



**REPUBLIC OF KENYA**

**PARLIAMANTARY BUDGET OFFICE**

**UNPACKING OF THE SUPPLEMENTARY ESTIMATES NO. I FOR FINANCIAL  
YEAR 2024-2025**

**JULY, 2024**

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## I. OVERVIEW OF PROPOSED CHANGES

1. On Friday, 12<sup>th</sup> July 2024, the National Treasury submitted Supplementary Estimates I for the Financial Year 2024/2025 to the National Assembly in accordance with the Constitution and the Public Finance Management Act, Cap 412A. The Supplementary Estimates Seek to rationalize the Estimates of Expenditure for FY 2024/25 approved by the National Assembly to align the Estimates with a revised fiscal framework and cater for the FY 2023/24 carryovers. A financing gap of Kshs.344.3 billion underpins the proposed revision of the Budget Estimates for FY 2024/25 due to the withdrawal of the Finance Bill, 2024, which inhibits the collection of additional revenue from various tax statutes.
2. The Supplementary budget proposes to reduce the budget for the Ministries Department and Agencies (MDAs) of the National Government and Independent Offices, Parliament, and the Judiciary by Kshs. 156.39 billion; out of which Kshs.34.04 billion constitutes approved recurrent expenditure; and Kshs. 122.35 billion constitutes approved development expenditure. In the Consolidated Fund Services (CFS), there is an additional Kshs.23.78 billion to cater for pension arrears for ordinary pension (Kshs.5.66 billion), Commuted pension (Kshs.15.55 billion), and Public Service Superannuation Scheme (Kshs. 2.56 billion).

**Table 1: Overall changes proposed in Supplementary Estimates No.1 for FY 2024/25**

	Recurrent (Kshs. million)	Development (Kshs. million)	Recurrent (Kshs. million)	Development (Kshs. million)	Recurrent (Kshs. million)	Development (Kshs. million)	Recurrent (Kshs. million)	Development (Kshs. million)
<b>National Government Expenditures</b>								
<i>National Executive</i>	1,566,523	742,671	(30,605)	(120,519)	1,535,919	622,152	-1.95%	-16.23%
<i>Judiciary</i>	23,040	1,600	(743)	(800)	22,298	800	-3.22%	-50.00%
<i>Parliament</i>	42,533	2,065	(2,700)	(1,033)	39,833	1,033	-6.35%	-50.00%
<b>Sub Total</b>	<b>1,632,097</b>	<b>746,336</b>	<b>(34,048)</b>	<b>(122,351)</b>	<b>1,598,049</b>	<b>623,985</b>		
<b>Consolidated Fund Services Expenditures (CFS)</b>								
<i>Interest Payments</i>	1,009,877	-	-	-	1,009,877	-	0.00%	
<i>Pensions</i>	199,366	-	23,781	-	223,147	-	11.93%	
<i>Salaries &amp; Allowances</i>	4,157	-	-	-	4,157	-	0.00%	
<i>Guaranteed Debt</i>	-	-	-	-	-	-	0.00%	
<i>Miscellaneous Services</i>	53	-	-	-	53	-	0.00%	
<b>Sub Total</b>	<b>1,213,453</b>	<b>-</b>	<b>23,781</b>	<b>-</b>	<b>1,237,234</b>	<b>-</b>		

## II. MACROECONOMIC FRAMEWORK UNDERPINNING SUPPLEMENTARY ESTIMATES I

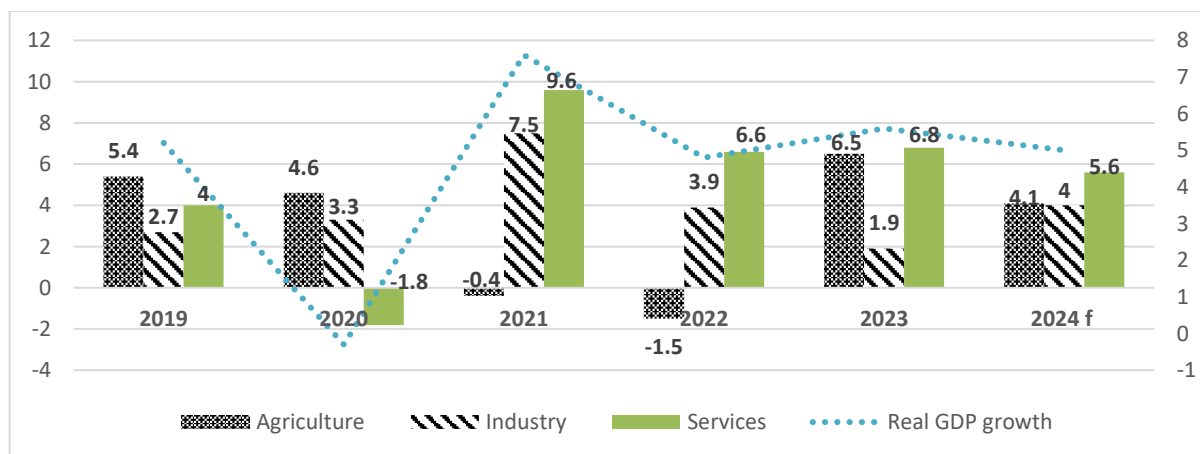
### a) Economic Growth

**3. Kenya’s economic growth is expected to remain muted amidst global and domestic headwinds.**

The National Treasury estimates the economic growth to decline to 5.5 percent in 2024 from 5.6 percent in 2023. The risks to the growth include a decline in the industry sector such as manufacturing activities due to high cost of production (electricity, transportation, and imported inputs); a decline in the service sector especially by disruption of transport and tourism activities resulting from the floods and political uncertainty. The implementation of a contractionary fiscal policy amidst underperformance of revenue and a narrow space for borrowing implies that continued expenditure rationalization may be the new norm and is likely to slow down the implementation of the budget. Therefore, it is estimated that the economic growth for 2024 will be lower, estimated at between 5.0 percent and 5.2 percent.

**4. The economy grew by 5.6 percent in 2023 compared to 4.9 percent in 2022, supported by a notable acceleration in the agriculture sector, transportation and accommodation, and food services.** Growth in agriculture, forestry, and fishing accelerated from -1.5 percent to 6.5 percent majorly on account of growth in the growing of crops and animal production as a result of improved weather conditions. Notably, the government implemented the fertilizer subsidy program in the same period which was anticipated to contribute to improved production in agriculture.

Figure 1: Economic growth for the period 2019 to 2023



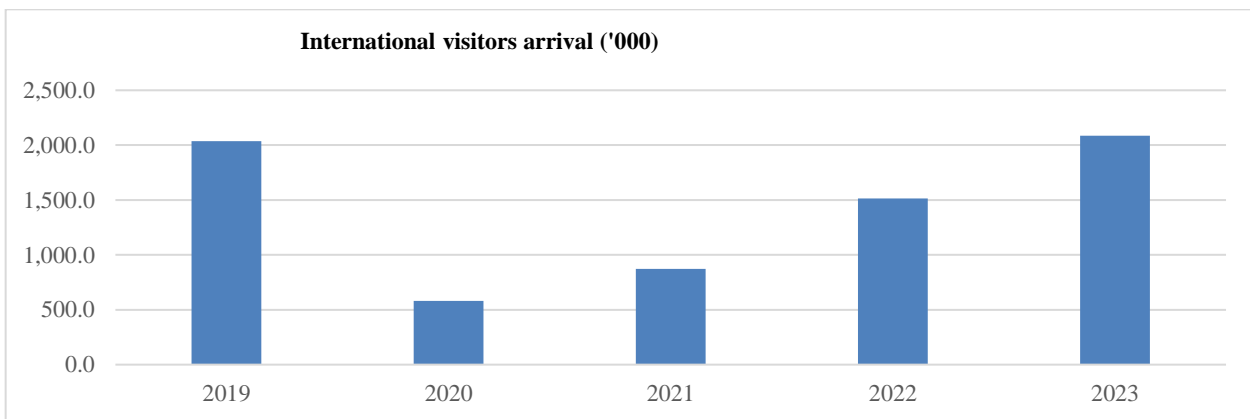
Data Source: World Bank

**5. Farmers of coffee, cotton, maize, and milk directly benefitted from the improvement in the agriculture sector with their produce fetching higher average prices in the market in 2023 compared to 2022.** Prices of coffee increased by 25.7 percent, cotton seed prices by 6.4 percent,

maize prices increased by 15.4 percent and milk prices increased by 7.7 percent. However, average prices of tea declined by 3.5 percent and wheat prices declined by 15.5 percent.

