the proposals received.

DR. KAMAU THUGGE, CBS
PRINCIPAL SECRETARY/ NATIONAL TREASURY

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Abbreviations and Acronyms

AiA	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
KBRR	Kenya Bank's Reference Rate
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's	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

This Budget Review and Outlook Paper (BROP), is prepared in accordance with the Public Finance Management (PFM) Act, 2012 and its regulations. It presents a review of the budget performance for the FY 2017/18 and how the budget adhered to the fiscal responsibility principles and financial objectives sets out in the PFM Act, 2012. It further provides updated macro-economic and financial forecasts with sufficient information to show changes from the projections outlined in the 2018 Budget Policy Statement (BPS) and sets out the broad fiscal parameters for the FY 2019/20 budget and the medium term.

Preliminary fiscal outcome for the FY 2017/18 indicate that the cumulative revenue collection including A-i-A was Ksh 1,487.2 billion. This revenue was Ksh 172.4 billion below the revised target of Ksh 1,659.6 billion due to shortfall in ordinary revenue collection (by Ksh 124.6 billion) following reduced collections in major income categories and a shortfall in the collection of cumulative ministerial A-i-A (by Ksh 47.8 billion). The total expenditure and net lending amounted to Ksh 2,111.5 billion, against a target of Ksh 2,330.0 billion. The shortfall of Ksh 218.5 billion was attributed to lower absorption recorded in both recurrent (Ksh 133.9 billion) and development expenditures by the National Government (Ksh 80.2 billion) as well as Ksh 4.4 billion shortfall in conditional transfer to County Governments

The fiscal deficit for the FY 2017/18, was Ksh 631.3 billion (equivalent to 7.2 percent of GDP) against a projected deficit of Ksh 627.4 billion (equivalent to 7.2 percent of GDP).

The fiscal outcome for the FY 2017/18 budget was satisfactory and 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 total budget was 27.0 percent below the benchmark of 30.0 percent while the share of National Government wages and benefits to National Government revenues was 32.0 percent, below the target of 35.0 percent. The the National Government net domestic borrowing amounted Ksh 273.7 billion compared to Ksh 274.7 billion spending on domestically funded capital expenditures, an indication that borrowing financed only development expenditures. Public debt and obligations were maintained at a sustainable level and fiscal risks were managed prudently. The reforms in the tax administration and legislations were carried out to lock in predictability and enhance compliance with the tax system.

Fiscal outcomes for the FY 2018/19 are projected to improve supported by the fiscal consolidation policies. Revenues are projected to increase to 18.5 percent of GDP in FY 2018/19 up from 16.9 percent of GDP in FY 2017/18 buoyed by the revenue enhancement initiatives put in place and improvement in revenue administration. Moreover, the recovery of the agricultural sector supported by the improved weather conditions and the resilient growth in the non-agricultural sectors is expected to support a strong revenue growth.

The zero-based budgeting that was implemented at the beginning of the budget gave room to accommodate additional expenditure priorities and to ensure a sustainable fiscal profile that supports economic expansion and sustainable debt position. The directive by H.E. the President to freeze all new projects and only give priority to ongoing projects has further given impetus to this course. The deficit for the FY 2018/19 is therefore projected to decline to 5.8 percent of GDP from the 7.2 percent of GDP deficit in FY 2017/18.

In the FY 2019/20, driven by continued reforms, revenue collection is expected to rise to 18.3 percent of GDP while overall expenditure and net lending is projected at 23.4 percent of GDP. As a result, the fiscal deficit is projected at 4.7 percent of GDP while excluding expenditures related to the SGR, the deficit in the FY 2019/20 is projected at 4.3 percent of GDP, down from

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5.2 percent of GDP in FY 2018/19. The fiscal deficit in FY 2019/20, will be financed by net external financing of 1.9 percent of GDP and net domestic financing of 2.8 percent of GDP.

The Kenyan economy is on a recovery path and is projected to recover to 6.0 percent in 2018, an upward revision from the earlier projection of 5.8 percent in the 2018 Budget Policy Statement. This recovery is reflected in the strong growth of 6.3 percent in quarter two of 2018 up from the 5.7 percent registered in quarter one of 2018. The outlook is supported by a pickup in agricultural and manufacturing activities due to improved weather conditions as well as the stable macroeconomic environment, investments in the strategic areas under the “Big Four” Plan and regain in business and consumer confidence following political stability in the country.

This macroeconomic outlook is not without risks. Risks from the global economies relates to uncertainties in the global financial markets particularly with regard to the U.S. economic and trade policies, normalization of monetary policy in the advanced economies, present tariff wars between China and the U.S., and the Brexit outcome. Domestically, the economy will continue to be exposed to risks arising from adverse weather conditions until the mitigating measures of food security under “The Big Four” Plan are put in place. Additional risks could emanate from public expenditure pressures especially recurrent expenditures. The Government will monitor the above risks and take appropriate measures to safeguard macroeconomic stability.



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I. INTRODUCTION

Objective of the 2018 Budget Review and Outlook Paper

1. The objective of the 2018 Budget Review and Outlook Paper (BROP) is to provide a review of fiscal performance for the FY 2017/18 and how this performance impacts on the financial objectives and fiscal responsibility principles set out in the 2018 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 2019/20 budget and the medium term. Details of the fiscal framework and the medium term policy priorities will be firmed up in the 2019 BPS.
2. This 2018 BROP is a key document in linking policy, planning and budgeting. The Government is finalising the preparation of the Third Medium Term Plan (MTP III) (covering 2018-2022) - the successor document of the Second MTP (that covered 2013-2017) —that will guide budgetary preparation and programming from 2018 onwards. In the interim, the 2018 BROP is embedded on the priorities of the Government under the “Big Four” Plan as detailed in the 2018 Budget Policy Statement (BPS) and as prioritized in the Third Medium Term Plan (MTP 2018-2022), in addition to taking into account emerging macroeconomic challenges.
3. The underperformance in both revenue collection and expenditure in the FY 2017/18 had implications on the financial objectives outlined in the 2018 BPS and the fiscal projections of the 2018/19 Budget. In particular, the baseline for projecting both the revenue and expenditures for the FY 2018/19 and the medium term has changed given the outcome of FY 2017/18 and the first two months in FY 2018/19. To remedy these deviations, the 2018 BROP details appropriate revisions of the FY 2018/19. In addition, the fiscal outlook contained in this BROP focuses on reforming the tax and revenue administration systems to enhance revenue yields, promote compliance and facilitate private sector growth and development as indicated in the 2018 BPS. In addition, the Government will continue to gradually reduce non-priority expenditures, improve value for money spent and stabilize the public finances.
4. As required by the PFM Act, 2012, budget process aims to promote the efficient and effective use of resources, based on evidence and rational deliberation. To meet the resource requirements of the 2019/20 budget and the medium term budget, the Government will continue to implement measures aimed at raising the tax revenue and rationalizing expenditures. In this regard, this BROP provides sector ceilings which will set in motion the budget preparation for the FY 2019/20 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. Further, resource allocations in this BROP have been aligned to the “Big Four” Plan in order to create 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 paper is organized as follows: Section II provides a review of the fiscal performance for the FY 2017/18 and its implications on the financial objectives set out in the 2018 BPS. Section III provides highlights of the recent economic developments and outlook. Section IV provides for the proposed resource allocation framework while conclusion is in Section V.

II. REVIEW OF FISCAL PERFORMANCE FOR THE FY 2017/18

A. Overview

6. The fiscal performance for the FY 2017/18 budget was generally satisfactory, despite the challenges arising from revenue shortfalls and mounting expenditure pressures mainly due to the impact of the prolonged electioneering period and the adverse spillover effects of the severe drought.

7. Total cumulative revenue collection including appropriation in aid (A-I-A) was Ksh 1,487.2 billion (16.9 percent of GDP) which is Ksh 172.4 billion below the target of Ksh 1,659.6 billion (19.1 percent of GDP). The shortfall was as a result of underperformance in both the ordinary revenues and the ministerial A-I-A by Ksh 124.6 billion and Ksh 47.8 billion, respectively.

8. The shortfall in ordinary revenue was driven by underperformance of other income tax (including Corporate Income Tax), Pay as You Earn (PAYE), VAT on goods and services and Excise Tax. Corporate income tax was below target largely due to lower banking profits explained in part by lower interest income attributed to the interest rates caps, expansion of the tax bands by 10 percent resulted in a PAYE revenue shortfall of about Ksh 10.5 billion, VAT was lower than target on account of lower import volumes while excise tax collection was affected by the proliferation of illicit goods. The Ksh 47.8 billion shortfall in Appropriation-in-aid is partly explained by delayed reporting by the collecting MDAs. Nevertheless, the shortfall is expected to narrow when the MDAs present their final accounts statements.

9. Total expenditures and net lending by end of June 2018 was Ksh 2,111.5 billion against the revised target of Ksh 2,330.0 billion, falling short of the revised target by 218.5 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.

10. The fiscal deficit for the FY 2017/18 was at Ksh 631.3 billion (equivalent to 7.2 percent of GDP) against a projected deficit of Ksh 627.4 billion (equivalent to 7.2 percent of GDP). Excluding expenditures related to standard Gauge Railway, the deficit was 6.1 percent of GDP in FY 2017/18.

11. The fiscal outcome for the FY 2017/18 budget 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 total budget was 27.0 percent below the benchmark of 30.0 percent while the share of National Government wages and benefits to National Government revenues was 32.0 percent, well below the target of 35.0 percent. The National Government net domestic borrowing amounted Ksh 273.7 billion compared to Ksh 274.7 billion spending on domestically funded capital expenditures, an indication that borrowing financed only development expenditures. Public debt and obligations were maintained at a sustainable level and fiscal risks were managed prudently. The reforms in the tax administration and legislations were carried out to lock in predictability and enhance compliance with the tax system.

B. FY 2017/18 Fiscal Performance

Performance of Revenues

12. By the end of June 2018, total cumulative revenue including A-i-A collected amounted to Ksh 1,487.2 billion against a revised target of Ksh 1,659.6 billion (**Table 1a**). This represented a revenue shortfall of Ksh 172.4 billion (or 10.4 percent deviation from the revised target). Ordinary revenue collection amounted to Ksh 1,365.1 billion against the target of Ksh 1,489.6 billion.

13. 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 68.7 billion, largely on account of the underperformance in other income tax which includes corporation tax. The depressed performance in corporation tax is largely attributed to the decline in remittances from banking sectors; construction sector; energy sector and agriculture sector. This was followed by VAT which recorded a deviation of Ksh 21.2 billion. Other revenues were also below target except the miscellaneous revenue which was above target by 1.3 billion. This collection represented a growth of 6.2 percent compared to the previous financial year FY 2016/17.

14. As already mentioned above, the appropriation in aid shortfall of Ksh 47.8 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 2017/18 (Ksh Million)

	FY 2016/2017	FY 2017/18		Deviation	% Deviation
	Actual	Rev. Budget	Prel. Actual		
KShs. Millions					
Total Revenue (a+b)	1,422,531	1,659,611	1,487,227	(172,384)	(10.4)
(a) Ordinary Revenue	1,306,568	1,489,633	1,365,063	(124,570)	(8.4)
Import Duty	89,943	103,391	93,921	(9,469)	(9.2)
Excise Duty	165,474	179,413	167,777	(11,636)	(6.5)
PAYE	337,661	379,851	350,631	(29,220)	(7.7)
Other Income Tax	287,389	329,418	289,962	(39,456)	(12.0)
VAT Domestic	194,234	218,596	206,257	(12,339)	(5.6)
VAT Imports	144,800	159,435	150,599	(8,836)	(5.5)
Investment Income	28,879	31,561	24,123	(7,438)	(23.6)
Import Declaration Fees	22,947	26,199	23,782	(2,417)	(9.2)
Others 1	35,241	61,770	58,011	(3,758)	(6.1)
(b) Appropriation In Aid (A-I-A)	115,963	169,977	122,164	(47,814)	(28.1)
o/w Railway Development Levy	18,940	21,169	20,773	(396)	(1.9)
(c) External Grants	26,962	42,953	27,600	(15,353)	(35.7)
Total Revenue and External Grants	1,449,493	1,702,564	1,514,827	(187,736)	(11.0)
Total Revenue and External Grants as a share of GDP	18.9%	19.6%	17.2%		

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

Source: National Treasury

15. During the FY 2017/18, the Government received investment income in form of dividends, surplus funds and directors' fees of Ksh 24.1 billion against a revised target of Ksh 31.6 billion, resulting in a negative variance of Ksh 7.4 billion (**Table 1b**). This was a decline of 16.5 percent compared to FY 2016/17.

Table 1b: Investment Income for the FY 2017/18 (Ksh Million)

	2016/17	2017/18	
	Actual	Revised Estimates	Actual
Dividends	23,485	26,266	17,357
Surplus Funds	5,375	5,271	6,766
Directors Fees	18	24	-
Total	28,879	31,561	24,123

Source: National Treasury

16. Similarly, external grants amounted to Ksh 27.6 billion against a target of Ksh 43.0 billion, representing an underperformance of Ksh 15.4 billion. Of these external grants, programme grants (AMISOM reimbursements) amounted to Ksh 4.7 billion against a target of Ksh 6.1 billion.

17. As a proportion of GDP, the total cumulative revenue and grants in the FY 2017/18 was Ksh 16.8 percent which is lower than 18.6 percent recorded in the FY 2016/17. This is attributed mainly to contraction in collection of income tax by about 1.0 percent of GDP in FY 2017/18 compared FY 2016/17 as well as lower than projected external grants by 0.1 percent of GDP.

Expenditure Performance

18. Total expenditure and net lending in the FY 2017/18 amounted to Ksh 2,111.5 billion against a target of Ksh 2,330.0 billion, representing an under spending of Ksh 218.5 billion (or 9.4 percent deviation from the revised budget) (**Table 2**). This shortfall was attributed to lower absorption in both recurrent and development expenditures by the national government.

19. The National Government's recurrent expenditure amounted to Ksh 1,308.0 billion against a target of Ksh 1,441.9 billion, representing an under-spending of Ksh 133.9 billion (or 9.3 percent deviation from the approved recurrent expenditure). The under-spending was in respect of operations and maintenance (Ksh 120.1 billion), pensions and other contribution funds (Ksh 11.1 billion), as well as wages and salaries (Ksh 3.9 billion). The lag between spending at the sub-county level and reporting to the headquarters continue in part to contribute to the apparent expenditure underperformance.

20. Expenditure on domestic interest payments was above the target by Ksh 24.2 billion while foreign interest was below target by Ksh 5.4 billion. Foreign interest payments amounted to Ksh 84.4 billion, compared to Ksh 58.4 billion in the same period of the FY 2016/17. The domestic interest payments was Ksh 239.5 billion, higher than Ksh 212.9 billion paid in the corresponding period of the previous financial year.

21. Ministerial appropriation-in-aid in recurrent expenditure recorded an under spending of Ksh 47.8 billion.

22. Development expenditures were below target by Ksh 80.2 billion on account of lower than programmed absorption by MDAs of domestically financed programmes by Ksh 44.9 billion and lower than programmed execution of externally funded programmes by Ksh 45.4 billion.

Table 2: Expenditure and Net Lending, FY 2017/18 (Ksh Million)

	2016/2017		2017/18		Deviation	% Growth
	Actual		Actual	Preliminary		
	Actual	Rev. Budget	Actual			
KShs. Millions						
1. Recurrent Expenditure	1,165,037	1,441,931	1,308,039	(133,892)		12.3
Domestic Interest	212,865	215,243	239,470	24,227		12.5
Foreign Interest Due	58,368	89,819	84,420	(5,399)		44.6
Pensions & Other CFS	63,958	76,173	65,099	(11,074)		1.8
Wages & Salaries	336,636	392,823	388,938	(3,885)		15.5
Defence and NSIS	130,194	138,789	126,068	(12,721)		(3.2)
Others	363,017	529,084	404,043	(125,040)		11.3
<i>o/w Appropriation-in-Aid</i>	58,536	115,948	68,004	(47,944)		16.2
2. Development	639,923	556,349	476,146	(80,203)		(25.6)
Domestically Financed	385,113	317,538	272,665	(44,873)		(29.2)
Foreign Financed	246,367	274,577	229,153	(45,424)		(7.0)
Net Lending	2,443	2,398	2,529	131		3.5
3. County Allocation	305,016	331,681	327,274	(4,407)		7
<i>o/w Equitable share</i>	280,300	288,000	302,000	14,000		8
<i>Conditional allocation</i>	24,716	43,681	25,274	(18,407)		2
4. Equalization Fund	6,000	-	-	-		-
5. Contingency Fund	-	-	-	-		-
TOTAL EXPENDITURE AND NET LENDING	2,115,976	2,329,961	2,111,459	(218,502)		(0.2)

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

Source: National Treasury

Ministerial Expenditure

23. The total cumulative ministerial and other public agencies expenditure was Ksh 1,409.7 billion (85.0 percent absorption) against a target of Ksh 1,658.3 billion. Recurrent expenditure was Ksh 930.1 billion (86.4 percent absorption) against a target of Ksh 1,076.9 billion, while development expenditure was Ksh 479.5 billion (8.4 percent absorption) against a target of Ksh 581.5 billion. As indicated earlier, the discrepancy between actual and target expenditures partly reflect the non-capture of the Sub-County expenditures and hence under reporting by ministries.

24. As at end June 2018, expenditures by the Ministry of Education, Teachers Service Commission and Ministry of Health (Social Sector) accounted for 42.4 percent of total recurrent expenditure, while the State Department for Interior and Ministry of Defense accounted for 10.7 percent and 10.1 percent respectively.

25. Analysis of development outlay indicates that the Department of Transport accounted for the largest share of the total development expenditures (21.6 percent), followed by the, Ministry of Energy and Petroleum (14.6 percent), Department of Infrastructure (15.4 percent State Department of Water Services (6.8 percent) and State Department of Planning and Statistics (6.2 percent mainly on account of Constituency Development Fund). The development expenditures in large ministries were below the target because of low absorption of the external resources (grants and loans) and delayed reporting of direct payments executed by the development partners. Details of various Ministerial/Departmental and Commissions expenditures for the FY 2017/18 are provided in **Table 3**.

