Supplementary Budget FY’2022/23 Note

On 31st January 2023, the National Treasury presented the Supplementary Budget for the Fiscal Year 2022/23 to the National Assembly. Notably, this will be the first supplementary budget under the new administration, and the Treasury is seeking to increase slightly the gross total budget by 0.4% to Kshs 3,373.3 bn from the previous estimates of Kshs 3,358.6 bn. The table below summarizes the overall change in the FY’2022/23 budget estimates;

Cytonn Report: FY’2022/23 Supplementary Budget Estimates (Kshs bn)			
Item	**Original Approved Estimates FY’2022/23**	**Supplementary Estimates FY’2022/23**	**% Change**
Recurrent Expenditure	1,403.9	1,496.9	6.6%
Development Expenditure	715.4	609.1	(14.9%)
Ministerial National Government Expenditure	**2,119.3**	**2,105.9**	**(0.6%)**
Consolidated Fund Services	869.3	867.8	(0.2%)
County Equitable Allocation	370.0	399.6	8.0%
Total Expenditure	**3,358.6**	**3,373.3**	**0.4%**

Source: The National Treasury

Key take outs from the table include;

i. The recurrent expenditure (Costs incurred to cover regular government expenses such as salaries, operational costs and maintenance costs) increased by 6.6% to Kshs 1,496.9 bn in the Supplementary estimates from Kshs 1,403.9 bn in the original estimates, against the current administration’s commitment to cut on recurrent spending,

ii. Development expenditure (Costs incurred in order to create assets that will provide long term public infrastructure such as roads, hospitals, and schools) declined by 14.9% to Kshs 609.1 bn in the supplementary estimates from Kshs 715.4 bn in the original estimates, a detriment to the sectors such as infrastructure, energy, water and health that require heavy development financing,

iii. As such, the Ministerial National Government expenditure estimates for the FY’2022/23 Supplementary budget is set to slightly decline by 0.6% to Kshs 2,105.9 bn from Kshs 2,119.3 bn in the original estimates, saving the government only Kshs 13.3 bn, against a projected cut of Kshs 300.0 bn attributable to austerity measures such as cutting spending on foreign travel, training, purchases of furniture and motor vehicles as well as other non-essential spending under all Ministries, Departments and Agencies (MDAs) by the government to contain expenditures to remain within sustainable fiscal path signalling future fiscal consolidation,

iv. Consolidated Fund Services (CFS) (refers to the Consolidated Fund established in the Kenya’s constitution into which development partners deposit funds before disbursing to the Exchequer accounts for projects such as servicing of public debt, and subscription to International Organizations) has seen a slight decline of 0.2% to Kshs 867.8 bn from Kshs 869.3 bn in the original estimates. This is attributable to a 7.2% decline in external debt redemptions to Kshs 223.8 bn from Kshs 241.0 bn in the previously approved estimates with notable decline in the external debt redemptions owed to Italy by 54.5% to Kshs 9.1 bn from Kshs 14.0 bn, and Exim Bank of China by 10.2% to Kshs 72.5 bn from Kshs 80.7 bn. However, allocation for guaranteed debt servicing was revised up by a significant 548.1% to Kshs 14.7 bn from Kshs 2.2 bn in the original estimates, as expected, due to the elevated levels of public debt, which came in at Kshs 9,146.0 bn as at December 2022. This is also in line with the increased foreign financing, which was revised up to 2.7% of GDP from the original estimates of 2.0% of GDP for the FY’2022/23, and,

v. The County Equitable Share (allocation on national government revenue to county governments) increased by 8.0% to Kshs 399.6 bn from the original estimates of Kshs 370.0 bn, representing 11.8% of the total supplementary budget allocation to counties, amid calls from the county governments to increase allocation to Kshs 425.0 bn or at least 15.0% of the total revenue collected by the national government.

