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Ministry of Finance

BUDGET OUTLOOK PAPER

2009/10 – 2011/12

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Abbreviations and Acronyms

ASALS	Arid and Semi Arid Lands
BOPA	Budget Outlook Paper
BSP	Budget Strategy Paper
EAC	East African Community
ERS	Economic Recovery Strategy for Wealth and Employment Creation
FY	Financial Year
GDP	Gross Domestic Product
GoK	Government of Kenya
KNBS	Kenya National Bureau of Statistics
MDG	Millennium Development Goals
MPERs	Ministerial Public Expenditure Review
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NFA	Net Foreign Assets
SWGs	Sector Working Groups
VAT	Value Added Tax
VER	Voluntary Early Retirement
V-2030	Vision 2030

I. INTRODUCTION

1. The budget outlook paper for 2009 (BOPA2009) is the fifth in a row and sets out the background and broad fiscal parameters for the budget for 2009/10 and the medium-term, consistent with Government strategies and policies outlined in the Vision 2030's first Medium-Term Plan (MTP), 2008-2012.
2. As was the case under ERS (2003-2007), the BOPA will continue to help strengthen the link between policy, planning and budgeting during the MTP period. This is vital in the preparation of annual budgets, management of public resources and prioritization of resources to key sectors.
3. The BOPA2009 continues with the tradition of providing indicative sector ceilings only. This approach has worked well in helping to provide the Sector Working Groups (SWGs) with the flexibility of developing the ministerial ceilings within their sectors. As usual, the macroeconomic assumptions underlying the sector ceilings in this BOPA2009 will be updated closer to the 2009/10 Budget in the context of the next Budget Strategy Paper (BSP) in March 2009 to reflect any changes in economic and financial conditions.

II. RECENT ECONOMIC DEVELOPMENTS

4. Before the general elections in December 2007, the economy enjoyed a broad-based expansion touching all sectors of the economy. **Real GDP** grew by 7.0 percent in 2007, up from 6.4 percent in 2006 and 0.5 percent in 2002. The broad-based growth was driven mainly by agriculture, manufacturing, tourism, construction, and transport and communication. As a result, growth in per capita income rose from minus 1.7 percent in 2002 to 4.1 percent in 2007. This has had a significant positive impact on poverty reduction, which declined from 57 percent in 2000 to 46 percent in 2006/07 based on the most recent poverty statistics from KNBS.
5. However, following the post election unrest during the early part of 2008, economic activities were disrupted resulting in the contraction of GDP by 1.0 percent in the first quarter, with tourist arrival down by over 50 percent and most sectors hampered by disruption to supply chains and displacement of productive resources. With subsequent political settlement, the economy rebounded during the second quarter of 2008 with real GDP growth reaching 3.4 percent before easing to 2.1 percent in the third quarter. Leading economic indicators for the fourth quarter indicate that real GDP will grow slightly lower than the average of the fourth quarter over the last five years, following the development in the global financial markets. As such, we now estimate real GDP to grow by 2.4 percent in 2008, down from the projected growth of 4.5 percent in the BSP for 2008. The reduced growth reflects protracted negative effects of the post election disturbances, high cost of inputs (fertilizer and fuel), and global financial turmoil.

6. The year-on-year **headline inflation** increased to peak at 31.5 per cent in May 2008 before easing to 27.7 percent in December 2008. The unprecedented high inflation was largely due to rising international fuel and food prices, in addition to supply shortages occasioned by the post election disturbances in the first half of 2008. Similarly, the **underlying inflation** rate, measured by excluding food and energy from the CPI basket, also rose beyond the 5 percent target to reach 9.1 percent in November 2008 before easing marginally to 9 percent in December. This development is mainly due to the second round effects of the higher-than-anticipated overall inflation and the recent depreciation of the shilling exchange rate.

7. Annual growth in broad money, M3, was 19.5 percent in the year to November 2008 compared with 15.2 percent in a similar period in 2007. Expansion in money supply was supported by Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking system, which rose by 17.9 percent and 20.1 percent, respectively. The strong growth in NFA was due to improvement in balance of payments, while the expansion in NDA was occasioned by strong domestic credit to the private sector, which accelerated to 33.4 percent in November 2008 from 19.1 percent a year earlier. Most of the credit supported consumer spending, as credit to productive sector slowed.

8. The average **interest rate** on the 91-day Treasury bills rose from 6.9 percent in December 2007 to 8 percent in July 2008, before easing to 7.8 percent in October and rising again to an average of about 8.5 percent in December. The 182-day Treasury bill rate also increased to about 9 percent in December, while the longer term (3 to 20-year) Government bonds' interest rates averaged 9 to 15 percent. There was an under-subscription of Treasury bills and bonds in the last part of 2008, partly due to expectation of higher interest rates by market players. However, the performance reversed in January 2009 with significantly oversubscription in the auction market, resulting in easing of interest rates. In the short-end of the money market, the average interbank rate increased to 8.1 percent in July 2008 before declining to about 7 percent in December, while the repo rate eased to 6-7 percent over the same period. The easing of short-term interest rate reflected a improved liquidity situation, as CBK lowered the Central Bank Rate by 25 basis points to 9 percent and reserve requirement by 1 percentage points to 5 percent.

9. The **external current account deficit** is estimated to have widened to about 10 percent of GDP in 2008 from 4.9 percent of GDP 2007. The widening of the deficit reflected deterioration in the trade balance from US\$ 4.4 billion to US\$ 6.2 billion, following a growth of 27.9 percent in import value, which more than offset the 17 percent growth in export value. The strong import growth was largely driven by an increase in the import bill for oil due to high international oil prices. The widening trade deficit was, however, partly financed by the surplus in the services account of US\$ 1 billion, which was slightly lower than the US\$ 1.3 billion in the previous year. With the surplus in the capital and financial account increasing by only US\$ 455

million compared to US\$ 993 million in 2007, the overall balance of payments recorded a deficit of US\$ 488 million in 2008, a turnaround from a surplus of US\$ 835 million in the previous year.

10. Following the deficit in the balance of payments, **official foreign exchange reserves** declined from 3.4 billion at end-December 2007 (equivalent to 3.1 months of next year's imports cover) to US\$ 2.9 million at the end-December 2008 (equivalent to 2.8 months of next year's imports cover). The decline in official reserve was also partly attributed to revaluation losses occasioned by the weakening of the Pound Sterling and the Euro against the US dollar in the international currency market.

11. The **exchange rate** remained broadly stable against other major international currencies except the dollar where it depreciated to KShs 77.7 per US dollar by end of December 2008 from an average of KShs 62.7 per US dollar in 2007. The depreciation of the shilling against the US dollar reflected the deterioration in the country's balance of payment position as well as the strengthening of the US dollar against major currencies in the international currency markets.

2007/08 Fiscal Outturn

12. **The fiscal performance for 2007/08** was generally strong. The overall budget deficit (commitment basis, including grants) was 3.9 percent of GDP compared with the target of 6.2 percent of GDP and 1.8 percent of GDP in 2006/07 (Table 1). With more than budgeted privatization receipt of KShs 76.3 billion (3.9 percent of GDP), there was a net domestic repayment of KShs 13.9 billion (0.7 percent of GDP) compared with the net borrowing target of KShs 34.0 billion for FY 2007/08 and KShs 34.7 billion in the previous year. As a result, the ratio of **net domestic debt** to GDP declined from 19.3 percent in June 2007 to 17.2 percent in June 2008 and, consequently, the stock of public debt fell to below 40 percent of GDP from 42.4 percent of GDP in 2006/07. Key elements of the fiscal performance in 2007/08 were as follows:

- **Total revenue grew by 15.9 percent** from KShs 373.0 billion in 2006/07 to KShs 432.2 billion in 2007/08 and was slightly below the KShs 434.5 billion target for the period. The shortfall was wholly attributed to appropriation-in-aid, as ordinary revenues were above target by KShs 7.5 billion. In relation to GDP, the revenue collection of 22 percent of GDP was slightly above target by 0.7 percentage points.
- **Total expenditures grew by 27.5 percent** from KShs 419.5 billion to KShs 534.8 billion, with development outlay increasing by about 63.6 percent and recurrent expenditure by 18.9 percent. Execution of the domestically financed development budget was broadly on target, while the absorption rate for

foreign financed development budget improved to about 60 percent compared with 43 percent in 2006/07. On recurrent expenditures, the wage bill was broadly on target despite the increase in wages for the security forces.

- **The overall fiscal deficit (on commitment basis) increased to 3.9 percent of GDP** from 1.8 percent of GDP in 2006/07. On cash basis, however, the fiscal deficit was 3.1 percent of GDP compared with a deficit of 2.2 percent of GDP in 2006/07.

