REPUBLIC OF KENYA

Office of the Deputy Prime Minister and Ministry of Finance

BUDGET OUTLOOK PAPER

2011/12 – 2013/14

November 2010

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Annex

Abbreviations and Acronyms

ASALs	Arid and Semi Arid Lands
BOPA	Budget Outlook Paper
BPS	Budget Policy Statement
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
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
NFA	Net Foreign Assets
NDA	Net Domestic Assets
PERs	Public Expenditure Review
PPP	Public Private Partnership
SWGs	Sector Working Groups
VAT	Value Added Tax
VER	Voluntary Early Retirement
V 2030	Vision 2030

I. INTRODUCTION

1. This is the seventh budget outlook paper (BOPA2011) since its first production in 2004. It sets out the background and broad fiscal parameters for the 2011/12 budget and the medium-term, consistent with Government strategies and policies. The BOPA2011 is prepared taking into account resources required for the implementation of a new Constitution, which, among other things, provides for fiscal decentralization of resources to the forty seven (47) counties and reforms to several institutions. The ensuing MTEF resource allocation therefore will be critical in laying the foundation and setting the stage for full operationalization of the new Constitution.

2. The link between policy, planning and budgeting will become even more important under the new constitution. As such, BOPAs will continue to play a critical role in the preparation of budgets and management of public resources in a devolved system. The 2009 Public Expenditure Review (PER) and the first annual review of the Medium-Term Plan (MTP) of Vision 2030 noted the substantial progress made in the allocation of more resources to the priority areas, consistent with the national strategic objectives. In addition, the PER and MTP annual review noted important progress made towards implementation of the macro framework set out in the MTP, albeit with challenges associated with the 2008-09 shocks.

3. The macro framework was adjusted accordingly to reflect these challenges in the context of the annual BOPAs, Budget Policy Statement (BPS) and Medium-Term Budget Strategy Paper (BSP). This reflects policy consistency and continued adherence to the government development strategy even during crisis time. To strengthen the budget preparation process, the government will continue to embrace performance budgeting and deepen public financial reforms to increase efficiency and effectiveness in service delivery and value for money.

4. As before, the BOPA2011 provides indicative sector ceilings only. This will provide the Sector Working Groups (SWGs) with the flexibility in developing the ministerial ceilings. The macroeconomic assumptions underlying the BOPA2011 sector ceilings will be updated closer to the Budget in the context of the next BSP to reflect any changes in economic and financial conditions and to take into account costs associated with the emerging structures of the devolved systems as implementation of the new constitution gains momentum.

II. RECENT ECONOMIC DEVELOPMENTS

2010 Update on Economic Performance

5. After a weak performance in 2008-2009 with real GDP growing at an average of 2.1 percent, down from a peak of 7 percent in 2007, the Kenyan economy has rebounded in 2010 with strong recovery expected to be sustained in the medium term.

6. The depressed performance during the 2008-09 was due to adverse effects of multiple shocks including the post election violence in early 2008, a severe drought that affected most parts of the country, high international commodity prices and spill over effects of the global financial crisis.

7. A concerted effort by the government including easing of macroeconomic policies to mitigate the impact of the shocks has begun to show positive signs. **Real GDP growth picked to an average 5.1 percent in the first half of 2010,** and it is expected to be sustained at around that level during the remainder of the year. The key sectors driving growth include agriculture (benefiting from improved weather), construction (with increased investment in infrastructure), manufacturing (with robust regional growth), and financial services (with increased competition and new products). The subsequent year and the medium-term outlook is buoyant, especially after the recent promulgation of the new Constitution, which is expected to lay a foundation of better governance and stability and usher in renewed investor confidence. Recovery in the global economy will also help to bolster growth.

8. **Inflation has fallen** from a high of 19.5 percent in November 2008 to 3.1 percent by October 2010, with improved food supplies and easing of world oil prices. The decline also reflects the correction for the upwards bias with the change of methodology for computing the CPI index from arithmetic to geometric mean. Inflation is expected to remain stable at around the 5 percent target over the medium term with expected normal weather and stable import prices.

9. **Interest rates have remained low** and stable owing to ample liquidity in the market with the 91-day Treasury bill rate falling from a high of around 5 percent in April 2010 to around 2 percent currently. However, interest rate spread (the difference between average lending and deposit rates) remains high, at about 10 percent.

10. The **exchange rate has also been stable though with a tendency to depreciate** mainly due to the strengthening of the US dollar in the international currency markets. More recently, the shilling has stabilised to trade at a range of KSh 80-82 to the US dollar.