- 6. Accommodation and food services improved from 26.8 percent in 2022 to 33.6 percent in 2023 while transportation and storage improved from 5.8 percent to 6.2 percent majorly driven by growth in air transportation.** In 2023, Kenya hosted conferences such as the Africa Climate Summit which was hosted in September 2023. Notably, in the third quarter of 2023, visitors’ arrival grew by 37.1 percent compared to the second quarter indicating the impact of the Summit which further contributed to demand for accommodation services. Cumulatively, the number of visitors arrival grew by 35.4 percent in 2023 compared to 2022. The number of visitors arrivals closely rebounded back to the pre-covid period as shown in figure 2.

**Figure 2: International visitors’ arrivals for the period 2019 to 2023**



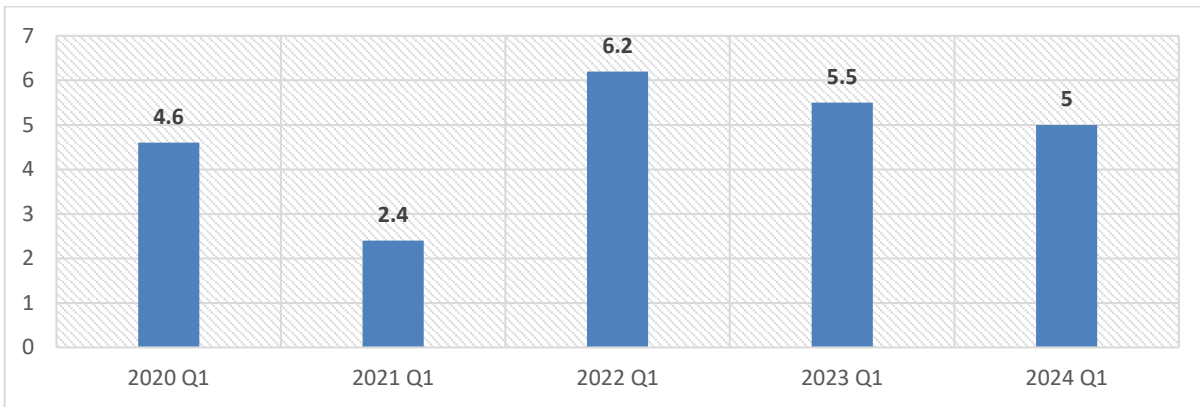
Data Source: Economic Survey, 2024

- 7. Growth in the manufacturing sector decelerated from 2.6 percent in 2022 to 2 percent in 2023 on account of a decline in both nonfood and food manufacturing.** The deceleration was majorly occasioned by a decline in the production of sugar, wood and products of wood, paper and paper products, chemical and chemical products and machinery and equipment. The growth in the manufacturing sector was negatively impacted by high production costs for manufacturers as well as increased taxation.
- 8. Economic performance in 2024 indicates that in the first quarter of 2024, growth declined to 5 percent from 5.5 percent in the first quarter of 2023.** The decline was on account of a decline in growth in mining and quarrying, manufacturing, construction, wholesale and retail trade and transport and storage. Notably, in the same period, accommodation and food services improved from 21.5 percent to 28 percent while agriculture remained at 6 percent in the period under review.





**Figure 3: GDP growth rates (%) Quarter 1 of 2020 to Quarter 1 of 2024**



Data Source: Kenya National Bureau of Statistics

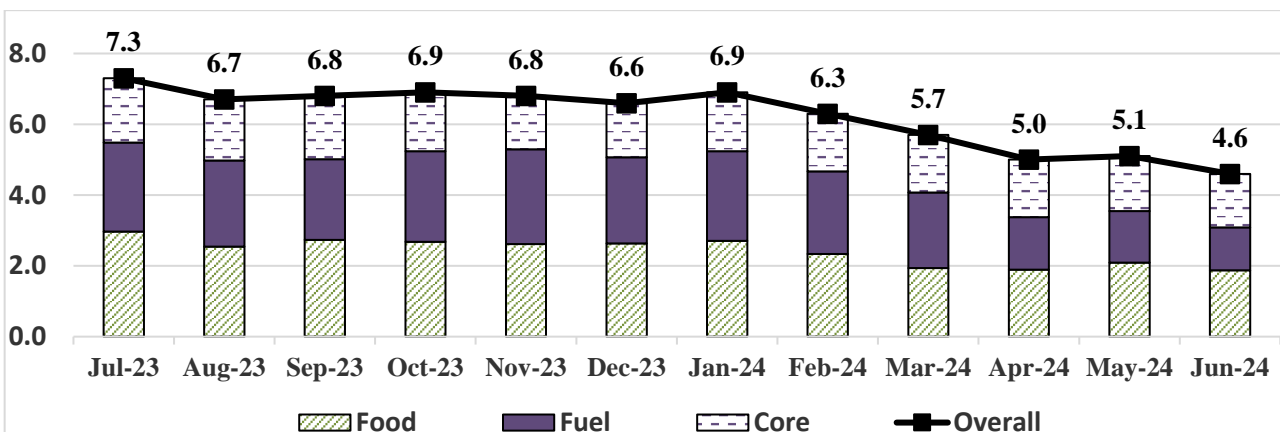
**b) Inflation**

**9. Overall inflation declined from 7.9 percent in June 2023 to 4.6 percent in June 2024 which is within the CBK target of  $5 \pm 2.5$  percent.** Declining food inflation resulted to the decline in inflation supported by an improvement in agriculture on account of improved weather conditions. Prices of commodities such as maize and maize flour, sugar and wheat declined; however, prices of fruits and vegetables recorded an increase. Additionally, declining global prices have also resulted in a decline in imported inflation. In an effort to lower inflation, the Central Bank has also been pursuing a tight monetary policy stance by increasing interest rates.

**10. Electricity prices also declined in the same period while fuel pump prices slightly increased.**

Prices of kerosene increased by 1 percent from Kshs. 162.19 in June 2023 to Kshs. 163.82 in June 2024, diesel prices increased by 3.5 percent from Kshs. 167.98 to Kshs. 173.83 while petrol increased by 4.3 percent from Kshs. 182.63 to Kshs. 190.46.