	2006/07 Act.	2007/08		2008/09 Budget
		Revised Budget	Prov.	
1. Total Revenue and Grants	388.5	471.4	457.7	547.9
1.1 Total Revenue	373.0	434.5	432.2	512.7
Income Tax	124.9	147.6	156.8	184.3
Import Duty	27.5	32.5	32.9	36.5
Excise Duty	56.4	65.3	61.9	72.9
Value Added Tax	96.3	109.8	111.9	133.9
Other	68.0	79.3	68.6	85.2
1.2 Grants	15.5	36.9	25.5	35.2
2. Total Expenditure	419.6	598.5	534.8	672.9
Recurrent	339.2	429.5	403.4	472.7
Development	80.4	168.9	131.5	198.3
3. Surplus/Deficit (commitment basis)	-31.1	-127.1	-77.1	-126.4
% of GDP	-1.8	-6.2	-3.9	-5.3
4. Adjustment to cash basis/Stat. discrepancy	5.5	2.5	17.3	-0.4
5. Surplus/Deficit (cash basis)	-36.6	-124.6	-59.8	-126.9
% of GDP	-2.2	-6.1	-3.1	-5.3
6. Total Financing	36.6	124.6	59.8	126.9
Net External	-2.0	24.6	6.3	25.2
Net Domestic	34.7	34.0	-13.9	36.0
Other net, incl. privatisation proceeds	4.0	66.0	67.5	65.7
7. Overall Public Debt (% of GDP)	42.4	40.1	39.6	38.8
<i>of which: domestic debt (net)</i>	19.3	17.8	17.2	16.8

2008/09 Budget

13. The macroeconomic assumptions underlying the 2008/09 budget were detailed in the BSP2008 released in May/June 2008. Overall, the fiscal framework assumed cautious revenues projections for 2008/09 and emphasized increased development spending, in line with the priorities under the MTP. The key highlights of 2008/09 budget are as follows:

- **Total revenues are expected to rise by 18.6 percent**, reflecting continued implementation of reforms in tax and customs administration and

streamlining of the exemption regime to protect the revenue base. This increase in revenue target is broadly in line with the commitments to sustain the collection of about 21-22 percent of GDP over the medium term.

- **Total expenditures are expected to rise by 25.8 percent.** This reflects a continued increase (by 50.8 percent) in development expenditures from KShs 131.5 billion to KShs 198.3 billion, as recurrent expenditure increase moderately by 17.2 percent on account of full-year impact of free secondary education and expenditures to mitigate the negative effects of the post-elections disturbances.
- With expenditures rising at a faster pace than revenues, **the overall fiscal deficit (after grants) is expected to reach KShs 126.9 billion** (equivalent to 5.3 percent of GDP). The deficit is expected to be financed by net external financing of KShs 25.2 billion, infrastructure bonds of KShs 52.1 billion (i.e., KShs 33.6 billion from sovereign bond and KShs 18.2 billion from long-term domestic bonds), privatization receipts of KShs 8.0 billion, Telkom and KPRL refinancing of KShs 5.7 billion and net domestic borrowing of KShs 36.0 billion. This level of borrowing requirement is consistent with the Government medium-term strategy of maintaining the overall public debt at below 40 percent of GDP.

Fiscal Developments to December 2008 and Outlook for FY 2008/09

14. The execution of the budget in the first six months of FY 2008/09 (July-December 2008) has progressed satisfactorily, but with challenges. Preliminary outcome indicates that **ordinary revenues** amounted to KShs 216.7 billion, which was KShs 5.1 billion below the target of KShs 221.8 billion. The shortfall occurred wholly in the first quarter (July-September) as Kenya Revenue Authority met the target for the second quarter to December 2008, indicating that corrective measures have been put in place to achieve the targets going forward.

15. On the expenditure side, reflecting some minor delays in scheduled procurements and donor funds disbursements, the **overall expenditures** issued to line ministries for recurrent and development amounted to KShs 262.9 billion or KShs. 47 billion below the target of KShs 309.9 billion. The under utilization of funds against programmed target comprised of KShs 21.8 billion in recurrent budget and KShs 24.9 in development budget for the period July – December 2008.

16. As a result, the overall deficit including grants amounted to KShs 25.9 billion. This deficit was financed through programmed net domestic borrowing in the form of Treasury bills and bonds, as the floating of the domestic long-term infrastructure bond is now scheduled for January 2009.

17. During the first half of the financial year, the market for Government securities was generally undersubscribed, partly reflecting the tight liquidity conditions and expectation of higher interest rates by market players, as well as the spill-over of the impact of the global financial crisis on the domestic financial markets. By October 2008, domestic borrowing was running below target by KShs 15 billion. Indeed, during this period the Exchequer had to meet the debt redemptions through ordinary revenues and overdraft from the CBK. The situation has now improved in January 2009 with the subscription in the auction market for Treasury bills exceeding tendered amount.

18. For the remainder of FY 2008/09, the slow down in the global economy and shortages of cereals occasioned by the ongoing dry spell is expected to pose further challenges to the implementation of the budget. Partly to recoup loses in revenue experienced in the first half, the Government has started implementing the electronic tax system under the Domestic taxes, among other measures. Efforts are also at an advance stage to secure alternative funding to: (i) replace the delayed issuance of the sovereign bond following recent developments in the international financial markets and (ii) to cater for any shortfall from privatization proceeds should privatization of earmarked institution delay beyond the end of the financial year. These modifications coupled with further rationalization of expenditures will be formalised in the context of the Supplementary Budget to be presented to Parliament by March 2009.

19. As a first step, the revision of the macroeconomic assumptions underlying the 2008/09 budget is expected to yield slightly lower revenues, albeit the ongoing efforts to recoup the shortfall in the first half of the financial year. In addition, if alternative financing to replace the sovereign bond and privatization proceeds delays, expenditures will be rationalised to safeguard implementation of infrastructure project, while ensuring that macroeconomic stability is maintained. Given recent developments in the Government securities market, we expected to achieve our domestic borrowing target including issuing the long-term domestic infrastructure bond of KShs 18.5 billion. Preliminary revision of the fiscal framework that will be firmed up during the Supplementary Estimate in March 2009 is presented in Annex Table 2.

Progress in Structural Reforms

20. Significant progress has been made in removing impediments to business and creating an efficient and effective public sector. Among the measures implemented thus far include:

- On-going implementation of the **Governance Action Plan** for Building a Prosperous Kenya. In addition to earlier achievements outlined in BSP 2008, other recent developments include continued strengthening of the legal

platform to fight corruption, operationalization of the Public Complaints Standing Committee, and development of an implementation plan following the study report on Governance Action Plan.

- Adoption of risk-based auditing approach and rolling out of IFMIS to 35 ministries. Further, a final report on developing and implementing a payment plan for pending bills is in advance stages.
- Appointment of **Privatization Commission (PC)** in January 2008 that effectively made the Privatization Act fully operational. The PC is in the process of setting up the required institutional capacity including the recruitment of a Chief Executive Officer and other key staff. Meanwhile, the privatization programme was approved by Cabinet in December 2008, paving the way for the PC to embark on developing detailed method of disposing earmarked transactions for 2008/09.
- Following the successful **reform of business licenses** between 2005 and 2007, a task force was set up early in 2008 to fast track the implementation of regulatory reforms. Among the measures the task force is expected to deepen include: (i) further undertaking licensing reforms; (ii) improving Kenya's position in Doing Business Indicators; (iii) developing a regulatory reform strategy; (iv) improving regulatory governance in local authorities; and (v) ensure full publication of licensing information in the e-Registry, among other objectives. The Government is also in the process of developing a Business Regulations Bill to entrench the process of quality review of all new licenses and regulations in the country, and a draft regulatory reform strategy is now ready for consultations with stakeholders.

21. After winning international recognition in 2007 as a fast reformer, Kenya's position in The World Bank's annual Doing Business Report 2009 declined marginally following the post-election events of early 2008. Nonetheless, the successes in administrative reforms such as in registering a business, licensing reforms, trading across borders, and dealing with taxes, still kept Kenya among major regulatory reformers in the world.

22. The independent rating agencies downgraded our sovereign ratings following the post-elections violence in early 2008. However, following the political settlement and the recent review of the ratings, S&P's has upgraded Kenya's outlook to positive (B/positive/B) from stable (B/stable/B). This rating was affirmed by S&P's in early November 2008, following a review of all sovereign ratings to reflect the current global financial turmoil. Similarly, FitchRating Ltd. Has also upgraded our outlook from Negative to Positive, while retaining the earlier ratings of B+ for long-term foreign debt and BB- for long-term domestic debt following their annual review conducted in October/November 2008.

III. THE NATIONAL VISION 2030 AND THE FIRST 5-YEAR MEDIUM-TERM PLAN (MTP), 2008-2012

23. The BOPA 2009 is embedded in the first MTP 2008-2012 of Vision 2030 - the key policy documents prepared by the Government of Kenya to guide the development strategy in the next five years. It also incorporates the key priorities of the coalition partners in the Grand Coalition Government (GCG) following the post-election political settlement.

24. The MTP, which forms the basis of prioritising policies consistent with available resources, is based on three pillars, namely, economic, social and political pillars. The economic pillar calls for accelerating annual GDP growth to 10 percent on a sustained basis, with a view to making Kenya a middle-income country by the year 2030; the social pillar calls for a cohesive society enjoying equitable social development; and the political pillar calls for an issues-based, accountable democratic political system. Details on the MTP are available at www.planning.go.ke. (see "First Medium Term Plan (2008-2012)". The key elements in each pillar are summarised below.

Economic Pillar: *Accelerating and Sustaining Economic Growth*

25. The MTP builds on the successes under ERS by consolidating the gains in macroeconomic stability, supported by a deepening of structural reforms and strengthening institutions in order to help deliver high and stable levels of growth and employment.

26. With respect to **macroeconomic stability**, the Government will continue to pursue prudent fiscal management to ensure sustainable overall debt position. At the same time, the Central Bank of Kenya (CBK) will continue to pursue an appropriate monetary policy aimed at achieving a low rate of inflation, adequate level of international reserves and ensuring that sufficient credit goes to the private sector to support economic activities. The exchange rate will continue to be determined by market forces in the interbank market for foreign exchange.

27. On **structural reforms**, the Government will continue to implement policies designed to enhance our competitiveness and thereby promote private sector development and growth. In particular, the reform measures introduced in the recent budgets, which focused, inter alia, on removing impediments to businesses, creating a favourable environment for investment, and strengthening the efficiency and effectiveness of the public sector as well as enhancing competitiveness of Kenyan firms will be deepened.