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Table 3: Ministerial Expenditures, Period Ending 30th June, 2018 (Ksh Millions)

	MINISTRY/DEPARTMENT/COMMISSIONS	Jun-18		Variance	Jun-18		Variance	Jun-18		Variance	% total expenditure to total target
		Recurrent			Development			Total			
		Actual*	Target	Actual*	Target	Actual*	Target				
1011	The Presidency	8,892	8,904	12	416	1,076	660	9,309	9,980	671	93.3
1021	State Department for Interior	99,885	116,258	16,373	14,158	15,331	1,173	114,043	131,589	17,547	86.7
1023	State Department for Correctional Services	18,745	22,798	4,053	396	553	158	19,141	23,351	4,210	82.0
1032	State Department for Devolution	828	1,269	441	2,729	7,593	4,864	3,557	8,862	5,306	40.1
1033	State Department for Special Programmes	5,051	5,535	484	3,305	3,415	110	8,355	8,950	595	93.4
1034	State Department for Planning and Statistics	4,435	5,829	1,394	33,095	37,936	4,842	37,530	43,766	6,236	85.8
1041	Ministry of Defence	94,115	106,835	12,721	5,912	7,475	1,563	100,027	114,310	14,284	87.5
1052	Ministry of Foreign Affairs	9,493	16,435	6,941	135	456	320	9,629	16,890	7,261	57.0
1063	State Department for Basic Education	80,698	83,774	3,077	7,080	9,914	2,833	87,778	93,688	5,910	93.7
1064	State Department for Vocational And Technical Training	2,443	2,568	125	8,353	10,825	2,472	10,796	13,393	2,597	80.6
1065	State Department for University Education	65,099	96,501	31,403	3,893	4,324	431	68,991	100,825	31,834	68.4
1071	The National Treasury	39,059	42,540	3,481	17,047	24,614	7,567	56,107	67,154	11,047	83.5
1081	Ministry of Health	28,724	49,010	20,286	21,382	29,381	8,000	50,106	78,392	28,286	63.9
1091	State Department for Infrastructure	43,537	53,821	10,283	73,157	95,623	22,466	116,694	149,444	32,750	78.1
1092	State Department for Transport	1,405	8,387	6,982	102,474	104,062	1,588	103,879	112,449	8,570	92.4
1093	State Department for Maritime Affairs	242	260	18	-	-	-	242	260	18	93.0
1094	State Department for Housing & Urban Development	2,122	2,261	140	14,351	16,186	1,835	16,472	18,447	1,975	89.3
1095	State Department for Public Works	789	815	26	673	714	42	1,462	1,530	68	95.6
1103	State Department for Water Services	2,645	3,375	730	29,521	35,072	5,551	32,166	38,447	6,281	83.7
1104	State Department for Irrigation	531	946	415	10,343	13,611	3,268	10,874	14,557	3,683	74.7
1105	State Department of Environment	2,522	3,258	736	1,255	1,661	407	3,777	4,919	1,142	76.8
1106	State Department for Natural Resources	6,839	13,452	6,613	1,360	2,751	1,391	8,199	16,203	8,003	50.6
1112	Ministry of Lands and Physical Planning	2,241	2,329	89	2,697	2,798	101	4,938	5,127	189	96.3
1122	State Department for Information Communication and Technology & Innovation	902	1,119	216	7,847	11,985	4,138	8,749	13,104	4,354	66.8
1123	State Department for Broadcasting & Telecommunications	2,655	3,363	708	378	380	2	3,033	3,744	711	81.0
1132	State Department for Sports Development	2,523	2,585	62	2,246	2,247	1	4,769	4,832	63	98.7
1133	State Department For Arts And Culture	3,005	3,031	26	548	550	2	3,553	3,581	27	99.2
1152	State Department of Energy	2,088	2,154	66	66,299	74,950	8,651	68,387	77,104	8,717	88.7
1153	State Department of Petroleum	191	209	18	2,981	3,936	955	3,173	4,145	972	76.5
1161	State Department for Agriculture	15,432	16,044	613	8,613	12,277	3,663	24,045	28,321	4,276	84.9
1162	State Department for Livestock	6,964	7,029	65	3,778	5,778	1,999	10,743	12,807	2,064	83.9
1164	State Department for Fisheries and The Blue Economy	1,830	1,922	92	133	314	181	1,963	2,236	273	87.8
1172	State Department for Investment and Industry	2,147	2,271	124	3,260	6,635	3,375	5,407	8,906	3,499	60.7
1173	State Department for Cooperatives	778	789	11	487	555	68	1,266	1,344	79	94.1
1174	State Department for Trade	2,039	2,219	179	46	48	1	2,086	2,266	181	92.0
1183	State Department for East African Integration	1,572	1,649	77	8	65	57	1,580	1,714	134	92.2
1184	State Department for Labour	1,610	1,831	222	305	454	149	1,914	2,285	371	83.8
1185	State Department for Social Protection	12,926	15,173	2,247	9,361	13,018	3,657	22,287	28,191	5,904	79.1
1191	Ministry of Mining	1,312	1,552	240	160	208	48	1,472	1,760	288	83.6
1201	Ministry of Tourism	1,558	2,709	1,151	590	980	390	2,148	3,689	1,541	58.2
1211	State Department of Public Service and Youth Affairs	12,373	14,517	2,144	11,260	11,854	594	23,633	26,371	2,738	89.6
1212	State Department for Gender	1,217	1,330	113	3,188	3,188	-	4,405	4,518	113	97.5
1252	State Law Office and Department of Justice	3,855	4,536	681	71	132	61	3,925	4,668	742	84.1
1261	The Judiciary	11,764	12,712	948	1,658	1,940	282	13,422	14,652	1,230	91.6
1271	Ethics and Anti-Corruption Commission	3,047	3,069	21	1,268	1,268	-	4,315	4,337	21	99.5
1281	National Intelligence Service	31,953	31,958	4	-	-	-	31,953	31,958	4	100.0
1291	Directorate of Public Prosecutions	1,727	1,994	267	-	5	5	1,727	1,999	272	86.4
1311	Registrar of Political Parties	763	809	45	-	-	-	763	809	45	94.4
1321	Witness Protection Agency	177	442	265	-	-	-	177	442	265	40.1
2011	Kenya National Commission on Human Rights	389	399	9	-	-	-	389	399	9	97.6
2021	National Land Commission	1,093	1,134	41	137	173	36	1,230	1,307	78	94.1
2031	Independent Electoral and Boundaries Commission	29,305	32,660	3,355	-	712	712	29,305	33,372	4,067	87.8
2041	Parliamentary Service Commission	8,748	10,287	1,539	1,058	2,188	1,130	9,806	12,475	2,669	78.6
2042	National Assembly	16,930	19,591	2,661	-	-	-	16,930	19,591	2,661	86.4
2051	Judicial Service Commission	180	284	104	-	-	-	180	284	104	63.5
2061	Commission on Revenue Allocation	351	392	41	-	-	-	351	392	41	89.6
2071	Public Service Commission	1,351	1,359	8	9	9	-	1,360	1,368	8	99.4
2081	Salaries and Remuneration Commission	561	629	67	-	-	-	561	629	67	89.3
2091	Teachers Service Commission	217,629	218,235	607	7	143	136	217,636	218,378	743	99.7
2101	National Police Service Commission	468	548	79	-	-	-	468	548	79	85.5
2111	Auditor General	4,634	5,193	559	103	103	0	4,737	5,296	559	89.4
2121	Controller of Budget	470	521	51	-	-	-	470	521	51	90.1
2131	The Commission on Administrative Justice	391	413	22	-	-	-	391	413	22	94.7
2141	National Gender and Equality Commission	330	346	16	-	-	-	330	346	16	95.5
2151	Independent Policing Oversight Authority	567	696	129	-	-	-	567	696	129	81.5
	Total	930,147	1,076,864	146,717	479,529	581,465	101,936	1,409,676	1,658,330	248,654	85.0

Source: National Treasury

SECRET

Overall Balance and Financing

26. Reflecting the performance in revenue and expenditure, fiscal deficit amounted to Ksh 631.3 billion (equivalent to 7.2 percent of GDP). This deficit was lower than the projected deficit of Ksh 627.4 billion (equivalent to 7.2 percent of GDP) (Table 4). Excluding expenditures related to SGR the fiscal deficit was 6.1 percent of GDP.

Table 4: Budget Outturn for the FY 2017/18

	FY 2016/2017	FY 2017/2018				2016/2017	FY 2017/18		
	Actual	Actual*	Rev. Budget	Deviation	% growth	Actual	Actual	Targets	Deviation
	KSh. Millions					% Share of GDP			
A. TOTAL REVENUE AND GRANTS	1,449,493	1,514,827	1,702,564	(187,737)	4.5	18.9	17.2	19.6	(2.4)
1. Revenue	1,422,531	1,487,227	1,659,611	(172,384)	4.5	18.6	16.9	19.1	(2.2)
Ordinary Revenue	1,306,568	1,365,063	1,489,633	(124,570)	4.5	17.1	15.5	17.2	(1.6)
Import Duty	89,943	93,921	103,391	(9,469)	4.4	1.2	1.1	1.2	(0.1)
Excise Duty	165,474	167,777	179,413	(11,636)	1.4	2.2	1.9	2.1	(0.2)
Income tax	625,050	640,593	709,269	(68,676)	2.5	8.2	7.3	8.2	(0.9)
VAT	339,034	356,856	378,031	(21,175)	5.3	4.4	4.1	4.4	(0.3)
Investment Income	28,879	24,123	31,561	(7,438)	(16.5)	0.4	0.3	0.4	(0.1)
Others	58,188	81,793	87,968	(6,176)	40.6	0.8	0.9	1.0	(0.1)
Appropriation-in-Aid	115,963	122,164	169,977	(47,814)	5.3	1.5	1.4	2.0	(0.6)
2. Grants	26,962	27,600	42,953	(15,353)	2.4	0.4	0.3	0.5	(0.2)
AMISOM Receipts	7,436	4,728	6,100	(1,372)	(36.4)	0.1	0.1	0.1	(0.0)
Projects Grants (Revenue)	9,485	9,374	12,974	(3,600)	(1.2)	0.1	0.1	0.1	(0.0)
Projects Grants (AIA)	9,632	12,383	23,879	(11,496)	28.6	0.1	0.1	0.3	(0.1)
Italian Debt Swap	-	-	-	-	-	-	-	-	-
County Health Facilities-DANIDA	408	1,116	-	1,116	173.2	0.0	0.0	-	0.0
B. EXPENDITURE and NET LENDING	2,109,976	2,111,459	2,329,961	(218,502)	0.1	27.6	24.0	26.8	(2.8)
1. Recurrent	1,165,037	1,308,039	1,441,931	(133,892)	12.3	15.2	14.9	16.6	(1.7)
Domestic Interest	212,865	239,470	215,243	24,227	12.5	2.8	2.7	2.5	0.2
Foreign Interest	58,368	84,420	89,819	(5,399)	44.6	0.8	1.0	1.0	(0.1)
Pension	63,958	65,099	76,173	(11,074)	1.8	0.8	0.7	0.9	(0.1)
Wages and Salaries	336,636	388,938	392,823	(3,885)	15.5	4.4	4.4	4.5	(0.1)
Defence and NSIS	130,194	126,068	138,789	138,793	(3.2)	1.7	1.4	1.6	(0.2)
O & M/Others	363,017	404,043	529,084	(125,040)	11.3	4.7	4.6	6.1	(1.5)
2. Development and Net Lending	639,923	476,146	556,349	(80,203)	(25.6)	8.4	5.4	6.4	(1.0)
3. Equalization Fund	6,000	-	-	-	(100.0)	0.1	-	-	-
4. County Governments	305,016	327,274	331,681	(4,407)	7.3	4.0	3.7	3.8	(0.1)
o/w equitable share	280,300	302,000	288,000	14,000	7.7	3.7	3.4	3.3	0.1
conditional allocation	24,716	25,274	43,681	(18,407)	2.3	0.3	0.3	0.5	(0.2)
5. CF	-	-	-	-	-	-	-	-	-
C. DEFICIT EXCL. GRANT (Commitment basis)	(687,445)	(624,232)	(670,350)	46,118	(9.2)	(9.0)	(7.1)	(7.7)	0.6
D. DEFICIT INCL. GRANTS (Commitment basis)	(660,484)	(596,632)	(627,397)	30,766	(9.7)	(8.6)	(6.8)	(7.2)	0.4
E. ADJUSTMENT TO CASH BASIS	(14,169)	(34,678)	-	34,678	-	(0.2)	(0.4)	-	0.1
F. DEFICIT INCL. GRANTS (Cash basis)	(674,653)	(631,310)	(627,397)	3,912	(6.4)	(8.8)	(7.2)	(7.2)	0.5
G. TOTAL FINANCING	697,218	631,310	627,397	3,912	(9.5)	9.1	7.2	7.2	(0.1)
1. Net Foreign financing	385,745	354,977	374,622	(19,645)	(8.0)	5.0	4.0	4.3	(0.3)
Disbursements	421,667	493,330	524,904	(31,575)	17.0	5.5	5.6	6.0	(0.4)
Commercial Financing	186,303	303,996	305,358	(1,362)	63.2	2.1	3.5	3.5	(0.1)
Project Loans Revenue	30,908	24,214	33,574	(9,360)	(21.7)	0.4	0.3	0.4	(0.1)
Project Loans AIA	86,322	92,778	114,464	(21,686)	7.5	1.0	1.1	1.3	(0.3)
Project Loans SGR_AIA	111,367	63,818	58,000	5,818	(42.7)	1.3	0.7	0.7	0.1
Project Loans SGR_PHASE_2A_AIA	-	-	6,500	(6,500)	-	-	-	0.1	(0.1)
Programme Loans	6,767	8,524	7,008	1,516	26.0	0.1	0.1	0.1	0.0
Debt repayment - Principal	(35,922)	(138,353)	(150,282)	11,930	285.1	(0.5)	(1.6)	(1.7)	0.2
Other Domestic Financing	2,269	2,623	3,809	(1,186)	15.6	0.0	0.0	0.0	(0.0)
4. NET DOMESTIC FINANCING	309,205	273,710	248,737	24,973	(11.5)	3.5	3.1	2.9	0.2
Nominal GDP (Fiscal Year)	7,658,138	8,796,500	8,678,974						

Source: National Treasury

/1/Equalization Fund expenditures represent actual disbursements to the Fund

27. The fiscal deficit by the end of June 2018 was financed through net external financing equivalent to Ksh 355.0 billion against a target of Ksh 374.6 billion, net domestic financing of Ksh 273.7 billion against a target of Ksh 248.7 billion and domestic loan redemption receipts of Ksh 2.6 billion.

28. Total disbursements (inflows) including Appropriations-in-Aid amounted to Ksh 493.3 billion in the FY 2017/18 against a target of Ksh 524.9 billion. This amount included: Ksh 24.2 billion project loans revenues; Ksh 92.8 billion project loans (A.I.A); Ksh 8.5 billion

programme loans; Ksh 63.8 billion project loans for SGR; and Ksh 304.0 billion commercial financing.

C. Fiscal Performance for the FY 2017/18 in Relation to Financial Objectives

29. The fiscal performance in the FY 2017/18 has affected the financial objectives set out in the 2018 BPS and the Budget for FY 2018/19 in the following ways:

- i. The base for ordinary revenue projections is higher than the actual outcome by about Ksh 124.6 billion; as such there will be a downward base effect adjustment in ordinary revenues for FY 2018/19 and 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 for the FY 2018/19. In addition, adjustments will be made to fiscal aggregates to reflect revisions in the macroeconomic projections as well as revenue performance for the first two months of FY 2018/19;
- ii. The baseline ceilings for spending agencies will be adjusted in line with the revised resource envelope under the updated macroeconomic framework in the 2019 Budget Policy Statement. In addition the revisions will take into account the performance in project execution in the FY 2018/19 budget by MDAs and any identified one-off expenditures; and,
- iii. The under-spending in both recurrent and development budget for the FY 2017/18 additionally has implications on the base used to project expenditures in the FY 2018/19 and the medium term. Appropriate revisions have been undertaken in the context of this BRPOP taking into account the budget outturn for the FY 2017/18.

30. 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-in-A expenditures by MDAs; and slow uptake of external resources in the FY 2017/18.

31. To remedy these deviations, the fiscal outlook will focus on completing the tax and revenue administration reforms contained in the 2018 BPS. Further, the National Treasury has issued guidelines on how capital projects should be planned, appraised and evaluated before funds are committed in the budget. Resources will be allocated to the capital projects which will have been fully appraised and reviewed to avoid delay in implementation. Further, ongoing projects will be prioritized and any new projects will be evaluated in the context of their furtherance of the “Big Four” Plan, importance in line with the medium and long term development agenda; their impact on poverty alleviation; promotion of growth and job creation; and the viability and sustainability of the project.

D. Fiscal Responsibility Principles

32. 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:

33. The National Government’s development expenditure as a percent of total budget was 27.0 percent in FY 2017/18 and is projected to increase to 29.0 percent in the FY 2018/19 and remain within the 30 percent benchmark over the medium term (**Table 5**).

Table 5: Revenues and Expenditures (Ksh Billion)

	FY 2016/17	FY 2017/18		FY 2018/19		FY 2019/20		FY 2020/21		FY 2021/22
	Actual	Revised Budget	Prel. Actual	Budget	BROP'18	BPS'18	BROP'18	BPS'18	BROP'18	BROP'18
Ksh. Billions										
1.0 Total Expenditure & Net Lending	2,110	2,330	2,111	2,557	2,474	2,648	2,657	2,899	2,891	3,235
1.1 Total National Govt Expenses	1,830	2,042	1,809	2,238	2,164	2,323	2,331	2,564	2,556	2,890
Total Recurrent	1,183	1,458	1,324	1,564	1,541	1,621	1,617	1,785	1,799	2,034
CFS (Interest & Pensions)	335	381	389	491	491	493	493	558	558	630
Total Ministerial Recurrent	848	1,077	935	1,073	1,051	1,128	1,124	1,227	1,241	1,404
o/w Wages & Salaries	337	393	389	454	424	508	475	550	507	539
County conditional transfers	18	16	16	13	13	14	14	14	14	14
Wages as % National Government Revenues	29%	29%	33%	28%	27%	28%	27%	26%	25%	23%
Development	646	584	486	675	623	702	714	779	757	855
o/w County conditional transfers	6	28	10	49	49	38	38	38	38	38
Development as % NG expenditures	35%	29%	27%	30%	29%	30%	31%	30%	30%	30%
Domestic	394	320	275	376	342	383	395	434	427	485
External	246	236	201	250	232	281	281	307	292	332
1.2 Contingencies	-	-	-	5	5	5	5	5	5	5
1.3 County Allocation (Equitable share only)	280	288	302	314	305	320	320	330	330	340
2.0 Total Revenues	1,423	1,660	1,487	1,949	1,853	2,118	2,074	2,424	2,382	2,731
3.0 Total National Government Revenues (Incl. A-I-A)	1,142	1,372	1,185	1,635	1,548	1,797	1,754	2,094	2,052	2,391
4.0 National Government Domestic Borrowing (net)	309	249	274	269	300	264	320	259	311	346

Source: National Treasury

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

34. The law requires that the national government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed 35 percent of the national government's equitable share of the revenue raised nationally plus other revenues generated by the national government pursuant to Article 209 (4) of the Constitution. In conformity to this regulation, the National Government share of wages and benefits to revenues was 32.0 percent in the FY 2017/18, and is projected at 27.0 percent in the FY 2018/19, declining to 23.0 percent by FY 2021/22.

35. The fiscal principle of ensuring the national government's borrowing is used only for financing development expenditures continues to be adhered to. The Medium Term Debt Strategy and other policy documents spells out the purposes of external and domestic financing. The resources mobilized through borrowing during the fiscal year 2017/18 were strictly used to finance infrastructure projects as defined in the development estimates of the budget.

36. 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. The debt ratios remained within sustainable levels for a country rated as a strong performer and in comparison to internationally recognized thresholds.

37. The baseline public debt path remains consistent with the EAC convergence criteria (deficit inclusive of grants of 3.0 percent of GDP and public debt of 50 percent of GDP in NPV) and below the relevant public debt benchmark. The public debt sustainability indicators illustrates that Kenya continues to face a low risk of debt distress as it remains below the threshold of 74 percent of GDP in net present terms. In 2018, the PV of debt is estimated at 48.6 percent of GDP and projected to decline to 43.2 percent of GDP by 2021. The PV of public sector debt to revenue ratio is similarly within its threshold of 300 percent. In 2018, the PV of public sector debt to revenue ratio is estimated at 226.6 percent and is projected to improve to 201.4 percent by 2021. This debt performance is attributed to the high level of concessionality of current external debt and a positive outlook in macroeconomic indicators.

38. 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.

39. On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, the Government continues to carry out tax reforms through modernizing and simplifying tax laws. In order to lock in predictability and enhance compliance with tax system, the government through the Finance Act, 2018, amended the income Tax Act, Excise Duty Act, VAT Act and the Tax Procedures Act.