**Figure 4: Inflation rates for the period June 2023 to June 2024**



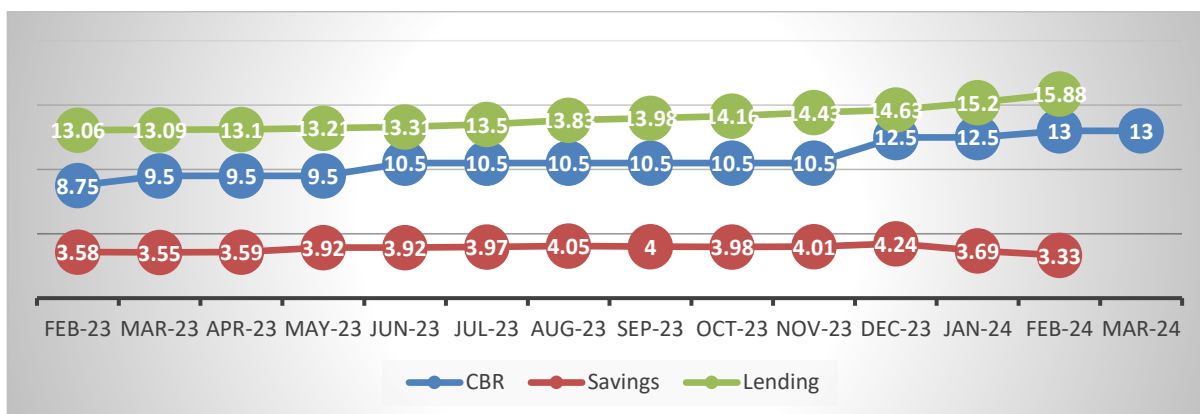
Data Source: Kenya National Bureau of Statistics

c) Interest rates and credit

**11. CBK has progressively pursued tightening of monetary policy since May 2022 by increasing the CBR rate by 600 basis points from 7 percent in April 2022 to 13 percent in March 2024.**

Tightening monetary policy by raising interest rates sought to curb inflation and to attract investors into the country in a bid to strength the Kenyan shilling. The Commercial Bank’s savings rate slightly declined from 3.58 percent in February 2023 to 3.33 percent in February 2024 while the lending rate increased from 13.06 percent to 15.88 percent indicating increased cost of credit to borrowers.

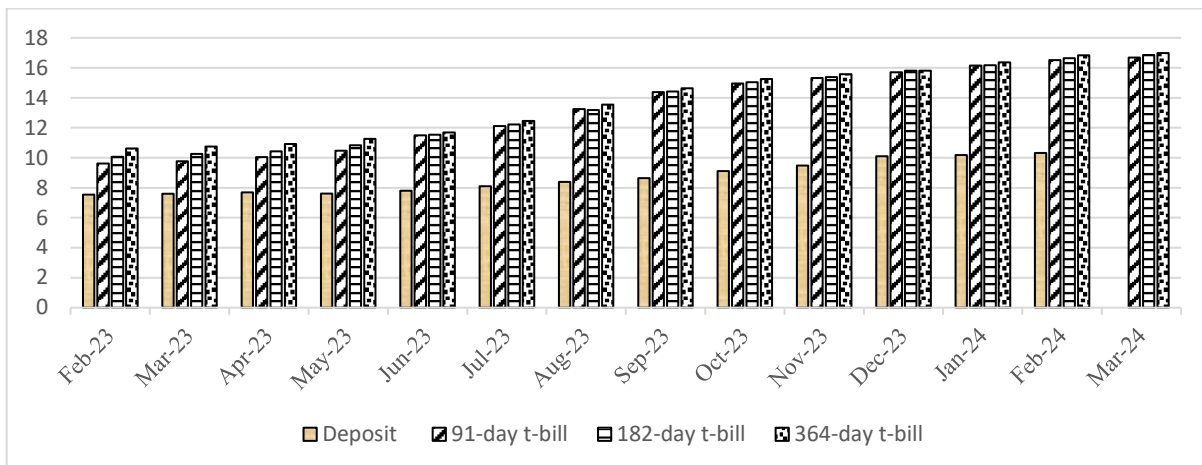
**Figure 5: Interest rates for the period February 2023 to February 2024**



Data Source: Central Bank of Kenya

**12. The interbank lending rate has increased from 7.05 percent in March 2023 to 13.42 percent in March 2024 while the T-bill rates also significantly spiked in the same period.** The rising interbank rate translates to higher short-term lending rates between banks which affects liquidity needs among banks. Notably, the deposit rate by commercial banks increased from 7.54 percent to 10.32 percent. The 91-day T-bill and 182-day T-bill rates increased from 9.76 percent to 16.68 percent and from 10.06 to 16.86 percent respectively. This indicates higher returns on short-term lending to the government which may pose a risk of crowding out of credit to the private sector. Lenders may opt to lend to the government which has lower risk compared to the private sector and this may negatively impact private investment. Further, the yields on the T-bills may remain elevated due to the anticipated increase in government borrowing in the domestic market.

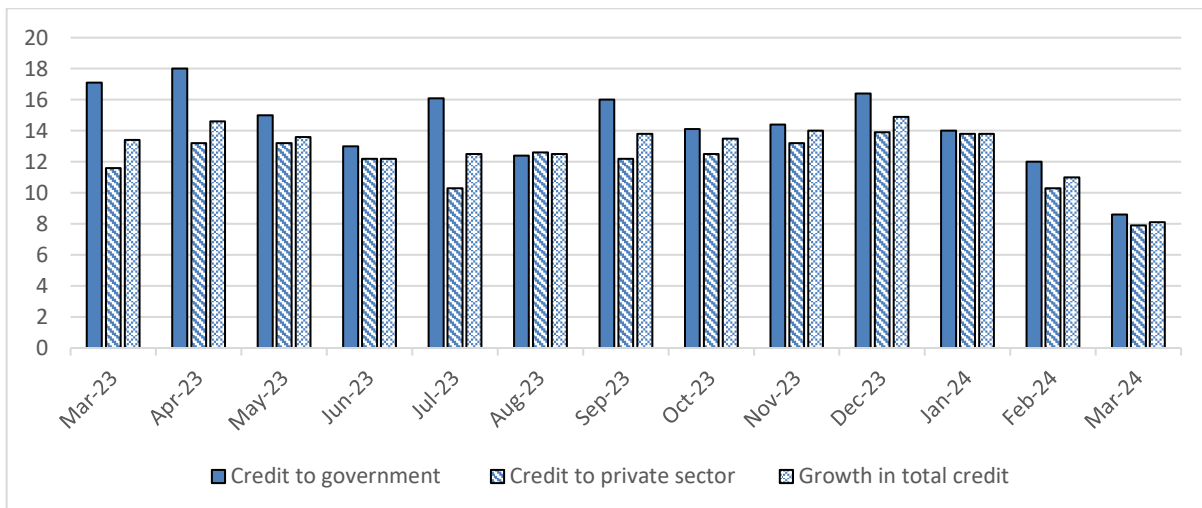
**Figure 6: Interest Rates for the Period February 2023 to March 2024**



**Data Source: Central Bank of Kenya**

**13. The growth of total credit declined from 13.4 percent in March 2023 to 8.1 percent in March 2024.** Growth in credit to the government also declined from 17.1 percent to 8.6 percent while the growth in credit to the private sector declined from 11.6 percent to 7.9 percent in the same period. The growth in credit declined in various sectors including: manufacturing, trade, building and construction, transport and communication, finance and insurance and mining and quarrying. This is a likely effect of the transmission mechanism through the economy, resulting from rising interest rates consequently affecting the demand for credit.