28. In the medium term, the Government will create an enabling environment for the private sector to invest in the six key sectors identified to achieve higher economic growth over the medium-term. These are:

- **Tourism** – the Government will aim to increase tourist revenue yield in the country’s premium safari parks, support the establishment of three resort cities and develop strategic niche products.
- **Agriculture** – the Government will deepen the reforms in the agricultural sector and continue to increase resources to implement the agricultural and livestock sector strategies. In addition, the Government will: support innovative measures that would make agriculture commercially-oriented, modernised and transformed to benefit from the incentives offered by the high commodity prices; continue rehabilitating and expanding irrigation schemes; strengthen land management and tenure systems for better utilization of high and medium potential lands; increase market access to small holder farmers; and support fisheries, forestry and mining, and protect the environment and natural resources, as well as support the establishment of fertilizer manufacturing plant.
- **Manufacturing** – the Government will help in the development of a robust, diversified and competitive manufacturing sector through establishment of special economic clusters and small and medium size industrial parks. In addition, the Government will facilitate the exploitation of value addition in agro-based business, among others.
- **Wholesale and retail trade** – the Government will aim to create organised market outlets for small scale operators and reduce the number of players in the supply chain of marketed agricultural products.
- **Business processing outsourcing (BPO)** – to create more jobs for the youth, the Government will facilitate the establishment of a BPO park with the aim of attracting leading BPO players while developing the local capacity in the sector.
- **Financial services** – the Government will aim to develop a vibrant and globally competitive financial sector through reforming the banking sector to facilitate consolidation, improving coverage in pensions sector and deepening capital markets by accessing international capital, among others.

Social Pillar: *Reducing Poverty and Achieving Equitable Social Development*

29. The implementation of various anti-poverty interventions under ERS has resulted in a significant decline in the overall incidence of poverty from 56.8 percent in 2000 to 46 percent in 2006. The MTP will build on this progress to further reduce

poverty and achieve a durable prosperity with Kenyans enjoying equitable social development. In this regard, the Government will continue to focus on providing a significant share of budgetary resources to eight key social sectors, while ensuring efficiency in the utilization of those resources. These include:

- **Education and training** – in addition to funding free primary and secondary education, the Government will continue providing bursaries to bright students from poor families/background. It will also provide resources to support technical training, as well as research and technology to enhance the competitiveness of our economy. Other initiatives will include: rationalization of teacher utilization in both primary and secondary schools with a view to improve the efficiency of education spending; integrating early childhood into primary education; reforming secondary school curricula; modernizing teacher training; strengthening partnership with the private sector; developing key programs for learners with special needs; and revising the curriculum for university and technical institutes to include science and technology, among others.
- **Health** – Government will continue to shift focus from curative to preventive care, help to expand immunization coverage, improve reproductive health needs and allocate additional resources to facilitate an effective multi-sectoral response to epidemics such as HIV/AIDS and malaria. In addition, the Government will aim to provide a health services through a robust infrastructure network and scale up the output-based system to enable disadvantaged groups' access health care as well as expand medical insurance coverage to increase access to health and reduce out-of-pocket expenditure. With the sector already receiving adequate budgetary resources, the Government will focus on streamlining the financial and other logistical management systems to improve disbursement of funds to health facilities.
- **Water and sanitation** -- The Government will aim to conserve water and enhance ways of harvesting rain and underground water. Specifically, it will aim to rehabilitate hydro-meteorological data gathering network, construct multi-purpose dams and construct water and sanitation facilities to support a growing urban and industrial production.
- **Environment** – the Government will continue to promote environmental conservation, improve pollution and waste management through public-private partnerships initiatives, and enhance disaster preparedness as well as capacity to adopt global climatic changes.
- **Housing and urbanization** – the Government will support the development of affordable housing, enhance access to adequate finance for developers and buyers, provide physical and social infrastructure in slums

and develop the city of Nairobi as an all round globally competitive city in business and tourism.

- **Gender, youth and vulnerable groups** – the Government will aim to increase training for women entrepreneurs, establish a consolidated social protection fund for cash transfer to orphans, vulnerable children and elderly, and support sporting as well as music and performing art talents.

The Political Pillar - *Building an Accountable Democratic Political System*

30. While a number of governance reforms have been implemented to reduce corruption, improve efficiency and ensure effective service delivery in public sector, there is still more work to be done to secure an accountable democratic political system. The MTP will build on these governance achievements by focusing on reform effort in six key areas:

- **Rule of law** – The Government is committed to implementing a legal and institutional framework that is vital for promoting and sustaining fair, affordable and equitable access to justice as well as undertake legislative reforms that support market-based economy and human and gender rights.
- **Electoral and political process** – The Government will reform the legal and regulatory framework covering the electoral process, operationalise the Political Parties Act to enhance accountability by political parties, and continue with civil education programmes to widen the knowledge and participation among citizen as well as strengthen the laws on non-discrimination to promote inclusion of women and disadvantaged in the electoral and political process.
- **Democracy and public services delivery** – The Government will pursue constitutional and legal reforms necessary to strengthen public service delivery as well as promote open engagement between government and civil society and free flow of information.
- **Transparency and accountability** – The Government will continue to strengthen the legal framework for anti-corruption, ethics and integrity, promote results-based management within the public service, encourage public access to information, introduce civilian oversight around the key legal, justice and security institutions, and strengthen Parliament's legislative oversight capacity.
- **Security, peace building and conflict management** – The Government will continue to promote public-private cooperation and community involvement in security, promote harmony among ethnics, racial and other interest groups, as well as promote peace building and reconciliation within the country.

31. Following the post-election events, the Government will work to implement appropriate measures to ensure social and political stability which is desirable for economic growth. In this regard, the Government will aim at completing the constitution review together with its enabling legislations, deal with the key agenda issues in the peace accord, and continue with security and policing reforms.

32. In addition, the Government will continue to implement a number of cross-cutting policies that are critical to generating broad-based growth. These include:

- **Infrastructure** – The Government will continue to increase investments in road network, water, sanitation services, rail, sea and air transport and energy supply services in order to improve services and reduce the cost of doing business. Increase funding to infrastructure will be facilitated by the gazettelement of the Public Private Partnership (PPP) framework and continued access to international capital market through issuance of sovereign Eurobond as well as flotation of domestic long-term infrastructure bonds.
- **Information Communication Technology (ICTs)** – The Government will implement policies aimed at attracting investors in the ICT sector in recognition of its importance in accelerating productivity of all sectors of economy and empowerment of people to meet the challenges of the 21st Century. In particular, the development of ICT Parks and Digital Villages will lead to low cost of ICT goods and services and facilitate growth and establishment of BPOs.
- **Science, Technology and Innovation (STI)** – The Government will continue integrating STI in national productive processes for global economic competitiveness, sustainable development and equity concerns. As such, development of scientific and technological infrastructure, enhanced research and development as well as technical and entrepreneurial skills will be pursued over the medium term.
- **Land Reforms** – The Government will undertake land reforms to address issues concerning land ownership and administration, security of tenure, land use and development, and environmental conservation.
- **Public Sector Reforms** – The Government will deepen public service reforms guided by principles of Results Based Management, inculcation of values and ethics, strengthening of institutions and development of key competencies across the entire public service.
- **Human Resource Development, Labour and Employment** – The Government will continue promoting Occupational Safety and Health and promote principals of rights at Workplace to promote global competitiveness.

IV. MEDIUM TERM OUTLOOK, 2009/10 – 2011/12

External Environment

33. According to the IMF, world output is projected to expand by 2.2 percent in 2009, down by some 3.6 percent in 2008. Global action to support financial markets and provide further fiscal stimulus and monetary easing can help limit further decline in world growth.

34. The IMF forecast growth in emerging economies to ease to 5 percent in 2009 from 5.4 percent in 2008. The true effect of the financial crisis in the advanced countries is yet to fully play out in most emerging and developing economies. But, countries such as Hungary, Ukraine and Iceland have requested for IMF assistance to deal with capital outflows, liquidity problems and other negative effects of the financial crisis. The fall in stocks in Asia, Africa and across the world are indications that the global economy will face a recession in 2009.

35. If the current global stimulus package does not succeed in mitigating the global recession, Kenya's exports to traditional developed country markets in Europe may be slowed down. This is because a recession or lower growth in advanced economies will reduce the demand for Kenya's exports – mainly tea, horticulture and coffee -- in addition to limiting receipts from tourism and remittance as well as capital inflows. It will also lead to a decline in world prices of key export commodities, hence worsening Kenya's terms of trade. As such, Kenya will need to diversify its export markets to the populous Asian markets while further exploiting opportunities presented in Africa and the sub-region. Meanwhile, falling prices of oil may mitigate the negative impact on growth and slow down inflation, but this may be offset by the depreciation of the Kenya shilling, which weakened to about KShs 80 to the US dollar towards the end of 2008.

Economic Outlook for 2009

36. With the less favourable external environment, the outlook for 2009 is for a modest rebound with expected economic growth of about 5 percent in 2009, compared with the 7 percent projected in the 2008 BSP. The modest rebound is supported by the prevailing stable underlying economic fundamentals that helped propelled growth prior to the post-elections disturbances. Save for 2008, the projected growth is still well above the population growth of about 2.8 percent and is expected to result in continued improvement in GDP per capita.

37. Despite the ongoing dry spell affecting the marginal production areas, agriculture is expected to rebound modestly from the negative effects of the post-election and with reduction in the cost of fertilizer and fuel prices, as well as measures to increase productivity. Manufacturing is expected to continue benefiting

from strong demand from sub-region, as the projected sub-Saharan growth is expected to remain strong at about 5 percent after accounting for the impact of the global financial crisis. Construction will continue to register robust growth, driven by increased activities benefiting from low interest rates and sustained high levels of public infrastructure spending. Similarly, continued recovery of transport and communication sector will be driven by increased competition following privatization of key state owned enterprises, Telkom (K) and SAFARICOM, and entry of third mobile company.

