

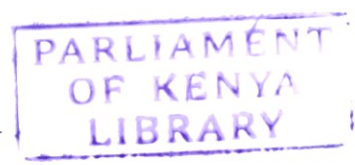
THE NATIONAL ASSEMBLY
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MEMBER:	HON. KIMANI CHUNGIWAH, MP
POST:	MAJORITY LEADER REPUBLIC OF KENYA
LEADER OF THE MAJORITY:	INZEBU MWANGI

THE NATIONAL TREASURY AND ECONOMIC PLANNING



Quarterly Economic and Budgetary Review

Third Quarter, Financial Year 2023/2024
Period Ending 31st March, 2024

May, 2024 Edition

Quarterly Economic and Budgetary Review

**Third Quarter, Financial Year 2023/2024
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ACKNOWLEDGEMENT

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LIST OF ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
ADF	Asian Development Fund
A-I-A	Appropriation-in-Aid
AMISOM	African Union Mission in Somalia
ARUD	Agriculture, Rural and Urban Development
BAEA	Arab Bank for Economic Development of Africa
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CF	Contingency Fund
CFS	Consolidated Fund Services
EBUs	Extra Budgetary Units
EEC	European Economic Community
EIB	European Investment Bank
EI&ICT	Energy, Infrastructure and Information Communication Technology
EPW&NR	Environment Protection, Water and Natural Resources
ES	Equitable Share
DANIDA	Danish International Development Agency
FPE	Free Primary Education
FSE	Free Secondary Education
FY	Financial Year
GDP	Gross Domestic Product
GECA	General Economic and Commercial Affairs
GFSM	Government Finance Statistics Manual
GJLO	Governance, Justice, Law and Order
GOP	Gross Operating Balance
ICT	Information, Communication and Technology
IDA	International Development Association
IDF	Import Declaration Fee
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund

KNBS	Kenya National Bureau of Statistics
KSh.	Kenya Shillings
MDAs	Ministries, Departments and Agencies
Mn	Million
NDA	Net Domestic Assets
NDF	Nordic Development Fund
NFA	Net Foreign Assets/Non-Financial Assets
NIS	National Intelligence Service
NLB	Net Lending/ Borrowing
NOB	Net Operating Balance
NSE	Nairobi Securities Exchange
O & M	Operation and Maintenance
OPEC	Oil Producing and Exporting Countries
PAIR	Public Administration and International Relations
PAYE	Pay as You Earn
PDL	Petroleum Development Levy
QEBR	Quarterly Economic and Budgetary Review
RDL	Railway Development Levy
RML	Road Maintenance Levy
SAGAS	Semi-Autonomous Government Agencies
SC	State Corporations
SGR	Standard Gauge Railway
SOEs	State Owned Enterprises
SPC&R	Social Protection, Culture and Recreation
UK	United Kingdom
US\$	United States Dollar
VAT	Value Added Tax
O/W	Of Which

LEGAL BASIS FOR THE QUARTERLY ECONOMIC AND BUDGETARY REVIEW REPORT

The Quarterly Economic and Budgetary Review Report is Published in accordance with section 83 of the Public Finance Management Act, 2012. It states as follows:

83. (1) An accounting officer for a National Government entity shall prepare a report for each quarter of the financial year in respect of the entity.

(2) In preparing a quarterly report for a National Government entity, the Accounting officer shall ensure that the report—

(a) contains information on the financial and non-financial performance of the entity; and

(b) is in a form that complies with the standards prescribed and published by the Accounting Standards Board from time to time.

(3) Not later than fifteen days after the end of each quarter, the Accounting Officer shall submit the quarterly report to the Cabinet Secretary responsible for the entity and the National Treasury.

(4) The Cabinet Secretary responsible for an entity shall forward a copy of the report to the Cabinet Secretary and Controller of Budget.

(5) **Not later than forty-five days after the end of each quarter**, the National Treasury shall—

(a) consolidate the quarterly reports and submit them to the National Assembly and a copy of the reports to the Controller of Budget, Auditor-General and the Commission on Revenue Allocation; and

(b) publish and publicize the reports.

(6) In the case of an entity that is a state corporation, the Accounting Officer for the Corporation shall submit the quarterly report to the Cabinet Secretary responsible for the corporation who shall, upon approving it, forward a copy to the Cabinet Secretary.