40. The National Government fiscal projections (**Table 6**) provide comparisons between the updated projections in the BROP 2018 and the 2018 BPS for the financial year 2019/20 and in 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 2019 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 6: Government Fiscal Projections, FY 2018/19-2021/22

	FY 2014/15	FY 2015/16	FY 2016/17		FY 2017/18		FY 2018/19		FY 2019/20		FY 2020/21		FY 2021/22
	Actual	Actual	Prel Actual	Rev. Budget	Prel Actual	Budget	BROP 18	BPS 18	BROP 18	BPS 18	BROP 18	BROP 18	
TOTAL REVENUE	1,108	1,233	1,423	1,660	1,487	1,949	1,853	2,118	2,074	2,424	2,382	2,731	
<i>Total Revenue as a % of GDP</i>	19.0%	18.4%	18.6%	19.1%	16.9%	20.0%	18.5%	19.1%	18.3%	19.2%	18.6%	18.9%	
Ordinary revenue	1,032	1,153	1,307	1,490	1,365	1,769	1,673	1,931	1,870	2,229	2,155	2,479	
<i>Ordinary Revenue as a % of GDP</i>	17.7%	17.2%	17.1%	17.2%	15.5%	18.2%	16.7%	17.4%	16.5%	17.7%	16.9%	17.2%	
Tax Revenue	958	1,069	1,220	1,370	1,259	1,639	1,561	1,817	1,763	2,103	2,036	2,348	
Non-Tax Revenue	74	84	87	120	106	130	111	114	107	126	118	130	
AIA	76	80	116	170	122	180	180	187	204	195	227	253	
Expenditure	1,640	1,782	2,110	2,330	2,111	2,557	2,474	2,648	2,657	2,899	2,891	3,235	
<i>Expenditure as a % of GDP</i>	28.1%	26.6%	27.6%	26.8%	24.0%	26.3%	24.8%	23.9%	23.4%	23.0%	22.6%	22.4%	
Recurrent (incl of conditional transfer to c	897	1,031	1,183	1,458	1,324	1,564	1,541	1,621	1,617	1,785	1,799	2,034	
Development	512	486	646	584	486	675	623	702	714	779	757	855	
Equalization Fund	0	6	6	-	-	9	5	6	6	7	7	7	
County Transfer (Equitable share only)	227	260	280	288	302	314	305	320	320	330	330	340	
Contingencies	5	5	-	-	-	5	5	5	5	5	5	5	
Budget Balance (Deficit (-) excl Grants	(532)	(549)	(687)	(670)	(624)	(608)	(622)	(530)	(583)	(475)	(509)	(503)	
<i>Deficit as % of GDP</i>	-9.1%	-8.2%	-9.0%	-7.7%	-7.1%	-6.3%	-6.2%	-4.8%	-5.1%	-3.8%	-4.0%	-3.5%	
Grants	28	30	27	43	28	48	46	52	52	52	52	54	
Balance Incl. Grants (cash basis)	(504)	(520)	(660)	(627)	(631)	(560)	(576)	(479)	(531)	(423)	(457)	(449)	
<i>Deficit as % of GDP</i>	-8.6%	-7.7%	-8.6%	-7.2%	-7.2%	-5.8%	-5.8%	-4.3%	-4.7%	-3.3%	-3.6%	-3.1%	
Net Foreign Financing	217	270	386	375	355	287	272	220	217	165	147	109	
Domestic Loan Repayments (receipts)	3	2	2	4	2	4	4	4	4	4	4	4	
Domestic Borrowing (net)	251	202	309	249	274	269	300	264	320	259	311	346	
<i>Domestic Borrowing % of GDP</i>	4.3%	3.0%	4.0%	2.9%	3.1%	2.8%	3.0%	2.4%	2.8%	2.0%	2.4%	2.4%	
Public Debt (net Deposits)	2,601	3,211	3,973	4,530	4,530	4,821	5,097	5,321	5,543	5,712	5,864	5,977	
<i>Public Debt to GDP (net Deposits)</i>	44.6%	47.9%	51.9%	52.2%	51.5%	49.6%	51.0%	47.9%	48.9%	45.3%	45.9%	41.4%	
Nominal GDP (Ksh. billion)	5,832	6,710	7,658	8,679	8,797	9,727	9,990	11,101	11,336	12,621	12,780	14,439	

Source: National Treasury

E. County Governments' Fiscal Performance

41. During the FY 2017/18, County Governments were allocated a total of Ksh 345.7 billion, of which Ksh 302.0 billion comprised equitable share of revenues raised nationally, Ksh 12.2 billion being conditional allocations that are part of National Government shareable revenue and Ksh 31.5 billion being additional conditional allocations that are not part of shareable revenue.

42. Actual disbursements to County Governments for the FY 2017/18 amounted to Ksh 326.7 billion, of which Ksh 302.0 billion was equitable share. Disbursements for conditional allocations that are part of shareable revenue was Ksh 7.1 billion while additional conditional allocations covering roads maintenance levy fee, loans and grants amounted to Ksh 17.8 billion (Table 7). Total disbursed allocations represented 94.5 percent of the total allocations for FY 2017/18. The shortfall may be explained largely by Counties failing to meet the requirements for conditional allocations as set out by the respective Ministries responsible for the grants.

Table 7: Total Transfers to County Governments from FY 2013/14 to FY 2017/18 (Ksh Million)

Transfer Type	2013/14	2014/15	2015/16	2016/17	2017/18	Grand Total	%
1. Equitable share transfer	190,000	226,660	259,774	280,300	302,000	1,258,735	94.30%
2. Conditional allocations	5,665	3,261	10,901	13,705	7,100	40,632	3.04%
a) Level Five Hospital	3,419	1,863	3,600	4,000	4,200	17,083	1.28%
b) Free Maternal Healthcare ¹	2,246	1,398	3,321	4,105	-	11,070	0.83%
c) Managed Equipment Services Project	-	-	3,080	4,500	-	7,580	0.57%
d) Foregone User Fees Compensation	-	-	900	900	900	2,700	0.20%
e) Rehabilitation of Youth Polytechnics	-	-	-	-	2,000	2,000	0.15%
f) Emergency Medical Service Grant ²	-	-	-	200	-	200	0.01%
g) Construction of County HQs	-	-	-	-	-	-	0.00%
3. Additional conditional allocations	-	1,137	5,547	6,063	17,797	30,544	2.29%
a) Road Maintenance Levy Fund	-	-	3,300	4,307	10,262	17,869	1.34%
b) Loans and grants:	-	1,137	2,247	1,756	7,535	12,675	0.95%
-World Bank (KDSP Level I)	-	-	-	-	2,148	2,148	0.16%
-World Bank (KDSP Level II)	-	-	-	-	1,950	1,950	0.15%
-World Bank (NUTRIP)	-	-	1,045	791	-	1,836	0.14%
-Danida (HSPS III) ³	-	734	664	408	-	1,806	0.14%
-World Bank (KHSSP-HSSF)	-	404	508	556	8	1,476	0.11%
-World Bank (THUSCP)	-	-	-	-	1,250	1,250	0.09%
-Danida (UHDSF)	-	-	-	-	1,116	1,116	0.08%
-World Bank (NARIGP)	-	-	-	-	1,063	1,063	0.08%
-Italy (KIDDP; Rehab. of Sub-Dist. Hosp.)	-	-	30	-	-	30	0.00%
4. Allowances for County medical personnel	-	-	-	4,842	-	4,842	0.36%
5. Coffee Cess	-	-	-	107	-	107	0.01%
Grand Total (= 1+2+3+4+5)	195,665	231,059	276,223	305,016	326,897	1,334,859	100.00%

Source: The National Treasury and Planning

Notes:

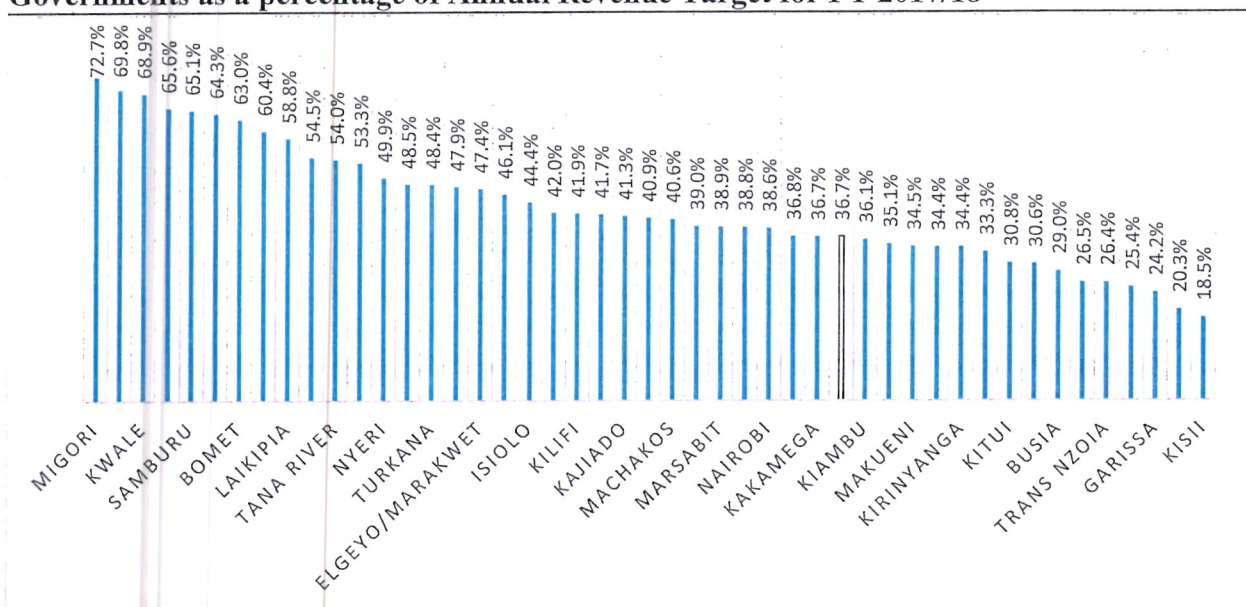
- In FY 2017/18, Ksh. 3.4 billion from the National Government's revenue share was paid to the National Health Insurance Fund as a special grant for Free Maternal Healthcare, to be disbursed directly to Counties on reimbursement basis.
- The Emergency Medical Service Grant was a one-off conditional allocation in FY 2016/17 to support strengthening of access to emergency medical services in Lamu and Tana River Counties, which are vulnerable to terror attacks, security threats and humanitarian crises.
- With the exception of allowances for medical personnel and cess, missing disbursement data for FY 2017/18 signifies ongoing reconciliation within responsible Ministries.

43. Since their inception in 2013, County Governments have received a total Ksh 1.33 trillion, 94.3 percent of which is equitable share, 3.0 percent being conditional grants that are part of shareable revenue, while 2.3 percent is the additional conditional allocations that are not part of shareable revenue. The remaining 0.4 percent represents a one-time payment made in FY 2016/17 in respect to allowances to medical personnel and coffee cess.

44. The County Governments generated a total of Ksh 22.23 billion in own source revenue (OSR) for the first nine months of FY 2017/18. This represents a 42.3 percent of the annual OSR target of Ksh 52.52 billion. This was a 10 percent decrease compared to Ksh 24.71 billion generated in a similar period of FY 2016/17.

45. For the first three quarters of FY 2017/18, only 12 County Governments were able to generate more than half of their OSR annual target as indicated in **Figure 1**. In order to support County Governments to enhance their own source revenue, the National Treasury through an inter-agency committee has finalized the development of an OSR policy and bill which have recently been approved by Cabinet. The Policy has proposed a number of measures which once implemented, will help the County Governments to raise more revenue in an efficient way. On the other hand, the bill will regulate the process of introducing new levies and charges by the Counties in accordance with Article 209(5) of the Constitution of Kenya.

Figure 1: Actual Revenue Collected (First Nine Months of FY 2017/18) by the County Governments as a percentage of Annual Revenue Target for FY 2017/18



Source: Controller of Budget

46. The overall absorption rate of all the county governments for the first nine months of FY 2017/18 was 44.4% which is a significant reduction from 51.9% recorded in the FY 2016/17 for the same period (**Table 8**). The absorption rate for development expenditure declined from 37.9 percent in FY 2016/17 to 17.7 percent in FY 2017/18 while that of recurrent expenditure declined from 61.8 percent to 59.1 percent. The reduction in the development expenditure absorption was quite significant though slight improvements may be recorded in the fourth quarter of FY 2017/18 in light of the enhanced disbursements to county governments towards the end of the financial year.

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Table 8: County Governments' Fiscal Performance (July 2017 to March 2018)

County	Own Source Revenue			Budget Estimates (Ksh m)			Expenditure (Ksh m)			Absorption Rate (%)		
	Target	Actual	%	Rec't	Dev't	TOTAL	Rec't	Dev't	TOTAL	Rec't	Dev't	TOTAL
Baringo	350.00	225.06	64.3	4,136.3	2,823.1	6,959.39	2,591.6	330.0	2,921.6	62.7	11.7	42.0
Bomet	200.21	126.05	63.0	4,245.2	1,952.6	6,197.82	2,877.3	183.9	3,061.2	67.8	9.4	49.4
Bungoma	865.55	461.38	53.3	7,689.5	3,540.2	11,229.71	4,183.3	744.1	4,927.4	54.4	21.0	43.9
Busia	412.16	119.49	29.0	5,059.6	2,389.4	7,449.02	2,823.6	339.2	3,162.8	55.8	14.2	42.5
Elgeyo/Marakwet	160.29	76.03	47.4	2,960.2	1,937.8	4,897.97	2,051.2	271.3	2,322.4	69.3	14.0	47.4
Embu	653.49	253.75	38.8	4,228.1	1,840.3	6,068.38	2,918.7	318.9	3,237.5	69.0	17.3	53.4
Garissa	250.00	60.47	24.2	5,593.1	2,371.2	7,964.23	3,726.7		3,726.7	66.6		46.8
Homa Bay	209.46	72.04	34.4	4,980.2	2,211.0	7,191.15	3,249.7	468.2	3,717.9	65.3	21.2	51.7
Isiolo	182.86	81.17	44.4	2,765.7	1,574.6	4,340.28	1,313.0	296.5	1,609.5	47.5	18.8	37.1
Kajiado	1,010.79	429.70	41.3	5,003.9	3,184.1	8,188.01	3,487.8	690.9	4,178.7	69.7	21.7	51.0
Kakamega	774.57	284.09	36.7	7,280.9	5,624.4	12,905.26	5,058.1	1,414.3	6,472.4	69.5	25.1	50.2
Kericho	554.64	226.91	40.9	4,533.7	2,020.0	6,553.64	2,359.6	206.0	2,565.6	52.0	10.2	39.1
Kiambu	3,227.49	1,164.75	36.1	9,492.0	4,415.0	13,906.95	5,702.1	1,163.6	6,865.7	60.1	26.4	49.4
Kilifi	929.66	389.24	41.9	7,630.2	4,349.2	11,979.40	3,820.8	2,341.4	6,162.2	50.1	53.8	51.4
Kirinyanga	600.00	206.32	34.4	3,970.2	1,709.2	5,679.39	2,465.7		2,465.7	62.1		43.4
Kisii	950.00	176.08	18.5	7,511.2	3,746.4	11,257.60	4,162.6	784.7	4,947.3	55.4	20.9	43.9
Kisumu	1,395.26	582.43	41.7	6,621.0	3,037.1	9,658.11	3,895.3		3,895.3	58.8		40.3
Kitui	702.04	216.32	30.8	6,108.0	5,252.3	11,360.35	3,493.4	934.0	4,427.5	57.2	17.8	39.0
Kwale	275.00	189.41	68.9	4,921.3	4,789.4	9,710.70	2,849.0	984.0	3,833.0	57.9	20.5	39.5
Laikipia	500.00	293.85	58.8	3,816.1	1,890.4	5,706.50	2,648.0	414.3	3,062.3	69.4	21.9	53.7
Lamu	90.00	41.49	46.1	2,009.1	1,009.9	3,019.06	1,222.0	139.2	1,361.3	60.8	13.8	45.1
Machakos	1,557.79	633.21	40.6	7,001.9	2,988.3	9,990.18	4,324.3	323.5	4,647.8	61.8	10.8	46.5
Makueni	600.00	207.24	34.5	6,072.3	3,602.1	9,674.40	3,605.6	542.3	4,147.9	59.4	15.1	42.9
Mandera	231.00	46.97	20.3	6,120.1	6,155.9	12,275.93	3,565.5	1,569.1	5,134.7	58.3	25.5	41.8
Marsabit	130.00	50.60	38.9	4,079.4	3,549.9	7,629.33	2,534.8	731.3	3,266.2	62.1	20.6	42.8
Meru	821.78	302.42	36.8	7,348.1	3,167.8	10,515.87	4,450.2	5.0	4,455.2	60.6	0.2	42.4
Migori	200.00	145.35	72.7	5,469.8	2,697.1	8,166.90	2,489.4	813.5	3,302.9	45.5	30.2	40.4
Mombasa	3,500.00	1,676.93	47.9	8,571.9	3,962.6	12,534.45	3,828.0	1,607.0	5,435.0	44.7	40.6	43.4
Muranga	1,065.99	282.12	26.5	5,284.3	3,019.9	8,304.24	3,025.7	1,573.0	4,598.7	57.3	52.1	55.4
Nairobi	19,766.00	7,637.67	38.6	24,120.0	11,787.3	35,907.37	15,579.2	1,063.5	16,643.0	64.6	9.0	46.3
Nakuru	2,500.00	1,509.64	60.4	9,765.7	5,898.7	15,664.36	5,127.1	315.0	5,442.2	52.5	5.3	34.7
Nandi	385.44	135.34	35.1	4,590.0	2,154.9	6,744.90	2,735.6	265.8	3,001.4	59.6	12.3	44.5
Narok	2,483.46	1,628.31	65.6	6,515.5	3,290.1	9,805.63	4,372.7	899.1	5,271.8	67.1	27.3	53.8
Nyamira	272.46	69.24	25.4	4,155.2	1,718.9	5,874.09	2,711.5	319.0	3,030.6	65.3	18.6	51.6
Nyandarua	371.00	179.87	48.5	4,062.6	2,025.9	6,088.54	2,262.6	77.8	2,340.4	55.7	3.8	38.4
Nyeri	1,000.00	499.07	49.9	5,506.5	2,454.6	7,961.11	3,116.5	310.8	3,427.3	56.6	12.7	43.1
Samburu	301.23	196.16	65.1	3,062.2	1,463.2	4,525.38	1,998.0	313.0	2,311.0	65.2	21.4	51.1
Siaya	270.00	89.85	33.3	4,299.1	2,546.3	6,845.34	2,016.8	438.0	2,454.8	46.9	17.2	35.9
Taita Taveta	398.47	121.97	30.6	3,327.7	1,395.5	4,723.25	2,321.3	122.4	2,443.7	69.8	8.8	51.7
Tana River	30.00	16.19	54.0	3,400.4	2,513.3	5,913.76	1,822.4	283.8	2,106.2	53.6	11.3	35.6
TharakaNithi	179.92	70.18	39.0	3,036.1	1,596.2	4,632.23	1,805.1	264.2	2,069.3	59.5	16.5	44.7
Trans Nzoia	600.00	158.13	26.4	4,429.7	2,393.5	6,823.13	2,335.5	421.2	2,756.7	52.7	17.6	40.4
Turkana	200.00	96.87	48.4	7,759.8	4,390.8	12,150.68	4,045.4	1,100.8	5,146.3	52.1	25.1	42.4
Uasin Gishu	850.00	593.54	69.8	5,020.8	3,041.3	8,062.14	3,071.8	240.5	3,312.3	61.2	7.9	41.1
Vihiga	220.00	92.44	42.0	3,882.1	1,699.6	5,581.63	1,914.5	62.4	1,976.9	49.3	3.7	35.4
Wajir	150.00	55.06	36.7	5,689.2	3,673.1	9,362.31	3,690.7	275.5	3,966.2	64.9	7.5	42.4
West Pokot	111.25	60.67	54.5	3,850.1	1,799.0	5,649.11	2,023.3	23.0	2,046.3	52.6	1.3	36.2
TOTAL	52.52	22.23	42.3	266,976.1	146,653.2	413,629	157,673	25,985	183,658	59	18	44

Source: Controller of Budget

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F. County Governments' Compliance with the PFM Act

47. Section 107(b) of the PFM Act, 2012, requires that over the medium term, a minimum of 30 percent of each County Government's budget shall be allocated to development expenditure. According to the Controller of Budget's 'County Governments Budget Implementation Review Report for the First Nine Months of FY 2017/18', all but four county governments allocated at least 30 percent of their total budgets to development in their FY 2017/18 budgets. However, the actual spending by counties on development expenditure for the first nine months of FY 2017/18 was low and at an average of 14.2 percent. Only 3 counties managed to achieve the 30 percent development spending legal requirement in the first three quarters of the FY 2017/18 compared to 21 counties in the FY 2016/17. This is, however, expected to improve since most of the development expenditure is incurred in the fourth quarter of the financial year.

48. The County Governments incurred Ksh 108.04 billion on personnel emoluments during the first nine months of FY 2017/18, representing 68.5 percent of the total recurrent expenditure and 58.8 percent of total expenditure. This was an increase from Ksh 90.95 billion incurred in the first nine months of FY 2016/17 when personnel expenditure translated to 43.3 percent of the total expenditure. Most counties are still encountering challenges maintaining their wage bill below 35 percent of total revenue as prescribed in the PFM (County Governments) Regulations, 2015.

49. Section 172 of the PFM Act 2012 provides for the financing of urban areas and cities. It should be noted that whereas the Urban Areas and Cities Act provides for the establishment of cities, municipalities, and towns, most County Governments are in the process of formally establishing the same through the Kenya Urban Support Program. Consequently, there have been no specific budgets appropriated for urban areas and cities in most counties as contemplated in the PFM Act 2012. There is therefore a risk that these potential centres of growth getting inadequate finances and thus jeopardize the attainment of the national development objectives.