38. Inflation is expected to ease in 2009 with forecast year average-year growth of about 13.2 percent, compared with the expected average of 26.2 percent in 2008. It is expected that the methodological issues in the consumer price index (CPI) will be addressed with publication of new CPI series in early 2009. Both the interest rates and the exchange rates are expected to remain stable in 2009, with the easing of factors that led to temporary volatility in 2008.

39. The risks to the outlook for 2009 include a further weakening of economic growth in advanced countries. This is expected to impact negatively on Kenya's export demand, lead to a decline in commodity prices and further slow down in receipts from tourism and remittances. The scale of the impact will depend on the extent of the success of the rescue packages adopted by the advanced countries. Nonetheless, the Government will monitor closely foreign trade credits, remittance, the current account, foreign exchange reserves and the exchange rate with a view to adopting appropriate measures to safeguard the macroeconomic stability. In particular, the Government will monitor the level of reserves to ensure that it remain consistent with the balance of payments path underlying the prudent macro-fiscal framework. Another emerging risk is the ongoing dry spell that has caused food shortages. If protracted, it is likely to adversely affect agricultural production and put upward pressure on inflation. The Government has already asked to international help to mitigate the adverse effect of the crisis. Finally, while international oil price may continue to ease with global economic slowdown, it is likely that pump fuel cost will stabilize at high levels, hence limiting domestic production. In this regard, the Government is monitor closely the developments in the pump prices with a view of adopting appropriate measures to ensure proper pricing of this commodity.

Medium-Term Outlook

40. Looking further ahead, economic growth is projected to improve in line with the pre-2008 trajectory. We expect a global economic recovery sooner than later with the ongoing actions to stabilise the financial markets and resuscitate growth in advanced countries. The growth in the agriculture sector is expected to increase with measures to increase productivity and increased investment in irrigation. Manufacturing will continue to benefit from increased integration and improved security in the sub-region, while growth in construction will be sustained by

increased infrastructure spending. Tourism is expected to fully recover in the years ahead with expected positive effects from the US President-elect Obama with Kenyan roots and as the negative impacts of the post-election and the global recession dissipates.

41. Increase in private sector investments will be supported by continuation of a conducive macroeconomic environment and deepening of structural reforms to further increase economic efficiency and effectiveness in public service delivery. In addition, the Government will continue to ensure prudent fiscal management, including re-orienting expenditures towards V-2030 MTP priority sectors. At the same time, the Central Bank of Kenya will continue to pursue a monetary policy framework targeted at low inflation at around the 5 percent, while ensuring continued stability in long-term interest rates as well as maintaining a flexible exchange rate system that facilitates the economy's competitiveness in line with export-led private sector growth strategy.

42. Notwithstanding the developments in the external environment, the Government remains committed to attaining the goals under the V-2030 MTP (Box 1). Kenya's economic foundation remains stable and supportive of accelerated growth rates in the medium term. Overall, continued deepening of structural reforms and diversification of exports is expected to maintain Kenya's export growth.

Box 1: Macroeconomic Targets under the V-30's MTP

Under the Vision 2030 MTP, real GDP growth is projected to rebound to 8.3 percent in 2009/10 and to rise steadily to 10 percent by 2012/13, as a result of various interventions including implementation of flagship projects under the economic and social pillars. Sustaining these higher growth rates would provide a strong basis for achieving the MDGs as well as laying the groundwork for achieving an equitable society.

To meet the growth target of 10 percent, the level of investments is projected to expand by over 10 percentage points of GDP to about 32.6 percent by 2012/13. Most of it will come from private investment including direct foreign investments with the Government playing a facilitative role. Public sector investment will be in the form of infrastructure developments (roads, transport, energy, ICT, science, technology and innovation and water and sanitation).

Key Macroeconomic Indicators Underpinning the V-30 MTP, 2008/09-2012/13					
	2008/09	2009/10	2010/11	2011/12	2012/13
<i>Projection</i>					
<i>(Annual percentage change)</i>					
National accounts and prices					
Real GDP	6.2	8.3	9.1	9.7	10.0
CPI (end of period)	7.5	5.0	5.0	5.0	5.0
<i>(In percent of GDP)</i>					
Investment and savings					
Investment	23.2	24.6	27.0	29.7	32.6
Gross national savings	16.2	18.5	21.4	24.4	27.7
Central government budget					
Total revenue	20.9	21.3	21.5	21.5	21.7
Total expenditure and net lending	26.2	25.7	25.8	27.0	27.3
Overall balance (incl. grants)	-3.9	-2.9	-2.7	-3.6	-3.6
Domestic debt, net (eop)	20.8	20.1	19.4	18.8	18.3
External sector					
Current account incl. off. transfers	-7.0	-6.1	-5.6	-5.3	-5.0
Reserves (months of import cover)	3.7	3.9	4.1	4.4	4.7

Fiscal Outlook

43. In view of the recent developments in the global arena, the medium-term fiscal framework will be guided by the need to be prudent. As growth accelerates, we will update the medium-term macro-economic framework accordingly.

44. After deceleration to 3.5 percent in 2007/08 following post election disruptions, we now expect real GDP growth to rebound modestly to 4.4 percent in 2008/09 compared with 5.8 percent assumed in the budget. For 2009/10 we expect real GDP growth to be 5.3 percent and thereafter to rise to 6.1 percent and 6.7 percent in 2010/11 and 2011/12, respectively (Table 2 and Annex 2). These forecast are slightly below the BSP 2008 projections and V-2030 MTP targets, in view of the likely second round impact of the global financial turbulence and the impending recession in advanced countries.

Table 2: Key Macroeconomic Indicators Underpinning the Medium-Term Fiscal Framework, 2007/08 – 2011/12						
	2007/08	2008/09		2009/10	2010/11	2011/12
	Prov.	Budget	Revised	<i>Medium term projections</i>		
<i>(Annual percentage change)</i>						
National accounts and prices						
Real GDP	3.5	5.8	4.4	5.3	6.1	6.7
CPI (end of period)	29.3	7.5	13.2	8.8	5.9	5.0
<i>(In percent of GDP)</i>						
Investment and savings						
Investment	16.5	22.3	20.8	22.0	22.7	23.3
Gross national savings	9.0	15.3	12.4	16.0	17.8	19.7
Central government budget						
Total revenue	22.0	21.4	22.0	21.5	21.5	21.6
Total expenditure and net lending	27.3	28.3	27.2	26.8	26.7	26.9
Overall balance (incl. grants)	-3.5	5.4	-3.7	-3.8	-3.5	-3.5
Domestic debt, net (eop)	17.2	16.8	16.9	15.2	14.9	14.6
External sector						
Current account incl. off. transfers	-7.4	-7.0	-8.4	-6.0	-4.8	-3.5
Reserves (months of import cover)	3.3	3.4	3.1	3.2	3.5	3.8

45. In addition to the above, the underlying assumptions for the medium-term fiscal framework will include the following:

- Revenue-to-GDP ratio will be kept at around 21-22 percent of GDP.
- Budgetary expenditures will be consistent with MTP priorities as outlined above, while ensuring continued shift away from recurrent to capital expenditures and safeguarding resources for operational and maintenance as the capital stock increases.
- The overall fiscal deficit will be consistent with achieving a sustainable overall public debt position and without crowding-out private sector credit.

- The Government will continue with the practice of excluding bilateral and multilateral budgetary support from the fiscal framework while continuing to include both project grants and loans, as we cautiously diversify our sources of funds by accessing international capital markets through issuance of sovereign bonds.
- The Government is committed to ensuring prudence in public expenditure management.

46. The above guiding framework, which provided the basis for macroeconomic stability -- steady economic recovery, low interest rates, stable exchange rate as well as reduction of public debt to GDP ratio -- over the ERS period, will be continued throughout the MTP period.

Structural Reforms

47. The 2009/10-2011/12 MTEF budget will continue to operate with other policies designed to improve competitiveness and promote private sector development and growth, in addition to increasing total factor productivity (TFP). These policies are elaborated in the MTP and include a continuation of reform measures introduced in the previous budgets.

48. Priority areas will include: deepening governance and anti-corruption reforms; accelerating reforms in public financial management under a coordinated strategy to revitalize Public Finance Management Reform (PFMR); enhancing effectiveness of the Public Procurement Oversight Authority (PPOA); implement reforms to enhance access, efficiency and stability in financial sector; enhancing effectiveness of the Privatization Commission to oversee implementation of privatization program; and undertaking additional measures in the private sector development strategy to improve the investment climate. In particular, the Government will complete the remaining licensing reforms including simplifying taxation for SMEs, gazettment of the new Companies Bill to streamline business registration, deepen institutional reforms in Kenya Revenue Authority and Kenya Investment Authority, as well as Port reforms to shorten the time for clearance of cargo, in addition to tackling insecurity and crime and power outages.

VI. 2009/10 BUDGET FRAMEWORK

49. The fiscal parameters for 2009/10 budget are set against the background of the prudent medium-term macroeconomic framework and the MTP objectives set out above. Real GDP is expected to increase by 5.3 percent in FY 2009/10 underpinned by a rebound across all sectors and normal weather pattern, while inflation is expected to ease to an average of about 10.9 percent.

Revenues

50. In line with forecast economic growth, revenues are targeted at about 21.5 percent of GDP. This performance will be underpinned by continued reforms in tax and customs administration as well as streamlining of the exemptions regime. No new taxes and no increases in existing taxes are proposed at this stage. In nominal terms, total revenues are projected to be KShs 577.3 billion.