HIGHLIGHTS OF THE THIRD QUARTERLY ECONOMIC AND BUDGETARY REVIEW REPORT IN THE 2023/24 FY

1. Economic growth

The economy is estimated to have grown by 5.6 percent in 2023 up from 4.8 percent in 2022. This growth was supported by a rebound in agriculture, which had faced two consecutive years of output decline due to a prolonged drought, and the continued strength and resilience of the services sectors.

2. Inflation rate

Year-on-year overall inflation has remained within the Government target range of 5 ± 2.5 percent in the first three quarters of FY 2023/24. Inflation declined to 5.7 percent in March, 2024 from 9.2 percent in March, 2023 largely driven by the easing of food and energy prices, pass-through effects of exchange rate appreciation and the impact of monetary policy tightening.

3. Interest Rates

Interest rates increased in March, 2024 in line with the tight monetary policy stance and liquidity conditions in the money market. The interbank rate increased to 13.4 percent in March, 2024 compared to 7.1 percent in March, 2023 while the 91-day Treasury Bills rate increased to 16.7 percent compared to 9.8 percent over the same period. Consequently, the average lending rate increased to 15.4 percent in March, 2024 from 13.1 percent in March, 2023 while the average deposit rate increased to 10.3 percent from 7.6 percent over the same period.

4. Money and Credit

Broad money supply, M3, grew by 11.5 percent in the year to March, 2024 compared to a growth of 10.6 percent in the year to March, 2023. The primary source of the growth in M3 was an improvement in the Net Foreign Assets (NFA) of the banking system.

5. Current Account

The current account deficit improved to USD 4,557.3 million (4.3 percent of GDP) in February, 2024 compared to USD 5,368.1 million (4.5 percent of GDP) in February, 2023. The current account was supported by an improvement in the net merchandise account and the net secondary income balance despite a deterioration in the net primary income balance and net receipts on the services account.

6. Foreign Exchange Reserves

The official foreign exchange reserves held by the Central Bank stood at USD 7,669.8 million in February, 2024 an improvement compared to USD 7,176.6 million in February, 2023. This represented 4.2 months of import cover as compared to the 3.6 months of import cover, respectively, and therefore provides adequate buffer against short term shocks in the foreign exchange market.

7. Capital Markets

Activity in the capital markets improved in the year to March, 2024 mainly due to the strengthening of the Kenya Shilling coupled with the de-risking of the 2024 Eurobond which inspired confidence among investors. The NSE 20 Share Index improved to 1,752 points in March, 2024 compared to 1,611 points in March, 2023 while Market capitalization improved to KSh. 1,767 billion from KSh. 1,740 billion over the same period.

8. Revenue Collection

The National Government revenue collection including ministerial Appropriation in Aid (A-I-A) for the period between July, 2023 – March, 2024 amounted to KSh. 1,918.3 billion (11.9 percent of GDP) against a target of KSh. 2,126.4 billion. The revenue collection was below the target by KSh. 208.1 billion mainly due to shortfall in taxes/ordinary revenue.

9. Expenditure and Net Lending

The total expenditure and net lending inclusive of transfers to County Governments for the period ending 31st March, 2024 amounted to KSh. 2,638.8 billion, against a target of KSh. 2,787.7 billion. The resultant below target expenditure of KSh. 148.9 billion is mainly attributed to below target absorption recorded in development expenditures and transfers to County Governments.

10. Guaranteed Debt

The Government serviced guaranteed debt of KSh. 17.4 billion on behalf of Kenya Airways (KQ).

11. Fiscal Balance

The fiscal balance excluding grants (on a commitment basis) amounted to a deficit of KSh. 720.5 billion (4.5 percent of GDP), as at the end of March, 2024.

12. External Financing

The Net Foreign financing amounted to KSh. 113 billion (0.7 percent of the GDP) during the period under review.

13. Net Domestic Borrowing

Net domestic financing amounted to a net borrowing of KSh. 386.4 billion (2.4 percent of GDP) in the period ending 31st March, 2024.

14. Domestic Debt Stock

The stock of gross domestic debt increased by KSh. 625.9 billion from KSh. 4,631.1 billion in March, 2023 to KSh. 5,257 billion in March, 2024.