Other Challenges encountered by County Governments in Public Finance Management

50. There are some notable challenges in the management of county public finances that have persisted. First is irregular public procurement, such as, lack of proper documentation of the contracts awarded; variation of materials used in construction; engagement of service providers without proper contracts, un-procedural procurement of goods and services; awarding of contracts without performance bonds as required by the procurement law and awarding of same works to more than one contractor among others.

51. Second is the weak management of assets and liabilities characterised by incomplete fixed assets register leading to under estimation of the assets held by the various County Governments. This has been made worse by the delay in the completion of the formal transfer of assets and liabilities that were owned by the defunct local authorities.

52. Third, weak human resource management framework characterised by among other factors, irregular recruitment of staff for both the Executive and the County Assembly and lack of human resource policy to guide staffing. Weak human resource management limits the ability of the counties to manage their wage bill which has posed a major challenge.

53. Fourth is the escalation of pending bills which is attributed to non-payment of contractors and suppliers of goods and services, and of salaries. Some Counties have also failed

to remit statutory deductions (including employee pension contributions) to respective institutions.

54. Fifth, the establishment and management of Public Funds without the requisite legal and administrative frameworks which affects the administration, accounting and reporting of these Funds. For instance, the Car Loans and Mortgages Funds in most counties have not been properly established and managed.

55. Sixth, there are misalignment between financial reports prepared by County Governments and the financial records as captured in the Government's Integrated Financial Management Information System (IFMIS). A sizeable proportion of transactions by the County Governments (both receipts and payments) is not reflected in the system, which underscores the need for more stringent enforcement of the use of IFMIS. In addition some counties have procured multiple ICT revenue systems which might not be giving value for public funds.

Measures to address some of the challenges faced by County Governments

56. To address the above challenges, the National Treasury and Planning has been undertaking extensive capacity building initiatives targeting county governments' staff. These initiatives to build the capacity of County Governments on various aspects of public finance management will continue in order to support Counties improve their compliance with the legal requirements as contained in the PFM Act and Regulations.

57. In addition, the National Treasury and the Ministry of Devolution and ASAL, in partnership with the World Bank will continue implementing the Kenya Devolution Support Program (KDSP) which seeks to incentivise better PFM performance by providing additional resources to county governments that achieve pre-agreed results in core PFM key result areas.

58. To support County Governments in the enhancement of their own source revenue, the National Treasury has formulated an overarching policy to support County Governments' OSR enhancement efforts and a bill which is intended to regulate the process of introduction of levies by Counties. The Policy has been approved by Cabinet and will be disseminated to all the 47 County Governments while the bill which was also approved, has been submitted to Parliament for enactment into law.

59. As part of efforts to help County Governments to improve on their OSR collections and minimize deviations between collections and projections, the National Treasury undertook a county revenue potential study. According to the study's draft report, almost all counties could dramatically increase OSR contributions to their budgets by refocusing enhancement efforts on key streams, broadening the base for collections and simplifying rate structures. The study also recommends strategies for strengthening the linkage between revenue collection and policy objectives, improving efficiency of revenue administration arrangements (e.g. through collaboration with Kenya Revenue Authority) and fixing legal weaknesses. The findings of the study will be published and disseminated to the counties once it has been finalized. In addition to the revenue potential study, the National Treasury is planning to train Counties on OSR revenue forecasting and tax analysis.

60. In order to encourage County Governments to establish and appropriate specific budgets for urban areas and cities, the National Treasury and the Ministry responsible for urban development have in partnership with the World Bank designed the Kenya Urban Support Program (KUSP). Through the KUSP the National Government will provide conditional grants to County Governments to incentivise and support the establishment of charters as well as administrative structures for urban areas and cities. Additional resources will be provided to

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support the development of the necessary urban infrastructure, such as street lighting, water supply infrastructure, urban roads and drainage systems, etc.

61. The National Treasury and Planning has also commissioned a consultant to review the Standard Chart of Accounts (SCOA) with a view to improving financial recording, accounting, and reporting by County Governments and minimise misalignments between IFMIS financial records and the statutory financial reports prepared by County Governments. Once finalized, this review will help to align the GOK SCOA to the GFS 2014; provide policy guidance in distinguishing between programmes and projects; enable the SCOA to adequately support analysis of the budget and government expenditures along various dimensions e.g. health, education, water, sanitation, nutrition and even the Big Four Agenda; and, develop a SCOA User Manual and a structured capacity building approach for all SCOA end users. The review of SCOA is also intended to simplify financial recording, accounting and reporting as well as align to international best practices.



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III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Overview

63. The Kenyan economy is projected to grow by 6.0 percent in 2018, an upward revision from the earlier projection of 5.8 percent in the 2018 Budget Policy Statement. In the revision process, we have incorporated the revised nominal GDP numbers for 2017 as released by the Kenya National Bureau of Statistics and the outcome of the second quarter of 2018 growth numbers that were released in September 2018. Kenya's growth momentum continued in the second quarter of 2018. The economy expanded by 6.3 percent in the second quarter of 2018 up from 5.7 percent in the first quarter. We project the economy to therefore grow at 6.0 percent in 2018 up from the 4.9 percent growth in 2017. This strong growth will be supported mainly by the strong growth in activities in agriculture following the stable weather conditions experienced in 2018 and the pickup in performance for most sectors due to the stable macroeconomic environment and ongoing public and private sector investments.

64. The economy continues to register macroeconomic stability with low and stable interest rates and competitive exchange rate to support exports. The overall month on month inflation increased to 5.7 percent in September 2018 from 4.0 percent in August 2018 but remained within target. This 5.7 percent inflation in September 2018 was a decline compared to the 7.1 percent inflation rate in September 2017, mainly due to decline in the prices of food.

65. The foreign exchange market remains stable supported by a narrower current account deficit. The current account deficit narrowed to 5.6 percent of GDP in the 12 months to June 2018 from 6.4 percent over the same period in 2017 reflecting strong growth of agricultural exports particularly tea and horticulture, resilient diaspora remittances, and improved tourism receipts. The strong inflows has also led to the stabilization of the shilling in the foreign exchange market and also allowed accumulation of international reserves. The usable official reserves stood at US\$ 8,652 billion or 5.8 months of imports by end August 2018.

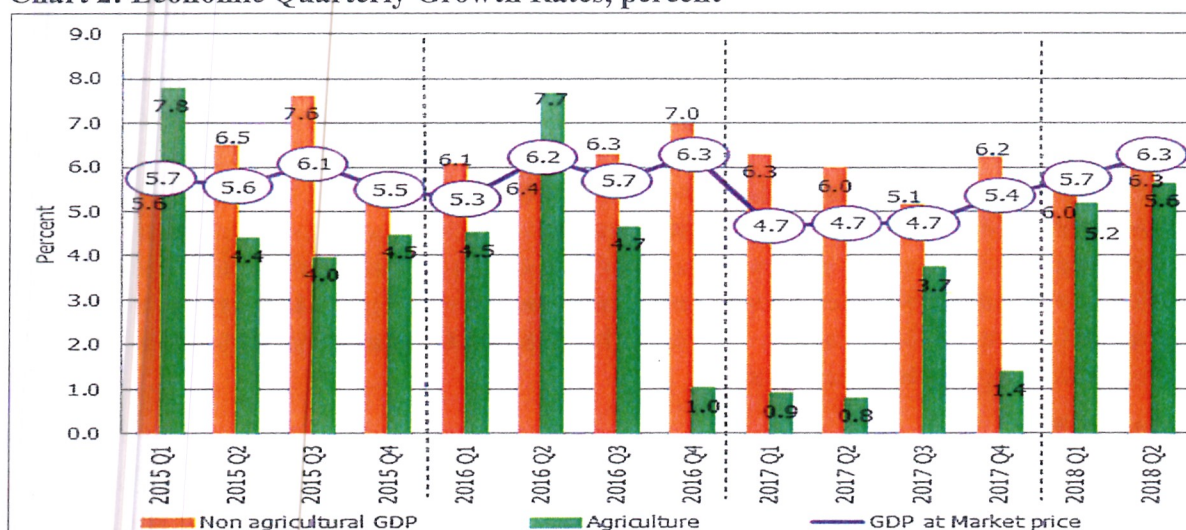
B. Recent Developments

Real Sector Developments

66. The economy maintained strong growth momentum in the second quarter of 2018 growing by 6.3 percent from 5.7 percent in the first quarter in 2018 and 4.9 percent in 2017. This growth was supported by the strong performance by the non-agricultural sector activities as well as the performance of the agricultural sector mainly attributed to improved weather conditions and regain in business and consumer confidence following political stability in the country.

67. Agricultural sector improved to a growth 5.6 percent in the second quarter of 2018, compared to a growth of 0.8 percent in the second quarter of 2017 (**Chart 2**). The improved growth was as a result of favourable weather conditions that increased production of key food crops and livestock products especially in the dairy subsector. Similarly, production of tea and horticultural crops improved during the period and mitigated the impact of the decline in the production of coffee thereby anchoring the growth in the exports subsector. The contribution of Agricultural sector to overall GDP growth was at 1.3 percentage points in both the first and second quarter of 2018, an improvement from the 0.2 percentage points in the same quarters in 2017 (**Table 9**).

Chart 2: Economic Quarterly Growth Rates, percent



Statistics Source: National Treasury; Data: Kenya National Bureau of Statistics

68. The non-agricultural sector (service and industry) remained vibrant and grew 6.3 percent in the second quarter of 2018, up from by 6.0 percent in the first quarter. The Service and industry sector contributed 4.1 percentage points to real GDP growth in the second quarter of 2018.

Table 9: Sectoral GDP Performance

Sectors	Real GDP growth by sector						Sectoral contribution to Real GDP Growth Rate					
	2016		2017		2018		2016		2017		2018	
	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2	Q1	Q2
Primary sector	4.6	7.7	1.1	1.0	5.2	5.5	1.3	1.9	0.3	0.2	1.4	1.4
Agriculture, forestry and fishing	4.5	7.7	0.9	0.8	5.2	5.6	1.2	1.8	0.2	0.2	1.3	1.3
Mining and Quarrying	5.5	9.1	7.1	6.0	4.5	3.5	0.1	0.1	0.1	0.1	0.1	0.0
Secondary sector (Industry)	4.6	6.3	3.9	3.5	4.1	4.8	0.8	1.2	0.7	0.6	0.7	0.9
Manufacturing	1.2	4.6	1.3	-0.2	2.3	3.1	0.1	0.5	0.1	0.0	0.2	0.3
Electricity and Water supply	10.6	11.8	6.1	6.0	5.1	8.6	0.2	0.3	0.1	0.2	0.1	0.2
Construction	9.2	7.2	8.3	9.5	7.2	6.1	0.4	0.4	0.4	0.5	0.4	0.3
Tertiary Sector (Services)	6.3	6.3	6.7	6.3	6.4	6.7	3.2	3.0	3.2	3.0	3.1	3.3
Wholesale and Retail trade	2.8	1.5	4.3	5.6	6.2	7.7	0.2	0.1	0.3	0.4	0.4	0.6
Accommodation and Restaurants	8.2	14.1	24.5	12.6	13.5	15.7	0.1	0.1	0.3	0.1	0.2	0.1
Transport and Storage	8.8	6.9	9.5	8.0	7.1	7.8	0.5	0.5	0.6	0.5	0.4	0.5
Information and Communication	10.6	8.9	12.5	10.8	12.0	12.6	0.4	0.3	0.5	0.3	0.5	0.4
Financial & Insurance	8.1	7.9	4.7	3.5	2.6	2.3	0.5	0.5	0.3	0.2	0.2	0.1
Public administration	5.3	6.2	4.6	5.3	4.6	5.8	0.2	0.3	0.2	0.2	0.2	0.3
Others	6.9	6.7	5.6	6.0	6.2	6.1	1.3	1.3	1.1	1.2	1.2	1.2
of which: Real estate	9.6	8.9	6.1	6.0	6.8	6.6	0.7	0.7	0.5	0.5	0.6	0.5
Less: Financial services indirectly measured (FISM)	8.8	5.1	-1.5	-6.4	-0.6	2.1	-0.2	-0.1	0.0	0.2	0.0	0.0
Taxes less subsidies	2.5	2.2	4.6	6.1	5.4	7.8	0.3	0.2	0.5	0.7	0.6	0.9
GDP at Market Prices	5.3	6.2	4.7	4.7	5.7	6.3	5.3	6.2	4.7	4.7	5.7	6.3
of which Non- Agricultural GDP	6.1	6.4	6.3	6.0	6.0	6.3	3.8	4.1	4.0	3.9	3.9	4.1

Statistics Source: National Treasury; Data: Kenya National Bureau of Statistics

69. Services remained the main source of growth and expanded by 6.7 percent in the second quarter of 2018 compared to a growth of 6.3 percent in the same quarter in 2017. The service sector was supported by improved growth in accommodation and restaurant (15.7 percent),

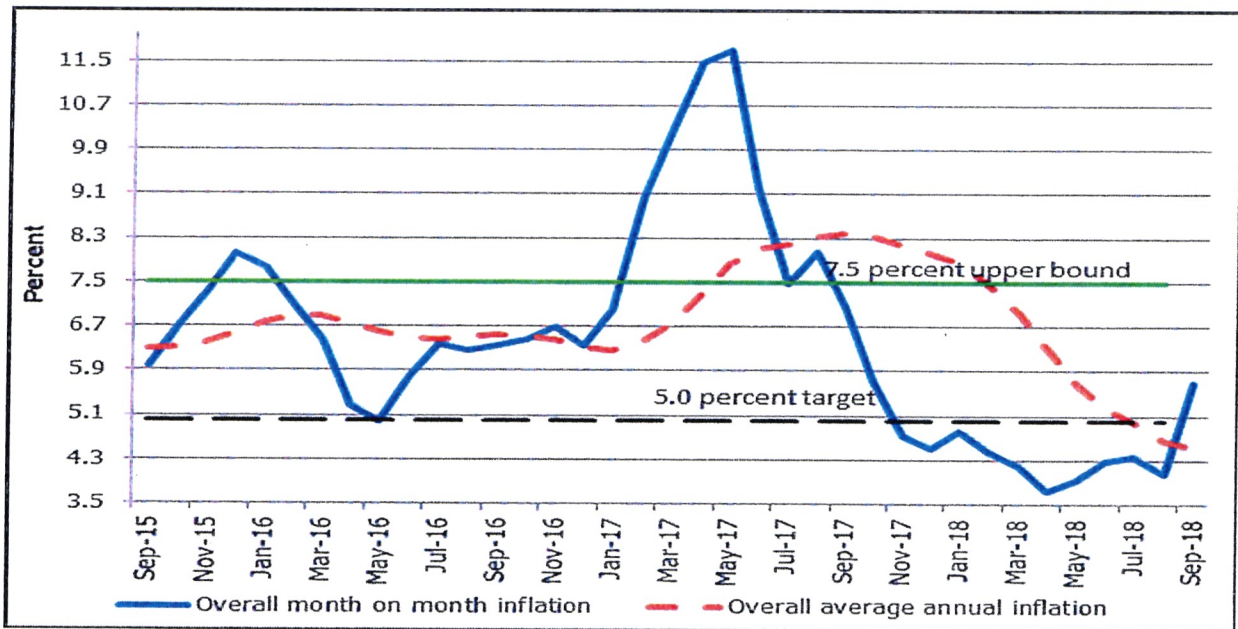
information and communication (12.6 percent), wholesale and retail trade (7.7 percent) and real estate (6.6 percent). Growth of activities in transport and storage (7.8 percent) remained vibrant despite the slowdown relative to the same quarter in 2017. The financial and insurance sector had a subdued performance in the second quarter of 2018 on account of significantly constrained growth in financial activities.

70. The performance of Industry improved to a growth of 4.8 percent in the second quarter of 2018 compared to a growth of 3.5 percent in the same quarter in 2017 following increased activities in the manufacturing and electricity and water supply sectors. The improvement in the manufacturing sector was as a result of the recovery of the agricultural sector while the pickup in the electricity and water supply sector was as a result of sufficient rainfall that increased hydro power generation. The industry sector accounted for 0.9 percentage points to growth in the second quarter of 2018, largely driven by the manufacturing and construction sectors which both contributed 0.3 percentage points.

Inflation Rate

71. Month-on-month overall inflation increased to 5.7 percent in September 2018 from 4.0 percent in August 2018 and remained within target. This 5.7 percent inflation was lower than the 7.1 percent inflation rate in September 2017. This decline reflected lower prices of key food items such as carrots, loose maize grain, loose maize flour, tomatoes, cabbages, and beans. However, energy prices continued to exert upward pressure on overall inflation due to higher fuel and electricity prices (Chart 3a).

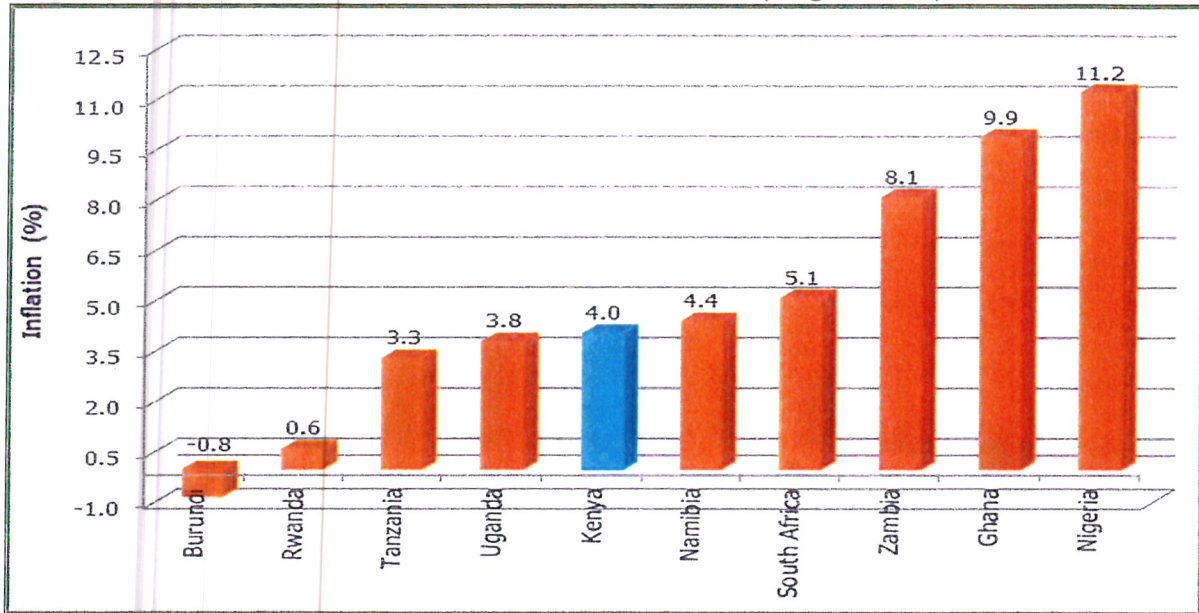
Chart 3a: Inflation Rate



Statistics Source: National Treasury; Data: Kenya National Bureau of Statistics

72. Kenya’s rate of inflation compares favourably with the rest of sub-Saharan African countries and especially its peers such as Nigeria and Ghana whose inflation rates were 11.2 percent and 9.9 percent, respectively in August 2018 (Chart 3b).

