



REPUBLIC OF KENYA
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TREASURY CIRCULAR NO.8/2021

TO: ALL CABINET SECRETARIES
ALL ACCOUNTING OFFICERS/PRINCIPAL SECRETARIES

RE: GUIDELINES FOR PREPARATION OF THE 2022/23 – 2024/25 MEDIUM-TERM BUDGET

I. INTRODUCTION

- ***Purpose***

1. This Circular is issued in accordance with Section 36 of the Public Finance Management Act, 2012 which requires the Cabinet Secretary/National Treasury and Planning to issue to all National Government entities a circular outlining the guidelines on the budget process to be followed by Ministries, Departments and Agencies (MDAs) not later than the 30th August in each year.

2. The Circular therefore provides guidelines on the processes and procedures to be followed by MDAs when preparing the Medium-Term Budget for FY 2022/23 – 2024/25. Its purpose is to guide MDAs on the following:

- (i) Background to the Medium-Term Budget for 2022/23 – 2024/25;
- (ii) Policy framework supporting the Medium-Term Budget for 2022/23 – 2024/25;

- (iii) Constitutional timelines and requirements for key activities in the budget preparation process;
- (iv) Institutional framework to guide the budget preparation process;
- (v) Form and content of budget;
- (vi) Programme Performance Reviews (PPRs);
- (vii) Prioritization process for and costing of programmes, projects and activities; and
- (viii) Framework setting out procedures and the manner in which stakeholders and members of the public will participate in the budget process.

3. The Circular becomes effective from the date of issuance and applies to all National Government entities including MDAs, Commissions, Independent Offices, Parliament and the Judiciary. County Executive Members for Finance are required to customize and issue the circular to guide the process and procedures in their respective Counties.

- *Background*

4. Following the emergence of COVID-19 as a global pandemic and a near collapse of most economies, the global economy will be experiencing an exceptionally strong but uneven recovery. While a rebound is expected in most economies, full recovery is not assured due to possible future COVID-19 waves, delays in vaccination programmes, increasing debt levels and rising inflationary pressures.

5. The medium-term budget for 2022/23 – 2024/25 will therefore be prepared against the background of strong but uneven economic recovery. The emergence of new COVID-19 variants could lead to reinstatement of containment measures thereby disrupting economic activities. Further, we expect 2022 being an election year, heightened political activities especially in the fourth quarter of 2021 which are likely to erode investor confidence and affect projected growth. The Government will however continue to monitor these developments and take appropriate measures to safeguard the economy and livelihoods.

6. The global economy is projected to grow by 6.0 percent in 2021, from a contraction of 3.3 percent in 2020. The economic growth in Sub-Saharan Africa region is

projected to expand by 3.4 percent in 2021 from a contraction of 1.9 percent in 2020. Kenya's economic growth is expected to rebound to 6.6 percent in 2021 from an estimated growth of 0.6% in 2020. The outlook for 2021 will be reinforced by the prevailing stable macroeconomic environment and the on-going implementation of the Medium-Term Plan III of Vision 2030, the "Big Four" Agenda and key projects to support Post COVID-Economic Recovery Strategy (PC-ERS).

- ***Policy Framework Supporting the Medium-Term Budget for 2022/23 – 2024/25***

7. The preparation of the 2022/23 – 2024/25 Medium-Term Budget will focus on the theme "building back better" through targeted implementation of economic recovery programmes. Following the success of the initial PC-ERS, the Government is now set to implement a full scale recovery strategy that aims to reposition the economy on an inclusive and sustainable growth path. The PC-ERS will in the medium-term be gradually mainstreamed into the regular programmes of the Government to ensure continuous implementation of programmes aimed at safeguarding livelihoods and job creation.
8. The Medium-Term Fiscal Framework supporting the budget will in this regard, be anchored on the following assumptions:
 - (i) Real GDP is projected to grow at 6.6% in 2022 and 6.0% over the medium-term;
 - (ii) Inflation is expected to be maintained within the target range of $\pm 2.5\%$ of 5%;
 - (iii) Interest and exchange rates are expected to remain stable and this will be safeguarded over the medium term;
 - (iv) Total Revenue will be expected to improve gradually to reach 16.5% of the GDP in FY 2022/23 and 18.5% over the medium-term; and
 - (v) Total expenditures are expected to decrease to 24.5% of GDP in FY 2022/23 and further decline to about 22% of GDP over the Medium Term in line with the fiscal consolidation policy.