Additionally, the table below shows the allocation of the supplementary budget to key state departments and ministries;

Cytonn Report: Supplementary Gross Budget FY'2022/23 (Kshs bn)				
	Approved Original Estimates (Kshs bn)	Supplementary Budget Estimates (Kshs bn)	Change (Kshs bn)	% Change
Ministry of Energy	95.7	54.0	(41.7)	**(43.6%)**
State Department for Housing and Urban Development	20.4	12.4	(7.9)	**(39.0%)**
Ministry of Water & Sanitation and Irrigation	83.9	59.7	(24.2)	**(28.9%)**
State Department for Infrastructure	221.3	174.0	(47.3)	**(21.4%)**
Ministry of Health	122.5	113.5	(9.0)	**(7.4%)**
Other Ministries and State Departments	1,509.3	1,559.4	50.1	**3.3%**
State Department for Crop Development &Agricultural Research	41.5	66.6	25.1	**60.5%**
Ministry of Petroleum and Mining	24.7	66.4	41.7	**169.3%**
State Department for Cooperatives	2.3	22.0	19.7	**871.3%**
Total	**2,119.3**	**2,105.9**	**(13.3)**	**(0.6%)**

Source: The National Treasury

Key take outs from the table include:

i. The Ministry of Energy suffered the highest notable decline of allocation of 43.6%, to Kshs 54.0 bn from Kshs 95.7 bn in the approved original estimates. This is attributable to a 45.2% reduction in the allocation to power transmission and distribution to Kshs 39.6 bn from Kshs 72.2 bn in the approved original estimates, due to reduction on account of budget rationalization, amid proposed reforms to increase tariffs on electricity,

ii. The State Department for Cooperatives had the highest budget allocation increase by 871.3% to Kshs 22.0 bn from Kshs 2.3 bn in the original estimates, with an additional allocation to Kshs 12.2 bn for the provision of the Financial Inclusion Fund (The Hustler's Fund) in order to increase credit access to Kenyans,

iii. The State Department for Housing and Urban Development has seen its budget brought down by 39.0% to Kshs 12.4 bn from the original approved estimates of Kshs 20.4 bn, attributable to a 41.3% reduction to the allocation to the programme of Housing Development and Human Settlement to Kshs 8.4 bn from Kshs 14.4 bn due to budget rationalization. We expect this to undermine the ongoing efforts to facilitate the development of decent, safe and affordable housing under the Affordable Housing Programme,

iv. The State Department for Crop Development & Agricultural Research has seen its budget increased by 60.5% to Kshs 66.5 bn from Kshs 41.5 bn due to increase in allocation for crop development and management by 88.3% to Kshs 46.6 bn from Kshs 24.7 bn to cater for the ongoing fertilizer subsidy programme for the short and long rains. Additionally, the allocation for agricultural research and development was increased by 53.8% to Kshs 9.7 bn from Kshs 6.3 bn in the original estimates, to cater for provision of funding to settle the already terminated maize flour subsidy initiated by the previous administration, and,

v. The Ministry of Petroleum and Mining had its budget increased by 169.3% to Kshs 66.4 bn from Kshs 24.7 bn, due to the increase in the allocation for the programme of General Administration Planning & Support Services by 203.7% to Kshs 63.6 bn from Kshs 20.9 bn in the approved original estimates, in order to cater for the provision for fuel subsidy, despite the calls to the Administration completely do away with the programme since it has been a burden to the country's expenditure.

The approval of the FY'2022/23 Supplementary Budget projects to the overall fiscal deficit level including grants to 5.7% of GDP from the original projections of 6.2% of GDP, as well as reflect more austerity measures by the current administration to contain fiscal spending. Key to note, reducing the fiscal deficit as a percentage of GDP needs the government to meet the revenue collection targets as well as ensuring expenditure falls within the projected range. However, the government was not able to meet the revenue collection for the first half of FY'2022/23, with the period between July 2022 and December 2022, collecting Kshs 1,106.4 bn against a target of Kshs 1,158.2 bn, translating to a shortfall of Kshs 51.8 bn. As such, we expect the government to ramp up its revenue collection initiatives in the remaining 6 months for the current fiscal year to meet its original estimates target of Kshs 2.1 tn. Moreover, the budget allocation in the Supplementary Budget is aimed at addressing emerging priorities and emergencies such as the persistent drought that has necessitated relief food as well and fertilizer subsidies in a bid to reduce the cost of agricultural production. As such, we expect the proposed marginal budget cuts to only moderately support the government's plan to ease the elevated debt levels. However, the continuation of consumption subsidies such as for fuel calls into question the earlier announced efforts by the Administration to do away with subsidies and ease pressure on the country's expenditure.