Chart 3b: Inflation Rates in selected African Countries (August 2018)

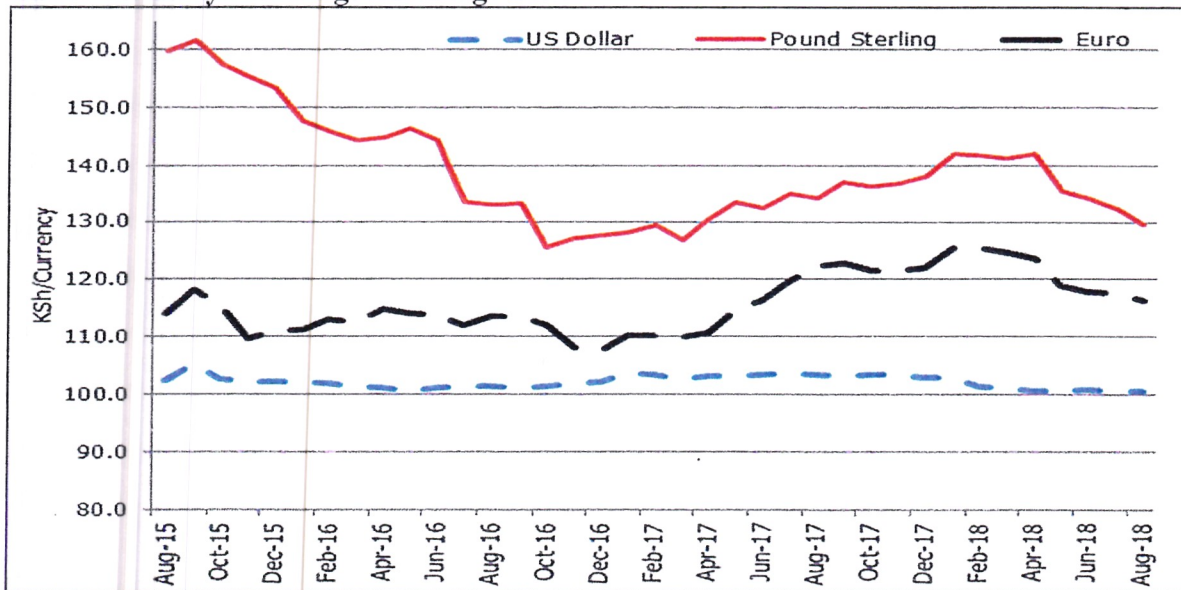


Statistics Source: National Treasury; Data: National Central Banks

Kenya Shilling Exchange Rate

73. The Kenya Shilling exchange rate remained broadly stable and competitive against major international currencies. Against the dollar, the exchange rate strengthened to Ksh 100.6 in August 2018 from Ksh 103.6 in August 2017. Against the Euro and the Sterling pound, the Shilling also strengthened to Ksh 116.2 and Ksh 129.7 in August 2018 from Ksh 122.2 and Ksh 134.2 in August 2017, respectively (Chart 4a).

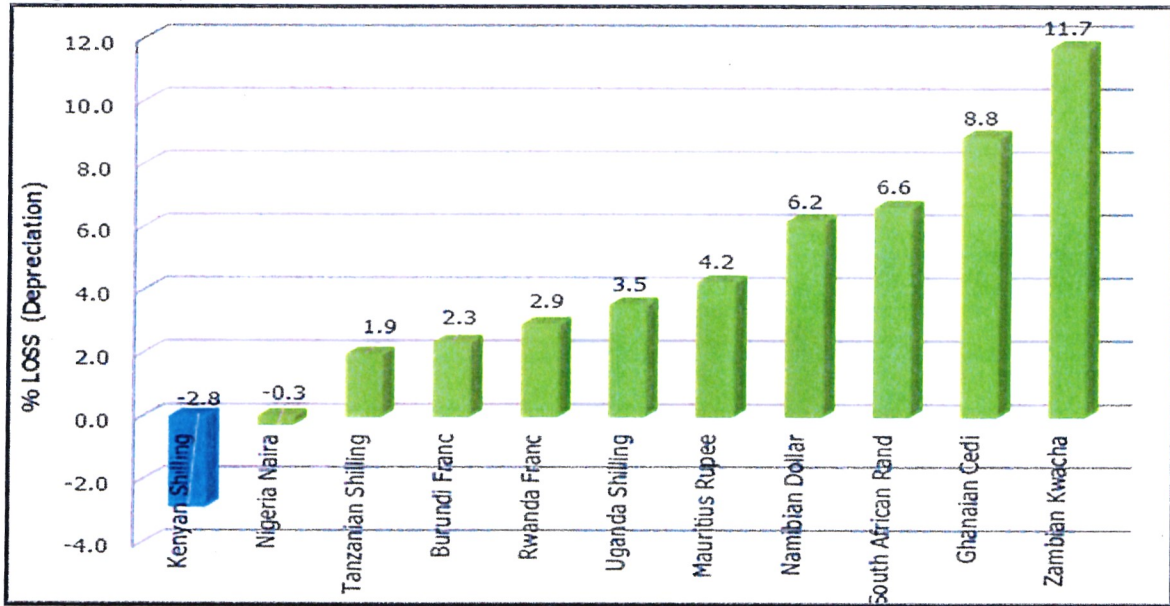
Chart 4a: Kenya Shillings Exchange Rate



Statistics Source: National Treasury; Data: Central Bank of Kenya.

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

Chart 4b: Performance of selected currencies against the US Dollar (August 2017 to August 2018)

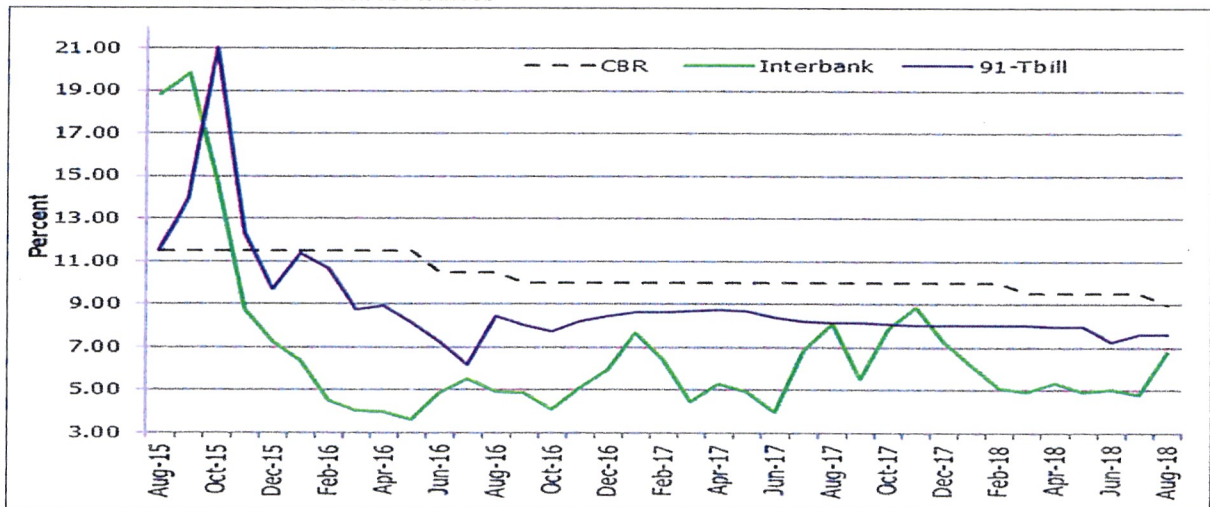


Source of data: National Central Banks

Interest Rates

75. Short term interest rates have remained fairly low and stable. The Monetary Policy Committee in September 2018, retained the Central Bank Rate at 9.0 percent. The interbank rate remained low at 6.8 percent in August 2018 from 8.1 percent in August 2017 due to ample liquidity in the money market (Chart 5). The 91-day Treasury bill rate declined to 7.6 percent in August 2018 compared to 8.2 percent in August 2017 while over the same period, the 182 day and the 364 day Treasury bills averaged 9.0 percent and 10.0 percent from 10.3 percent and 10.9 percent, respectively.

Chart 5: Short Term Interest Rates



Statistics Source: National Treasury; Data: Central Bank of Kenya

Money Supply

76. Broad money supply, M3, improved to a growth of 9.2 percent in the year to August 2018 compared to a growth of 7.7 percent in the year to August 2017. The primary source of the growth in M3 in the year to August 2018 was the increase in the net foreign assets (NFA)

despite a decline in the net domestic assets (NDA). The decline in the growth of NDA was largely reflected in the decreased growth of net domestic credit to government.

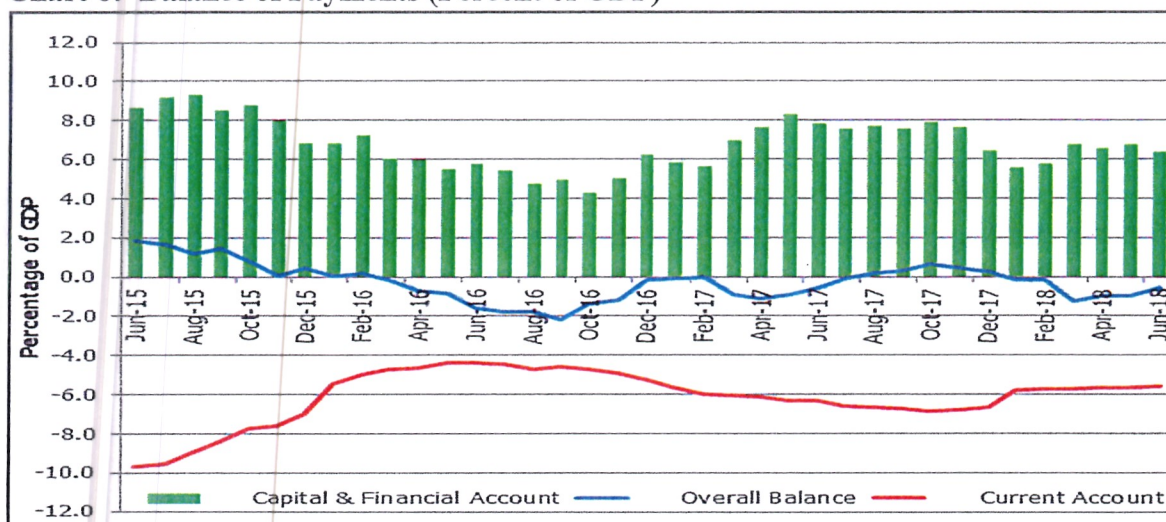
Private Sector Credit

77. Annual growth of credit to the private sector grew by 4.3 percent in the year to August 2018, an improvement from the 1.6 percent growth in August 2017. In particular, lending to manufacturing, building and construction, consumer durables and trade sectors grew by 13.3 percent, 14.9 percent, 11.5 percent and 7.0 percent, respectively. This offset the substantial loan repayments recorded in the transport and communication and agriculture sectors in the year to August 2018. Growth in private sector credit is expected to pick up gradually with the continued recovery of the economy.

External Sector Developments

78. The overall balance of payments position was at a deficit of US\$ 496.6 million (0.6 percent of GDP) in the year to June 2018 from a deficit of US\$ 413.2 million (0.6 percent of GDP) in the year to June 2017 (**Chart 6**). This balance was supported by the improvement in the capital and financial account despite the increased current account deficit.

Chart 6: Balance of Payments (Percent of GDP)



Statistics Source: National Treasury Data: Central Bank of Kenya

79. The current account balance registered a deficit of US\$ 4,820.8 million in the year to June 2018 compared to a deficit of US\$ 4,753.3 million in the year to June 2017. This reflects the widening of the trade account balance and the increased payments to foreign investors (due to high interest payments) despite an improvement in the secondary income account balance particularly increased workers' remittances.

80. As a percentage of GDP, the current account balance narrowed to 5.6 percent in June 2018 from 6.4 percent in June 2017 supported by strong growth of agricultural exports particularly tea and horticulture, resilient diaspora remittances, and improved tourism receipts.

81. The deficit in the merchandise account widened by US\$ 1,711.9 million to US\$ 10,812.7 million in the year to June 2018 reflecting an increase in payments for import of oil on account of the rebound in international oil prices despite an increase in merchandise exports. Net services recorded an improvement of 9.1 percent in the year to June 2018 mainly on account of higher receipts from transport and travels.

82. The capital account recorded an improvement of US\$ 120.1 million to US\$ 272.9 million in the year to June 2018, reflecting an increase in project grants. Flows in the Financial Account decreased to US\$ 5,201.8 million in June 2018 compared with US\$ 5,682.1 million in June 2017. The financial inflows were mainly in the form of other investments, portfolio investments and direct Investments which stood at US\$ 3,758 million, US\$ 859 million and US\$ 585 million, respectively in June 2018. Other investment inflows mainly include foreign financing for Government infrastructure projects while the increase in the portfolio investment was as a result of the issuance of the US\$ 2.0 billion Euro Bond (**Table 10**).

Table 10: Balance of Payments

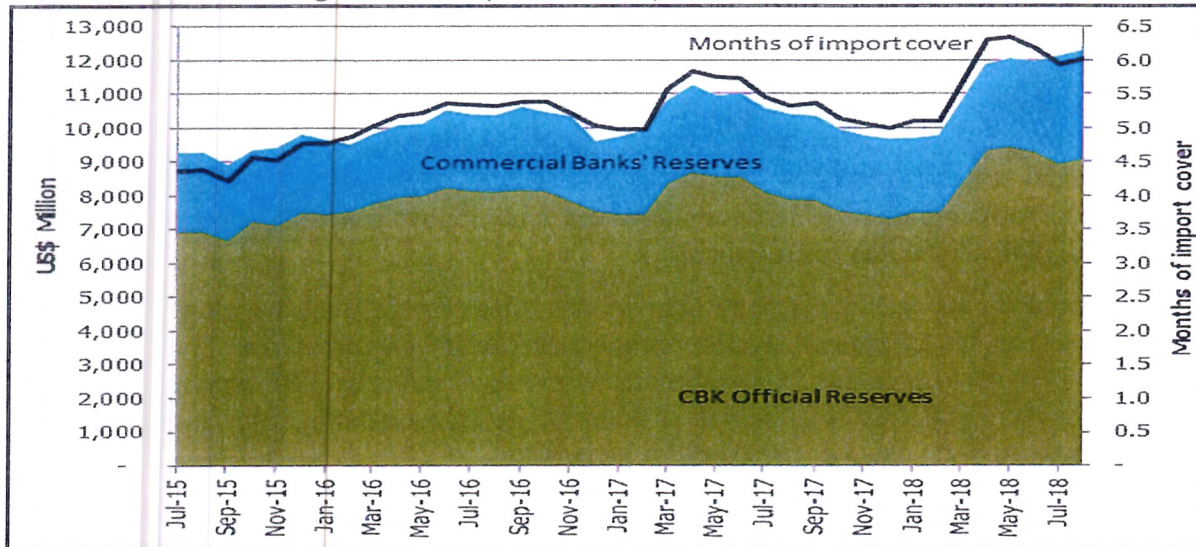
	Jun-17	Sep-17	Dec-17	Mar-18	Apr-18	May-18	Jun-18	Year to June 2018	
								Absolute Change	% Change
Overall Balance	-413.2	207.7	157.3	-1,054.3	-837.2	-811.3	-496.6	-83.5	20.2
Current Account	-4,753.3	-5,036.7	-5,016.3	-4,938.1	-4,895.2	-4,873.6	-4,820.8	-67.5	1.4
<i>of which: Merchandise account (a-b)</i>	-9,100.8	-9,751.3	-10,201.4	-10,266.3	-10,455.8	-10,655.9	-10,812.7	-1,711.9	18.8
a) Goods: exports.	5,700.7	5,706.0	5,792.4	5,922.1	5,985.6	6,025.3	6,043.5	342.8	6.0
b) Goods: imports.	14,801.4	15,457.3	15,993.8	16,188.5	16,441.4	16,681.2	16,856.1	2,054.7	13.9
Services: credit	4,348.5	4,465.7	4,651.1	4,712.4	4,791.9	4,831.8	4,901.5	553.1	12.7
Services: debit	2,900.2	3,001.8	3,093.3	3,274.7	3,306.0	3,370.2	3,425.6	525.5	18.1
<i>Balance on goods and services</i>	-7,652.5	-8,287.4	-8,643.6	-8,828.6	-8,969.9	-9,194.4	-9,336.8	-1,684.3	22.0
Primary income: credit	424.9	407.2	398.7	422.0	431.2	443.2	455.0	30.1	7.1
Primary income: debit	1,182.5	1,199.5	1,219.5	1,263.0	1,320.5	1,289.9	1,347.2	164.7	13.9
<i>Balance on goods, services, and primary income</i>	-8,410.0	-9,079.8	-9,464.4	-9,669.7	-9,859.2	-10,041.0	-10,228.9	-1,818.9	21.6
Secondary income: credit	3,705.6	4,094.6	4,504.1	4,784.0	5,017.9	5,219.8	5,460.1	1,754.5	47.3
Secondary income: debit	48.9	51.5	55.9	52.3	53.8	52.3	52.0	3.1	6.3
Capital Account	152.8	143.4	184.6	187.8	230.2	270.9	272.9	120.1	78.6
Financial Account	-5,682.1	-5,664.8	-4,743.4	-5,666.7	-5,443.6	-5,499.0	-5,201.8	480.3	-8.5

Statistics Source: National Treasury; Data: Central Bank of Kenya.

Foreign Exchange Reserves

83. The official foreign exchange reserves held by the Central Bank improved to US\$ 9,103 million (6.0 months of import cover) in July 2018 (by end August 2018, the usable official reserves stood at US\$ 8,652 billion or 5.8 months of imports) compared with US\$ 7,910 million (5.3 months of import cover) in July 2017 while commercial banks holdings was at US\$ 3,161 million in 2018 from US\$ 2,468 million in 2017 (**Chart 7**).

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



Statistics Source: National Treasury; Data: Central Bank of Kenya.

Developments in the Capital Markets

84. The capital markets recorded improved performance on prices but reduced performance on the supply of shares. The NSE 20 Share Index was at 3,245 points by end- August 2018 from 4,027 points in August 2017 while Market Capitalization improved to Ksh 2,546 billion from Ksh 2,479 billion over the same period. This mixed performance reflects investors’ portfolio readjustments factoring in global and domestic dynamics in the market.

C. Medium Term Economic Outlook

Global Growth Outlook

85. Global economic activity continues to firm up with output strengthening by 3.7 percent in 2017 from 3.2 percent in 2016, supported by notable improvements in investment, trade, and industrial production, coupled with strengthening business and consumer confidence. This growth momentum is expected to reach 3.9 percent in 2018 and 2019, reflecting improving domestic demand in advanced economies and China, accommodative financial conditions and improved performance in other emerging market economies. In addition, the partial recovery in commodity prices should allow conditions in commodity exporting countries to gradually improve

86. In advanced economies, growth is expected to remain at 2.4 percent in 2017 and 2018 reflecting stronger prospects for the euro area and Japan and especially the projected domestic and spill over effects of expansionary fiscal policy in the United States. Growth in emerging market and developing economies is expected to increase further from 4.7 percent in 2017 to 4.9 percent in 2018 and 5.1 percent in 2019 reflecting improved prospects for commodity exporters after three years of very weak economic activity.

87. Similarly, growth in Sub-Saharan Africa is projected to pick up to 3.4 percent in 2018 from 2.8 percent in 2017, albeit with variations across the region. At the sub region, the East African Community economies continue to record relatively higher economic growth supported by a stable macroeconomic environment, on-going infrastructure investments and strong private consumption.

Domestic Growth Outlook

88. On the domestic scene, economic growth is accelerating. The economy grew by 6.3 percent in the second quarter of 2018, up from 5.7 percent in the first quarter of 2018. The economic growth outlook will continue to be supported by continued strengthening of the global economy, a pickup in agricultural and manufacturing activities due to improved weather conditions as well as the stable macroeconomic environment, ongoing public infrastructural investments targeting the Big Four initiatives and regain in business and consumer confidence following political stability in the country.

89. Given the above developments the growth outlook for 2018 has been revised upward to 6.0 percent from the 5.8 percent as earlier projected in the 2018 Budget Policy Statement (BPS). In the revision process, we have incorporated the revised nominal GDP numbers for 2017 as released by the Kenya National Bureau of Statistics and the outcome of the second quarter of 2018 growth numbers that were released in September.

90. Going forward in terms of fiscal years, the economic growth is projected at 6.2 percent in the FY 2019/20 and 6.9 percent over the medium term due to investments in strategic areas under the “Big Four” that aim to increase job creation through the manufacturing sector, ensure food security and improved nutrition, expand universal health coverage and provide affordable houses to Kenyans. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

91. The growth projections over the medium term are aligned to those of the Medium Term Plan III (2018-2022) that are implementing Vision 2030 (**Table 11 and Annex Table 1**).