**Figure 7: Growth in credit for the period March 2023 to March 2024**

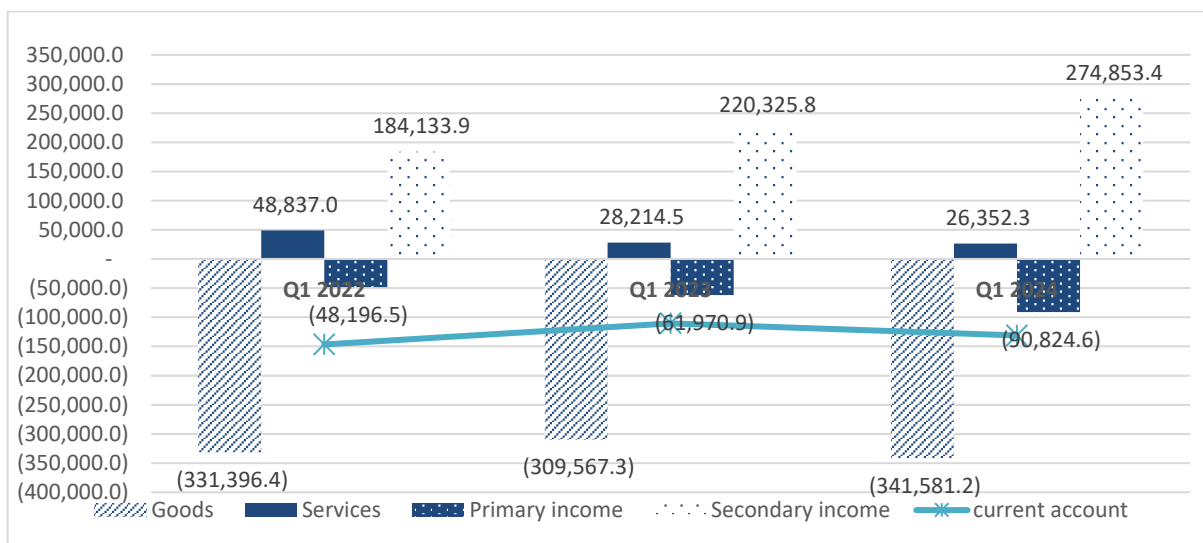


**Data Source: Central Bank of Kenya**

**d) External sector**

**14. The current account deficit worsened by 18.8 percent from a deficit of Kshs.110.47 billion to a deficit of 131.20 billion in the first quarter of 2024 compared to the first quarter of 2023.** The current account deficit was driven by an increase of 17.9 percent in imports despite an improvement in exports by 28 percent. Services declined by 35.3 percent driven by a decline in travel receipts. The primary income deficit worsened by 48.1 percent while the secondary income improved by 24.7 percent driven by growth in diaspora remittances by 40.4 percent, from Kshs.128.9 billion to Kshs.181.0 billion.

**Figure 8: Current account balance from quarter 1 of 2022 to quarter 1 of 2024.**



Data Source: Kenya National Bureau of Statistics

**15. The improvement in the exportation of goods was majorly on account of an improvement in exports of tea, horticulture, and articles of apparel and clothing.** Notably, despite an increase in the quantity of coffee exported, there was a decline in the earnings from coffee indicating unfavorable market prices in international markets. The exportation of titanium ores and concentrates and iron and steel declined in the first quarter of 2024 compared to the first quarter of 2023. This is an indication of the reliance on the exportation of agricultural commodities; which made up 50 percent of exports, to drive export growth.

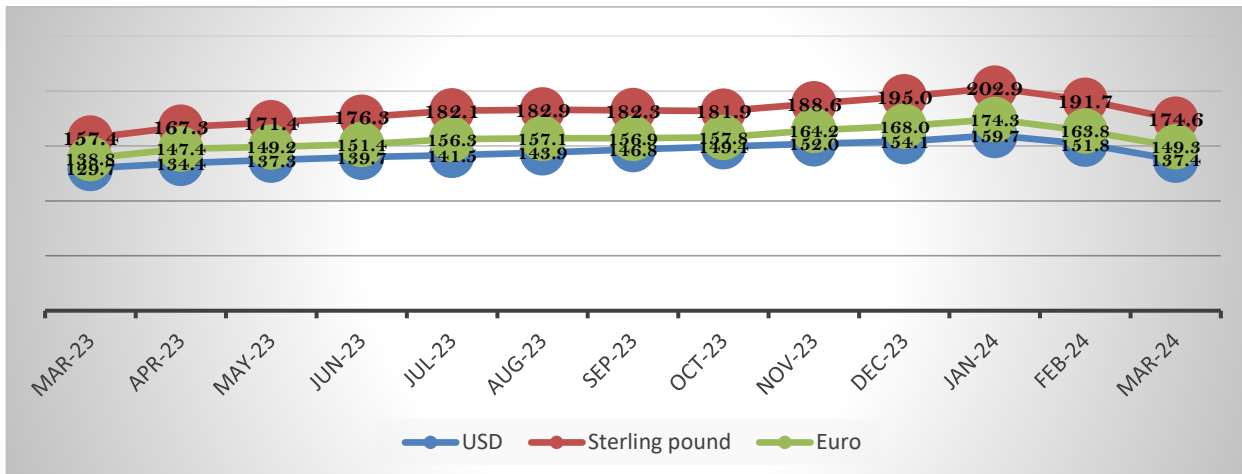
**16. The growth in imports was driven by increased importation of petroleum products, industrial machinery, telecommunication equipment, electrical machinery, and plastics in primary and non-primary forms.** Importation of rice and sugar also grew however the importation of wheat dropped in the same period. Importation majorly grew on account of an increase in the quantities of imports demanded. Notably, the importation of fertilizer recorded a significant drop of 69.8 percent in the first quarter of 2024 compared to the first quarter of 2023.

**17. There was an improvement in the capital account by 22.2 percent. The financial account also significantly improved from a deficit of Kshs. 83.23 billion to a surplus of Kshs. 121.63 billion**

**reflecting net financial inflows into the country.** The overall balance declined from a surplus Kshs. 127.84 billion financed by reserves to a surplus of Kshs. 36.01 billion financed by both reserves and loans from the IMF. Gross official reserves consequently improved as a result of disbursements from the issuance of an international sovereign bond and a syndicated loan from the IMF in the period under review.

**18. The Kenyan shilling depreciated against the dollar from Kshs. 129.74 per USD in March 2023 to Kshs. 137.35 PER USD in March 2024.** Notably, in the preceding six months, the highest improvement in the exchange rate was recorded in March 2024. The shilling had recorded a 24 percent depreciation against the dollar in 2023 triggered by a tightening of monetary policy by the Federal Reserve coupled with growing demand for the dollar. Disbursements from the IMF and the Eurobond buyback contributed to the strengthening of the Kenyan shilling. The events affecting the demand and supply of the shilling in the short run raise concerns on whether the shilling will continue to strengthen in the long run.

**Figure 9: Monthly average exchange rates March 2023 to March 2024**



**Data Source: Central Bank of Kenya**

**19. The Kenyan shilling also depreciated against the pound from Kshs. 157.35 in March 2023 to 174.58 in March 2024.** The Euro strengthened against the Kenyan shilling from 138.79 to 149.31. Notably, the Kenyan shilling had worsened against the Euro and the pound in the second half of 2023 however, it recorded an improvement against the two currencies in March 2024 as shown in Figure 9.

### **III. FISCAL FRAMEWORK UNDERPINNING SUPPLEMENTARY ESTIMATES I FY 2024-25**

**20.** The National Assembly approved a budget of Kshs. 3,9992 billion for the 2024/25 financial year. The approved budget, coupled with enhanced revenue collection that was expected from the measures that

were contained in the finance bill of 2024 was expected to actualize the fiscal consolidated goal of reducing the fiscal deficit as a share of GDP from 5.6 percent in 2023/24 to about 3.3 percent in 2024/25 as well as occasion a primary balance surplus as a share of GDP of about 2.3 percent.

**21.** The proposed revenue-raising measures contained in the 2024 Finance Bill were rejected.

Consequently, to maintain the fiscal consolidation path and avoid carryovers that will be occasioned by having an unfunded budget, the National Treasury has proposed a reduction of the total budget for the 2024/25 financial year by 3.1 percent (Kshs. 121.8 billion) from Kshs. 3,992 billion to Kshs. 3,870.2 billion.