15. External Debt Stock

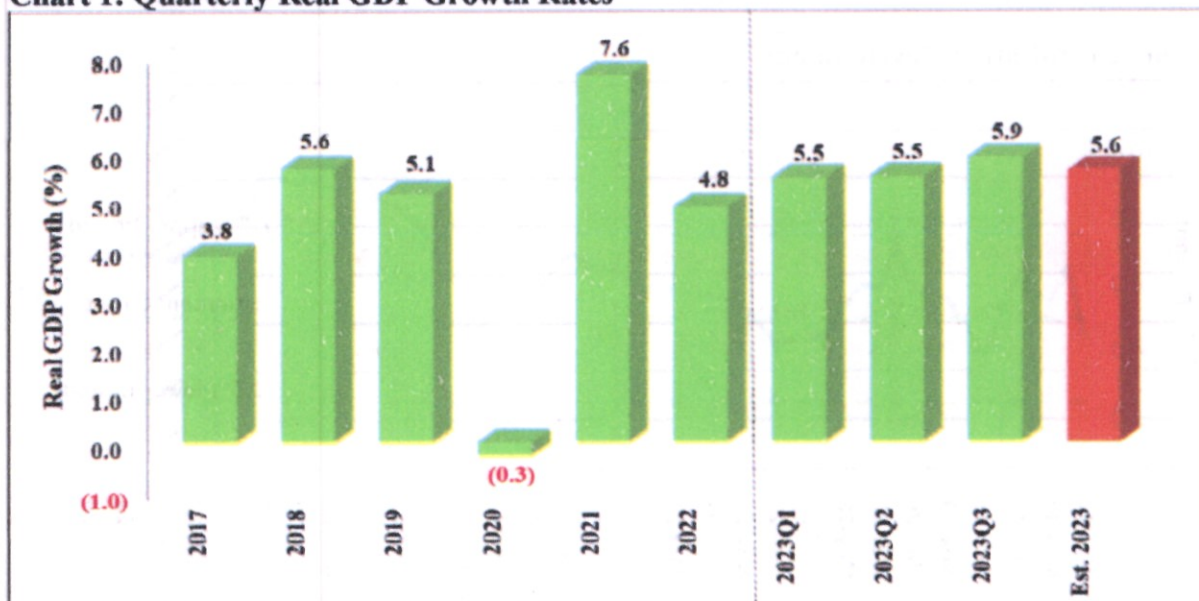
The total external debt stock, including the International Sovereign Bond, stood at KSh. 5,163.4 billion by the end of March, 2024. The debt stock comprised of multilateral debt (51.4 percent), commercial debt (26.3 percent), bilateral debt (22 percent) and suppliers' credit (0.3 percent).

1.0 RECENT ECONOMIC DEVELOPMENTS

1.1 Economic Growth

1. The economy remained strong and resilient in 2023 despite the challenging external and domestic environment. The economy is estimated to have grown by 5.6 percent in 2023 from a growth of 4.8 percent in 2022. The economic growth averaged 5.6 percent in the first three quarters of 2023 (5.5 percent in Q1 and Q2 and 5.9 percent in Q3) (Chart 1). The growth was primarily underpinned by a rebound in agriculture activities and a continued resilience of the service sector.

Chart 1: Quarterly Real GDP Growth Rates



Source of Data: Kenya National Bureau of Statistics

2. Leading economic indicators point to a strong economic performance in the fourth quarter of 2023 due to the rebound in agriculture and the continued strength and resilience of the services sector. Growth in the Agriculture sector was mainly due to favorable weather conditions experienced in the country. This was evident in the significant increase in the quantity of exported cut flowers by 5.8 percent accompanied by a corresponding increase in value by 62.7 percent. Similarly, the quantity of exported vegetables increased by 95.7 percent while the quantity of tea exported also increased by 0.6 percent while its value increased by 18.5 percent during the period under review. However, the quantity of exported fruits and coffee declined; and cane deliveries also declined all in the fourth quarter of 2024.

3. Industrial activity slowed down due to the surging production costs as input and borrowing costs increased, driven by among others, a weakening shilling, and a slowing global economy. There was also a notable drop in electricity generation due to decline in wind, thermal, and geo-thermal generation. Growth in the sector was mainly supported by agro processing, notably the production of dairy, coffee, and tea. Growth of the non-food subsector was supported by increased production and consumption of cement and galvanized sheets. This is attributed to the Government affordable housing project and the growth in real estate sector.