Expenditure

51. As indicated earlier, the MTP priorities will guide the Government's funding allocation decisions in the next budget. In 2009/10, overall expenditures are projected at 26.8 percent of GDP (or KShs 721.6 billion), down from 27.2 percent (KShs 626.0 billion) in 2008/09. This is after removing one-off items including general elections and post-election interventions.

Recurrent Expenditure

52. Recurrent expenditures are expected to decline slightly from 19.5 percent of GDP in 2008/09 to 18.6 percent of GDP in 2009/10, on account of adjustment of one-off items and modest growth in nominal GDP.

- *Consolidated fund services:* Domestic interest payments are expected to remain more or less stable relative to GDP at 2.1 percent in 2009/10, with stable interest rates and in line with the continued shift to longer term debt that provides greater stability than short-term debt. Pension expenditures are assumed to increase by about 13-15 percent based on projections from the actuary report of 2004.
- *Personal emolument:* The wage bill is expected to remain at below 7 percent of GDP in 2009/10 after making the year-by-year incremental adjustment to salaries. The continuation of a policy of restraining growth in wage payments is expected to free resources for MTP priorities. In addition, the rationalization of teacher utilization in both primary and secondary schools with revisiting of the staffing norms to improve efficiency of education spending will potentially provide savings of about KShs 15 billion over the next three years.
- *Transfers:* With the ongoing reforms of Parastatals and semi-autonomous government agencies, it is expected that the transfers to these agencies will stabilize to provide fiscal space for expenditures on MTP priorities. As such, the nominal value of transfers to agencies for 2009/10 budget will be

maintained at 2008/9 level. Any wage adjustments from these agencies is expected be made within the ministerial ceilings.

- *Goods and services* expenditure ceilings for sectors/ministries are determined by the funding allocation for goods and services in the previous year budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in 2008/09 and then an adjustment factor is applied to take into account the general price increase. The overall ceiling for goods and services for sectors is capped at the residual level after providing for non-discretionary expenditures, personnel emolument (as indicated above) and development expenditures (below) from the overall resource envelope.

53. The major risk on the recurrent expenditure side is the outcome of the ongoing salary negotiations between the Government and the teachers' Union and its implication for the pay review for other civil service personnel. Should this happen, expenditure for service delivery (i.e. goods and services) would need to be cut or taxes raised in order for the Government to live within its means without causing distortions in the economy. At the same time, the Government will move quickly to revisit the staffing norms to improve efficiency of education spending to provide savings to accommodate the salary increment.

Development Expenditure

54. The budget for 2009/10 will be the second but first full year implementation of Vision 2030 MTP objectives. Most of these outlays are sourced from the development budget. The development budget is made up of direct government financing and foreign financing in the form of concessional loans and grants. The ceiling for development expenditures will be maintained at about 8 percent of GDP in 2009/10 (equivalent to KShs 219.1 billion), after adjusting for one-off items in 2008/09. The outlays are expected to support critical infrastructure that will crowd in private sector investment in the key projects identified under Vision 2030 MTP.

55. Domestically financed expenditure is expected to comprise about 60 percent of the overall development budget or KShs 134.3 billion. However, over 20 percent of this is already committed in the form of Constituency Development Fund (12 percent) and Counterpart Funding for donor projects (about 10 percent). The balance reflects the indicative ceilings provided to spending agencies in line with the MTEF prioritization of MTP projects.

56. Based on initial indications, project loans and grants not tied to conditionalities from development partners are expected to be about 3.1 percent of GDP. With improvement in procurement system, the absorption capacity of project funds is expected to increase significantly, resulting in a higher investment level in infrastructure activities including those toward Vision 2030 MTP projects.

57. A drought expenditure of KShs 1 billion and contingency provision of KShs 2.3 billion will be provided in the budget for 2009/10.

Overall Deficit and Financing

58. With expenditures exceeding revenues, the overall budget deficit (including grants) in 2009/10 is projected to be about KShs 102.2 billion (equivalent to 3.8 percent of GDP), down from KShs 126.9 billion (5.3 percent of GDP) in 2008/09. Net external financing amounting to KShs 15.4 billion (0.6 percent of GDP) is expected to cover part of this budget deficit, leaving about KShs 86.8 billion (3.2 percent of GDP) to be financed through domestic borrowing of about KShs 37.8 billion (or 1.4 percent of GDP), which include domestic infrastructure bonds of KShs 11.3 billion (or 0.4 percent of GDP). The balance of KShs 49.0 billion represents sovereign bond proceeds (KShs 39.0 billion) that will be earmarked for infrastructure projects and privatization proceeds (KShs 10 billion).

59. As was the case in 2008/09, the Government will continue with the maturity structure of government debt at a ratio about 70:30 in favour of long term maturities, while ensuring sustainable low interest rates. Prudent access to the international capital markets is also expected to ease domestic pressure on interest rates while setting a benchmark profile to the private sector to follow suit.

V. CONCLUSION

60. The set of policies outlined in this BOPA are consistent with the MTP objectives as a basis of allocation of public resources. These policies and the sector ceilings annexed herewith will guide the Sector Working Group (SWGs) and spending ministries in preparing the 2009/10 budget, in accordance with the circular issued in October 2008.

61. As budgetary resources are finite, it is critical that SWGs and Ministries prioritize their programmes within the available ceiling to ensure that the uses of public funds are in line with Government priorities. There is also need to ensure that current resources are being utilised efficiently and effectively before funding is considered for programmes. SWGs needs to carefully consider the detailed costing of projects, strategic significance, deliverables (outputs and outcomes), alternative interventions, and administration and implementation plans in allocating resources to V-30 MTP priorities.

Annex 1: Main macroeconomic indicators underpinning the Medium-Term Fiscal Framework , 2007/08-2011/12									
	Medium-Term								
	2007/08	2008/09		2009/10		2010/11		2011/12	
	Prov.	Budget	BOPA'09	BSP'08	BOPA'09	BSP'08	BOPA'09	BSP'08	BOPA'09
<i>Annual percentage change, unless otherwise indicated</i>									
National account and prices									
Real GDP	35	58	4.4	6.9	5.3	6.8	6.1	6.8	6.7
Real GDP per capita	0.6	2.9	1.4	4.0	2.4	3.9	3.1	4.0	3.8
GDP deflator	12.1	11.1	12.6	5.2	10.8	4.3	6.2	4.2	4.7
CPI Index (eop)	29.3	7.5	13.2	5.0	8.8	5.0	5.9	5.0	5.0
CPI Index (avg)	18.5	16.9	19.7	6.5	10.9	5.0	6.8	5.0	5.0
Terms of trade (-deterioration)	-5.7	-7.0	-2.2	-0.9	0.2	0.4	-1.1	0.2	-0.4
Money and credit (end of period)									
Net domestic assets	16.1	17.9	19.2	19.8	14.8	18.5	11.4	16.0	12.8
Net domestic credit to the Government	-15.1	14.8	13.6	12.1	8.2	10.8	11.0	11.5	10.9
Credit to the rest of the economy	28.2	16.3	17.1	16.7	16.4	16.2	15.5	16.2	15.2
Broad Money, M3 (percent change)	18.7	17.1	17.5	17.0	16.2	16.1	15.5	16.2	15.2
Reserve money (percent change)	18.2	16.2	15.7	16.5	15.6	16.1	15.5	16.2	15.2
<i>In percentage of GDP, unless otherwise indicated</i>									
Investment and saving									
Investment	16.5	22.3	20.8	23.8	22.0	24.8	22.7	23.5	23.3
Central Government	6.6	8.6	7.4	8.3	8.1	8.6	8.4	9.4	8.6
Other	9.9	13.7	13.3	15.6	14.0	16.2	14.2	14.2	14.6
Gross National Saving	9.0	15.3	12.4	17.5	16.0	18.9	17.8	18.0	19.7
Central Government	1.7	1.6	2.3	2.8	2.8	3.2	3.3	3.7	3.4
Other	7.4	13.7	10.0	14.6	13.2	15.7	14.5	14.2	16.3
Central government budget									
Total revenue	22.0	21.4	22.0	21.7	21.5	21.8	21.5	21.8	21.6
Total expenditure and net lending	27.3	28.3	27.2	27.2	26.8	27.3	26.7	27.6	26.9
<i>of which</i> : wages and salaries	7.4	6.8	7.0	6.6	6.5	6.4	6.5	6.4	6.4
Interest payments	2.4	2.4	2.5	2.3	2.3	2.4	2.4	2.4	2.3
Development expenditures	6.7	8.5	7.5	8.4	8.1	8.7	8.5	9.5	8.7
Overall balance (commitment basis) excl. grants	-5.2	-6.9	-5.2	-5.5	-5.4	-5.5	-5.2	-5.7	-5.3
Overall balance (commitment basis) incl. grants	-3.5	-5.4	-3.7	-3.9	-3.8	-3.6	-3.5	-3.6	-3.5
Net external borrowing	0.3	1.2	1.1	1.5	0.6	1.4	1.1	1.4	1.1
Infrastructure bonds	0.0	0.8	2.3	0.8	1.9	0.8	1.0	0.8	1.0
Net domestic borrowing	-0.7	1.5	2.4	1.1	1.4	0.9	1.8	1.0	1.8
Total external support (grant & loans)	2.4	3.6	3.5	3.8	3.1	4.0	3.7	4.3	3.8
Balance of payments									
Exports value, goods and services	25.0	23.1	25.2	23.7	24.9	24.2	25.7	24.8	26.3
Imports value, goods and services	38.9	36.0	40.0	35.7	36.9	35.6	36.1	35.8	35.2
Current external balance, including official transfers	-7.4	-7.0	-8.4	-6.3	-6.0	-5.9	-4.8	-5.6	-3.5
Current external balance, excluding official transfers	-7.5	-7.0	-8.4	-6.3	-6.0	-5.9	-4.8	-5.6	-3.5
Gross international reserve coverage in months of next year imports (end of period)	3.3	3.4	3.1	3.5	3.2	3.6	3.5	3.9	3.8
Public debt									
Nominal central government debt (end of period)	44.4	43.1	42.0	40.4	40.4	42.5	39.9	40.1	39.5
Domestic (gross)	21.9	21.0	21.1	20.6	19.5	20.2	19.1	20.0	18.9
Domestic (net)	17.2	16.8	16.9	16.4	15.2	16.0	14.9	15.7	14.6
External	22.4	22.0	20.9	19.8	21.0	22.3	20.8	20.1	20.6
Memorandum items:									
Nominal GDP (in Ksh billions)	1,962	2,393	2,304	2,690	2,690	2,993	3,029	3,332	3,384
Nominal GDP (in US\$ millions)	29,871	35,580	31,739	39,204	34,463	42,775	37,459	46,686	41,052
Per capita income (US\$)	791	916	817	981	863	1,041	912	1,105	972
Source: Ministry of Finance									
BOPA = Budget Outlook Paper									
BSP = Budget Strategy Paper									