**Table 2: Fiscal Framework Underpinning Supplementary Estimates I FY 2024-25**

Item	2022/23	2023/24		2024/25			
	Prel Actual	Original Approved Budget	Prel Actual	Approved Estimates	Tabled Suppl No. 1	Change (Tabled Est- Appr)	% Change
Recurrent	1,474,243	1,567,362	1,632,088	1,632,097	1,598,049	(34,048)	(2.1%)
Development	497,510	807,643	639,983	746,336	623,985	(122,351)	(16.4%)
<b>National Government</b>	<b>1,971,753</b>	<b>2,375,005</b>	<b>2,272,070</b>	<b>2,378,433</b>	<b>2,222,034</b>	<b>(156,399)</b>	<b>(6.6%)</b>
o/w Parliament	41,187	41,002		44,598	40,865	(3,733)	(8.4%)
o/w Judiciary	19,755	23,184		24,640	23,098	(1,543)	(6.3%)
Pensions & Other CFS	120,425	165,368	119,230	169,163	190,380	21,217	12.5%
Interest	687,322	775,139	837,155	1,009,877	1,009,877	-	0.0%
Contribution to pension fund	29,573	28,465	33,055	34,413	36,977	2,564	7.5%
Net lending	12,327	17,187	17,436	-	-	-	
<b>Consolidated Fund Services</b>	<b>849,647</b>	<b>986,158</b>	<b>1,006,875</b>	<b>1,213,453</b>	<b>1,237,234</b>	<b>23,781</b>	<b>2.0%</b>
<b>County Equitable Share</b>	<b>399,600</b>	<b>385,425</b>	<b>354,591</b>	<b>400,117</b>	<b>410,951</b>	<b>10,834</b>	<b>2.7%</b>
<b>Total</b>	<b>3,221,000</b>	<b>3,746,588</b>	<b>3,633,536</b>	<b>3,992,003</b>	<b>3,870,219</b>	<b>(121,784)</b>	<b>(3.1%)</b>

**22.** Supplementary No. 1 estimates for the Financial Year 2024/25 propose a reduction of 6.6 percent (Ksh.156.4 billion) in Ministerial National Government expenditures. The main driver of this decrease is a reduction of 16.4 percent (Ksh. 122.4 billion) in development expenditure.

**23.** The reduction in development expenditure is in line with a fiscal consolidation strategy over the last three financial years that has seen development expenditure as a share of GDP reduce from an annual average of around 6.3 percent between 2010 and 2020 to 3.2 percent in 2024/25 supplementary No. 1 estimates.

**24.** The Ksh.122.4 billion expected reduction in development expenditure is from targeted projects that are domestically financed through exchequer issues. As a result, projects financed by development partner loans and grants amounting to over Ksh. 240 billion have been retained in the budget. this is a

departure from the last two financial years, where attempts at fiscal consolidation mainly amounted to the postponement of development partner-financed projects.

- 25.** The ministerial recurrent expenditure has been reduced by 2.1 % (Ksh. 34 billion). The modest reduction has ensured that critical recurrent items amounting to over Ksh. 100 billion such as the proposed allocation for Free Day Secondary Education, free primary education and JSS have not been rationalised.
- 26.** The consolidated fund services (CFS) expenditures have increased by 2 percent (Ksh. 23.8 billion). The increase in CFS is on account of carryovers in commuted pension for civil servants and the military amounting to Ksh. 15.6 billion, ordinary pension for civil servants and the military amounting to Ksh. 5.7 billion, and employer contribution for public service superannuation scheme amounting to Ksh. 2.6 billion.
- 27.** The National Treasury has proposed that the County Equitable Share be reduced by Kshs.20 billion from Kshs.400.1 billion to Kshs.380.1 billion. However, as a result of carryovers from 2023/24 FY amounting to around Kshs.30.8 billion, the Equitable Share to Counties reflected in the 2024/25 Supplementary No. 1 is Kshs.410.95 billion which is 2.7 percent (Kshs.10.8 billion) above the 2024 approved Division of Revenue Act figure of Kshs.400.1 billion. This may be revised to reflect the equitable share for 2024/25 is Kshs.380 billion not 410.95.

**Table 3: Fiscal Framework in Kshs. Billion**

	2021/22	2022/23	2023/24		2024/25			% Change
	Prel Actual	Prel Actual	Budget Est	Prel Actual	Appr Est	Tabled Suppl No.1	Change	
Revenue and grants	2,230.8	2,383.6	3,027.7	2,730.7	3,395.0	3,109.2	(285.8)	-8.4%
<b>Total Revenue</b>	<b>2,199.8</b>	<b>2,360.5</b>	<b>2,985.6</b>	<b>2,711.0</b>	<b>3,343.2</b>	<b>3,057.4</b>	<b>(285.8)</b>	<b>-8.5%</b>
<b>Ordinary Revenue</b>	<b>1,917.9</b>	<b>2,041.1</b>	<b>2,571.2</b>	<b>2,288.9</b>	<b>2,917.2</b>	<b>2,631.4</b>	<b>(285.8)</b>	<b>-9.8%</b>
Income tax	876.7	941.6	1,198.5	1,043.1	1,230.2	1,180.3	(49.9)	-4.1%
VAT	523.1	550.4	703.3	645.5	812.2	723.8	(88.4)	-10.9%
Import duty	118.3	130.1	173.3	133.9	187.4	160.0	(27.4)	-14.6%
Excise duty	252.1	264.5	352.7	276.7	429.6	324.8	(104.8)	-24.4%
Other tax revenue	147.7	154.5	143.3	189.7	257.8	242.5	(15.3)	-5.9%
<b>Appropriation-in-Aid</b>	<b>281.9</b>	<b>319.4</b>	<b>414.4</b>	<b>422.1</b>	<b>426.0</b>	<b>426.0</b>	<b>-</b>	<b>0.0%</b>
<b>Grants</b>	<b>31.0</b>	<b>23.1</b>	<b>42.2</b>	<b>19.8</b>	<b>51.8</b>	<b>51.8</b>	<b>-</b>	<b>0.0%</b>
<b>Total expenditures &amp; net lending</b>	<b>3,027.8</b>	<b>3,221.0</b>	<b>3,746.6</b>	<b>3,633.5</b>	<b>3,992.0</b>	<b>3,870.2</b>	<b>(121.8)</b>	<b>-3.1%</b>
<b>Recurrent expenditure</b>	<b>2,135.3</b>	<b>2,311.6</b>	<b>2,536.2</b>	<b>2,621.5</b>	<b>2,841.9</b>	<b>2,831.7</b>	<b>(10.3)</b>	<b>-0.4%</b>
Wages & salaries National gvt	520.0	547.2	584.6	583.4	613.6	598.6	(15.0)	-2.4%
Pensions & Other CFS	122.4	120.4	165.4	119.2	169.2	190.4	21.2	12.5%
Interest	578.0	687.3	775.1	837.2	1,009.9	1,009.9	-	0.0%
On domestic debt	456.8	533.1	628.3	622.6	750.0	750.0	-	0.0%
On foreign debt	121.1	154.2	146.9	214.6	259.9	259.9	-	0.0%
O&M and other recurrent	866.1	866.1	982.5	1,048.7	1,011.2	927.9	(83.4)	-8.2%
<b>Contribution to civil ser pension fund</b>		29.6	28.5	33.1	34.4	37.0	2.6	7.5%
<b>Development &amp; net lending</b>	<b>540.1</b>	<b>493.7</b>	<b>777.8</b>	<b>619.0</b>	<b>701.5</b>	<b>579.2</b>	<b>(122.4)</b>	<b>-17.4%</b>
<b>Development expenditure</b>	<b>540.1</b>	<b>481.3</b>	<b>752.8</b>	<b>591.5</b>	<b>693.5</b>	<b>571.2</b>	<b>(122.4)</b>	<b>-17.6%</b>
<b>Net lending</b>		12.3	17.2	-	-	-	-	-
<b>Contingency Fund</b>			2.8	-	4.0	4.0	-	0.0%
<b>Transfer to Counties</b>	352.4	415.8	429.7	393.0	444.5	455.4	10.8	2.4%
Equitable Share	340.4	399.6	385.4	354.6	400.1	411.0	10.8	2.7%
Conditional Allocation	12.0	16.2	44.3	38.5	44.4	44.4	-	0.0%
<b>Parliamentary service</b>	32.7	41.2	41.0		44.6	40.9	(3.7)	-8.4%
<b>Judicial Service</b>	16.2	19.8	23.2		24.6	23.1	(1.5)	-6.3%
<b>Equalization Fund</b>			7.9	10.1	8.0	8.0	-	0.0%
<b>Overall balance including Grants</b>	<b>(797.0)</b>	<b>(837.4)</b>	<b>(718.8)</b>	<b>(902.8)</b>	<b>(597.0)</b>	<b>(761.0)</b>		
<b>Overall balance excluding grants</b>	<b>(828.0)</b>	<b>(860.5)</b>	<b>(761.0)</b>	<b>(922.6)</b>	<b>(648.8)</b>	<b>(812.8)</b>		
<b>Adjustment to cash basis</b>	<b>11.9</b>	<b>37.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		
<b>Deficit incl grants cash basis</b>	<b>(785.1)</b>	<b>(800.4)</b>	<b>(718.8)</b>	<b>(902.8)</b>	<b>(597.0)</b>	<b>(761.0)</b>		
<b>Revenue and grants</b>	<b>17.6%</b>	<b>16.7%</b>	<b>18.6%</b>	<b>16.9%</b>	<b>18.8%</b>	<b>17.2%</b>		
<b>Total Revenue</b>	<b>17.3%</b>	<b>16.5%</b>	<b>18.3%</b>	<b>16.8%</b>	<b>18.5%</b>	<b>16.9%</b>		
<b>Ordinary Revenue</b>	<b>15.1%</b>	<b>14.3%</b>	<b>15.8%</b>	<b>14.2%</b>	<b>16.2%</b>	<b>14.6%</b>		
<b>Total expenditures and net lending</b>	<b>23.9%</b>	<b>22.6%</b>	<b>23.0%</b>	<b>22.5%</b>	<b>22.1%</b>	<b>21.4%</b>		
<b>Overall balance including grants</b>	<b>-6.3%</b>	<b>-5.9%</b>	<b>-4.4%</b>	<b>-5.6%</b>	<b>-3.3%</b>	<b>-4.2%</b>		
<b>Overall balance excluding Grants</b>	<b>-6.5%</b>	<b>-6.0%</b>	<b>-4.7%</b>	<b>-5.7%</b>	<b>-3.6%</b>	<b>-4.5%</b>		
<b>Primary Balance</b>	<b>-1.7%</b>	<b>-0.8%</b>	<b>0.3%</b>	<b>-0.4%</b>	<b>2.3%</b>	<b>1.4%</b>		
<b>Nominal GDP</b>	<b>12,694</b>	<b>14,310</b>	<b>16,290</b>	<b>16,140</b>	<b>18,054</b>	<b>18,054</b>		