4. The services sector remained resilient and maintained a strong growth momentum in Accommodation and Restaurant subsector, Financial and Insurance subsector, Information and Communication subsector and Public Administration subsector. The Accommodation and

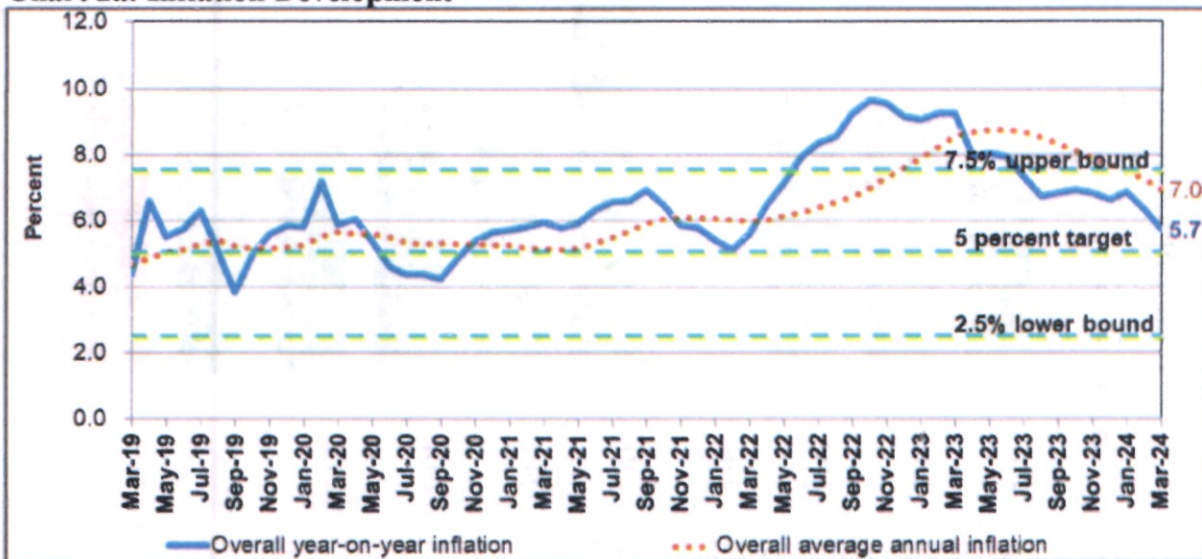
RECENT ECONOMIC DEVELOPMENTS

Restaurant services was supported by the increased numbers of tourist arrivals through Jomo Kenyatta International Airport (JKIA) and Mombasa International Airport (MIA). Information and communication subsector growth was supported by increased voice traffic, internet use and mobile money despite a decline in the use of domestic Short Messaging Services (SMSs).

1.2 Inflation

5. Inflation has remained within the Government target range of 5 ± 2.5 percent in the first three quarters of FY 2023/24. Inflation declined to 5.7 percent in March, 2024 from 9.2 percent in March, 2023 largely driven by the easing of food and energy prices, pass-through effects of exchange rate appreciation and the impact of monetary policy tightening (**Chart 2a**).

Chart 2a: Inflation Development



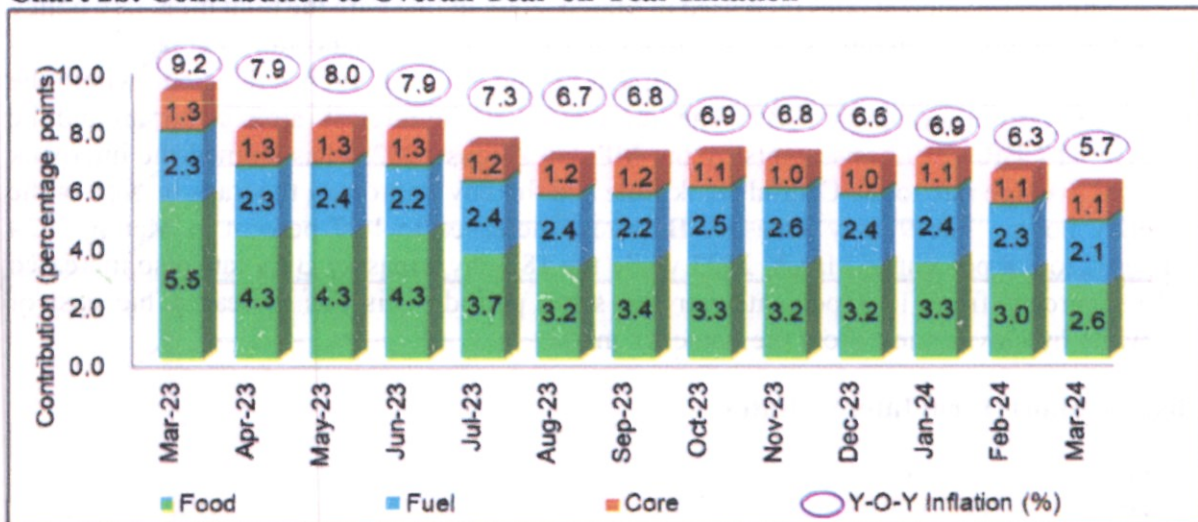
Source of Data: Kenya National Bureau of Statistics