Annex 2: Central Government Financial Operations, 2007/08 - 2011/12

(in billions of Kenya Shillings)

	2007/08		2008/09		Medium-Term				
	Rev. Bgt	Prov.	Budget	BOPA'09	2009/10		2010/11		2011/12
					BSP'08	BOPA'09	BSP'08	BOPA'09	BOPA'09
TOTAL REVENUE	434.5	432.2	512.7	506.9	583.7	577.3	651.9	652.6	731.9
Ordinary Revenue (excl. LATF)	389.0	396.5	467.9	465.5	533.9	529.2	596.5	598.1	670.7
Income tax	147.6	156.8	184.3	184.2	207.1	211.1	230.5	240.0	270.8
Import duty (net)	32.5	32.9	36.5	36.3	40.7	38.1	44.5	40.4	43.2
Excise duty	65.3	61.9	72.9	69.4	82.9	81.1	93.4	91.8	102.8
Value Added Tax	109.8	111.9	133.9	132.9	152.3	151.2	171.5	172.0	193.7
Investment income	2.7	3.1	5.7	7.7	6.4	6.9	7.1	7.8	8.7
Other	31.2	29.8	34.7	35.0	44.5	40.8	49.5	46.0	51.4
LATF	7.6	8.6	9.7	9.2	10.4	10.6	11.5	12.0	13.5
Ministerial and Departmental fees (AIA)	37.8	27.1	35.1	32.2	39.5	37.6	43.9	42.5	47.7
EXPENDITURE AND NET LENDING	598.5	534.8	673.0	626.0	731.9	721.6	816.8	809.2	910.3
Recurrent expenditure	429.6	403.4	471.7	449.8	503.6	499.2	551.8	547.6	611.4
Interest payments	49.3	47.9	56.7	57.3	62.9	62.9	72.2	74.2	78.1
Domestic interest	43.2	42.2	49.4	49.4	54.3	55.4	62.4	63.3	65.3
Foreign interest	6.1	5.7	7.2	7.9	8.7	7.5	9.8	10.9	12.8
Wages and benefits (civil service)	146.4	146.0	162.0	162.0	176.4	174.4	193.0	195.6	218.2
Civil service reform	0.8	0.8	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Pensions etc	24.3	24.1	27.1	27.1	30.3	31.2	33.4	35.8	41.2
Other	161.0	139.7	175.0	154.5	177.8	178.1	196.4	188.7	220.3
Defense and NSIS	47.6	44.9	50.8	48.8	52.3	52.5	52.9	53.0	53.3
Pending bills change	0.0	0.0	0.0	0.0	3.6	0.0	3.6	0.0	0.0
Development and Net lending	168.9	131.5	198.3	173.3	224.6	219.1	261.0	258.0	295.0
Domestically financed	93.5	86.2	114.9	89.9	113.4	134.3	131.6	144.1	164.3
Foreign financed	73.0	42.9	81.2	81.2	103.3	82.5	121.2	111.4	128.1
Net lending	2.4	2.3	2.1	2.1	2.7	2.3	3.0	2.5	2.6
Pending bills (change)	0.0	0.0	0.0	0.0	5.2	0.0	5.2	0.0	0.0
Drought Expenditures	0.0	0.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
MTEF Re-allocations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingencies	0.0	0.0	2.0	2.0	2.7	2.3	3.0	2.6	2.9
Balance (commitment basis excl. grants)	-164.0	-102.6	-160.2	-119.1	-148.2	-144.3	-164.9	-156.6	-178.4
Adjustment to cash basis	1.2	9.3	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
LATF account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	33.1	21.7	33.8	33.8	43.3	42.1	57.2	50.8	60.4
Of Which Debt for development	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Programme grants	3.8	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance (cash basis including grants)	-125.9	-67.8	-127.0	-85.3	-104.9	-102.2	-107.7	-105.8	-118.0
Statistical discrepancy	-0.1	-8.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCING	125.9	59.8	127.0	85.4	104.9	102.2	107.8	105.8	118.0
Net foreign financing	24.4	6.3	25.2	25.2	40.3	15.4	41.9	33.9	38.8
Project loans	39.9	21.2	47.4	47.4	60.1	40.4	64.1	60.6	67.7
Programme loans	1.3	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments due	16.8	16.5	16.6	16.6	19.7	25.0	22.2	26.7	28.9
Change in arrears	0.0	0.3	-6.1	-6.1	0.0	0.0	0.0	0.0	0.0
Rescheduling/Debt swap	0.0	0.0	0.5	0.5	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	76.4	76.3	8.0	0.0	0.0	10.0	0.0	2.0	2.0
Bank/TKL Restructuring costs	-1.1	-1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure arrears securitization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditure arrears securitization costs	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing bank restructuring cost	1.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	5.7	5.7	0.0	0.0	0.0	0.0	0.0
Restructuring Costs	-36.7	36.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Restructuring Financing	27.9	27.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Infrastructure bond: Commercial financing/Sovereign Bond	0.0	0.0	33.6	0.0	13.4	39.0	15.0	15.1	16.9
Net domestic borrowing	34.0	-13.9	54.4	54.4	51.1	37.8	26.9	54.7	60.3
Of which: Domestic Long-Term Bonds/Infrastructure bonds	0.0	0.0	18.5	18.5	21.5	11.3	23.9	16.4	18.1
Other	0.0	-13.9	35.9	35.9	29.6	26.4	3.0	38.3	42.2
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items									
Domestic Debt (gross)	448.7	430.6	503.2	485.6	554.3	523.4	605.2	578.1	638.4
Domestic Debt (net)	362.8	337.8	402.2	388.4	440.8	409.9	478.9	450.4	495.7
Infrastructure bonds	0.0	0.0	52.1	18.5	35.0	50.4	38.9	31.6	35.0
Nominal GDP	2,036.0	1,961.9	2,393.2	2,304.4	2,689.6	2,690.2	2,993.3	3,029.3	3,384.3
Source: Ministry of Finance									
Note									
BOPA = Budget Outlook Paper									
BSP = Budget Strategy Paper									

Annex 3: Central Government Financial Operations, 2007/08 - 2011/12
(in percent of GDP)