11. The **external sector has improved with the overall balance of payment recording a surplus** compared to a deficit in 2008 and part of 2009, following improvement in the current account occasioned by increased surplus in the services account and a stronger rebound in exports earnings. As a result, international reserves held at the Central Bank of Kenya have increased to reach about US$ 4 billion (equivalent to 3.8 months of imports) by end of October 2010 from US$ 3.2 billion (equivalent to 3.3 months of imports) a year ago.

12. **Activity at the NSE has remained buoyant** with increased investor confidence and improved corporate governance following the ongoing reforms by the Government.

2009/10 Fiscal Outturn

13. **Execution of the Budget for the FY 2009/10 progressed well despite challenges.** Total revenue amounted to KSh 548.1 billion compared to a target of KSh 586.0 billion; this was equivalent to 93.5% performance with ordinary revenues realizing a 94.5% performance (Table 1).

14. Over the same period, total expenditure was KSh 725.2 billion compared to a target of KSh 791.4 billion. Recurrent expenditure was KSh 504.4 billion and represented about 95% execution rate compared with target, while development expenditure was KSh 214.7 billion and represented a 84% execution rate compared with target.

Table 1: 2009/10 Fiscal Outturn and Outlook for 2010/11

	2008/09	2009/10		2010/11
	Act.	*Rev. Bgt*	*Prov.*	*Budget*
1. Total Revenue and Grants	**507.6**	**617.6**	**568.8**	**730.0**
1.1 Total Revenue	487.9	586.4	548.1	689.6
Income tax	184.4	216.8	209.1	254.9
Import duty (net)	36.2	41.4	41.3	48.9
Excise duty	69.9	74.6	74.1	86.2
Value Added Tax	126.9	146.8	142.0	172.4
Other	70.5	106.8	81.6	127.3
1.2 Grants	19.7	31.2	20.7	40.4
2. Total Expediture	**601.9**	**791.8**	**725.2**	**917.0**
2.1 Recurrent	431.2	535.3	504.4	590.3
2.2 Development	166.3	255.4	214.7	323.6
3. Surplus/Deficit *(commitment basis)*	**-114.0**	**-205.4**	**-177.1**	**-227.4**
% of GDP	-5.2	-8.3	-7.4	-8.2
4. Adjustment to cash basis	**12.8**	**0.0**	**0.0**	**-1.0**
5. Surplus/Deficit *(cash basis)*	**-81.5**	**-174.2**	**-156.4**	**-188.0**
% of GDP	-3.7	-7.0	-6.5	-6.8
6.Total Financing	**88.7**	**174.2**	**156.4**	**188.0**
Net foreign	16.8	48.2	22.9	82.7
Net domestic	69.4	126.0	133.5	105.3
Other	2.5	0.0	0.0	0.0

Source: Ministry of Finance

2010/11 Budget

15. The macroeconomic assumptions underlying the 2010/11 budget were detailed in the BSP2010 released in June 2010. The fiscal framework was anchored on continued maintenance of a strong revenue effort and containing the growth of total expenditure while shifting the composition of expenditure from recurrent to capital

expenditure and eliminating unproductive expenditures and leakages through improved public financial management. These principles also included containing the growth in the public debt to a sustainable level in order to ensure the private sector is not crowded out. The key highlights of 2010/11 budget are as follows:

- **Total revenues are targeted at KSh 689.6 billion or about 24.9 percent of GDP** reflecting continued commitment by the government to pursue new revenue and compliance initiatives to increase revenue collection and maintain revenue growth in line with the growth in nominal GDP. The Government also included revenues collected and applied at source (Appropriation in Aid) from some key Parastatals and Semi Autonomous Government Agencies (SAGAs) including the state universities, Kenya National Examination Council and Kenya Medical Training Schools. This explains the more than double jump in Appropriation in Aid from KSh 30.2 billion in 2009/10 to KSh 66.6 billion in FY 2010/11.

- **Overall funded expenditures are projected at KSh. 917.0 billion or 33.1 percent of GDP**, compared to KSh. 725.2 (30.1 percent of GDP) in FY 2009/10. Total recurrent expenditures in 2010/11 is projected at KSh. 590.3 billion or 21.3 percent of GDP, compared with Ksh. 504.4 billion or 20.9 percent of GDP in FY 2009/10. The increase in recurrent expenditure is due to additional A-i-A spending and expenditures associated with Agenda 4 items, including the funding of referendum on the new constitution. The overall development expenditure is projected at KSh. 323.6 billion or 11.7 percent of GDP, an increase from 214.7 or 8.9 percent of GDP recorded in the FY 2009/10. The outlays are expected to support critical infrastructure that will (i) reduce the cost of doing business and (ii) crowd in private sector investment in the key sectors identified under Vision 2030 and the MTP2008 -2012. It also includes KSh 23.6 billion that is earmarked for strategic interventions to bolster the fragile growth and support for irrigation projects.

