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REPUBLIC OF KENYA

THE NATIONAL TREASURY AND ECONOMIC PLANNING

MEDIUM TERM

**2024 BUDGET POLICY
STATEMENT**



**SUSTAINING BOTTOM-UP ECONOMIC
TRANSFORMATION AGENDA FOR
ECONOMIC RECOVERY AND IMPROVED
LIVELIHOODS**

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To obtain copies of the BPS, please contact:

The National Treasury and Economic Planning
Treasury Building
P. O. Box 30007-00100
NAIROBI, KENYA

Tel: +254-20-2252-299
Fax: +254-20-341-082

The document is also available on the website at: www.treasury.go.ke

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Foreword

The 2024 Budget Policy Statement (BPS), the second to be prepared under the Kenya Kwanza Administration, reaffirms the priority policies and strategies under the Bottom-Up Economic Transformation Agenda (BETA) and prioritized in the Fourth Medium Term Plan of the Vision 2030.

Since coming to office in September 2022, the Government has implemented bold policy responses to mitigate the negative global and persistent shocks that have pushed the economy to its lowest vibrant level and embarked on structural reforms to stabilize Government finances and the economy. These shocks include global supply chain disruptions due to ongoing conflicts in Eastern Europe and the Middle East; high interest rates limiting access to credit and exacerbating debt servicing costs; significant losses and damages due to frequent extreme weather events; and elevated commodity prices such as petroleum products on account of increased geopolitical fragmentation and global oil supply cuts.

Against this background, the Government continues to implement interventions and policies to reduce the cost of living and improving livelihoods, while at the same time fostering a sustainable inclusive economic transformation through the Bottom-Up Economic Transformation Agenda. This is meant to reverse the economic recession and ignite economic recovery. This Development Agenda recognizes the importance of managing the cost of living through well-functioning markets to enhance increased production and productivity, availability and affordability of goods and services for all citizens. Indeed, market failures in sectors that supported the economy are glaring. The interventions target five core priority areas namely: i) Agricultural Transformation and Inclusive Growth; ii) Micro, Small and Medium Enterprise (MSME) Economy; iii) Housing and Settlement; iv) Healthcare; and v) Digital Superhighway and Creative Industry.

The Agenda places special focus on increased employment, more equitable distribution of income, social security while also expanding the tax revenue base, and increased foreign exchange earnings. To realize this, the Government has targeted 9 value chains with the largest impact on jobs creation and economic recovery as follows: (i) Leather; (ii) Cotton; (iii) Dairy; (iv) Edible Oils; (v) Tea; (vi) Rice; (vii) Blue Economy; (viii) Natural Resources Including Minerals & Forestry; and (ix) Building Materials.

Despite the challenging environment, there is notable significant success following the various interventions rolled out during the past one year by the Government. Specifically, economic vibrancy has started. The economy remained strong in the first three quarters of 2023, growing by an average of 5.6 percent, a demonstration of resilience. This growth was well above estimated global and Sub-Saharan African region average of 2.9 percent and 3.3 percent, respectively. The economy is projected to expand by 5.5 percent in 2023 and 2024 from 4.8 percent in 2022. This growth outlook will be supported by a broad-based private sector growth, continued robust performance of the services sectors, the rebound in agriculture,

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and the ongoing implementation of policy measures to boost economic activity in the priority sectors of the BETA.

Over the next four years, the Government will scale up efforts on policy interventions and structural reforms under BETA so as to navigate the global turbulence, accelerate economic recovery, and address overarching development challenges namely creating jobs, eradicating poverty and mitigating climate change. As part of the process, the Government will accelerate investments in: (i) human capital development; (ii) reforming markets some of which are in disarray and non-functional; (iii) domestic resource mobilization and application of those resources to development projects; (iv) reform and restructure of institutions; and (v) digitization so as to coordinate all the other four areas.

The fiscal policy stance for the FY 2024/25 and the medium term budget aims to support the Bottom-Up Economic Transformation Agenda (BETA) through a growth friendly fiscal consolidation plan. The consolidation will be supported by enhanced revenue mobilization and rationalization of non-priority expenditure while protecting essential social and development budget. As part of the process, the Government has embarked on the implementation of the National Tax Policy and the Medium-Term Revenue Strategy (MTRS) that will further strengthen tax revenue mobilization efforts to over 20.0 percent of GDP over the medium term. In addition, tax administration by the Kenya Revenue Authority will be strengthened through scaling up use of technology to seal leakages. In part, this will involve enhancements of iTax and Integrated Customs Management System (iCMS) and usage of Tax Invoice Management System (e-TIMS). Further, the Government will scale up efforts on requiring the various Ministries, Departments and Agencies (MDAs) to not only mobilize more non-tax revenues but also transfer resources to exchequer. Eventually, majority of the MDAs are expected to be self-financing. These policy strategies are expected to expand the primary surplus in the fiscal framework and stabilize the growth of public debt thereby boosting the country's debt sustainability position.

Given the limited resources, the hard sector ceilings provided for the FY 2024/25 and the medium term budget will form the basis of the detailed budget allocations for submission to Parliament by 30th April, 2024. In this regard, all Sector Working Groups and MDAs are expected to prepare their budgets consistent with the hard sector ceilings and adopt the value chain approach under the five clusters for the nine value chains as enumerated earlier to facilitate the finalization of the FY 2024/25 and the medium-term budget proposals.



**NJUGUNA NDUNG'U, CBS
CABINET SECRETARY**

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Acknowledgement

The 2024 Budget Policy Statement is prepared in compliance with the provisions of the Public Finance Management Act, 2012. It outlines the strategic priorities of the Government, highlights the current state of the economy, provides macro-fiscal outlook over the medium term together with a summary of Government spending plans as a basis for the FY 2024/25. The publication of the 2024 BPS aims to improve the public's understanding of Kenya's public finances and guide public debate on economic and development matters.

The Government is keen on fostering prudent management of public resources in order to support inclusive economic growth and development. In this respect, the Government has adopted a "hard budget constraint" principle in relation to the fiscal framework for FY 2023/24. Expenditure requirements arising within the year will be financed by cutting back on other expenditures thereby maintaining the expenditure ceilings and primary budget balance as per the fiscal framework. This policy has been operationalized in the current financial year - new expenditure requirements which have arisen during the year have been accommodated by an across the board 10 percent budget cut. Additionally, while preparing this budget, all proposed Ministries, Departments and Agencies (MDAs) budgets for FY 2024/25 have been scrutinized carefully to ensure quality and alignment to the Government's Bottom-Up Economic Transformation Agenda as outlined in this BPS and the Fourth Medium Term Plan and other strategic interventions of national interest.

The policy measures outlined in the 2024 BPS are expected to improve economy-wide efficiencies, create an enabling environment that supports growth in businesses and investment, reduce the cost of living as well as enhance the wellbeing of all Kenyans. The tight fiscal stance is expected to reduce debt vulnerabilities through implementation of reforms to broaden the domestic tax base and improve tax compliance. Expenditure rationalization will continue to focus on enhanced efficiency of public investments, better targeting of subsidies and transfers, addressing weakness in state corporations, and digital delivery of public services. Social safety nets and fiscal risk management framework will be enhanced.

The completion of this policy statement was as a result of collective effort by various MDAs who provided valuable information. We are grateful for their contributions. We are also grateful for the inputs we received while preparing this document from the Macro Working Group; stakeholders and the general public during the Country-Wide Public Participation in October-November 2023 and the Public Sector Hearings in December 2023. A dedicated team in the National Treasury spent substantial amount of time putting together this BPS. We are particularly grateful to them for their tireless efforts and dedication.



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

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