Table 11: Macroeconomic Indicators Underlying the Medium Term Fiscal Framework

	2016/17	2017/18		2018/19			2019/20		2020/21		2021/22		2022/23
	Act	Supp II Budget	Prel. Act	Budget	Rev. Budget	BROP'18	BPS'18	BROP'18	BPS'18	BROP'18	BPS'18	BROP'18	BROP'18
Annual percentage change													
National Account and Prices													
Real GDP	5.4	5.3	5.4	6.2	6.1	6.1	6.3	6.2	6.8	6.4	6.9	6.7	6.9
GDP Deflator	8.4	6.8	8.6	7.0	7.0	7.0	6.1	6.8	5.9	5.9	5.8	5.8	5.8
CPI Index (eop)	6.9	5.6	5.8	5.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	7.2	6.3	6.5	6.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of Trade (-deterioration)	0.7		0.9	-1.4	-2.6	-2.6	0.3	-1.4	0.1	-1.5	1.1	1.1	-1.9
Percentage of GDP													
Investment and saving													
Investment	17.9	19.7	20.6	24.8	22.8	22.9	22.6	22.5	22.8	21.8	23.4	23.4	25.8
Gross National Savings	14.0	13.6	15.3	18.7	17.6	17.6	17.1	17.3	18.0	16.7	19.2	19.0	21.7
Central Government Budget													
Total revenue	18.6	19.1	16.9	20.0	18.5	18.5	19.0	18.3	19.2	18.6	19.4	19.2	19.2
Total expenditure and net lending	27.6	26.8	24.0	26.3	25.1	24.8	23.8	23.5	22.9	22.6	22.5	22.4	22.1
Overall balance (commitment basis) excl. grants	-9.0	-7.7	-7.1	-6.3	-6.6	-6.2	-4.8	-5.1	-3.8	-4.0	-3.4	-3.5	-2.9
Overall balance (commitment basis) incl. grants	-8.8	-7.2	-6.8	-5.8	-6.1	-5.8	-4.3	-4.7	-3.3	-3.6	-3.0	-3.1	-2.6
Overall balance (commitment basis) incl. grants, excl. SGR	-7.4	-6.5	-6.1	-5.2	-5.6	-5.2	-3.9	-4.3	-2.8	-3.0	-2.4	-2.5	-2.3
Nominal central government debt (eop), net of deposits	51.9	53.8	51.5	52.5	51.1	51.1	51.0	49.7	48.2	47.7	43.6	46.2	43.4
External sector													
Current external balance, incl. official transfers	-3.9	-6.1	-5.3	-6.1	-5.2	-5.3	-5.5	-5.2	-4.8	-5.2	-4.2	-4.5	-4.1
Gross international reserve in months of imports	6.5	6.7	6.9	6.8	7.0	7.0	6.9	7.1	7.0	7.2	7.1	7.3	7.4

Source: National Treasury

Source: National Treasury

Monetary Policy Outlook

92. Overall month on month inflation has remained within target in 2018. The higher domestic fuel prices due to the recent increase in international oil prices may exert moderate pressure on inflation. Nevertheless, overall inflation is expected to remain within the target range mainly due to expectations of lower food prices reflecting favorable weather conditions and the continued prudent monetary policy measures that will moderate demand-driven inflationary pressures. Further, the stability of the Kenya exchange rate will reinforce the price stability objective and keep inflation within the Government target range in the remainder period of the fiscal year and in the medium term.

93. The main risks to inflation remain adverse weather that affects agricultural production and their prices, and potential volatility in international oil prices.

94. The close coordination of fiscal and monetary policies will continue to deliver on price stability and reduction in cost of doing business in the country.

External Sector Outlook

95. The Kenya Shilling is expected to be stable in 2018 on account of a narrower current account deficit and resilient foreign exchange inflows. The current account deficit is expected to narrow from 6.4 percent of GDP in 2017 to 5.4 percent of GDP in 2018 largely due to lower imports of food and inputs for phase II of the SGR project, steady growth in tea and horticulture exports, strong diaspora remittances, and continued growth in tourism receipts.

96. The main risks to the foreign exchange market in 2018 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 resolution. Nevertheless, the foreign exchange reserves will continue to provide an adequate buffer against short term shocks in the foreign exchange market.

Fiscal Policy Outlook

97. Fiscal policy over the medium-term aims at supporting rapid and inclusive economic growth through fiscal consolidation aimed at reducing fiscal deficit down to 4.7 percent in FY 2019/20 from the estimated fiscal deficit of 5.8 percent in FY 2017/18 and the preliminary actual of 7.2 percent of GDP in FY 2016/17. This will support debt sustainability. The fiscal consolidation will benefit from the revenue mobilization being undertaken with the Kenya Revenue Authority and complemented by expenditure rationalization to reduce non-core expenditure items from the budget. The fiscal deficit targets to reduce to 2.8 percent of GDP by FY 2022/23.

98. Over the medium term, driven by continued reforms in revenue administration and revenue enhancement measures, revenue collection is expected to rise to about 18.9 percent of GDP by FY 2021/22 from 16.9 percent of GDP in FY 2017/18. Expenditures will decline gradually from 24.0 percent of GDP in FY 2017/18 to 22.4 percent of GDP in FY 2021/22.

D. Risks to the Domestic Economic Outlook

99. This macroeconomic outlook is not without risks. Risks from the global economies relates to uncertainties in the global financial markets particularly with regard to the U.S. economic and trade policies, normalization of monetary policy in the advanced economies, present tariff wars between China and the U.S., and the Brexit outcome. The recent geopolitical tensions building around production and use of nuclear weapons if not addressed could weigh down global growth with negative impact on trade and financial flows.

100. Domestically, the economy will continue to be exposed to risks arising from adverse weather conditions until the mitigating measures of food security under “The Big Four” Plan are put in place. Additional risks could emanate from public expenditure pressures especially recurrent expenditures.

101. The Government will monitor the above risks and take appropriate measures to safeguard macroeconomic stability.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustments to the FY 2018/19 Budget

102. The Medium Term Fiscal Framework (MTFF) for the FY2018/19 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.

103. The underperformance in both revenue collection and expenditure in the FY 2017/18 has implications on the financial objectives outlined in the 2018 BPS and the 2018/19 Budget. In particular, the baseline for projecting both the revenue and expenditures for the FY 2018/19 and the medium term has changed given the outcome of FY 2017/18 and the first two months of FY 2018/19.

104. In addition, for the FY 2018/19 Budget, the National Assembly approved additional expenditures amounting to Ksh 18.9 billion which were not financed. Further, when approving the 2018 Finance Bill, the National Assembly made substantive amendments to the revenue raising measures which resulted in the reduction in projected revenues by Ksh 48.6 billion.

105. To remedy these deviations, the revenue projections for FY 2018/19 have been revised taking into account; a lower projection base (on account of the Ksh 172.4 billion shortfall in FY 2017/18), revenue performance by end August 2018 and the amendments to the Finance Bill.

106. Expenditure projections for FY 2018/19 have been revised to accommodate the weak revenue performance through trade-offs and reallocations of the existing budgetary provisions supported by austerity measures instituted on less productive areas of spending across the Government. This has resulted to a reduction of the original budget by Ksh 55.1 billion or 1.8 percent of the original Budget.

107. Revenues for the FY 2018/19 are therefore, projected at Ksh 1,852.6 billion or 18.5 percent of GDP with ordinary revenues at Ksh 1,672.6 billion or 16.7 percent of GDP. On the other hand, expenditures are projected at Ksh 2,474.3 billion or 24.8 percent of GDP with recurrent expenditures projected at Ksh 1,528.0 billion (15.3 percent of GDP) while development expenditures are projected at Ksh 573.9 billion (5.7 percent of GDP). Transfer to the County government is projected at Ksh 367.4 billion (3.7 percent of GDP).

108. The deficit is therefore projected at Ksh 575.8 billion (equivalent to 5.8 percent of GDP). Excluding SGR, the deficit amounts to Ksh 522.6 billion or 5.2 percent of GDP. The fiscal deficit in FY 2018/19, will be financed by net external financing of Ksh 272.0 billion (2.7 percent of GDP), Ksh 299.8 billion (3.0 percent of GDP) from net domestic borrowing, and other net domestic receipts of Ksh 3.9 billion.

B. Medium Term Fiscal Projections

109. Medium-Term Fiscal Policy aims at supporting inclusive economic growth, continue the fiscal consolidation programme while creating fiscal space for the implementation of the “Big Four” Plan. In this regard, and driven by continued reforms, revenue collection is expected to rise to about 18.9 percent of GDP by FY 2021/22 (**Annex Tables 2 and 3**). Overall expenditures are projected to decline gradually from 24.8 percent of GDP in FY 2018/19 to 22.4 percent of GDP in FY 2021/22. Recurrent expenditures are expected to decline from 15.3 percent of GDP in FY 2018/19 to 13.6 percent in the medium term while development and net lending expenditures is projected at 5.6 percent of GDP over the medium term.

110. The overall budget deficit inclusive of grants is projected to decline to 2.8 percent of GDP in the FY 2022/23 in line with the East African Community Monetary Union Protocol's fiscal targets. The lower deficit reflects the projected completion of key infrastructural projects by the Government, enhanced revenue collection and prudent public spending. This will reinforce policy of consistency and predictability of government spending and will be achieved through the following strategies:

- Increasing efficiency, effectiveness and accountability of public spending;
- Containing the growth of recurrent expenditure in favor of capital investment; and
- Ensuring that capital expenditure proposals have been thoroughly scrutinized and prioritized in line with the “the Big Four” Plan, the Third MTP and strategic policy interventions by the Government

C. FY 2019/20 Budget Framework

111. The FY 2019/20 budget framework is intended to continue the fiscal consolidation agenda with the completion of SGR Phase I, shedding off election related expenditures, drought related interventions and other one-offs expenditure programmes, particularly those related to security. The overall fiscal deficit is expected to decline from 7.2 percent of GDP in FY 2017/18 to 4.7 percent in FY 2019/20. This fiscal consolidation will bolster our debt sustainability position and give flexibility for counter cyclical fiscal policy interventions when appropriate.

112. **Revenue Projections:** In the FY 2019/20 revenue collection including Appropriation-in-Aid (AiA) is projected to increase to Ksh 2,074.1 billion (18.3 percent of GDP) up from Ksh 1,852.6 billion (18.5 percent of GDP) in the FY 2018/19. This revenue performance will be underpinned by on-going reforms in tax policy and revenue administration. Ordinary revenues will amount to Ksh 1,870.4 billion (16.5 percent of GDP) in FY 2019/20 up from Ksh 1,672.6 billion (16.7 percent of GDP) in FY 2018/19.

113. **Expenditure Projections:** The Government is pursuing a fiscal consolidation policy which is aimed at reducing the overall fiscal deficit and debt accumulation. Taking this into account, the overall expenditure and net lending for FY 2019/20 are projected at Ksh 2,656.6 billion (23.4 percent of GDP) up from the estimated Ksh 2,474.3 billion (24.8 percent of GDP) in the FY 2018/19 revised budget. These expenditures comprises among others, recurrent of Ksh 1,603.7 billion (14.1 percent of GDP) and development of Ksh 675.8 billion (6.0 percent of GDP).

114. In terms of percentage of GDP, the wages and salaries bill for teachers and civil servants including the police is expected to reduce to 4.0 percent of GDP in the FY 2019/20 from 4.2 percent in the FY 2018/19. Domestic interest payments are expected to decline to 2.4 percent of GDP in the FY 2019/20 from 2.9 percent of GDP in FY 2018/19.

115. A contingency of Ksh 5.0 billion is provided for in the FY 2019/20 budget. In addition, Ksh 5.8 billion is provided for as conditional grants to marginal areas, an increase from the 4.7 billion provided in the FY 2018/19 budget.

116. **Overall deficit and financing:** Reflecting the projected expenditures and revenues, the fiscal deficit (excluding grants), is projected at Ksh 582.5 billion (equivalent to 5.1 percent of GDP) in the FY 2019/20.

117. Including grants, the overall fiscal deficit is projected at Ksh 530.9 billion (4.7 percent of GDP) in FY 2019/20 against the estimated overall fiscal balance of Ksh 575.8 billion (5.8 percent of GDP) in FY 2018/19. The deficit excluding SGR related expenditures in the FY

2019/20 is projected at 4.3 percent of GDP lower than the projected 5.2 percent of GDP in FY 2018/19.

118. The fiscal deficit in FY 2019/20, will be financed by net external financing of Ksh 217.0 billion (1.9 percent of GDP), Ksh 319.6 billion (2.8 percent of GDP) net domestic borrowing and other net domestic receipts of Ksh 4.3 billion.

D. Medium-Term Expenditure Framework

119. 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.

120. In FY2018/19, the Government initiated the implementation of the "Big Four" Agenda and allocated resources to implement the programmes for 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) Provision of Affordable and Decent Housing for all Kenyans - under this cluster, the Government intends to provide decent and affordable housing by constructing at least five hundred thousand housing units by 2022; and
- (iv) Supporting value addition and raising the manufacturing sector share of GDP to 15 percent by 2022 - under this cluster, the objective is to increase the share of manufacturing sector to GDP to 15 percent by 2022.

121. Reflecting on the above, we have developed the Medium-Term Expenditure Framework as provided in **Table 12 and Annex Tables 4 and 5.**

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Table 12: Medium Term Sector Ceilings, FY 2019/20 – FY 2021/22 (Ksh Million)

Code	Sector		Printed	BROP	Projections		% Share in Total Ministerial Expenditure			
			Estimates	Ceiling	2020/21	2021/22	2018/19	2019/20	2020/21	2021/22
			2018/19	2019/20						
010	Agriculture, Rural & Urban Development	Sub_Total	54,644	66,791	69,283	71,436	3.1%	3.7%	3.7%	3.8%
		Rec_Gross	17,482	17,728	18,323	18,942	1.0%	1.0%	1.0%	1.0%
		Dev_Gross	37,161	49,063	50,960	52,495	2.1%	2.7%	2.7%	2.8%
020	Energy, Infrastructure & ICT	Sub_Total	418,796	410,382	425,311	434,614	23.9%	22.8%	22.9%	23.2%
		Rec_Gross	80,793	84,317	88,014	92,151	4.6%	4.7%	4.7%	4.9%
		Dev_Gross	338,003	326,065	337,298	342,463	19.3%	18.2%	18.2%	18.3%
030	General Economic & Commercial Affairs	Sub_Total	31,964	30,122	32,411	33,430	1.8%	1.7%	1.7%	1.8%
		Rec_Gross	10,646	10,426	10,729	11,043	0.6%	0.6%	0.6%	0.6%
		Dev_Gross	21,318	19,695	21,682	22,388	1.2%	1.1%	1.2%	1.2%
040	Health	Sub_Total	90,007	88,988	90,902	92,657	5.1%	5.0%	4.9%	4.9%
		Rec_Gross	49,101	52,317	53,631	54,985	2.8%	2.9%	2.9%	2.9%
		Dev_Gross	40,906	36,671	37,271	37,671	2.3%	2.0%	2.0%	2.0%
050	Education	Sub_Total	442,328	468,776	486,991	498,434	25.3%	26.1%	26.2%	26.6%
		Rec_Gross	410,098	438,742	451,171	461,724	23.4%	24.4%	24.3%	24.6%
		Dev_Gross	32,231	30,034	35,820	36,710	1.8%	1.7%	1.9%	2.0%
060	Governance, Justice, Law & Order	Sub_Total	190,153	197,057	204,030	208,112	10.9%	11.0%	11.0%	11.1%
		Rec_Gross	167,811	173,162	178,068	182,588	9.6%	9.6%	9.6%	9.7%
		Dev_Gross	22,343	23,895	25,962	25,525	1.3%	1.3%	1.4%	1.4%
070	Public Administration & International Relations	Sub_Total	249,352	274,321	278,352	263,008	14.2%	15.3%	15.0%	14.0%
		Rec_Gross	159,656	170,948	175,354	158,424	9.1%	9.5%	9.4%	8.4%
		Dev_Gross	89,696	103,373	102,997	104,584	5.1%	5.8%	5.5%	5.6%
080	National Security	Sub_Total	142,265	142,296	147,380	148,424	8.1%	7.9%	7.9%	7.9%
		Rec_Gross	127,290	127,321	132,406	133,449	7.3%	7.1%	7.1%	7.1%
		Dev_Gross	14,974	14,974	14,974	14,974	0.9%	0.8%	0.8%	0.8%
090	Social Protection, Culture & Recreation	Sub_Total	52,868	51,480	52,907	54,265	3.0%	2.9%	2.8%	2.9%
		Rec_Gross	28,500	28,123	28,567	29,003	1.6%	1.6%	1.5%	1.5%
		Dev_Gross	24,368	23,358	24,340	25,262	1.4%	1.3%	1.3%	1.3%
0100	Environment Protection, Water & Natural Resources	Sub_Total	77,830	66,161	69,762	71,309	4.4%	3.7%	3.8%	3.8%
		Rec_Gross	21,605	21,921	22,608	23,305	1.2%	1.2%	1.2%	1.2%
		Dev_Gross	56,225	44,239	47,154	48,004	3.2%	2.5%	2.5%	2.6%
		Grand_Total	1,750,208	1,796,374	1,857,329	1,875,690	100.0%	100.0%	100.0%	100.0%
		Rec_Gross	1,072,982	1,125,007	1,158,870	1,165,614	61.3%	62.6%	62.4%	62.1%
		Dev_Gross	677,226	671,367	698,458	710,076	38.7%	37.4%	37.6%	37.9%

Source: National Treasury

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

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V. CONCLUSION AND NEXT STEPS

122. The FY 2019/20 budget is being prepared within the context of a moderate global economic recovery. As we scale up implementation of “The Big Four” Plan, the Government is aware of the limited fiscal space and will therefore continue to leverage on the public-private sector partnership to achieve some of the goals under the Big Four. The aim of the MTEF is therefore to strike an appropriate balance between support for growth and continued fiscal discipline while providing room for the implementation of the ‘Big Four’ Plan.

123. To create fiscal space and guarantee appropriate phasing out of expenditure programmes, Sectors will be required to conduct a thorough scrutiny of all proposed MDAs Budgets for FY 2019/20 to ensure that they are not only directed towards improving productivity but also aligned to the achievement of the objectives of the “Big Four” Plan either directly as drivers or indirectly as enablers. As such, the fiscal strategy in this BRPOP will focus on enhancing overall revenue collection and reallocating resources to productive sectors of the economy.

124. The Government will continue with a fiscal consolidation policy which is aimed at reducing the overall fiscal deficit and debt accumulation. Taking this into account, the overall expenditure and net lending is projected to decline from 24.8 percent in FY2018/19 to an average of 22.4 percent in the medium-term. SWGs are required to prepare medium-term budgets that are consistent with the Medium-Term Fiscal Framework. The resource envelope for each Sector which will be provided in the Budget Review and Outlook Paper (BRPOP). The ceilings will form inputs into the next Budget Policy Statement (BPS) which will be finalized by mid-February 2019.