- **The overall fiscal position (after grants) in 2010/11 is KSh. 188.0 billion (equivalent to 6.8 percent of GDP),** up from KSh. 156.4 billion (6.5 percent of GDP) in FY 2009/10. Net external financing of KSh. 82.7 billion (3.0 percent of GDP) is expected to cover part of this budget deficit and will be limited to concessional loans only in order to contain debt to a sustainable level. The balance of KSh 105.3 billion (3.8 percent of GDP) will be financed through domestic borrowing, which includes domestic infrastructure bonds of KSh 31.6 billion (or 1.1 percent of GDP).

16. **Preliminary outcome in the first three months to September 2010 of FY 2010/11 indicate a generally strong fiscal position**. Ordinary revenues amounted to KSh 129.4 billion and were below target by KSh 8.2 billion. The shortfall was

recorded in all revenue categories. Total expenditure was KSh 183.9 billion compared to a target of KSh 214.1 billion; representing 91.4% and 72.4% execution of the recurrent and development budgets targets, respectively. The borrowing programme was largely on track with the entire infrastructure bond planned for the year realised in the first quarter of the financial year 2010/11.

III. MACROECONOMIC OUTLOOK FOR 2011 AND MEDIUM-TERM

17. With the improved weather conditions and as the global economy recovers, the economic prospect is expected to become favourable. It will even be more sanguine with the implementation of the new Constitution which is expected to boost investor confidence with better governance dispensation.

18. Real GDP is expected to rebound to about 5 percent in 2010 and 5.7 percent in 2011 before accelerating towards the 2007 growth levels in the medium term and thereafter to Vision 2030 target of 10 percent in the outer years. Growth will be bolstered by increased private sector investment, stepped-up public investment and Public Private Partnership in infrastructure projects such as roads, energy, rails and ports. These measures will be complemented by further structural reforms, especially those targeted toward improving competitiveness of the private sector and promoting overall productivity in the economy.

19. Prudent macroeconomic policies should keep inflation at 5 percent over the medium term. Interest rates and exchange rates are expected to remain generally stable over the medium-term.

20. The increase in investments is expected to worsen the current account, which is expected to hover at around 6.5 percent of GDP before declining to about 5 percent of GDP in the medium term.

21. With increased investor confidence, the capital and financial account should remain in surplus. This will allow the Central Bank of Kenya to gradually build up foreign exchange reserves to comfortable level over the medium term. Meanwhile, the Government will keep alive its intention of accessing the international capital markets (through issuance of a sovereign bond) when global financial conditions permit. This is expected to ease domestic pressure on interest rates with the pick up of credit by the private sector. It will also help to set up a benchmark profile for the private sector to also borrow from the international capital markets.

22. The risks to the outlook for 2011 and medium-term include the weaker-than-expected recovery in global economic growth and unfavourable weather conditions should there be a dry spell in 2011. Also, the threat of increasing fuel prices may [slow down] choke off growth. Should these risks materialize the government will undertake appropriate measures to safeguard macroeconomic stability and critical development spending.

IV. MACROECONOMIC POLICIES

23. The government will begin to gradually unwind the temporary monetary and fiscal stimulus which helped Kenya to mitigate the economic downturn experienced in 2008-2009. This will help pre-empt any inflationary tendencies while restoring public finances to sustainable paths.

Monetary policy

24. The Central Bank of Kenya will begin to gradually adjust monetary policy in line with expected performance of the economy and fiscal objectives. It is worth noting that the recent monetary relaxation facilitated the government to access domestic credit to finance critical interventions and the economic stimulus package in the wake of the drought and global financial crisis in 2008-09.

25. Over the medium term, monetary policy will be targeted at delivering low and stable inflation at around 5 percent, while at the same time ensuring continued stability in long-term interest rates as well as maintaining a competitive exchange rate consistent with Kenya's export-oriented private sector-led growth strategy. The on-going financial sector reforms including measures by the CBK to license credit reference bureaus and agency banking should help enhance the efficiency of the financial sector as well as enhance the monetary policy transition mechanism.

Fiscal policy

26. With regard to fiscal policy, the government will continue to support economic activity while allowing for implementation of the new constitution within a context of sustainable public financing. As such, the government will gradually reduce the overall fiscal deficit from the current 7.5 percent of GDP to about 5 percent of GDP over the medium term. This will help to bring down the debt-to-GDP ratio to towards the 45 percent level, which is consistent with the debt sustainability threshold for a country like Kenya—a medium performer according to the World Bank's Country Policy and Institutional Assessment (CPIA) Index. Our debt strategy aims at maintaining a sustainable level of debt, diversifying sources of financing with emphasis on concessional external financing and shifting the composition of domestic debt towards long term maturities to minimize both cost and risk.

