2019/20 Kenya Supplementary Budget II Note

On 22nd April, the National Assembly approved the supplementary budget for the fiscal year 2019/20, paving the way to a Kshs 9.7 bn decline in the gross total supplementary budget to Kshs 2,803.1 bn, from Kshs 2,812.8 bn previously. The supplementary budget was necessitated by the Coronavirus pandemic that has dampened economic activities leading to significant revenue underperformance. As the business environment becomes more challenging, we expect a dip in tax revenues, despite the Kenyan Government being in dire need of raising finances to offer the requisite financial stimulus. The National Assembly will meet on 29th April 2020 to conclude the approval process of the Supplementary Appropriation Bill that will provide a legal framework for the supplementary estimates.

In this note, we highlight the key aspects of the allocation of the Supplementary Budget 2019/20 and the likely effects they will have on the economy. The table below illustrates the allocation of the Supplementary Budget 2019/20, showing the components of the estimated expenditure:

Supplementary Gross Budget 2019/2020 (Kshs billions)				
	Approved Estimates (Supplementary Budget I)	Supplementary II Estimates	Change	% Change
State Department of ICT	29.1	21.3	(7.8)	(26.8%)
Ministry of Energy	84.0	62.5	(21.5)	(25.6%)
State Department of Vocational & Technical Training	26.9	23.8	(3.1)	(11.5%)
State Department of Water Services	67.2	59.8	(7.4)	(11.0%)
Ministry of Health	115.6	103.4	(12.2)	(10.6%)
State Department of Interior	140.6	133.6	(7.0)	(5.0%)
State Department of Agricultural Research	6.3	6.0	(0.3)	(4.8%)
Other Ministries & State Departments	1,245.3	1,190.1	(55.2)	(4.4%)
State Department of Basic Education	98.2	94.3	(3.9)	(4.0%)
State Department of Infrastructure	193.8	237.9	44.1	22.8%
State Department of Crop Development	22.5	35.3	12.8	56.9%
Total Expenditure	**2,007.0**	**1,932.6**	**(74.4)**	**(3.7%)**
Consolidated Fund Services	805.8	870.5	64.7	**8.0%**
Grand Total Supplementary Budget	**2,812.8**	**2,803.1**	**(9.7)**	**(0.3%)**

Key highlights in the supplementary budget include;

1. A 10.6% decrease in the supplementary budget allocation for the Ministry of Health to Kshs 103.4 bn from Kshs 115.6 bn. The decline in expenditure is mainly attributable to the rationalization of the allocation to the Preventive, Promotive and Reproductive Maternal Neo-natal Child & Adolescent Health (RMNCAH) declining sharply by 48.8% to Kshs 6.3 bn from Kshs 12.3 bn. Key to note however, to address the COVID-19 impact on the economy, the Ministry of Health has been allocated an extra Kshs 3.9 bn which will be utilized as follows (i) Kshs 1.0 bn for the recruitment of health workers, (ii) Kshs 300.0 mn for operations, and (iii) Kshs 2.6 bn to fund the development project, Kenya COVID-19 Emergency Response Project,

2. The infrastructure docket has seen its budget enhanced by Kshs 44.1 bn to Kshs 237.9 bn from the earlier approved Kshs 193.8 bn. According to the budget books as published by the National Treasury, the increase is mainly attributable to payment of outstanding pending bills which is in line with the Government's plan of paying pending bills to suppliers and quickly process tax refunds for firms to support the economy in the face of the coronavirus crisis,
3. The State Department for Crop Development has seen its budget increased by Kshs 12.8 bn to Kshs 35.3 bn from the approved estimates of Kshs 22.5 bn in order to cater for the food insecurity brought about by the locust invasion and the COVID-19 pandemic. The funds will be used to facilitate the acquisition of strategic food reserves to cater for the locust invasion,
4. The highest notable decline in expenditure was on the State Department of ICT, which saw a 26.8% decline in expenditure to Kshs 21.3 bn from Kshs 29.1 bn in the previously approved estimates, attributable to budget rationalization as per the budget books, which saw the major decline being recorded in ICT Infrastructure Development by Kshs 5.3 bn to Kshs 16.4 bn from the earlier approved estimate of Kshs 21.7 bn, and,
5. Consolidated Fund Services has seen an 8.0% increase in the estimates to Kshs 870.5 bn from the initial Kshs 805.8 bn. This increase is attributable to the projected 11.8% rise in debt servicing expenses to Kshs 778.8 bn from Kshs 696.6 bn. Notably, however, external debt redemptions have declined by 7.5% to Kshs 121.5 bn from Kshs 131.4 bn in the previously approved estimate, with a notable decline being in the loan interests owed to Exim Bank of China by Kshs 10.5 bn to Kshs 23.0 bn from Kshs 33.6 bn. Interest on loans incurred in the 2019/20 fiscal year have been lowered by 40.0 bn to Kshs 441.0 mn from Kshs 40.4 bn. The government plans to settle interest payments worth Kshs 10.1 bn and 7.7 bn for the 2019 Eurobond thereby offsetting these interest savings.

The approval of the 2019/20 supplementary budget will increase the fiscal deficit to an estimate of 7.8% of GDP from the earlier estimated deficit of 6.3% of GDP for FY 2019/20. With less than two months to go before the end of the current fiscal year, we believe the government's fiscal consolidation plan will remain elusive. Given the current market conditions, we expect a dip in tax revenues. This might require the government to plug in the deficit using debt which might be hard and expensive in the current market conditions. In terms of domestic debt, the government raised its borrowing target to Kshs 404.4 bn from Kshs 300.3 bn which we think it cannot meet given the current market conditions and with the government currently having a net domestic borrowing of Kshs 266.5 bn, with only 2 months remaining to the end of the FY'2019/20. Given the current uncertainty in the Global Financial markets, the government may also find it hard to access foreign debt with investors attaching a high-risk premium on the country, as evidenced by the rising Eurobond yields, due to the economic risks abound from the effects of the COVID-19 pandemic and the locust invasion.