6. Food inflation remained the main driver of overall year-on-year inflation in March, 2024 contributing 2.6 percentage points, a decline, compared to a contribution of 5.5 percentage points in March, 2023 (**Chart 2b**). The easing of food prices was supported by increased food supply arising from favorable weather conditions; continued Government interventions through subsidized fertilizer program; zero rating of import duty on selected staple food items; and the general easing of international food prices.

7. Fuel inflation declined to contribute 2.1 percentage points to year-on-year overall inflation in March, 2024 from a contribution of 2.3 percentage points in March, 2023. The decline largely reflects the impact of the Kenya Shilling's appreciation coupled with the easing of international oil prices which resulted in a decrease in electricity price and a downward adjustment in oil pump prices.

8. The contribution of core (non-food non-fuel) inflation to year-on-year overall inflation has been low and stable. This is consistent with the muted demand pressures in the economy that is supported by prudent monetary policy.

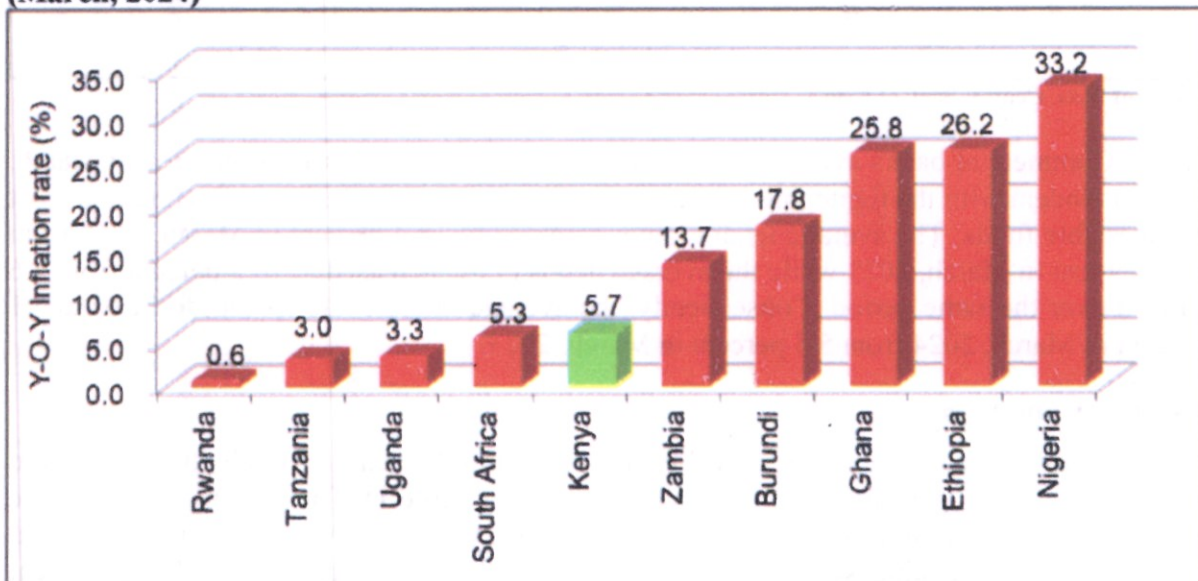
Chart 2b: Contribution to Overall Year-on-Year Inflation



Source of Data: Kenya National Bureau of Statistics

9. Inflation rate remains high in most Sub-Saharan African economies fueled by rising energy prices; weaker currencies; and natural disasters. Kenya’s inflation rate at 5.7 percent in March, 2024 is much lower than that of majority countries in the Sub-Saharan African region that had double digits’ inflation (Chart 2c).