27. The gradual debt reduction will be achieved through strengthening of revenue collection with tax policy reforms and improved KRA processes. At the same time, the government will continue with the policy of containing unproductive recurrent expenditure while providing sufficient room for implementation of the new constitution.

28. Most of the immediate Constitution-related expenditures have been provided for under the 2010/11 budget. Ministries are expected to rationalize their budgets for 2011/12 and medium term to provide for other associated Constitution-related expenditures under their mandate. However, expenditures related to capacity building for counties; construction and/or rehabilitation of county assemblies, National Assembly and Senate; and establishment of the new judicial system are yet to be firmed up. As detailed costing of these expenditures becomes clear, the government will update, in the context of the next Budget Strategy Paper, the fiscal framework to ensure smooth implementation of this national objective. Updating of the fiscal framework will take into account available support from development partners while ensuring continued sustainability of public finances.

29. In addition to constitution implementation expenditure, the targeted fiscal deficit reflects the government objectives to step up its investment in infrastructure, especially in the energy, road and port sectors. Meanwhile, the government is committed to increase absorption of foreign financed projects from the current level of below 60 percent to over 80 percent.

30. On financing policy, the medium-term fiscal stance envisages continued borrowing from domestic and external sources with the later being on concessional terms. The government will ensure that the level of domestic borrowing does not crowd out the private sector given the expected increase in private investment with the pick up in economic activity. In the absence of concessional financing, the government will maintain a limited amount of non-concessional financing which will be limited to investment projects that demonstrate revenue streams and high social returns. The government will keep alive its intentions to float a sovereign bond in the international capital markets, if and when the global financial fragilities dissipate. In this regard, we will monitor developments in the international capital markets with a view to issue the bond to take advantage of the current favourable interest rates.

31. Step up investments will include construction of roads, railways, ports and airports as well as investments in energy, particularly geothermal and renewable energy. The Government will endeavour to explore cheaper alternative new sources of private finance and management through PPPs in the development of infrastructure projects. As the Government strives to partner with the private sector through PPPs and undertake to maintain public presence in ownership and strategic policy setting, a PPP policy, which is key in creating a conducive environment for PPP will be in place in the medium term. Meanwhile, the legal and regulatory framework for PPP and establishment of an effective PPP Secretariat will be fast-tracked. The Secretariat will spearhead, coordinate, assess and evaluate PPP projects in government. It will also establish PPP standards, guidelines, procedures, standard bid documents as well as review and assess liabilities and approve PPPs projects. In this regard, the relevant sector ministries will be expected to conceptualize and identify projects that can be undertaken through PPP arrangements as part of their strategic planning.

32. As noted earlier, there will be increased pressure on current expenditure in view of setting up of new institutions and devolved government following the implementation of the new constitution. There is, therefore, need for continued prioritization while safeguarding critical social spending in order for the government to live within its means. We also expect continued support from development partners in the implementation of the new constitution, although this is yet to be firmed up.

Table 3: Main Macroeconomic Indicators Underlying the Medium-Term Fiscal Framework, 2009/10-2013/14

	2009/10 *Prov.*	2010/11 *Est.*	2011/12 *Proj.*	2012/13 *Proj.*	2013/14 *Proj.*
	Annual percentage change				
National Accounts and Prices					
Real GDP	3.8	5.4	6.1	6.7	6.8
CPI (eop)	3.5	5.0	5.1	5.0	5.0
	Percent of GDP				
Investment and Savings					
Investment	22.2	23.6	25.1	26.5	26.6
Gross national savings	15.6	17.0	18.6	20.6	21.4
Central Government Budget					
Revenues	22.7	25.2	25.3	25.3	25.5
Expenditure and net lending	30.1	32.9	31.8	31.3	30.7
Overall balance (excl. grants)	-7.4	-7.7	-6.6	-6.0	-5.2
Overall balance (incl. grants)	-6.5	-6.5	-5.3	-4.7	-3.9
Net domestic debt (eop)	22.2	24.3	24.9	23.6	22.5
External sector					
Current account (incl. official transfers)	-6.5	-6.6	-6.4	-5.9	-5.3
Months of next year's import covers	3.5	3.6	3.8	4.2	4.4

Source: Ministry of Finance

Structural reforms

33. The government's focus will be on policies to remove binding constraints to faster growth while creating an enabling environment for strong private sector activity. This will enable the government achieve the national objectives set out under the Vision 2030's Medium-Term Plan, 2008-2012, as well as help ensure that an increasing segment of the Kenyan population benefits from economic development.

