



## **REPUBLIC OF KENYA**

### **THE NATIONAL TREASURY AND PLANNING**

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#### **KEYNOTE ADDRESS BY HON. (AMB) UKUR YATANI, EGH, CABINET SECRETARY, THE NATIONAL TREASURY & PLANNING DURING OFFICIAL OPENING OF THE PUBLIC HEARINGS ON THE FY 2021/22 AND THE MEDIUM-TERM BUDGET PROPOSALS AT THE KENYATTA INTERNATIONAL CONVENTION CENTER ON 25<sup>TH</sup> NOVEMBER 2020**

Cabinet Secretaries;

Chief Administrative Secretaries;

Principal Secretaries and Accounting Officers;

Chairperson, Budget and Appropriations Committee;

Heads of Constitutional Commissions and Independent Offices;

Development Partners;

Members of the Media;

Distinguished guests;

**Ladies and Gentlemen:**

## **Good morning.**

1. I wish to welcome you all to this important event in our Budget Calendar. We are delighted that you were able to find time out of your busy schedules to attend this important event in our Budget Calendar which marks the official launch of the 2020 Public Sector Hearings. As we commence the Public Sector Hearings on the Budget proposals for the FY 2021/22 and the Medium-Term, I wish to take this opportunity to thank the Sector Working Groups for coming up with the sector budget proposals which will be discussed with the public in the next three days.

## **Ladies and Gentlemen:**

2. I am aware that a number of our stakeholders will not be able to join the meetings physically due to the need to observe the Ministry of Health and World Health Organization (WHO) protocols on the control of the COVID-19 pandemic. To ensure maximum participation from our stakeholders, the National Treasury has created and shared a virtual link with the public. The link will enable participants across the country to follow the proceedings and give their input as appropriate on the Sector Budget proposals.

3. I therefore wish to appreciate our stakeholders who are physically with us this morning and those following these proceedings through the virtual platforms for having responded positively to our invitation to participate in the Public Hearings.

**Ladies and Gentlemen:**

4. Public participation on matters affecting wananchi is a constitutional requirement. Indeed, Article 201 of the Constitution of Kenya calls for openness and accountability in the management of public finances. It is in this regard that we have organized this forum to give members of the public and other key stakeholders an opportunity to provide their input on the Budget proposals for the forthcoming financial year and the medium-term.

5. During the next three days, stakeholders will be expected to formally engage with the Sectors on the achievements made towards the implementation of the approved programmes and projects over the last three years and the way forward for the proposed medium-term Budgets.

**Ladies and Gentlemen:**

6. The next budget is being formulated against a backdrop of the COVID 19 Pandemic which has adversely affected nearly all the

world economies, Kenya included. Prior to the emergence of the pandemic, we were striving to achieve a fiscal consolidation policy with a view to creating fiscal space to finance the requirements of the “Big Four” agenda which had already fallen short of the actual spending needs envisioned under the MTP III. We were operating under a tight fiscal framework since the available fiscal space had been taken up by the rising public debt and its servicing.

7. The continuation of the pandemic is therefore a major setback in achieving sustainable financing of critical programmes in our development agenda as our revenue targets continue to lag behind. The capacity of the economy to generate additional resources to finance the budget has severely been affected from reduced economic activities.

**Ladies and Gentlemen:**

8. As part of the interventions to address COVID-19 Pandemic, the Government introduced an expansionary fiscal policy in two phases. The first phase, which was introduced in the immediate last financial year included a mix of tax, spending and monetary policy measures. In addition to the continuation with the interventions introduced in the first phase, the second phase which is ongoing in the current financial year, involves spending

measures in an 8 Point Economic Stimulus Programme for which Government has set aside **KSh.58.1 billion**.

### **Ladies and Gentlemen:**

9. It is important for us to underscore that what happens in the global arena has major implications in the performance of our economy. The on-going COVID-19 pandemic and the associated economic crises are likely to deplete domestic public resources by affecting tax and non-tax revenues.

10. The pandemic and the ensuing containment measures have devastated global economies. As noted by the IMF in its World Economic Outlook for October 2020, the global growth is projected to contract by 4.4 per cent in 2020 compared to a growth of 2.8 per cent in 2019.

11. Growth in the East African Community region is estimated to slow down to about 1.0 per cent in 2020 compared to a growth of 6.2 per cent in 2019. Kenya has not been spared from the negative impact of the pandemic. The Pandemic and the resultant containment measures have not only disrupted the normal lives and livelihoods, but also to a greater extent businesses and

economic activities. As a result, our economy contracted by 5.7 per cent in quarter two of 2020 from a growth projection of 4.9 per cent in the first quarter of 2020.

### **Ladies and Gentlemen:**

12.Despite the subdued growth, economic activities have started showing signs of recovery albeit with weaknesses in the tourism and education sectors. Agriculture continues to remain strong thanks to above-average rainfall whereas activities in services sector have started to pick up supported by the easing of restrictions.