\*

28. The National Treasury had projected that ordinary revenue collection for 2024/25 FY would amount to Kshs.2,917.2 billion. The projected tax revenue collection was premised on the assumption that the



revenue measures contained in the Finance Bill of 2024 would accelerate revenue growth to around 18 percent as opposed to the historical growth rate of 10 percent.

29. The expected ordinary revenue growth of 18.8 percent (Kshs.461 billion) was based on a baseline collection contained in the supplementary two budget estimates for FY 2023/24. However, given that the tax revenue collection for FY 2023/24 was over Kshs.280 billion below target, it was unlikely that the projected revenue collection for FY 2024/25 would be met.
30. The rejection of the 2024 finance bill has necessitated the downward revision of ordinary revenue collection in FY 2024/25 by 9.8 percent (Ksh. 285.8 billion), from Ksh. 3,342.2 billion to Ksh. 3,057.4 billion. The Kshs. 285.8 billion reduction in revenue includes a Kshs. 104 billion reduction in excise taxes, Kshs. 64 billion reduction in domestic VAT, 49.5 billion reduction in income tax, a Kshs. 24 billion reduction in VAT on imported goods and services and a Kshs. 27 billion reduction in import duty collection.
31. The reduction in expected revenue collection exceeds the reduction in expenditure by Kshs.164 billion. Consequently, the fiscal deficit as a share of GDP for 2024/25 is expected to expand from the approved 3.3 percent (Kshs.597 billion) to 4.2 percent (Kshs.761 billion). The expanded fiscal deficit is expected to be financed through increasing domestic borrowing by Kshs.141.4 billion, from Kshs.263.2 billion to Kshs.404.6 billion. Further, the primary balance surplus as a share of GDP for 2024/25 is also expected to reduce from 2.3 percent (Kshs.413 billion) to 1.4 percent (Kshs.249 billion).

#### **IV. CHANGES IN THE SUPPLEMENTARY ESTIMATES I FOR FY 2024-25**

32. The proposed changes will significantly reduce the provision for development expenditure. Development spending sustains the medium to long-term economic growth prospects for the government as it implements the country's economic growth agenda. The trend of reducing development spending will invariably lead to slower project implementation, higher project costs, likely accumulation of pending bills and delayed return on investments. This implies that the projected economic growth outlook may not be realised.

#### **Table 4: Major Changes in the Development Budget**

State Department	Programme	Approved Estimates	Amount Increased/ Reduced	% Change	Reason/Implication
State House	0704000 State House Affairs	1,558,700,000	1,558,700,000	100.00	
National Police Service	0601000 Policing Services	1,780,720,000	1,780,720,000	100.00	Total reduction of police modernization, modernisation of national forensic facilities, construction of police stations and houses, and public participation projects
State Department for Internal Security & National Administration	0629000 General Administration and Support Services	6,600,460,000	-6,600,460,000	-100.00	National Police Service Modernization Project revised to zero
	0632000 National Government Field Administration Services	900,030,000	-900,030,000	-100.00	From construction and refurbishment of regional, county and sub-county offices and Public participation (PP) projects
State Department for the ASALs and Regional Development	1013000 Integrated Regional Development	5,657,959,484	-5,239,739,484	-92.61	3.95B Drought Mitigation from KVDA. Reductions across the RDAs.
State Department for Foreign Affairs	0715000 Foreign Relations and Diplomacy	1,966,890,000	-1,966,890,000	-100.00	Renovation of government properties abroad and Purchase of Chancery - London
State Department for Technical Vocational Education and Training	0505000 Technical Vocational Education and Training	7,559,600,000	-3,140,600,000	-41.54	Construction, equipping, and operationalization of TTIS across the country.
State Department for Higher Education and Research	0504000 University Education	4,310,640,000	-3,160,640,000	-73.32	Reductions from the development projects across the universities
State Department for Basic Education	0501000 Primary Education	13,542,000,000	-1,813,000,000	-13.39	Ksh.532Million from primary school infrastructure improvement, Ksh230Million from TTCs, Ksh250Millionfrom KISE, Ksh 450Million from Smart Access Programme for Primary Schools in ASAL Counties and PP projects

State Department	Programme	Approved Estimates	Amount Increased/ Reduced	% Change	Reason/Implication
	0502000 Secondary Education	6,722,960,000	-4,972,960,000	-73.97	Ksh 2.8 Billion from JJS school infrastructure, Ksh1.7 Billion from secondary infrastructure improvement and PP projects
The National Treasury	0717000 General Administration Planning and Support Services	10,941,699,380	-4,389,200,000	-40.11	Ksh3.4Billion from Equity and Subscriptions in International Financial Institutions, Ksh1Billion from KQ
	0718000 Public Financial Management	38,830,082,000	-2,582,600,000	-6.65	Reductions across including support to PFM reforms, ICT licences, government data recovery centre, e-procurement system
State Department for Economic Planning	0706000 Economic Policy and National Planning	63,226,050,000	5,102,117,681	8.07	Increase of Ksh5.2Billion carry overs from FY 2023-24
State Department for Medical Services	0402000 National Referral & Specialized Services	16,515,666,667	-5,620,500,000	-34.03	Ksh2.46Billion from MES, Ksh0.5Billion Procurement of Family Planning & Reproductive Health Commodities, procurement of specialized equipment for referral hospitals, blood transfusion and local vaccine production.
State Department for Public Health and Professional Standards	0407000 Health Resources Development and Innovation	1,295,000,000	-1,295,000,000	-100.00	Ksh 615Million from the construction of Tuition Blocks and Laboratories and Ksh500Million from Equipping Laboratories and Classrooms KMTC
State Department for Roads	0202000 Road Transport	126,875,096,825	-14,105,316,879	-11.12	Ksh13.7Billion Critical Emergency Intervention Roads
State Department for Transport	0203000 Rail Transport	28,963,900,000	-1,546,900,000	-5.34	Reductions cutting across the various railways including the Development of Nairobi Railway City.
State Department for Housing & Urban Development	0102000 Housing Development and Human Settlement	76,816,300,000	-1,417,500,000	-1.85	suspension of the National Slum Upgrading Project (Ksh1Billion) and Construction of Vision