34. Specifically, the government considers the following avenues to achieve the national development objectives:

- Maintenance of a stable macroeconomic framework and creating an enabling environment for business to thrive;

- Setting up the essential frameworks for implementing the new constitutional order;

- Encourage domestic and foreign direct investment in the flagship projects identified under Vision 2030;

- Stepping up public investment especially in infrastructure—roads, energy, railways and ports, partly financed through concessional external borrowing and/or Public-Private Partnership (PPP);

- Expanding investment in physical infrastructure to improve public transport and access to electricity, water, sanitation and housing;

- Enhancing the quality of education and skills development;

- Enhancing food security and protecting the livelihoods of the poor and the most vulnerable members of our society.

- Improving the business environment especially with licensing reforms, elimination of hurdles to business start-ups and ease of cross border trade; and

- Reaping benefits from regional integration with opportunities accorded by EAC Common Market Protocol and the wider COMESA market.

35. These efforts will be complemented with other structural reforms in the area of financial sector, public financial management, judicial reforms, decentralization/electoral reforms, land reforms and governance and anti-corruption measures. The government will work closely with the private sector and development partners in all these efforts. The Government will continue to implement reforms in the parastatal sector including organizational and financial restructuring and privatization. In line with the EAC Common Market Protocol and the wider COMESA market treaty, the sugar companies will be restructured and privatised. Further, in order to untie mature investments and mobilize resources for priority government investment areas and inject efficient and professional management systems for effective service delivery, the privatization process for the identified entities will be speedily concluded.

V. 2011/12 BUDGET FRAMEWORK

36. The 2011/12 budget framework is set against the background of the medium-term macro-fiscal framework set out above and the Government's national strategic objectives outlined in Vision 2030 first MTP. Real GDP is expected to increase by 6.1 percent in FY 2011/12 underpinned by continued good performance across all sectors of the economy. The projected growth assumes normal weather pattern during the year. Inflation is expected to hover at around 5 percent, reflecting continued implementation of a prudent monetary policy and an easing of both food and oil prices. Finally, gross international reserves are expected to increase gradually to the equivalent of about 4 months of import cover by June 2012, up from 3.6 months of import cover at end-June 2011.

Revenue Projections

37. The 2011/12 budget will target revenue collection including Appropriation-in-Aid (AiA) of 25.3 percent of GDP. As noted above, this performance will be underpinned by on-going reforms in tax policy and revenue administration. The streamlining of the exemptions regime in line with other East African Community Partner States should help to protect the revenue base. As such, total revenues including AiA are expected to be KSh 777.3 billion.

Expenditure Forecasts

38. The key policy document guiding the Government's funding allocation decisions will be the first MTP (2008-2012) of Vision 2030, which provides the overarching development priorities. In 2011/12, overall expenditures are projected at 31.8 percent of GDP (or KSh 978.7 billion), down from estimated 32.9 percent (KSh 892.3 billion) in 2010/11 owing to one-off items including expenditure on constitution referendum.

Recurrent Expenditure

39. Recurrent expenditures are expected to decline slightly from 22.2 percent of GDP in 2010/11 to 20.8 percent of GDP in 2011/12, on account of a moderately lower wage bill, adjustment of one-off items and robust growth in nominal GDP.

- *Consolidated fund services:* These 'first call' expenditures are dominated by interest payments and pensions. Domestic interest payments are expected to decline relative to GDP to 2.4 percent in 2011/12 from 2.5 percent in 2010/11 with stable interest rates, while pension expenditures decline to 1.0 percent of

GDP in 2011/12 from 1.1 percent in FY 2010/11 on account of the effects of the increase of the mandatory retirement age to 60 years.

- *Wages and salaries*: The wage bill is expected to remain at slightly above 7 percent of GDP in 2011/12, after making the year-by-year incremental adjustment to salaries and implementing the third and final phase of teachers' salaries award. The continuation of a policy of restraining growth in wage payments is expected to free resources towards MTP priorities.

- *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 FY 2011/12 budget will be maintained at 2010/11 level. Any wage adjustments for these agencies is expected to 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 FY 2010/11 and then an adjustment factor is applied to take into account the general increase in prices.

Development and Net Lending

40. Consistent with the objective of increasing resource allocation towards development outlays and after adjusting for one-off items in 2010/11, the ceiling for development expenditures including donor funded projects will increase to KSh 327.8 billion (10.7 percent of GDP) in 2011/12. Most of the outlays are expected to support critical infrastructure that will crowd in private sector investment in the flagship projects identified under Vision 2030. With the economic recovery on course, the Government will exit from the economic stimulus program and, therefore, Ministries are expected to cater for any envisaged costs associated with these programmes within the provided ceilings.