	2007/08		2008/09		Medium-Term				
	Rev. Bgt	Prov.	Budget	Rev. Budget	2009/10		2010/11		2011/12
					BSP'08	BOPA'09	BSP'08	BOPA'09	
TOTAL REVENUE	21.3%	22.0%	21.4%	22.0%	21.7%	21.5%	21.8%	21.5%	21.6%
Ordinary Revenue (excl. LATF)	19.1%	20.2%	19.6%	20.2%	19.9%	19.7%	19.9%	19.7%	19.8%
Income tax	7.2%	8.0%	7.7%	8.0%	7.7%	7.8%	7.7%	7.9%	8.0%
Import duty (net)	1.6%	1.7%	1.5%	1.6%	1.5%	1.4%	1.5%	1.3%	1.3%
Excise duty	3.2%	3.2%	3.0%	3.0%	3.1%	3.0%	3.1%	3.0%	3.0%
Value Added Tax	5.4%	5.7%	5.6%	5.8%	5.7%	5.6%	5.7%	5.7%	5.7%
Investment income	0.1%	0.2%	0.2%	0.3%	0.2%	0.3%	0.2%	0.3%	0.3%
Other	1.5%	1.5%	1.4%	1.5%	1.7%	1.5%	1.7%	1.5%	1.5%
LATF	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Ministerial and Departmental fees (AiA)	1.9%	1.4%	1.5%	1.4%	1.5%	1.4%	1.5%	1.4%	1.4%
EXPENDITURE AND NET LENDING	29.4%	27.3%	28.1%	27.2%	27.2%	26.8%	27.3%	26.7%	26.9%
Recurrent expenditure	21.1%	20.6%	19.7%	19.5%	18.7%	18.6%	18.4%	18.1%	18.1%
Interest payments	2.4%	2.4%	2.4%	2.5%	2.3%	2.3%	2.4%	2.4%	2.3%
Domestic interest	2.1%	2.2%	2.1%	2.1%	2.0%	2.1%	2.1%	2.1%	1.9%
Foreign interest	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%
Wages and benefits (civil service)	7.2%	7.4%	6.8%	7.0%	6.6%	6.5%	6.4%	6.5%	6.4%
Civil service reform	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pensions etc	1.2%	1.2%	1.1%	1.2%	1.1%	1.2%	1.1%	1.2%	1.2%
Other	7.9%	7.1%	7.3%	6.7%	6.6%	6.6%	6.6%	6.2%	6.5%
Defense and NSIS	2.3%	2.3%	2.1%	2.1%	1.9%	2.0%	1.8%	1.8%	1.6%
Pending bills change	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%
Development and Net lending	8.3%	6.7%	8.3%	7.5%	8.4%	8.1%	8.7%	8.5%	8.7%
Domestically financed	4.6%	4.4%	4.8%	3.9%	4.2%	5.0%	4.4%	4.8%	4.9%
Foreign financed	3.6%	2.2%	3.4%	3.5%	3.8%	3.1%	4.0%	3.7%	3.8%
Net lending	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Pending bills (change)	0.0%	0.0%	0.0%	0.0%	0.2%	0.0%	0.2%	0.0%	0.0%
Drought Expenditures	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
MTEF Re-allocations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Contingencies	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Balance (commitment basis excl. grants)	-8.1%	-5.2%	-6.7%	-5.2%	-5.5%	-5.4%	-5.5%	-5.2%	-5.3%
Adjustment to cash basis	0.1%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LATF account	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Project grants	1.6%	1.1%	1.4%	1.5%	1.6%	1.6%	1.9%	1.7%	1.8%
Of Which Debt for development	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Programme grants	0.2%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Balance (cash basis including grants)	-6.2%	-3.5%	-5.3%	-3.7%	-3.9%	-3.8%	-3.6%	-3.5%	-3.5%
Statistical discrepancy	0.0%	-0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FINANCING	6.2%	3.0%	5.3%	3.7%	3.9%	3.8%	3.6%	3.5%	3.5%
Net foreign financing	1.2%	0.3%	1.1%	1.1%	1.5%	0.6%	1.4%	1.1%	1.1%
Project loans	2.0%	1.1%	2.0%	2.1%	2.2%	1.5%	2.1%	2.0%	2.0%
Programme loans	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Repayments due	0.8%	0.8%	0.7%	0.7%	0.7%	0.9%	0.7%	0.9%	0.9%
Change in arrears	0.0%	0.0%	-0.3%	-0.3%	0.0%	0.0%	0.0%	0.0%	0.0%
Rescheduling/Debt swap	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Privatization proceeds	3.8%	3.9%	0.3%	0.0%	0.0%	0.4%	0.0%	0.1%	0.1%
Bank/TKL Restructuring costs	-0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expenditure arrears securitization	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Expenditure arrears securitization costs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financing bank restructuring cost	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other	0.0%	0.0%	0.2%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%
Restructuring Costs	-1.8%	1.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Restructuring Financing	1.4%	1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Infrastructure bond: Commercial financing/Sovereign Bond	0.0%	0.0%	1.4%	0.0%	0.5%	1.5%	0.5%	0.5%	0.5%
Net domestic borrowing	1.7%	-0.7%	2.3%	2.4%	1.9%	1.4%	0.9%	1.8%	1.8%
Of which: Domestic Long-Term Bonds/Infrastructure bonds	0.0%	0.0%	0.8%	0.8%	0.8%	0.4%	0.8%	0.5%	0.5%
Other	0.0%	-0.7%	1.5%	1.6%	1.1%	1.0%	0.1%	1.3%	1.2%
Financing gap	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Memo items	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Domestic Debt (gross)	22.0%	21.9%	21.0%	21.1%	20.6%	19.5%	20.2%	19.1%	18.9%
Domestic Debt (net)	17.8%	17.2%	16.8%	16.9%	16.4%	15.2%	16.0%	14.9%	14.6%
Infrastructure bonds	0.0%	0.0%	2.2%	0.8%	1.3%	1.9%	1.3%	1.0%	1.0%
Nominal GDP	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Source: Ministry of Finance									
Note									
BOPA = Budget Outlook Paper									
BSP = Budget Strategy Paper									

Annex 4: Recurrent Estimates Ceilings for the MTEF Period 2009/10 - 2011/12

NAME OF SECTOR		RECURRENT EXPENDITURE (Kshs. Million)					% SHARE OF TOTAL RECURRENT				
		2007/08 Approved Estimates	2008/09 Estimates	2009/10 Ceilings	Projections		2008/09 Estimates	2009/10 Ceilings	Projections		
					2010/11	2011/12			2010/11	2011/12	
S01 AGRICULTURE AND RURAL DEVELOPMENT	Gross	16,807	14,845	14,967	15,319	16,851	3.8%	3.8%	3.8%	3.8%	
	A-I-A	540	604	562	573	631	0.2%	0.1%	0.1%	0.1%	
	Net	16,267	14,241	14,404	14,745	16,220	3.7%	3.7%	3.6%	3.6%	
S02 TRADE, TOURISM AND INDUSTRY	Gross	4,371	5,133	5,156	5,105	5,616	1.3%	1.3%	1.3%	1.3%	
	A-I-A	436	418	448	457	503	0.1%	0.1%	0.1%	0.1%	
	Net	3,935	4,714	4,708	4,648	5,113	1.2%	1.2%	1.1%	1.1%	
S03 PHYSICAL INFRASTRUCTURE	Gross	41,507	37,897	42,589	43,440	47,784	9.7%	10.8%	10.7%	10.7%	
	A-I-A	35,365	31,445	36,082	36,804	40,484	8.1%	9.1%	9.1%	9.1%	
	Net	6,142	6,452	6,507	6,636	7,300	1.7%	1.6%	1.6%	1.6%	
S04 ENVIRONMENT, WATER AND SANITATION	Gross	5,081	5,677	5,437	5,636	6,200	1.5%	1.4%	1.4%	1.4%	
	A-I-A	1,127	1,276	1,269	1,385	1,523	0.3%	0.3%	0.3%	0.3%	
	Net	3,954	4,401	4,168	4,251	4,677	1.1%	1.1%	1.0%	1.0%	
S05 HUMAN RESOURCE DEVELOPMENT	Gross	120,351	132,467	137,092	141,961	156,157	34.0%	34.8%	35.0%	35.0%	
	A-I-A	250	268	266	274	302	0.1%	0.1%	0.1%	0.1%	
	Net	120,101	132,199	136,826	141,687	155,855	33.9%	34.7%	34.9%	34.9%	
S06 RESEARCH, INNOVATION AND TECHNOLOGY	Gross	22,610	26,163	27,011	27,515	30,267	6.7%	6.8%	6.8%	6.8%	
	A-I-A	132	134	136	139	153	0.0%	0.0%	0.0%	0.0%	
	Net	22,479	26,029	26,875	27,377	30,114	6.7%	6.8%	6.7%	6.7%	
S07 GOVERNANCE, JUSTICE, LAW & ORDER	Gross	62,870	68,205	70,393	72,828	80,111	17.5%	17.8%	17.9%	17.9%	
	A-I-A	3,847	4,014	3,952	4,031	4,434	1.0%	1.0%	1.0%	1.0%	
	Net	59,022	64,191	66,441	68,797	75,676	16.5%	16.8%	17.0%	17.0%	
S08 PUBLIC ADMINISTRATION	Gross	28,304	35,956	30,198	30,922	34,014	9.2%	7.7%	7.6%	7.6%	
	A-I-A	778	1,210	1,228	1,252	1,377	0.3%	0.3%	0.3%	0.3%	
	Net	27,526	34,746	28,970	29,669	32,636	8.9%	7.3%	7.3%	7.3%	
S09 SPECIAL PROGRAMMES	Gross	7,858	12,161	10,096	10,590	11,649	3.1%	2.6%	2.6%	2.6%	
	A-I-A	62	71	70	72	79	0.0%	0.0%	0.0%	0.0%	
	Net	7,796	12,090	10,026	10,518	11,570	3.1%	2.5%	2.6%	2.6%	
S10 NATIONAL SECURITY	Gross	47,643	51,204	51,484	52,514	57,765	13.1%	13.1%	12.9%	12.9%	
	A-I-A	423	423	423	423	465	0.1%	0.1%	0.1%	0.1%	
	Net	47,220	50,052	51,061	52,091	57,300	12.8%	12.9%	12.8%	12.8%	
TOTAL RECURRENT	Gross	357,403	389,708	394,423	405,830	446,413	100.0%	100.0%	100.0%	100.0%	
	A-I-A	42,962	39,862	44,436	45,410	49,951	10.2%	11.3%	11.2%	11.2%	
	Net	314,441	349,845	349,987	360,420	396,462	89.8%	88.7%	88.8%	88.8%	