State Department	Programme	Approved Estimates	Amount Increased/ Reduced	% Change	Reason/Implication
	0105000 Urban and Metropolitan Development	9,434,500,000	-993,500,000	-10.53	2030 Flagship & ESP Markets(Ksh536Million), other markets and PP projects
State Department for Irrigation	1022000 Water Harvesting and Storage for Irrigation	3,560,000,000	-2,200,000,000	-61.80	Ksh1.5Billion from Drought Resilience Program in Northern Kenya and Ksh0.7Billion Household Irrigation Water Harvesting Project
State Department for Water & Sanitation	1017000 Water and Sewerage Infrastructure Development	36,269,400,000	-3,642,810,000	-10.04	Reductions across the Water Works Development Agencies
State Department for Lands and Physical Planning	0101000 Land Policy and Planning	5,204,376,000	-4,495,376,000	-86.38	Ksh3.3Billion from Settlement of the Landless project, Ksh 0.75Billion Processing of Title Deeds and reductions in digitization of land registries
State Department for Information Communication Technology & Digital Economy	0210000 ICT Infrastructure Development	16,685,400,000	-1,253,480,000	-7.51	Ksh 0.7Billion from Digital superhighway project and Ksh0.5Billion from the Maintenance & Rehabilitation of NOFBI Cable and Last Mile County Connectivity
	0217000 E-Government Services	2,144,260,000	-1,113,480,000	-51.93	Reduction from Constituency Innovation Hubs, and Connectivity to Government Priority Projects
State Department for Energy	0213000 Power Transmission and Distribution	44,416,330,497	-17,946,200,000	-40.40	Ksh 14.6Billion from Electrification of Public Facilities
State Department for the Blue Economy and Fisheries	0111000 Fisheries Development and Management	8,054,420,000	-1,041,520,000	-12.93	Reductions from Rehabilitation of Fish Landing Sites, Aquaculture Technology development and innovation transfers and Coastal Fisheries Infrastructure Development
	0118000 Development and Coordination of the Blue Economy	1,583,510,000	-1,583,510,000	-100.00	Reductions from Exploitation of Living Resources under the Blue Economy, Development of Blue Economy Initiatives.

State Department	Programme	Approved Estimates	Amount Increased/ Reduced	% Change	Reason/Implication
State Department for Agriculture	0108000 Crop Development and Management	25,122,536,896	-1,024,754,000	-4.08	Reduction of Ksh1 Billion from MSMEs Agricultural Credit - AFC
	0108000 Crop Development and Management	7,500,000,000	2,500,000,000	33.33	Fertilizer subsidy programme
State Department for Industry	0320000 Industrial Promotion and Development	4,822,960,000	-1,822,960,000	-37.80	Ksh1.6Billion from Establishment of County Integrated Agro-Industrial Parks
State Department for Micro, Small and Medium Enterprises Development	0318000 Digitization and Financial Inclusion for MSMEs	5,200,000,000	-2,200,000,000	-42.31	Ksh 2.0Billion from Financial Inclusion Fund (Hustler Fund)
State Department for Investment Promotion	0322000 Investment Development and Promotion	3,605,430,000	-1,745,430,000	-48.41	Ksh1.2 Billion from Development of Athi River Textile Hub and Ksh440Million from Development of Special Economic Zones
State Department for Wildlife	1019000 Wildlife Conservation and Management	2,253,000,000	-1,918,000,000	-85.13	Reductions from maintenance of access roads in parks and conservancies, Human-Wildlife conflict mitigation, and provision of water for wildlife in protected areas.
Parliamentary Joint Services	0723000 General Administration, Planning and Support Services	2,065,000,000	-1,032,500,000		Reduction on account of Construction of Multi-Storey Office Block, Installation of Integrated Security System, Purchase and Development of CPST Land.

**Table 5: Major Changes in the Recurrent Budget**

State Department	Programme	Approved Estimates	Increase/ Reduction	% Change	Reason/Implication
Office of the Deputy President	0734000 Deputy President Services	4,575,600,000	-1,877,447,003	-41.03	Ksh1.02Billion from the deputy president of support services and Ksh557Million from the Office of the Spouse to the Deputy President

State Department	Programme	Approved Estimates	Increase/Reduction	% Change	Reason/Implication
State House	0704000 State House Affairs	7,937,300,000	-3,629,768,342	-45.73	Ksh 2.2 Billion from State House Nairobi and Ksh 696 Million from the Office of the First Lady. Reductions across various advisory services.
National Police Service	0601000 Policing Services	108,771,352,775	-928,908,352	-0.85	Reductions majorly in domestic travel and other operating expenses
State Department for the ASALs and Regional Development	Accelerated ASAL	2,908,987,562	2,979,334,124		Ksh3.0Billion to the National Drought Management Authority
State Department for Higher Education and Research	Development	120,077,258,039	-1,701,306,814	-1.42	Reduction from Ksh 2.27Billion GoK Sponsorship to Students in Private Universities
State Department for Basic Education	0501000 Primary Education	16,393,724,959	-4,944,488,100	-30.16	Ksh1.9 Billion examination waiver for primary education and Ksh.3 Billion school feeding programme moved from NACONEK to SD for ASALs
	0502000 Secondary Education	96,619,234,354	-3,085,051,614	-3.19	Reduction from examination waiver for KCSE.
The National Treasury	0717000 General Administration Planning and Support Services	65,538,596,078	-5,348,949,077	-8.16	Strategic interventions, Basic Wages - Temporary Employees
	0718000 Public Financial Management	8,032,792,087	4,278,678,675	53.27	Budget Reserves
State Department for Cooperatives	0304000 Cooperative Development and Management	5,734,183,583	1,975,525,182	34.45	Ksh 2 Billion for New KPCU for Coffee farmers' debts.
National Assembly	0721000 National Legislation, Representation and Oversight	26,775,000,000	-1,839,085,685		Reductions majorly in domestic travel and other operating expenses
Teachers Service Commission	0509000 Teacher Resource Management	347,281,134,808	-10,000,193,201		Reduction from the implementation of the teachers CBA.

## V. ANALYSIS OF CONSOLIDATED FUND SERVICES

33. The total expenditures under the CFS expenditures are estimated to increase by Kshs.23.8 billion to Kshs.2.08 trillion. This thus indicates that CFS expenditures will have increased by Kshs.96.5 billion or 5 percent from Kshs.1.98 trillion in FY 2023/24. The increase in CFS expenditures is attributed to

increases in pensions expenditures only as there are no changes effected on debt service expenditures under the Supplementary Estimates.

34. The projected increase in Consolidated Fund Services (CFS) expenditures for FY 2024/25 highlights a significant liquidity constraint. Given that CFS expenditures include mandatory obligations, their increase when combined with reduced projected revenues in FY 2024/25 indicates an elevated liquidity risk. This risk is exacerbated by the involvement of long-term pension liabilities, which necessitate precise forecasting and management at the beginning of the fiscal year to mitigate against shocks, risks, and costs. Furthermore, this requires Structural reforms in fiscal policy and expenditure management to align overall resource base in light of the fiscal impact of mandatory expenditures.

