FY'2020/21 Proposed Supplementary Budget I Note

On 9th February, the National Treasury presented the [Supplementary Budget for the fiscal year 2020/21] to the National Assembly, revealing plans to increase the gross total supplementary budget by Kshs 120.8 bn to Kshs 3,036.5 bn, from Kshs 2,915.7 bn in the June budget. The supplementary budget estimate was presented to parliament for debate and approval on a later date, on the back of a challenging first half of the fiscal year 2020/21, with the challenges including the adverse effects of the COVID-19 pandemic on the economy such as the 5.5% contraction of the GDP in Q2'2020 and the subsequent 1.1% contraction in Q3'2020, which led to the underperformance of projected revenue in H1'2020/21. The 4.1% increase in the proposed supplementary expenditure is mainly attributed to COVID-19 related expenditure and efforts by the government to spur economic activity.

In this note, we highlight the key aspects of the allocation of the proposed Supplementary Budget 2020/21 and the likely effects they will have on the economy. The table below illustrates the allocation of the Supplementary Budget 2020/21, showing the components of the estimated expenditure:

Supplementary Gross Budget 2020/2021 (Kshs billions)				
	Approved Estimates	Supplementary I Estimates	Change	% Change
State Department of Basic Education	100.8	99.5	(1.3)	(1.3%)
State Department of Vocational & Technical Training	24.9	24.6	(0.3)	(1.2%)
Ministry of Health	111.7	111.5	(0.2)	(0.2%)
State Department of Infrastructure	189.5	190.3	0.8	0.4%
State Department of Interior	132.1	133.2	1.1	0.8%
State Department of Water Services	77.2	82.0	4.8	6.2%
Other Ministries & State Departments	-0,686.9	-0,698.0	(11.1)	1.6%
State Department of ICT	20.0	21.7	1.7	8.5%
Ministry of Energy	72.5	84.8	12.3	17.0%
State Department of Agricultural Research	41.8	49.6	7.8	18.7%
Total Expenditure	**1,887.70**	**1,962.80**	**75.1**	**4.0%**
Consolidated Fund Services	1,028.0	1,073.7	45.7	**4.4%**
Grand Total Supplementary Budget	**2,915.70**	**3,036.50**	**120.8**	**4.1%**

Key highlights in the supplementary budget include;

1. The State Department for Early Learning and Basic Education has seen its budgetary allocation decline by Kshs 1.3 bn to Kshs 99.5 bn from the earlier revised allocation of Kshs 100.8 bn. The 1.3% decline was on account of a 27.9% decrease in the allocation for Quality Assurance and Standards to Kshs 3.1 bn from the previously approved estimate of Kshs 4.3 bn, attributable to a 78.6% decrease in allocation for Curriculum Development to Kshs 0.3 bn from the earlier approved estimate of Kshs 1.4 bn,
2. The Ministry of Health has seen its budgetary allocation decline by Kshs 0.2 bn to Kshs 111.5 bn from the earlier approved estimate of Kshs 111.7 bn. The 0.2% decline was on account of a 30.1% decrease in allocation for Health Policy, Standards and Regulations to Kshs 27.4 bn from the previously approved

estimate of Kshs 39.2 bn. This was due to the Health Policy, Planning and Financing department's allocation declining by 43.9% to Kshs 12.9 bn from the earlier approved estimate of Kshs 23.0 bn. Health Research and Development has also seen its allocation decline by 6.1% to Kshs 9.3 bn from the earlier approved estimate of Kshs 9.9 bn, on account of the Research and Innovation on Health department having seen its allocation decrease by 14.8% to Kshs 2.3 bn from the earlier approved estimate of Kshs 2.7 bn,