41. Project loans and grants not tied to conditionalities from development partners are expected to rise marginally to 3.9 percent of GDP in 2011/12 from 3.8 percent in 2010/11. 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 flagship projects.

42. As was the case in 2010/11 budget, a drought expenditure of KSh 1 billion and contingency provision of KSh 2 billion will be provided in the budget for 2011/12. An additional KSh 9.5 billion for the implementation of the new Constitution and preparation of the next general elections has been included as part of constitution reform expenditures.

Overall Deficit and Financing

43. The overall budget deficit (including grants) in 2011/12 is projected to be about KSh 163.7 billion (equivalent to 5.3 percent of GDP). Net external financing amounting to KSh 58.4 billion (1.9 percent of GDP) is expected to cover part of this budget deficit, leaving about KSh 105.3 billion (3.4 percent of GDP) to be financed through domestic borrowing.

44. As in 2010/11, the Government will continue with the maturity structure of government debt at 75:25 ratio in favour of long term bonds, while ensuring sustainable low interest rates. More recently, the government has been able to issue a 25 year bond, signifying increased confidence in macroeconomic management.

Conclusion

45. The set of policies outlined in this BOPA are consistent with the national strategic objectives pursued by the Government as a basis of allocation of public resources. Details of the strategic objectives are provided in the first MTP currently being implemented. The policies and sector ceilings annexed herewith will guide the line ministries in preparation of the 2011/12 budget. As noted earlier, **the implications of the devolved system on the MTEF budget will be elaborated in the next Medium-Term Budget Strategy/Policy Paper** to be finalized in early 2011.

Annex Table 1: Main Macroeconomic Indicators, 2008/09-2013/14	2008/09	2009/10	2010/11		2011/12		2012/13		2013/14
		Prov.	*Budget*	*BOPA'11*	*BSP'10*	*BOPA'11*	*BSP'10*	*BOPA'11*	*BOPA'11*
Annual percentage change, unless otherwise indicated									
National account and prices									
Real GDP	2.1	3.8	5.1	5.4	6.0	6.1	6.4	6.7	6.8
Real GDP per capita	0.2	1.9	2.2	2.4	3.1	3.2	3.5	3.7	3.9
GDP deflator	9.3	6.7	6.4	6.9	5.7	6.8	6.4	5.6	4.9
CPI Index (eop)	8.6	3.5	5.0	5.0	5.0	5.1	5.0	5.0	5.0
CPI Index (avg)	12.7	5.5	5.0	4.7	5.0	5.2	5.0	5.0	5.0
Terms of trade (-deterioration)	4.8	5.8	-4.3	-3.0	-2.1	-4.1	-0.3	-1.8	-1.1
Money and credit (end of period)									
Net domestic assets	26.5	34.8	13.8	18.7	9.6	15.4	10.5	10.5	13.0