**Table 6: Summary Consolidated Fund Service expenditures**

	<b>Budget Estimates FY 2024/25</b>	<b>Change</b>	<b>Supplementary I FY 2024/25</b>	<b>% Change</b>
Interest Expenditures	1,009,877	-	1,009,877	-
Redemption Expenditures	843,287	-	843,287	-
<b>Total Debt Service Expenditures</b>	<b>1,853,165</b>	<b>-</b>	<b>1,853,165</b>	<b>-</b>
Pensions, Salaries, Allowances & Others	203,576	23,781	227,356	12%
<b>Total CFS Expenditures</b>	<b>2,056,741</b>	<b>23,781</b>	<b>2,080,521</b>	<b>1%</b>

Source: Supplementary Estimates No. 1 – FY 2024/25

**a) Public debt servicing expenditures**

35. There are no changes to public debt service expenditures under the Supplementary Estimates. The debt servicing expenditures will remain at Kshs. 1.85 trillion composed of interest and principal payments worth Kshs. 1.01 trillion and Kshs. 843.29 billion, respectively. However, this may not be indicative of the expected changes in the financing framework for the Supplementary Estimates (No. 1) for FY 2024/25 that seeks to finance the revised fiscal deficit by primarily increasing the net domestic financing by Kshs. 144 billion. This could increase the domestic debt expenditures depending on the ratio of Treasury Bills to Treasury Bonds. The submission of an Annual Borrowing Plan should provide insights to the loans to be raised, how they have been accounted for under the CFS expenditures and provide policy proposals addressing the revised levels of costs and risks of rising debt servicing expenditures.

**Table 7: Public Debt Servicing Expenditures (Kshs. Millions)**

	<b>Budget Estimates FY 2024/25</b>	<b>Change</b>	<b>Supplementary I FY 2024/25</b>	<b>% Change</b>
Interest Expenditures	1,009,877	-	1,009,877	-
Redemption Expenditures	843,287	-	843,287	-

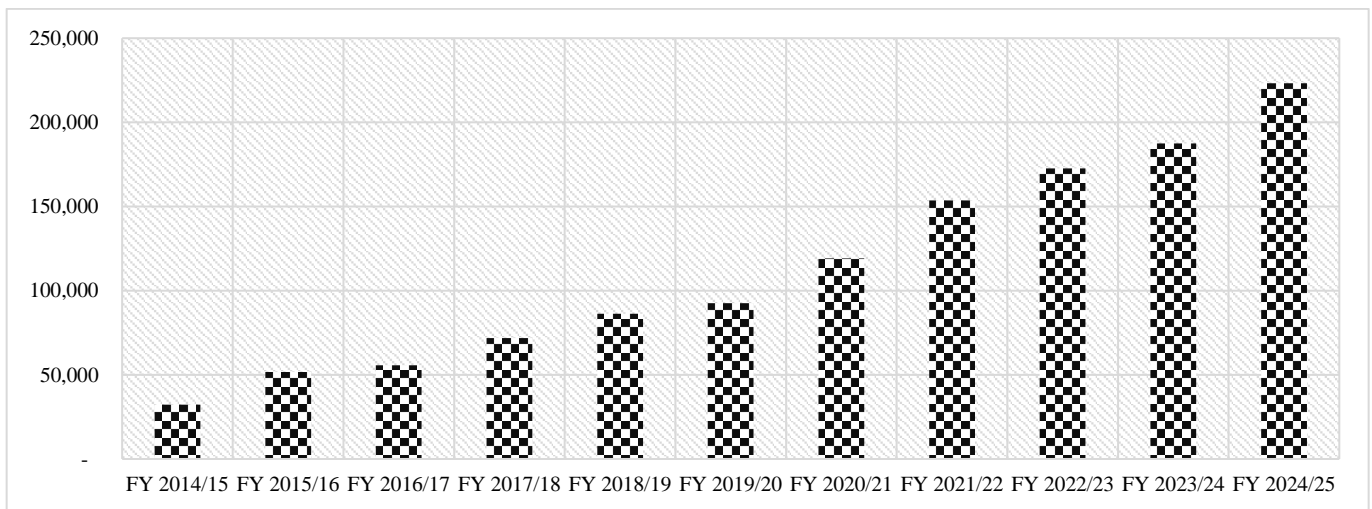
	Budget Estimates FY 2024/25	Change	Supplementary I FY 2024/25	% Change
<b>Total Debt Service Expenditures</b>	<b>1,853,165</b>	-	<b>1,853,165</b>	-

Source: Supplementary Estimates No. 1 – FY 2024/25

**b) Changes in Pension Expenditures**

- 36.** The primary cause of the increase in CFS expenditures under the Supplementary Estimates (No. 1) for FY 2024/25 are pensions liabilities. Pension payments are a key form of social safety net targeting the elderly retired civil servants (and their dependents) after years of public service and promote welfare of households who are likely to be without alternative sources of income.
- 37.** According to the Supplementary Estimates (No. 1) for FY 2024/25 pension liabilities will increase to Kshs. 223.25 billion and will account for 6 percent of total expenditure and 2.3% of GDP. This growth follows a rally of pension expenditures which have increased by an annualized growth rate of 21.3 percent since FY 2014/15 when pension expenditures amounted to Kshs. 32.4 billion. This indicates a need for a longer-term sustainability planning for these expenditures that are largely sticky/resistance to reduction.

*Figure 10: Pension Expenditures, FY 2014/15 to FY 2024/25 (Kshs. Millions)*



Source: Annual Approved Budgets - National Treasury

- 38.** Overall pension expenditures will increase by Kshs. 23.78 billion to Kshs. 223.25 billion on account of unaccounted for carryovers from FY 2023/24 related to: a) Ordinary pensions (Kshs. 5.7 billion), b) Commuted pensions (Kshs. 15.6 billion) and c) the allocations for the Public Service Superannuation Scheme (Kshs. 2.6 billion).



**Table 8: Overall Pension Expenditures (Kshs. Millions)**

	Budget Estimates FY 2024/25	Change	Supplementary I FY 2024/25	% Change
Ordinary Pension	88,113	5,663	93,776	6%
Commutated Pension	70,209	15,553	85,762	22%
Other Pension Schemes	6,632	-	6,632	-
Public Service Superannuation Scheme	34,412	2,565	36,977	7%
<b>TOTAL</b>	<b>199,366</b>	<b>23,781</b>	<b>223,147</b>	<b>12%</b>

Source: Supplementary Estimates No. 1 – FY 2024/25

- i. Ordinary pension: This class of pensions will amount to Kshs. 93.78 billion following an increase of Kshs. 5.7 billion on account of carry overs for monthly pension for retiring civil servants (Kshs. 4.97 billion) and retiring military personnel (Kshs. 691 million).
- ii. Commuted Pension: This class of pensions will increase to Kshs. 85.76 billion. This is on account of a Kshs. 15.5 billion carry-overs for gratuity payments for retiring civil servants (Kshs. 13.68 billion) and retiring military personnel (Kshs. 1.88 billion).
- iii. The Public Service Superannuation Scheme: Increment relates to additional increment allocation of Kshs. 2.57 billion being employer contribution to the pension scheme.

#### c) Miscellaneous expenditures

39. Miscellaneous expenditures, which contain salary and allowances for independent and constitutional office holders, miscellaneous expenditures, and payments for guaranteed debt will remain unchanged and will amount to Kshs. 4.2 billion in FY 2024/25.

**Table 9: Miscellaneous expenditures (Kshs. Millions)**

	Budget Estimates FY 2024/25	Change	Supplementary I FY 2024/25	% Change
Salaries and Allowances	4,157	-	4,157	-
Miscellaneous Services	53	-	53	-
Guaranteed Debt	-	-	-	-
<b>TOTAL</b>	<b>4,210</b>	<b>-</b>	<b>4,210</b>	<b>-</b>

Source: Supplementary Estimates No. 1 – FY 2024/25