3. The State Department of ICT's budget has increased by Kshs 1.7 bn to Kshs 21.7 bn, from Kshs 20.0 bn on account of a shortfall in personal emolument, ICT shared services, budget provision for the newly created office of Data Protection Commissioner and increased donor commitments. The creation of the Data Protection Commissioner office is partly attributable to the 29.5% increase in general administration planning and support services for the docket to Kshs 299.1 mn from Kshs 230.9 mn. The E-Government services docket also received a 4.2% increase to Kshs 2.5 bn from Kshs 2.4 bn on account of increased use of online services during the pandemic,
4. The Ministry of Energy's docket has seen its budget record the highest rise, increasing by Kshs 12.3 bn to Kshs 84.8 bn from the approved estimate of Kshs 72.5 bn on account of increased donor commitments and additional funding for flagship transmission lines. This is in line with the government's last-mile connectivity initiative which aims to provide electric connectivity to individuals in marginalized areas. It is key to note that he 17.0% increased allocation for the Ministry of Energy means that special approval will be needed for the expenditure adjustment in the docket since it is beyond the 10.0% threshold in accordance with the Public Finance Management Regulations. Allocation to power generation and power transmission and distribution are the notable gainers, increasing by 43.3% and 15.8% respectively to improve availability and access to electricity,
5. In a bid to enhance food security, the State Department for Crop Development and Agricultural Research has seen its allocation increased by Kshs 7.8 bn to Kshs 49.6 bn from the approved estimate of Kshs 41.8 bn. The 18.7% increase, which is the highest percentage increase, is on account of the a 29.4% increase in allocation to Crop Development and Management, coupled with settlement of pending bills under the Maize Subsidy Programme, implementation of Emergency Locust Response Project, Pyrethrum Industry Recovery, Miraa Industry Revitalization Project and Embryo Transfer Project, which are aimed at increasing agricultural output and creating employment. The 18.7% increase in the agricultural docket will also need special approval since it exceeds the 10.0% threshold in accordance with the Public Finance Management Regulations, and,
6. Consolidated fund services have seen a 4.4% increase to Kshs 1,037.7 bn from the earlier approved estimate of Kshs 1,028.0 bn. Interest and redemptions increased by Kshs 53.7 bn to Kshs 958.4 bn from the previously approved estimate of Kshs 904.7 bn while pensions have seen a Kshs 8.1 bn decline to Kshs 111.1 bn from the earlier approved estimate of Kshs 119.2 bn. External interest payments declined by Kshs 31.6 bn to Kshs 340.0 bn from the earlier approved estimate of Kshs 308.4 bn, attributable to suspended interest payments for bilateral debt lenders from the Paris Club, which was partly attributable to the 1.0% decline in total interest payments to Kshs 458.7 bn from the earlier approved estimate of Kshs 463.1 bn. Total interest and redemption, however, recorded a 5.9% increase to Kshs 958.4 bn from an the earlier approved estimate of Kshs 904.7 bn. Key to note, interest on external debt declined by 23.3% to Kshs 118.7 bn from Kshs 154.7 bn, with a notable decline of 28.4% in interest payments owed to Exim Bank of China to Kshs 21.4 bn from the earlier approved estimate of Kshs 29.9 bn.

The approval of the 2020/21 supplementary budget will increase the fiscal deficit to an estimated 8.9% of GDP from the earlier estimated deficit of 7.5% of GDP for FY'2020/21, which is in line with our projection of the fiscal deficit widening in FY'2020/21 in our previous Supplementary Budget II Note. Total revenues declined to

16.7% of GDP from the original projection of 16.8% while overall expenditure and net lending have been revised to 25.8% of GDP from the earlier projected 24.6% of GDP. The improved revenue collection which saw the Kenya Revenue Authority (KRA) record an improved performance rate of 102.6% to surpass its January revenue collection target by Kshs 3.5 bn provides hope that revenue collection could recover during the calendar year 2021. Moving forward, the government should take measures such as freezing nominal expenditure growth, rationalization of expenditure for State Corporations and suspend launching of new projects so as to consolidate its financial position. With four months remaining before the debt suspension initiative expires, we believe that the government should exercise fiscal discipline or risk further distress in the near future due to increasing debt service obligations and a further widening of the fiscal deficit.