Annex Table 1: Macroeconomic Indicators for the FY 2019/20- 2022/23 Period

	2015/16	2016/17	2017/18		2018/19			2019/20		2020/21		2021/22		2022/23
	Act	Act	Supp II Budget	Prel. Act	Budget	Rev. Budget	BROP'18	BPS'18	BROP'18	BPS'18	BROP'18	BPS'18	BROP'18	BROP'18
<i>annual percentage change, unless otherwise indicated</i>														
National Account and Prices														
Real GDP	5.8	5.4	5.6	5.4	6.2	6.1	6.1	6.3	6.2	6.8	6.4	6.9	6.7	6.9
GDP deflator	9.1	8.4	5.7	8.6	7.0	7.0	7.0	6.1	6.8	5.9	5.9	5.8	5.8	5.8
CPI Index (eop)	6.8	6.9	6.5	5.8	5.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	6.4	7.2	7.0	6.5	6.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	-0.2	0.7	0.1	0.9	-1.4	-2.6	-2.6	0.3	-1.4	0.1	-1.5	1.1	1.1	-1.9
Money and Credit (end of period)														
Net domestic assets	3.8	3.9	6.4	8.4	15.0	18.2	18.3	19.2	12.1	16.6	13.4	14.5	11.9	11.3
Net domestic credit to the Government	7.4	15.3	15.7	15.3	14.0	17.3	16.7	10.6	15.2	7.4	12.9	7.4	12.7	10.2
Credit to the rest of the economy	4.7	1.5	4.5	4.3	13.4	14.0	14.2	14.7	11.2	21.8	13.5	15.5	11.9	12.0
Broad Money, M3 (percent change)	8.1	6.0	14.5	10.5	13.7	13.5	13.6	19.8	13.5	13.7	12.7	13.8	13.0	13.2
Reserve money (percent change)	4.9	2.4	21.0	7.4	13.0	11.6	11.7	19.1	12.8	13.0	12.1	13.1	12.3	12.5
<i>in percentage of GDP, unless otherwise indicated</i>														
Investment and Saving														
Investment	19.2	17.9	21.9	20.6	24.8	22.8	22.9	22.6	22.5	22.8	21.8	23.4	23.4	25.8
Central Government	7.0	8.2	6.4	5.4	6.2	6.1	5.9	5.9	6.1	5.8	5.8	6.0	5.8	5.8
Other	12.2	9.6	15.5	15.2	18.6	16.7	17.0	16.7	16.4	17.0	16.1	17.4	17.7	20.0
Gross National Saving	16.2	14.0	15.5	15.3	18.7	17.6	17.6	17.1	17.3	18.0	16.7	19.2	19.0	21.7
Central Government	3.2	3.3	2.2	1.8	3.8	3.1	3.2	4.6	4.1	5.2	4.6	5.5	5.0	5.4
Other	13.0	10.7	13.3	13.5	14.9	14.4	14.4	12.5	13.2	12.9	12.0	13.7	13.9	16.3
Central Government Budget														
Total revenue	18.3	18.6	19.1	16.9	20.0	18.5	18.5	19.0	18.3	19.2	18.6	19.4	19.2	19.2
Total expenditure and net lending	26.4	27.6	26.8	24.0	26.3	25.1	24.8	23.8	23.5	22.9	22.6	22.5	22.4	22.1
Overall balance (commitment basis) excl. grants	-8.2	-9.0	-7.7	-7.1	-6.3	-6.6	-6.2	-4.8	-5.1	-3.8	-4.0	-3.4	-3.5	-2.9
Overall balance (commitment basis) incl. grants	-7.4	-8.8	-7.2	-6.8	-5.8	-6.1	-5.8	-4.3	-4.7	-3.3	-3.6	-3.0	-3.1	-2.6
Overall balance (commitment basis) incl. grants excl SGR	-6.6	-7.4	-6.5	-6.1	-5.2	-5.6	-5.2	-3.9	-4.3	-2.8	-3.0	-2.4	-2.5	-2.3
Primary budget balance	-4.2	-5.3	-3.7	-3.1	-1.6	-2.1	-1.8	-0.9	-1.3	0.1	-0.2	0.4	0.3	0.4
Net domestic borrowing	3.0	4.0	2.9	3.1	2.8	3.2	3.0	2.8	2.8	3.7	3.7	4.0	4.0	1.9
Total external support (grant & loans)	2.7	3.3	3.0	2.4	2.9	2.8	2.7	2.8	2.7	2.7	2.6	2.7	2.5	2.5
External Sector														
Exports value, goods and services	17.1	15.5	16.4	14.5	17.7	14.5	14.6	17.6	14.8	17.7	15.2	17.9	16.3	17.2
Imports value, goods and services	24.3	23.0	26.5	23.0	27.1	22.5	22.6	25.9	22.4	25.0	22.6	24.4	22.8	23.2
Current external balance, including official transfers	-3.1	-3.9	-6.4	-5.3	-6.1	-5.2	-5.3	-5.5	-5.2	-4.8	-5.2	-4.2	-4.5	-4.1
Gross international reserve coverage in months of next year imports (end of period)	5.8	5.1	5.8	6.1	6.0	6.2	6.2	6.3	6.2	6.3	6.3	6.3	6.4	6.4
Gross international reserve coverage in months of this year's imports (end of period)	6.2	6.5	6.7	6.9	6.8	7.0	7.0	6.9	7.1	7.0	7.2	7.1	7.3	7.4
Public debt														
Nominal central government debt (eop), net of deposits	47.6	51.9	53.8	51.5	52.5	51.1	51.1	51.0	49.7	48.2	47.7	43.6	46.2	43.4
Domestic (gross)	26.9	27.6	27.8	28.2	27.3	27.8	27.8	27.3	27.3	25.5	26.7	23.9	26.0	24.9
Domestic (net)	21.0	21.9	22.7	22.4	22.8	22.7	22.7	23.4	22.8	22.1	22.7	20.8	22.5	21.8
External	26.7	30.0	31.1	29.1	29.6	28.4	28.4	27.6	26.9	26.1	25.0	22.8	23.7	21.6
Memorandum Items:														
Nominal GDP (in Ksh Billion)	6,739	7,658	8,554	8,797	9,727	10,043	9,990	11,101	11,336	12,621	12,780	14,363.9	14,439	16,342
Nominal GDP (in US\$ Million)	66,658	74,742	82,224	85,933	92,644	98,398	97,883	107,575	111,056	122,166	124,546	138,627.4	139,967	157,236
<i>Source: National Treasury</i>														
Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper; SGR = Standard Gauge Railway														

Annex Table 2: Government Operations for the FY 2019/20 - 22/23 Period, Ksh Billion

	2015/16	2016/17	2017/18		2018/19			2019/20		2020/21			2021/22			2022/23
	Act	Act	Supp. II Budget	Prel. Act	Budget	Rev. Budget	BROP18	BPS18	BROP18	BROP17	BPS18	BROP18	BPS18	BROP18	BPS18	BROP18
TOTAL REVENUE	1,232.6	1,422.5	1,659.6	1,487.2	1,949.2	1,852.6	1,852.6	2,105.6	2,074.1	2,453.7	2,417.8	2,381.5	2,747.6	2,731.2	3,097.4	
Ordinary Revenue	1,153.0	1,306.6	1,489.6	1,365.1	1,769.2	1,672.6	1,672.6	1,931.0	1,870.4	2,261.6	2,229.1	2,154.8	2,548.4	2,478.6	2,815.6	
Income Tax	560.8	625.1	709.3	640.6	836.6	769.4	769.4	935.0	872.3	1,115.9	1,090.6	1,013.9	1,259.6	1,178.7	1,344.0	
Import duty (net)	79.2	89.9	103.4	93.9	119.4	135.5	135.5	132.1	152.2	150.0	150.0	170.9	170.4	191.9	217.5	
Excise duty	139.5	165.5	179.4	167.8	219.0	230.3	230.3	241.1	260.9	276.3	276.3	295.8	315.6	337.2	385.5	
Value Added Tax	289.2	339.0	378.0	356.9	464.2	426.1	426.1	508.8	477.9	586.0	586.0	555.9	665.5	640.6	724.2	
Investment income	19.3	28.9	28.6	24.1	30.1	25.6	25.6	26.9	19.4	28.4	28.4	20.4	32.1	21.4	22.5	
Other	65.0	58.2	91.0	81.8	100.1	85.6	85.6	87.1	87.6	104.9	97.7	97.8	105.1	108.7	121.9	
Railway Development Levy	17.3	18.9	21.2	20.8	24.7	24.7	24.7	25.6	27.7	31.8	28.4	31.1	35.6	35.0	39.6	
Ministerial and Departmental Fees (AIA)	62.4	97.0	148.8	101.4	155.2	155.2	155.2	148.9	176.0	160.3	160.3	195.6	163.5	217.6	242.2	
EXPENDITURE AND NET LENDING	1,781.9	2,110.0	2,330.0	2,111.5	2,557.2	2,509.1	2,474.3	2,636.0	2,656.6	3,087.1	2,892.9	2,890.8	3,234.1	3,234.5	3,609.0	
Recurrent expenditure	1,020.0	1,165.0	1,441.9	1,308.0	1,550.0	1,541.0	1,528.0	1,595.1	1,603.7	1,792.5	1,765.2	1,785.4	1,967.6	2,020.5	2,229.8	
Interest payments	215.3	271.2	305.1	323.9	400.0	400.0	400.0	383.9	383.9	431.4	431.4	433.8	491.1	491.1	516.1	
Domestic interest	172.9	212.9	215.2	239.5	285.6	285.6	285.6	271.8	271.8	312.6	312.6	315.0	359.4	359.4	374.4	
Foreign interest	42.5	58.4	89.8	84.4	114.4	114.4	114.4	112.1	112.1	118.8	118.8	118.8	131.6	131.6	141.6	
Wages and Salaries ¹	307.4	336.6	392.8	388.9	444.2	425.1	424.1	484.4	458.3	466.4	524.6	481.3	563.4	505.3	558.4	
Contribution to civil service pension fund	0.0	0.0	0.0	0.0	10.3	10.3	0.0	24.0	16.9	25.4	25.4	25.4	33.8	33.8	50.7	
Pensions etc	53.4	64.0	76.2	65.1	90.6	90.6	90.6	109.5	109.5	124.5	124.5	124.5	139.0	139.0	152.9	
Other	330.2	363.0	529.1	404.0	478.2	487.8	486.1	466.8	507.7	602.9	521.0	588.7	600.4	714.8	813.3	
Defense and NSIS	113.7	130.2	138.8	126.1	126.8	127.2	127.2	126.5	127.3	142.9	138.3	131.8	139.9	136.4	138.4	
Development and Net lending	480.7	639.9	556.3	476.1	625.7	595.7	573.9	663.7	675.8	859.5	740.8	718.6	866.5	817.1	922	
Domestically financed	298.2	385.1	317.5	272.7	364.9	338.7	334.4	375.2	387.3	455.3	425.1	417.8	499.5	475.1	542.3	
o/w Domestically Financed (Net)	277.1	353.2	274.6	229.2	317.2	291.0	286.7	324.3	334.3	396.8	369.9	359.9	436.6	411.6	472.3	
o/w Exchequer Issues	277.1	353.2	274.6	229.2	317.2	291.0	286.7	324.3	334.3	396.8	369.9	359.9	436.6	411.6	472.3	
Ministerial Development AIA	21.1	31.0	43.0	43.5	47.7	47.7	47.7	50.9	53.0	58.5	55.1	57.9	62.9	63.5	70.0	
Foreign financed	173.9	246.4	236.4	201.0	249.8	249.8	232.3	281.1	281.1	366.5	306.7	291.7	357.1	332.1	369.4	
Net lending	2.2	2.4	2.4	2.5	2.5	2.5	2.5	1.6	1.6	2.5	2.5	2.5	2.5	2.5	2.5	
Contingencies	5.0	0.0	0.0	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	8.0	5.0	8.0	
County Allocation	276.2	305.0	331.7	327.3	376.5	367.4	367.4	372.2	372.2	430.0	381.9	381.9	391.9	391.9	448.8	
Sharable	259.8	280.3	288.0	302.0	314.0	305.0	305.0	320.4	320.4	378.0	330.0	330.0	339.9	339.9	392.2	
Others - GoK	3.6	24.7	43.7	25.3	62.5	62.5	62.5	4.5	51.8	4.8	4.6	51.9	4.7	52.0	56.6	
Conditional Allocations	12.8	4.0	4.2	4.2	4.3	4.3	4.3	47.3	4.5	47.3	47.3	4.6	47.3	4.7	5.1	
of which: Road Maintenance Levy 15%	3.3	4.3	11.1	10.6	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	9.0	
Foreign Financed Transfers	2.2	1.8	20.4	7.5	37.0	37.0	37.0	29.4	29.4	29.4	29.4	29.4	29.4	29.4	32.4	
Equalization Fund for Marginal areas	6.4	6.0	0.0	0.0	8.5	4.7	4.7	5.8	5.8	11.3	6.5	6.5	7.4	7.4	8.2	
Fiscal Balance (commitment basis excl. grants)	-549.3	-687.4	-670.4	-624.2	-608.1	-656.5	-621.7	-530.4	-582.5	-633.4	-475.1	-509.3	-486.5	-503.3	-511.6	
Adjustment to cash basis	22.4	-14.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Grants	29.6	27.0	43.0	27.6	48.5	48.5	46.0	51.6	51.6	51.4	52.4	52.4	54.4	54.4	57.6	
Of which: Project grants	24.1	19.1	36.9	22.9	40.0	40.0	37.5	46.6	46.6	48.9	48.9	48.9	51.4	51.4	54.6	
Programme grants	4.3	7.4	6.1	4.7	8.5	8.5	8.5	5.0	5.0	2.5	3.5	3.5	3.0	3.0	3.0	
County Health Facilities - DANIDA	0.7	0.4	0.0	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 (cash basis incl. grants)	-497.3	-674.7	-627.4	-596.6	-559.6	-608.0	-575.8	-478.8	-530.9	-581.9	-422.6	-456.9	-432.1	-448.9	-453.9	
Fiscal Balance (cash basis incl. grants) Excl. SGR	-445.0	-563.3	-562.9	-532.8	-509.5	-554.8	-522.6	-433.1	-485.2	-513.7	-354.4	-388.6	-347.1	-363.9	-368.9	
Adjustment to Cash Basis		14.2	0.0	-34.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Statistical discrepancy	-22.7	22.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
FINANCING	474.6	697.2	627.4	631.3	559.6	608.0	575.8	478.8	530.9	581.9	422.6	456.9	432.1	448.9	453.9	
Net Foreign Financing	269.9	385.7	374.8	355.0	287.0	287.0	272.0	232.7	-217.0	289.3	229.5	147.2	227.1	108.8	145.8	
Project loans	151.4	228.6	212.7	180.8	235.8	235.8	220.8	256.2	256.2	347.0	287.1	272.1	335.1	310.1	347.2	
Programme loans	8.6	6.8	7.0	8.5	2.5	2.5	2.5	1.5	1.5	1.5	1.5	1.5	3.5	3.5	3.5	
Commercial Financing	145.0	186.3	305.4	304.0	298.9	298.9	298.9	100.0	107.8	50.0	50.0	50.1	0.0	0.0	0.0	
Repayments due	-35.1	-35.9	-150.3	-138.4	-250.3	-250.3	-250.3	-132.8	-148.5	-109.2	-109.2	-176.5	-111.6	-204.8	-204.8	
Other Domestic Financing	2.4	2.3	3.8	2.6	3.9	3.9	3.9	-5.7	-5.7	-1.1	-1.2	-1.2	-2.2	-5.5	-5.5	
Domestic Loan Repayments (Receipts)	2.4	2.3	3.8	2.4	3.9	3.9	3.9	4.3	4.3	4.5	4.3	4.3	4.5	4.5	4.5	
Domestic Loan Repayments CBK	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-10.0	-10.0	-5.6	-5.6	-5.6	-6.7	-10.0	-10.0	
Net Domestic Financing	202.3	309.2	248.7	273.7	268.7	317.1	299.8	251.7	319.6	293.7	194.3	310.9	207.2	345.7	313.7	
Others	202.3	309.2	248.7	273.7	268.7	317.1	299.8	251.7	319.6	293.7	194.3	310.9	207.2	345.7	313.7	
Financing gap	-22.7	22.6	0.0	34.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Memo Items																
External Debt	1,796.2	2,294.7	2,669.6	2,560.2	2,847.2	2,847.2	2,832.2	3,065.4	3,049.2	3,346.9	3,294.9	3,196.4	3,273.8	3,423.4	3,532.2	
Domestic Debt (gross)	1,815.1	2,112.3	2,361.0	2,478.8	2,747.5	2,795.9	2,778.7	3,026.6	3,098.3	3,410.1	3,220.9	3,409.2	3,428.1	3,754.9	4,068.5	
Domestic Debt (net)	1,414.6	1,677.8	1,926.5	1,969.8	2,238.5	2,286.9	2,269.6	2,592.1	2,589.2	2,975.7	2,786.4	2,900.2	2,993.7	3,245.8	3,559.5	
Primary budget balance	-282.0	-403.4	-322.3	-272.7	-159.6	-208.0	-175.8	-94.9	-147.0	-150.5	8.8	-23.1	59.0	42.2	62.2	
Nominal GDP	6,739.2	7,658.1	8,679.0	8,796.5	9,726.6	9,990.0	9,990.0	11,100.8	11,335.6	12,670.7	12,620.8	12,780.4	14,363.9	14,439.1	16,341.7	

Source: The National Treasury

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

Annex Table 3: Government Operations for the FY 2019/20 - 22/23 Period (% of GDP)

	2015/16	2016/17	2017/18		2018/19			2019/20		2020/21			2021/22		2022/23
	Act	Act	Supp. II Budget	Prel. Act	Budget	Rev. Budget	BROP18	BPS18	BROP18	BROP17	BPS18	BROP18	BPS18	BROP18	BROP18
TOTAL REVENUE	18.3	18.6	19.1	16.9	20.0	18.5	18.5	19.0	18.3	19.4	19.2	18.6	19.1	18.9	19.0
Ordinary Revenue	17.1	17.1	17.2	15.5	18.2	16.7	16.7	17.4	16.5	17.8	17.7	16.9	17.7	17.2	17.2
Income tax	8.3	8.2	8.2	7.3	8.6	7.7	7.7	8.4	7.7	8.8	8.6	7.9	8.8	8.2	8.2
Import duty (net)	1.2	1.2	1.2	1.1	1.2	1.4	1.4	1.2	1.3	1.2	1.2	1.3	1.2	1.3	1.3
Excise duty	2.1	2.2	2.1	1.9	2.3	2.3	2.3	2.2	2.3	2.2	2.2	2.3	2.2	2.3	2.4
Value Added Tax	4.3	4.4	4.4	4.1	4.8	4.3	4.3	4.6	4.2	4.6	4.6	4.3	4.6	4.4	4.4
Investment income	0.3	0.4	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Other	1.0	0.8	1.0	0.9	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.7
Railway Development Levy	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Ministerial and Departmental Fees (AIA)	0.9	1.3	1.7	1.2	1.6	1.6	1.6	1.3	1.6	1.3	1.3	1.5	1.1	1.5	1.5
EXPENDITURE AND NET LENDING	26.4	27.6	26.8	24.0	26.3	25.1	24.8	23.7	23.4	24.4	22.9	22.6	22.5	22.4	22.1
Recurrent expenditure	15.1	15.2	16.6	14.9	15.9	15.4	15.3	14.4	14.1	14.1	14.0	14.0	13.7	14.0	13.6
Interest payments	3.2	3.5	3.5	3.7	4.1	4.0	4.0	3.5	3.4	3.4	3.4	3.4	3.4	3.4	3.2
Domestic interest	2.6	2.8	2.5	2.7	2.9	2.9	2.9	2.4	2.4	2.5	2.5	2.5	2.5	2.5	2.3
Foreign interest	0.6	0.8	1.0	1.0	1.2	1.1	1.1	1.0	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Wages and Salaries/1	4.6	4.4	4.5	4.4	4.6	4.3	4.2	4.4	4.0	3.7	4.2	3.8	3.9	3.5	3.4
Contribution to civil service pension fund	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.3
Pensions etc	0.8	0.8	0.9	0.7	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.9
Other	4.9	4.7	6.1	4.6	4.9	4.9	4.9	4.2	4.5	4.8	4.1	4.6	4.2	5.0	5.0
Defense and NSIS	1.7	1.7	1.6	1.4	1.3	1.3	1.3	1.1	1.1	1.1	1.1	1.0	1.0	0.9	0.8
Development and Net lending	7.1	8.4	6.4	5.4	6.4	6.0	5.7	6.0	6.0	6.8	5.9	5.6	6.0	5.7	5.6
Domestically financed	4.4	5.0	3.7	3.1	3.8	3.4	3.3	3.4	3.4	3.6	3.4	3.3	3.5	3.3	3.3
o/w Domestically Financed (Net)	4.1	4.6	3.2	2.6	3.3	2.9	2.9	2.9	2.9	3.1	2.9	2.8	3.0	2.9	2.9
o/w Exchequer Issues	4.1	4.6	3.2	2.6	3.3	2.9	2.9	2.9	2.9	3.1	2.9	2.8	3.0	2.9	2.9
Ministerial Development AIA	0.3	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.5	0.4	0.4	0.4
Foreign financed	2.6	3.2	2.7	2.3	2.6	2.5	2.3	2.5	2.5	2.9	2.4	2.3	2.5	2.3	2.3
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingencies	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
County Allocation	4.1	4.0	3.8	3.7	3.9	3.7	3.7	3.4	3.3	3.4	3.0	3.0	2.7	2.7	2.7
Sharable	3.9	3.7	3.3	3.4	3.2	3.1	3.1	2.9	2.8	3.0	2.6	2.6	2.4	2.4	2.4
Others - GoK	0.1	0.3	0.5	0.3	0.6	0.6	0.6	0.0	0.5	0.0	0.0	0.4	0.0	0.4	0.3
Conditional Allocations	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.4	0.0	0.4	0.4	0.0	0.3	0.0	0.0
of which: Road Maintenance Levy 15%	0.0	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	0.1
Foreign Financed Transfers	0.0	0.0	0.2	0.1	0.4	0.4	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Equalization Fund for Marginal areas	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.1	0.1	0.1
Fiscal Balance (commitment basis excl grants)	-8.2	-9.0	-7.7	-7.1	-6.3	-6.6	-6.2	-4.8	-5.1	-5.0	-3.8	-4.0	-3.4	-3.5	-3.1
Adjustment to cash basis	0.3	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.4	0.4	0.5	0.3	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3
Of which: Project grants	0.4	0.2	0.4	0.3	0.4	0.4	0.4	0.4	0.0	0.0	0.4	0.0	0.4	0.0	0.0
Programme grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Balance (cash basis incl grants)	-7.4	-8.8	-7.2	-6.8	-5.8	-6.1	-5.8	-4.3	-4.7	-4.6	-3.3	-3.6	-3.0	-3.1	-2.8
Fiscal Balance (cash basis incl grants) Exl SGR	-6.6	-7.4	-6.5	-6.1	-5.2	-5.6	-5.2	-3.9	-4.3	-4.1	-2.8	-3.0	-2.4	-2.5	-2.3
Adjustment to Cash Basis	-0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-0.3			0.0											
FINANCING	7.0	9.1	7.2	7.2	5.8	6.1	5.8	4.3	4.7	4.6	3.3	3.6	3.0	3.1	2.8
Net Foreign Financing	4.0	5.0	4.3	4.0	3.0	2.9	2.7	2.1	1.9	2.3	1.8	1.2	1.6	0.8	0.9
Project loans	2.2	3.0	2.5	2.1	2.4	2.4	2.2	2.3	2.3	2.7	2.3	2.1	2.3	2.1	2.1
Programme loans	0.1	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	0.0
Commercial Financing	2.2	2.4	3.5	3.5	3.1	3.0	3.0	0.9	1.0	0.4	0.4	0.4	0.0	0.0	0.0
Export Credit- Commercial Financing	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Repayments due	-0.5	-0.5	-1.7	-1.6	-2.6	-2.5	-2.5	-1.2	-1.3	-0.9	-0.9	-1.4	-0.8	-1.4	-1.3
Other Domestic Financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net Domestic Financing	3.0	4.0	2.9	3.1	2.8	3.2	3.0	2.3	2.8	2.3	1.5	2.4	1.4	2.4	1.9
Others	3.0	4.0	2.9	3.1	2.8	3.2	3.0	2.3	2.8	2.3	1.5	2.4	1.4	2.4	1.9
Financing gap	-0.3	0.3	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items															
Total Public Debt (net)	47.6	51.9	53.0	51.5	52.5	51.1	51.1	51.0	49.7	49.9	48.2	47.7	43.6	46.2	43.4
External Debt	26.7	30.0	30.8	29.1	29.3	28.5	28.4	27.6	26.9	26.4	26.1	25.0	22.8	23.7	21.6
Domestic Debt (gross)	26.9	27.6	27.2	28.2	28.2	28.0	27.8	27.3	27.3	26.9	25.5	26.7	23.9	26.0	24.9
Domestic Debt (net)	21.0	21.9	22.2	22.4	23.0	22.9	22.7	23.4	22.8	23.5	22.1	22.7	20.8	22.5	21.8
Primary budget balance	-4.2	-5.3	-3.7	-3.1	-1.6	-2.1	-1.8	-0.9	-1.3	-1.2	0.1	-0.2	0.4	0.3	0.4
Normal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: The National Treasury