Annex 5: Development Estimates Ceilings for the MTEF Period 2009/10 - 2011/12												
	NAME OF SECTOR		DEVELOPMENT EXPENDITURE (Kshs. Million)					% SHARE OF TOTAL DEVELOPMENT				
			2007/08 Revised	2008/09 Estimates	Ceiling		Projections		2008/09 Estimates	2009/10 Ceilings	Projections	
					2009/10	2010/11	2011/12	2010/11			2011/12	
S01	AGRICULTURE AND RURAL DEVELOPMENT	Gross	10,997	9,182	9,799	10,342	12,927	4.6%	4.9%	4.8%	5.2%	
		GOK	3,937	3,224	2,937	2,974	3,717	1.6%	1.5%	1.4%	1.5%	
		Loans	3,427	2,678	3,074	3,258	4,072	1.3%	1.5%	1.5%	1.6%	
		Grants	3,633	3,279	3,788	4,110	5,138	1.7%	1.9%	1.9%	2.1%	
S02	TRADE, TOURISM AND INDUSTRY	Gross	2,003	1,800	1,858	1,912	2,390	0.9%	0.9%	0.9%	1.0%	
		GOK	881	1,214	1,221	1,223	1,529	0.6%	0.6%	0.6%	0.6%	
		Loans	-	100	-	-	-	0.1%	0.0%	0.0%	0.0%	
		Grants	1,122	485	637	689	861	0.2%	0.3%	0.3%	0.3%	
S03	PHYSICAL INFRASTRUCTURE	Gross	67,151	88,328	88,838	96,792	116,150	44.5%	44.3%	45.1%	46.9%	
		GOK	35,041	52,855	49,821	53,877	64,652	26.6%	24.8%	25.1%	26.1%	
		Loans	23,775	25,853	28,438	31,282	37,538	13.0%	14.2%	14.6%	15.2%	
		Grants	4,562	6,356	6,987	7,682	9,218	3.2%	3.5%	3.6%	3.7%	
		Local A-I-A	3,774	3,265	3,591	3,951	4,741	1.6%	1.8%	1.8%	1.9%	
S04	ENVIRONMENT, WATER AND SANITATION	Gross	12,827	16,484	17,218	18,373	20,211	8.3%	8.6%	8.6%	8.2%	
		GOK	5,273	7,264	7,076	7,217	7,939	3.7%	3.5%	3.4%	3.2%	
		Loans	3,598	5,187	5,705	6,276	6,904	2.6%	2.8%	2.9%	2.8%	
		Grants	3,956	4,033	4,436	4,880	5,368	2.0%	2.2%	2.3%	2.2%	
S05	HUMAN RESOURCE DEVELOPMENT	Gross	20,263	20,362	21,990	23,756	26,132	10.3%	11.0%	11.1%	10.6%	
		GOK	3,771	5,279	5,554	5,682	6,251	2.7%	2.8%	2.6%	2.5%	
		Loans	2,445	3,023	3,325	3,657	4,023	1.5%	1.7%	1.7%	1.6%	
		Grants	14,048	11,910	13,111	14,417	15,858	6.0%	6.5%	6.7%	6.4%	
S06	RESEARCH, INNOVATION AND TECHNOLOGY	Gross	8,331	13,194	10,570	11,000	12,100	6.6%	5.3%	5.1%	4.9%	
		GOK	3,956	6,730	6,604	6,729	7,402	3.4%	3.3%	3.1%	3.0%	
		Loans	2,148	2,616	2,864	3,138	3,452	1.3%	1.4%	1.5%	1.4%	
		Grants	2,227	3,848	1,101	1,133	1,246	1.9%	0.5%	0.5%	0.5%	
S07	GOVERNANCE, JUSTICE, LAW & ORDER	Gross	7,037	8,509	9,639	9,849	10,833	4.3%	4.8%	4.6%	4.4%	
		GOK	5,952	7,337	8,591	8,763	9,639	3.7%	4.3%	4.1%	3.9%	
		Loans	15	10	15	15	17	0.0%	0.0%	0.0%	0.0%	
		Grants	1,070	1,163	1,033	1,070	1,177	0.6%	0.5%	0.5%	0.5%	
S08	PUBLIC ADMINISTRATION	Gross	66,404	27,484	25,698	27,108	29,819	13.8%	12.8%	12.6%	12.0%	
		GOK	61,045	21,006	20,106	21,482	23,630	10.6%	10.0%	10.0%	9.5%	
		Loans	2,120	1,879	2,120	2,120	2,332	0.9%	1.1%	1.0%	0.9%	
		Grants	3,239	3,413	3,472	3,506	3,857	1.7%	1.7%	1.6%	1.6%	
S09	SPECIAL PROGRAMMES	Gross	9,449	13,144	14,920	15,484	17,032	6.6%	7.4%	7.2%	6.9%	
		GOK	4,761	5,936	8,114	8,159	8,975	3.0%	4.0%	3.8%	3.6%	
		Loans	2,937	4,104	3,517	3,750	4,125	2.1%	1.8%	1.7%	1.7%	
		Grants	1,497	2,849	3,033	3,319	3,651	1.4%	1.5%	1.5%	1.5%	
	TOTAL DEVELOPMENT	Gross	204,462	198,486	200,528	214,615	247,594	100.0%	100.0%	100.0%	100.0%	
		GOK	124,615	110,845	110,025	116,106	133,734	55.8%	54.9%	54.1%	54.0%	
		Loans	40,465	45,449	49,059	53,497	62,463	22.9%	24.5%	24.9%	25.2%	
		Grants	35,354	37,337	37,598	40,807	46,375	18.8%	18.7%	19.0%	18.7%	
		Local A-I-A	4,029	4,622	3,846	4,206	5,021	2.3%	1.9%	2.0%	2.0%	

Annex 6: Total Expenditure Estimates Ceilings for the MTEF Period 2009/10 - 2011/12

	SECTOR NAME		TOTAL EXPENDITURE (KSh. Million)					% SHARE OF TOTAL EXPENDITURE			
			2007/08	2008/09	Ceiling	Projections		2008/09	2009/10	Projections	
			Rev.	Est.	2009/10	2010/11	2011/12	Est.	Ceilings	2010/11	2011/12
S01	AGRICULTURE AND RURAL DEVELOPMENT	Gross	27,804	24,027	24,766	25,660	29,778	4.1%	4.2%	4.1%	4.3%
S02	TRADE, TOURISM AND INDUSTRY	Gross	6,374	6,932	7,014	7,017	8,006	1.2%	1.2%	1.1%	1.2%
S03	PHYSICAL INFRASTRUCTURE	Gross	108,658	126,226	131,427	140,232	163,934	21.5%	22.1%	22.6%	23.6%
S04	ENVIRONMENT, WATER AND SANITATION	Gross	17,908	22,161	22,654	24,010	26,411	3.8%	3.8%	3.9%	3.8%
S05	HUMAN RESOURCE DEVELOPMENT	Gross	140,614	152,828	159,082	165,717	182,289	26.0%	26.7%	26.7%	26.3%
S06	RESEARCH, INNOVATION AND TECHNOLOGY	Gross	30,941	39,357	37,581	38,515	42,367	6.7%	6.3%	6.2%	6.1%
S07	GOVERNANCE, JUSTICE, LAW & ORDER	Gross	69,907	76,714	80,032	82,676	90,944	13.0%	13.5%	13.3%	13.1%
S08	PUBLIC ADMINISTRATION	Gross	94,708	63,439	55,896	58,030	63,833	10.8%	9.4%	9.4%	9.2%
S09	SPECIAL PROGRAMMES	Gross	17,307	25,305	25,016	26,073	28,681	4.3%	4.2%	4.2%	4.1%
S10	NATIONAL SECURITY	Gross	47,643	51,204	51,484	52,514	57,765	8.7%	8.7%	8.5%	8.3%
	TOTAL		561,865	588,194	594,952	620,445	694,007	100.0%	100.0%	100.0%	100.0%

ANNEX TABLE 6: 2009/10 – 2011/12 MTEF BUDGET PREPARATION SCHEDULE

ACTIVITY	RESPONSIBILITY	DEADLINE
Update Ministerial Strategic Plans	MPND/Ministries/Departments	July - August 2008
Develop MTEF Guidelines	Treasury/MPND	August 2008
Issue MTEF Guidelines	Treasury	September 2008
Launch of Sector Working Groups	Treasury	October 2008
Launch and disseminate indicative Programme Based Budgets	Treasury	October 2008
Capacity building for MTEF Budget Preparation	Treasury/MPND	October 2008
Undertake and submit Ministerial Public Expenditure Reviews	Ministries/Departments	October 2008
Develop Budget Outlook Paper (BOPA)	Macro Working Group	October 2008
Stakeholders Consultation on BOPA	Treasury	November 2008
Finalize BOPA and present to Cabinet	Treasury/Macro Working Group	November 2008
Departments in Districts to submit their inputs to relevant Ministry Headquarters	Departments in Districts	November 2008
Circulate approved BOPA to Accounting Officers	Treasury	November 2008
Issue Circular on revised budget	Treasury/	First week of December 2008
Submission of Sector reports to Treasury	Sector Chairperson	By 31 st December 2008
Submission of Supplementary Budget Proposals	Line Ministries	20 th January 2009
Review of Supplementary Budget Proposals	Treasury	31 st January 2009
Submit Supplementary Budget Proposals to Cabinet	Treasury	1 st week of February 2009
Hold Sector Hearings	Treasury/MPND	By 15 th February 2009
Submit Final Sector Reports	Sector Working Groups	By 20 th February 2009
Submit Supplementary Budget Proposals to Parliament	Treasury	By 28 th February 2009
Publish Final Sector Reports	Treasury	By 28 th February 2009
Prepare the Budget Strategy Paper (BSP)	Macro Working Group	By 28 th February 2009
Stakeholder Consultations on BSP	Treasury	By 1 st March 2009
Submit BSP to Cabinet for approval	Treasury	By 5 th March 2009
Submit BSP to Parliament	Treasury	20 th March 2009
Prepare and Submit Programme Based Budgets to Parliament	Ministries/Departments	20 th March 2009
Receive feedback on PBB from Parliament	Parliament	15 th April 2009
Review and Finalize Ministerial itemized and PBB	Ministries	30 th April 2009
Review and Finalize Ministerial itemized and PBB	Treasury	15 th May 2009
Submission of Budget Estimates to Cabinet for Approval	Minister for Finance	20 th May 2009
Publish Ministerial itemized and Programme Based Budgets	Ministries/Departments	End of May 2009
Presentation of Budget to Parliament	Minister for Finance	Mid June 2009