Net domestic credit to the Government	30.3	59.7	16.9	14.9	12.8	10.9	10.5	5.0	5.0
Credit to the rest of the economy	22.5	16.8	20.0	22.0	15.8	18.3	16.6	15.0	15.7
Broad Money, M3 (percent change)	13.0	26.2	14.0	19.8	14.4	17.7	15.5	14.9	14.9
Reserve money (percent change)	4.6	31.5	11.7	3.7	12.7	14.8	13.8	14.9	14.9
In percentage of GDP, unless otherwise indicated									
Investment and saving									
Investment	19.9	22.2	21.1	23.6	21.8	25.1	22.7	26.5	26.6
Central Government	7.5	8.8	10.2	10.3	9.1	10.6	8.9	11.8	11.2
Other	12.4	13.3	10.9	13.3	12.7	14.5	13.8	14.6	15.4
Gross National Saving	12.9	15.6	15.5	17.0	17.3	18.6	19.0	20.6	21.4
Central Government	2.4	1.6	6.4	2.7	5.6	4.4	5.6	6.2	6.4
Other	10.5	14.1	9.1	14.3	11.6	14.2	13.5	14.4	15.0
Central government budget									
Total revenue	22.4	22.7	24.9	25.2	24.6	25.3	24.5	25.3	25.5
Total expenditure and net lending	27.7	30.1	33.1	32.9	31.2	31.8	29.6	31.3	30.7
of which : wages and salaries	6.9	7.2	6.9	7.3	6.8	7.1	6.8	7.1	7.1
Interest payments	2.4	2.6	2.7	2.8	2.9	2.7	2.9	2.6	2.6
Development expenditures	7.6	8.9	11.7	10.4	10.3	10.7	9.7	11.9	11.3
Overall balance (commitment basis) excl. grants	-5.2	-7.4	-8.2	-7.7	-6.6	-6.6	-5.1	-6.0	-5.2
Overall balance (commitment basis) incl. grants	-4.4	-6.5	-6.8	-6.5	-5.0	-5.3	-3.5	-4.7	-3.9
Primary budget balance	-1.4	-3.9	-4.1	-3.8		-2.7		-2.0	-1.3
Net external borrowing	0.6	0.8	3.0	1.9	2.0	1.9	1.8	3.2	2.4
Infrastructure bonds	0.9	0.0	1.1	1.1	0.6	1.0	1.0	1.6	0.9
Net domestic borrowing	3.2	5.5	3.8	4.6	1.9	3.4	1.8	1.5	1.4
Total external support (grant & loans)	2.4	2.5	5.2	3.8	4.2	3.9	3.6	4.0	4.0
External sector									
Exports value, goods and services	26.4	25.8	24.5	25.6	24.7	24.6	25.1	24.3	24.4
Imports value, goods and services	40.1	38.6	35.2	38.0	34.0	36.5	33.3	35.5	34.7
Current external balance, including official transfers	-7.0	-6.5	-5.6	-6.6	-4.5	-6.4	-3.7	-5.9	-5.3
Current external balance, excluding official transfers	-6.9	-6.5	-5.5	-6.5	-4.5	-6.4	-3.6	-5.8	-5.2
Gross international reserve coverage in months of next year imports (end of period)	3.2	3.5	3.2	3.6	3.6	3.8	4.0	4.2	4.4
Public debt									
Nominal central government debt (eop), gross	48.4	50.6	50.3	52.1	49.3	51.6	48.1	50.7	49.4
Nominal central government debt (eop), net	43.3	45.7	46.0	47.7	44.4	47.7	43.1	47.2	46.3
Domestic (gross)	23.7	27.2	27.1	28.7	27.2	28.8	26.5	27.1	25.6
Domestic (net)	18.6	22.2	22.9	24.3	22.3	24.9	21.4	23.6	22.5
External	24.7	23.5	23.2	23.4	22.2	22.8	21.6	23.6	23.7
Memorandum items:									
Nominal GDP (in Ksh billions)	2,176	2,410	2,767	2,713	3,102	3,075	3,510	3,463	3,879
Nominal GDP (in US$ millions)	29,695	30,804	35,973	34,066	39,840	38,105	44,524	42,462	47,101