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

Annex Table 4: Development Sector Ceilings for the FY 2019/20-2021/22 MTEF Period (Ksh M)

Sector Code	SECTOR		Budget Estimates	BROP Ceilings	Projections	
			2018/19	2019/20	2020/21	2021/22
010	Agriculture, Rural & Urban Development	Gross	37,161.3	49,062.5	50,959.5	52,494.5
		GOK	11,590.4	15,906.4	17,368.4	18,403.4
		Loans	14,351.7	19,693.7	19,693.7	19,693.7
		Grants	2,737.4	2,737.4	2,737.4	2,737.4
		Local A-I-A	-	-	-	-
		S.I.	-	10,725.0	11,160.0	11,660.0
020	Energy, Infrastructure & ICT	Gross	338,003.3	326,064.7	337,297.6	342,462.6
		GOK	109,492.9	91,567.1	102,110.6	106,975.6
		Loans	148,685.6	148,685.6	148,685.6	148,685.6
		Grants	3,308.0	3,308.0	3,308.0	3,308.0
		Local A-I-A	47,723.1	52,993.4	52,993.4	52,993.4
		S.I.	28,793.8	29,510.6	30,200.0	30,500.0
030	General Economic & Commercial Affairs	Gross	21,317.9	19,695.1	21,682.1	22,387.6
		GOK	10,710.9	8,588.1	10,325.1	10,780.6
		Loans	10,542.0	10,542.0	10,542.0	10,542.0
		Grants	65.0	65.0	65.0	65.0
		S.I.	-	-	-	-
040	Health	Gross	40,906.4	36,671.4	37,271.4	37,671.4
		GOK	3,320.0	3,120.0	3,720.0	4,120.0
		Loans	15,024.6	7,989.6	7,989.6	7,989.6
		Grants	8,658.8	8,658.8	8,658.8	8,658.8
		S.I.	13,903.0	16,903.0	16,903.0	16,903.0
050	Education	Gross	32,230.8	30,034.0	35,819.8	36,709.8
		GOK	20,950.0	16,353.2	20,139.0	21,029.0
		Loans	9,406.7	7,906.7	7,906.7	7,906.7
		Grants	1,874.2	1,874.2	1,874.2	1,874.2
		S.I.	-	3,900.0	5,900.0	5,900.0
060	Governance, Justice, Law & Order	Gross	22,342.6	23,894.9	25,962.1	25,524.7
		GOK	5,636.6	6,332.9	8,400.1	7,962.7
		Loans	1,499.0	2,999.0	2,999.0	2,999.0
		Grants	917.0	1,273.0	1,273.0	1,273.0
		S.I.	14,290.0	13,290.0	13,290.0	13,290.0
070	Public Administration & International Relations	Gross	89,695.9	103,372.6	102,997.1	104,584.5
		GOK	16,711.8	17,301.2	19,510.7	21,098.0
		Loans	2,072.0	3,092.1	3,092.1	3,092.1
		Grants	14,723.6	14,723.6	14,723.6	14,723.6
		S.I.	4,709.0	9,520.0	4,700.0	4,700.0
		CF & EF	13,500.0	10,765.0	11,000.0	11,000.0
		CDF	35,758.6	38,749.8	40,749.8	40,749.8
080	National Security	Gross	14,974.3	14,974.3	14,974.3	14,974.3
		GOK	4,000.0	4,000.0	4,000.0	4,000.0
		Loans	10,974.3	10,974.3	10,974.3	10,974.3
		Grants	-	-	-	-
090	Social Protection, Culture & Recreation	Gross	24,368.1	23,357.6	24,339.8	25,262.0
		GOK	6,914.1	6,028.1	6,977.3	7,899.5
		Loans	1,100.0	1,100.0	1,100.0	1,100.0
		Grants	2,618.0	2,618.0	2,618.0	2,618.0
		S.I.	11,240.0	11,240.0	11,240.0	11,240.0
0100	Environment Protection, Water & Natural Resources	Gross	56,224.9	44,239.4	47,154.4	48,004.4
		GOK	17,978.5	11,607.0	14,522.0	15,372.0
		Loans	33,161.4	27,819.4	27,819.4	27,819.4
		Grants	5,085.0	4,813.0	4,813.0	4,813.0
		S.I.	-	-	-	-
		PFR	4,717.0	11,592.5	11,625.5	11,625.5
TOTAL		Gross	677,225.6	671,366.7	698,458.3	710,076.0
		GOK	207,305.2	180,804.0	207,073.3	217,640.9
		Loans	246,817.3	240,802.4	240,802.4	240,802.4
		Grants	39,987.0	40,071.0	40,071.0	40,071.0
		Local A-I-A	47,723.1	52,993.4	52,993.4	52,993.4
		S.I.	81,417.5	95,588.6	94,143.0	95,193.0
		CF & EF	13,500.0	10,765.0	11,000.0	11,000.0
		CDF	35,758.6	38,749.8	40,749.8	40,749.8

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

Source: National Treasury

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

Annex Table 5: Recurrent Sector Ceilings for the FY 2019/20-2021/22 MTEF Period (Ksh M)

Sector Code	SECTOR	Classification	Budget	BROP	Projections	
			Estimates	Ceiling		
			2018/19	2019/20	2020/21	2021/22
010	Agriculture, Rural & Urban Development	Gross	17,482.3	17,728.2	18,323.5	18,942.0
		A-I-A	437.0	437.0	437.0	437.0
		Net	17,045.3	17,291.2	17,886.5	18,505.0
		Salaries	6,101.3	6,281.9	6,470.3	6,664.5
		Grants & Other Transfers	7,950.2	8,184.5	8,428.8	8,682.6
		Other Recurrent	1,745.5	1,613.4	1,693.5	1,777.5
020	Energy, Infrastructure & ICT	Gross	80,792.8	84,317.4	88,013.6	92,151.0
		A-I-A	68,460.3	71,745.4	75,194.8	78,816.6
		Net	12,332.5	12,572.0	12,818.8	13,334.4
		Salaries	3,942.0	4,099.0	4,221.9	4,348.6
		Grants & Other Transfers	72,625.6	76,210.1	79,582.9	83,383.2
		Other Recurrent	4,225.2	4,008.3	4,208.7	4,419.2
030	General Economic & Commercial Affairs	Gross	10,645.8	10,426.4	10,728.9	11,042.8
		A-I-A	2,112.3	2,168.8	2,336.2	2,336.2
		Net	8,533.6	8,257.7	8,392.7	8,706.6
		Salaries	1,312.5	1,395.7	1,437.6	1,480.7
		Grants & Other Transfers	6,909.3	6,683.3	6,826.5	6,974.0
		Other Recurrent	2,424.1	2,347.5	2,464.8	2,588.1
040	Health	Gross	49,100.8	52,316.9	53,630.5	54,985.2
		A-I-A	11,465.0	11,465.0	11,465.0	11,465.0
		Net	37,635.8	40,851.9	42,165.5	43,520.2
		Salaries	7,596.1	7,824.0	8,058.7	8,300.5
		Grants & Other Transfers	39,887.2	33,287.2	34,285.8	35,314.4
		Other Recurrent	1,617.5	1,605.7	1,686.0	1,770.3
		Strategic Interventions	-	9,600.0	9,600.0	9,600.0
050	Education	Gross	410,097.6	438,741.8	451,171.0	461,724.0
		A-I-A	40,565.7	40,565.7	40,565.6	40,565.6
		Net	369,531.9	398,176.1	410,605.4	421,158.4
		Salaries	231,492.7	252,833.4	260,418.4	268,231.0
		Grants & Other Transfers	102,090.6	102,090.6	104,400.1	106,778.8
		Other Recurrent	76,514.3	76,304.7	76,839.5	77,201.3
		Strategic Interventions	-	7,513.0	9,513.0	9,513.0
	Medical Insurance		-	-	-	
060	Governance, Justice, Law & Order	Gross	167,810.6	173,162.4	178,068.3	182,587.7
		A-I-A	450.4	450.4	450.4	450.4
		Net	167,360.2	172,711.9	177,617.9	182,137.3
		Salaries	106,515.5	111,270.4	114,306.9	117,736.1
		Grants & Other Transfers	7,508.9	7,649.0	7,941.3	8,226.7
		Other Recurrent	38,346.9	31,791.3	33,274.7	34,579.5
		Strategic Interventions	8,906.4	15,370.4	15,464.0	14,964.0
	Medical Insurance	6,532.9	7,081.4	7,081.4	7,081.4	

Source: National Treasury

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

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Annex Table 5: Recurrent Sector Ceilings for the FY 2019/20-2021/22 MTEF Period (Ksh M)

Sector Code	SECTOR	Classification	Budget Estimates	BROP Ceiling	Projections	
			2018/19	2019/20	2020/21	2021/22
070	Public Administration & International Relations	Gross	159,656.5	170,948.4	175,354.4	158,423.6
		A-I-A	1,010.3	1,010.3	1,010.6	1,010.6
		Net	158,646.2	169,938.1	174,343.8	157,413.0
		Salaries	38,133.6	39,173.8	40,349.0	41,559.4
		Grants & Other Transfers	28,282.0	28,397.6	28,422.2	28,433.6
		Other Recurrent	42,536.4	40,189.0	42,048.5	44,003.8
		Strategic Interventions	30,322.0	22,703.3	15,510.0	15,402.0
		Medical Insurance	3,623.7	3,623.7	3,623.7	3,623.7
		JE & Pension Contributory		36,861.0	45,401.0	25,401.0
		080	National Security	Gross	127,290.4	127,321.4
A-I-A	-			-	-	-
Net	127,290.4			127,321.4	132,405.7	133,449.2
Salaries	1,031.9			1,062.9	1,094.7	1,127.6
Grants & Other Transfers	125,989.0			125,989.0	131,033.3	132,035.7
Other Recurrent	269.5			269.5	277.6	285.9
Strategic Interventions	-			-	-	-
090	Social Protection, Culture & Recreation	Gross	28,500.0	28,122.9	28,567.0	29,003.4
		A-I-A	490.3	490.3	490.3	490.3
		Net	28,009.7	27,632.6	28,076.7	28,513.2
		Salaries	2,891.0	2,977.8	3,067.1	3,159.1
		Grants & Other Transfers	20,811.8	20,789.5	20,950.0	21,090.5
		Other Recurrent	4,797.2	3,885.6	4,079.9	4,283.9
		Strategic Interventions	-	470.0	470.0	470.0
0100	Environment Protection, Water & Natural Resources	Gross	21,605.3	21,921.4	22,607.6	23,304.9
		A-I-A	7,247.8	7,247.8	7,247.8	7,247.8
		Net	14,357.5	14,673.6	15,359.8	16,057.1
		Salaries	2,431.8	2,434.7	2,507.7	2,583.0
		Grants & Other Transfers	17,252.8	17,732.8	18,264.8	18,812.7
		Other Recurrent	1,920.7	1,753.9	1,835.0	1,909.1
		Strategic Interventions	-	-	-	-
TOTAL		Gross	1,072,982.1	1,125,007.0	1,158,870.4	1,165,613.7
		A-I-A	132,239.0	135,580.6	139,197.6	142,819.4
		Net	940,743.1	989,426.4	1,019,672.8	1,022,794.3
		Salaries	401,448.4	429,353.4	441,932.5	455,190.5
		Grants & Other Transfers	429,307.4	427,013.5	440,135.8	449,732.1
		Other Recurrent	174,397.3	163,768.9	168,408.2	172,818.7
		Strategic Intervention	27,350.6	57,305.1	52,287.8	51,766.4
		Medical Insurance	10,156.6	10,705.1	10,705.1	10,705.1
		JE & Pension Contributory	30,322.0	36,861.0	45,401.0	25,401.0

Source: National Treasury

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



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Annex Table 6: Budget Calendar for the FY 2019/20 Medium-Term Budget

ACTIVITY	RESPONSIBILITY
1. Develop and issue MTEF guidelines	National Treasury
2. Launch of Sector Working Groups	National Treasury
3. Programme Performance & Strategic Reviews	MDAs
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 FY2019/20	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
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	"
4.6 Submission of approved BROP to Parliament	"
5. Preparation of MTEF budget proposals	Line Ministries
5.1 Retreats to draft Sector Reports	Sector Working Group
5.2 Public Sector Hearing	National Treasury
5.3 Review and incorporation of stakeholder inputs in the Sector proposals	Sector Working Group
5.4 Submission of Sector Report to Treasury	Sector Chairpersons
5.5 Consultative meeting with CSs/PSs on Sector Budget proposals	National Treasury
6. Draft Budget Policy Statement (BPS)	Macro Working Group
6.1 Draft BPS	Macro Working Group
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 FY2019/20 Budget	Presidency
6.5 Submission of BPS, DORB and CARB to Cabinet for approval	National Treasury
6.6 Submission of BPS, DORB and CARB to Parliament for approval	National Treasury
8. Preparation and approval of Final MDAs Budgets	
8.1 Develop and issue final guidelines on preparation of 2019/20 MTEF Budget	National Treasury
8.2 Submission of Budget Proposals to Treasury	Line Ministries
8.3 Consolidation of the Draft Budget Estimates	National Treasury
8.4 Submission to Cabinet for Approval	National Treasury
8.5 Submission of Draft Budget Estimates to Parliament	National Treasury
8.6 Review of Draft Budget Estimates by Parliament	National Assembly
8.7 Report on Draft Budget Estimates from Parliament	National Assembly
8.8 Consolidation of the Final Budget Estimates	National Treasury
8.9 Submission of Appropriation Bill to Parliament	National Treasury
8.10 Submission of Vote on Account to Parliament	National Treasury
9. Budget Statement	National Treasury
10 Appropriation Bill Passed	National Assembly
11. Finance Bill Passed	National Assembly

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Annex Table 6: Budget Calendar for the FY 2019/20 Medium-Term Budget

BUDGET CALENDER FOR THE FY 2019/20 MEDIUM- TERM BUDGET		
ACTIVITY	RESPONSIBILITY	FY 2019/20 DEADLINE
1. Development of issues MTEF guidelines	National Treasury & Planning	17-Aug-18
2. Launch of Sector Working Group	National Treasury & Planning	30-Aug-18
3. Programme Performance Review	MDAs	15-Sep-18
3.1 Review and updated of strategic plans	"	"
3.2 Review of programme performance (Output & Outcomes)	"	"
3.3 Expenditure Reviews	"	"
3.4 Review and approval of Projects for FY 2019/2020	"	"
3.5 Progress report on MTP implementation	"	"
3.6 Review of annual plans	"	"
4. Development of Medium Term Budget Framework	Macro Working Group	30-Sep-18
4.1 Development of the Medium Term Fiscal Framework & Resource envelope	"	"
4.2 Review and determination of Government priorities	"	"
4.3 Develop resource envelope proposals for Sectors, Parliament, Judiciary and Counties	"	"
4.4 Draft Budget Review and Outlook Paper (BROP)	"	"
4.5 Submission of BROP for approval by CS/ National Treasury & Planning	"	30-Sep-18
4.6 Submission and approval of BROP by Cabinet		30-Sep-18
4.7 Submission of Approved BROP to Parliament		26-Oct-18
5. Preparation of MTEF budget proposal	MDAs	30-Nov-18
5.1 Retreat of draft sector Reports	Sector Working Group	15th Oct-9th Nov. 18
5.2 Briefing Sector Chairperson & Accounting Officers on Draft Sector Reports	Sector Working Group	12-Nov-18
5.3 Public Sector Hearings	MDAs, TNT& Planning	14-16 Nov.18
5.4 Review and incorporation of stakeholder inputs in the Sector proposals	Sector Working Group	22-Nov-18
5.5 Submission of Sector Report to the National Treasury & Planning	Sector Working Group	30-Nov-18
5.6 Consultative meeting of Accounting Officers, CSs, and Chairpersons of Comissions on Sector Budget proposal	National Treasury & Planning	10-Dec-18
6. Budget Policy Statement (BPS)	Macro Working Group	15-Feb-19
6.1 Finalization of Draft BPS	Macro Working Group	30-Nov-18
6.2 Finalization of Draft Division of Revenue Bills (DORB)	National Treasury & Planning	"
6.3 Finalization of County Allocation Revenue Bill (CARB)	National Treasury & Planning	"
6.4 Cabinet Retreat on Finalization of FY 2019/20 Budget	Presidency	10-Jan-19
6.5 Submission of BPS, DORB and CARB to Parliament	National Treasury & Planning	15-Jan-19
6.6 Submission of BPS, DORB and CARB to Parliament for approval	National Treasury & Planning	15-Feb-19
7. Preparation and Approval of Final MDAs Budgets		30-Apr-19
7.1 Develop and issue final guidelines on preparation of FY 2019/20-Medium term Budget	National Treasury & Planning	28-Feb-19
7.2 Submission of Budget Proposals to the National Treasury and Planning	MDAs	15-Feb-19
7.3 Consolidation of Draft Budget Estimates	National Treasury & Planning	01-Apr-19
7.4 Submission of Draft Budget to Cabinet for Approval	National Treasury & Planning	15-Apr-19
7.5 Submission of Draft Budget Estimates & accompanying documents to Parliament	National Treasury & Planning	25-Apr-19
7.6 Review of Draft Budget Estimates by Parliament	National Assembly Committe	15-May-19
7.7 Report on Draft Budget Estimates by Parliament	National Assembly Committe	20-May-19
7.8 Consolidation of the Final Budget Estimates	National Treasury & Planning	30-May-19
7.9 Submission of Appropriation Bill to Parliament.	National Treasury & Planning	10-Jun-19
8. Budget Statement	National Treasury & Planning	13-Jun-19
9. Submission to Vote on Account to Parliament (If Applicable)	National Treasury & Planning	20-Jun-19
10. Appropriation Bill Passed	National Treasury & Planning	27-Jun-19
11. Finance Bill Passed	National Treasury & Planning	30-Jul-19

Source: National Treasury

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