13.In this respect, the growth outlook for 2020 has been revised downwards following receipt of more recent indicators, the contraction of economy recorded for the second quarter of 2020 and the global projections released in October 2020. In this respect, economic growth for 2020 is projected at 0.6 percent in 2020 and 6.4 percent in 2021. Over the medium-term growth will be above 6.0 percent. The growth outlook will be supported by stable macroeconomic environment, ongoing investments in strategic priorities of the Government under the “Big Four” Agenda, turn around in trade as economies recover from Covid-19 Pandemic

and expected favorable weather that will support agricultural output.

14.It is worth noting that in spite of the COVID-19, we have continued to maintain macro-economic stability as measured by the existing low and stable inflation and interest rates and a competitive exchange rate.

**Ladies and Gentlemen:**

15.Allow me to now turn to some highlights of the budget implementation process during the current financial year. The implementation of the FY 2020/21 Budget continues to experience challenges emanating from revenue shortfalls and rising expenditure pressures. The shortfalls in government revenues are as a result of suppressed economic activities as a result of the pandemic, as well as the tax reliefs implemented in April 2020 to cushion people and businesses from the adverse effects of the pandemic.

16.However, with the gradual opening up of the economy, we expect to reverse this trend in the second half of the financial year.

## **Ladies and Gentlemen:**

17.The total cumulative revenues as at end of October 2020, including Appropriations-in-Aid (A-i-A), was Ksh 505.3 billion (or 4.5% of GDP) against a target of Ksh 570.7 billion reflecting a shortfall of KES 65.4 billion.

18.Meanwhile, with regard to total expenditure and net lending, preliminary figures as at end of October, 2020 indicate that the actual expenditure amounted to Ksh 733.4 billion against a target of Ksh 761.2 billion and was, therefore below target by Ksh 27.8 billion.

19.In terms of the fiscal deficit, as at end 31st October 2020, the overall fiscal balance amounted to a deficit of Ksh 223.7 billion (2.0% of GDP) against a targeted deficit of Ksh 172.8 billion (1.5% of GDP). As a comparison, the overall deficit in the corresponding period in 2019 was Ksh 133.8 billion.

20.The Government will continue to review the prevailing economic situation and institute measures that will ensure we continue to protect the lives of Kenyans and their livelihoods, while upholding a stable macroeconomic environment. We shall soon be preparing and submitting Supplementary Estimates No.1 to the National Assembly reflecting these realities.

## **Ladies and Gentlemen:**

21. Let me turn focus to the highlights of the FY2021/22 and the Medium-Term Budget. The Government remains committed to pursuing a fiscal consolidation policy. The policy aims at gradually reducing the fiscal deficit from 8.0 per cent of GDP in FY 2019/20 to 3.5 per cent over the medium term. Fiscal consolidation will be achieved through enhancement in revenue collection, expenditure rationalization in non-priority areas and sustainable public borrowing. The outcome will be a reduction in the fiscal deficit that will ensure debt sustainability. We will also continue with the implementation of the "Big Four" Agenda and initiatives under the Post COVID-19 Economic Recovery Strategy (PC-ERS). This will reposition the economy on a steady and sustainable growth path.

22. In the FY 2021/22, we are projecting revenue collection including Appropriation-in-Aid (A-i-A) to be at 16.2 per cent of GDP. Revenue performance will be underpinned by the on-going reforms in tax and revenue administration and implementation of Post Covid-19 Economic Recovery Strategy. The overall expenditure and net lending are projected at 23.7 per cent of GDP. The deficit will be financed by a net external financing of 3.3 per cent of GDP and a net domestic financing of 3.8 per cent of GDP.

**Ladies and Gentlemen:**

23. Considering the tight resource envelope, Sector Working Groups were required to scrutinize the proposed budgets and ensure strict adherence to a hard budget constraint. It is my sincere hope that this was taken into account when sectors were coming up with Sector Budget proposals.

24. During the meetings, the public will have an opportunity to interrogate the sectoral performance and prioritized programmes for the FY2021/22 and the Medium-Term. The input from the public will go towards the firming up of spending proposals to be submitted to Parliament towards the end of April, 2021.

25. In view of the emerging nature of the COVID-19 pandemic and its impact on the economy, we will be reviewing the Medium Term Fiscal Framework as contained in the 2020 Budget Review Outlook Paper (BROP) to reflect realistic projections for the Medium-Term. The revised Fiscal Framework will be contained in the Budget Policy Statement which we expect to submit to Parliament by mid-February, 2021.

**Ladies and Gentlemen:**

26.I note with great appreciation, the effort and sacrifice that has gone into preparing these proposals by the various Sector Working Groups as well as other stakeholders. Thank you for your continued commitment to this budget making process.

27.As I conclude, I wish to once again, urge members of the public to freely give their input, raise their issues where necessary and fully engage in the various discussions on the Sector Budgets. I look forward to your input to enrich the proposals that have been put together by the Sector Working Groups.

**Ladies and Gentlemen:**

28.With those remarks, it is now my great pleasure to declare the 2020 Public Sector Hearings officially open.

Thank You.

**THE NATIONAL TREASURY AND PLANNING  
25<sup>th</sup> Naovember 2020**