Chart 2c: Year on Year Inflation Rates of selected Sub-Saharan African Countries (March, 2024)



Source of Data: National Central Banks

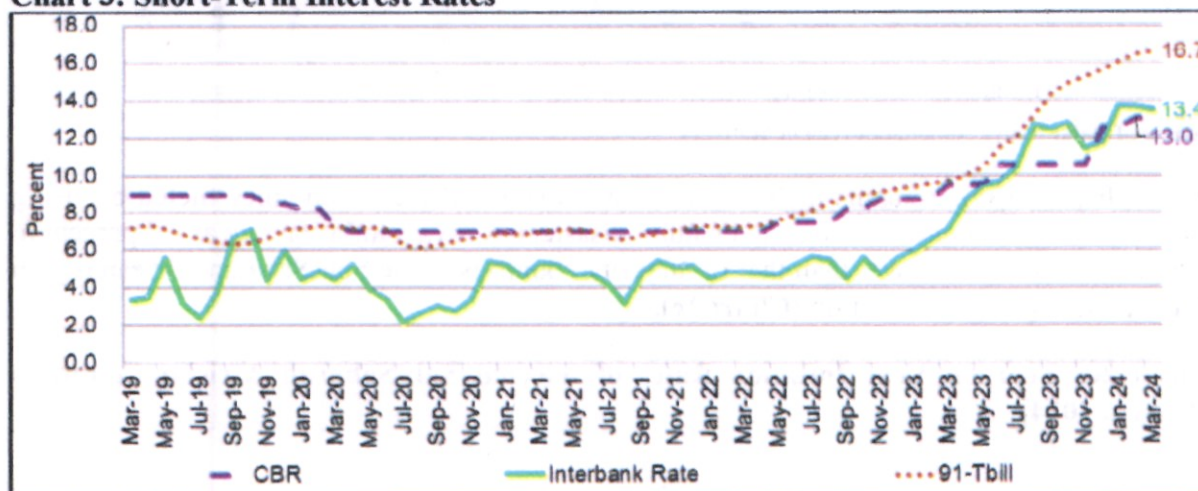
1.3 Interest Rates

10. The Monetary Policy Committee (MPC) tightened the monetary policy by gradually raising the Central Bank Rate (CBR) by 550 basis points to 13.0 percent in February, 2024 points from 7.50 percent in May, 2022 (Chart 3). The tightening of the monetary policy was to address the pressures on the exchange rate and continue with mitigation of the second round effects including from global prices. This ensured that inflationary expectations remain anchored, while setting inflation on a firm downward path towards the 5.0 percent mid-point of the policy target range.

RECENT ECONOMIC DEVELOPMENTS

11. Short-term interest rates increased in March, 2024 in line with the tight monetary policy stance and liquidity conditions in the money market. The interbank rate increased to 13.4 percent in March, 2024 compared to 7.1 percent in March, 2023 and has remained within the prescribed corridor around the CBR. The introduction of the interest rate corridor around the CBR (set at $\text{CBR} \pm 250$ basis points by the MPC in August, 2023) has aligned the interbank weighted average rate to the Central Bank Rate and thereby improving the transmission of the monetary policy. The 91-day Treasury Bills rate increased to 16.7 percent in March, 2024 compared to 9.8 percent in March, 2023 while the 182-day Treasury Bills rate also increased to 16.9 percent from 10.3 percent over the same period. This has increased the cost of borrowing by Government from the domestic market.

Chart 3: Short-Term Interest Rates



Source of Data: Central Bank of Kenya

12. Commercial banks average lending and deposit rates increased in the year to March, 2024 in tandem with the tightening of the monetary policy stance thereby reflecting high cost of investable funds. The average lending rate increased to 15.4 percent in March, 2024 from 13.1 percent in March, 2023 while the average deposit rate increased to 10.3 percent from 7.6 percent over the same period. Consequently, the average interest rate spread declined to 5.1 percent in March, 2024 from 5.5 percent in March, 2023.

1.4 Money and Credit

13. Broad money supply, M3, grew by 11.5 percent in the year to March, 2024 compared to a growth of 10.6 percent in the year to March, 2023 (**Table 1**). The primary source of the growth in M3 was an improvement in the Net Foreign Assets (NFA) of the banking system. The NFA of the banking system in the year to March, 2024 expanded by 142.8 percent compared to a contraction of 27.9 percent in the year to March, 2023. The increase in Net Foreign Assets, mainly reflected an increase in commercial banks' Foreign Assets.

14. Net Domestic Assets (NDA) registered a growth of 2.2 percent in the year to March, 2024, compared to a growth of 14.9 percent over a similar period in 2023. The slowdown in growth of the NDA reflects a decline in growth of the domestic credit from both the Government and the private sector. The domestic credit extended by the banking system to the Government decreased to a growth of 8.6 percent in the year to March, 2024 compared to a growth of 17.1 percent in the year to March, 2023. Lending to other public sectors grew by 1.0 percent compared to 5.7 percent over the same period.