Source: Ministry of Finance

BOPA = Budget Outlook Paper
BSP = Budget Strategy Paper

Annex Table 2: Central Government Operations 2008/09 - 2013/14 (in billions of Kenya Shillings)	2008/09	2009/10	2010/11		2011/12		2012/13		2013/14
	Act.	*Prov.*	*Budget*	*BOPA'11*	*BSP'10*	*BOPA'11*	*BSP'10*	*BOPA'11*	*BOPA'11*
TOTAL REVENUE	**487.9**	**548.1**	**689.6**	**684.2**	**764.5**	**777.3**	**770.3**	**877.8**	**990.2**
Ordinary Revenue (excl. LATF)	455.8	507.5	609.6	604.2	682.2	690.8	708.6	784.4	886.1
Income tax	184.4	209.1	254.9	252.0	287.7	288.4	290.0	328.1	369.3
Import duty (net)	36.2	41.3	48.9	48.6	52.7	54.2	53.1	58.7	65.0
Excise duty	69.9	74.1	86.2	86.2	95.9	98.8	104.2	111.7	125.2
Value Added Tax	126.9	142.0	172.4	168.7	192.8	194.3	204.4	223.9	257.0
Investment income	6.9	8.4	11.9	11.9	13.3	13.5	10.0	15.2	17.0
Other	31.5	32.7	35.4	36.8	39.7	41.7	46.8	46.9	52.6
LATF	9.2	10.4	13.4	13.4	16.0	15.2	15.3	17.3	19.4
Ministerial and Departmental fees (AiA)	22.9	30.2	66.6	66.6	66.3	71.4	46.5	76.1	84.7
EXPENDITURE AND NET LENDING	**601.9**	**725.2**	**917.0**	**892.3**	**947.5**	**978.7**	**950.7**	**1,084.4**	**1,192.6**
Recurrent expenditure	431.2	504.4	590.3	603.3	623.9	638.4	622.8	666.1	750.0
Interest payments	52.1	63.5	74.9	74.9	90.0	82.0	100.2	91.6	99.6
Domestic interest	45.9	57.4	67.9	67.9	80.8	73.3	88.7	81.4	86.3
Foreign interest	6.1	6.1	7.0	7.0	9.2	8.6	11.5	10.2	13.3
Wages and benefits(civil service)	155.2	172.6	191.7	197.7	210.0	218.4	226.6	244.6	274.3
Contribution to civil service pension fund	6.1	0.0	0.0	0.0	12.7	9.0	14.0	10.1	11.3
Civil service Reform	0.1	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Pensions etc	27.2	29.0	28.6	28.6	31.5	31.5	27.8	34.6	38.1
Other	148.2	182.3	238.4	238.4	223.7	239.6	199.5	226.2	266.5
Defense and NSIS	48.5	56.9	56.7	63.7	55.9	57.7	54.5	58.8	60.0
Development and Net lending	166.3	214.7	323.6	281.9	320.6	327.8	324.9	412.3	437.4
Domestically financed	112.0	151.9	178.1	175.4	186.6	204.5	185.5	231.2	259.0
Foreign financed	52.0	60.5	143.1	104.2	131.5	120.8	136.7	178.5	175.7
Net lending	2.4	2.3	2.4	2.4	2.5	2.5	2.7	2.6	2.7
Drought Expenditures	4.3	6.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Contingencies	0.0	0.0	2.0	2.0	2.0	2.0	2.0	2.0	2.2
Constitution Reform	0.0	0.0	0.0	4.0	0.0	9.5	0.0	3.0	2.0
Balance *(commitment basis excl. grants)*	**-114.0**	**-177.1**	**-227.4**	**-208.1**	**-183.0**	**-201.4**	**-180.4**	**-206.6**	**-202.4**
Adjustment to cash basis	12.8	0.0	-1.0	-1.1	0.0	0.0	0.0	0.0	0.0
Project grants	19.7	20.7	40.4	32.3	47.0	37.8	49.6	44.2	51.6
Programmme grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance *(cash basis including grants)*	**-81.5**	**-156.4**	**-188.0**	**-176.9**	**-136.0**	**-163.7**	**-130.8**	**-162.5**	**-150.8**
Statistical discrepancy	7.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCING	**88.7**	**156.4**	**188.0**	**176.9**	**119.1**	**163.7**	**113.4**	**162.5**	**150.8**
Net foreign financing	16.8	22.9	82.7	51.9	60.7	58.4	44.3	109.2	94.8
Project loans	32.3	39.8	102.7	71.9	84.5	83.0	69.7	93.5	104.7
Programme loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Fin./Sovereign bond	0.0	0.0	0.0	0.0	0.0	0.0	0.0	40.8	19.4
Repayments due	-17.5	-18.7	-20.5	-20.5	-23.8	-24.6	-25.4	-25.1	-29.3
Change in arears	1.5	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rescheduling/Debt swap	0.5	0.5	0.5	0.5	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Refinancing - Telkom	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic borrowing	69.4	133.5	105.3	125.0	58.4	105.3	69.0	53.2	56.0
Financing gap	0.0	0.0	0.0	0.0	-16.9	0.0	-17.4	0.0	0.0
Memo items									
External Debt	537.4	565.5	641.9	634.9	1,037.5	701.1	1,037.5	818.0	921.1
Domestic Debt (gross)	515.3	654.6	749.6	779.6	843.1	884.9	937.8	938.1	994.1
Domestic Debt (net)	404.1	534.8	632.8	659.8	691.2	765.1	744.2	818.3	874.3
Infrastructure bonds	18.6	0.0	31.6	30.5	17.5	31.6	20.7	56.8	36.2
Primary budget balance	-29.5	-92.9	-113.1	-102.0	-46.1	-81.7	-30.6	-70.9	-51.2
Tax Revenue1/	417.4	466.5	557.0	550.0	629.2	635.6	651.8	722.3	816.5
Transfers to Counties	…	…	…	…		…		103.6	117.7
Equalization Fund	…	…	…	…		…		10.4	11.8
Nominal GDP	2,175.6	2,409.7	2,767.2	2,713.5	3,101.8	3,074.7	3,484.0	3,463.4	3,878.7

1/ Tax revenue excludes one-off parastatal tax arrears (KSh 5.45bn) in 2010/11

Source: Ministry of Finance

Note

BOPA = Budget Outlook Paper

BSP = Budget Strategy Paper

Annex Table 3: Central Government Financial Operations, 2008/09 - 2013/14
(in percent of GDP)

	2008/09	2009/10	2010/11		2011/12		2012/13		2013/14
	Act.	*Prov.*	*Budget*	*Proj.*	*BSP'10*	*BOPA'11*	*BSP'10*	*BOPA'11*	*BOPA'11*
TOTAL REVENUE	**22.4%**	**22.7%**	**24.9%**	**25.2%**	**24.6%**	**25.3%**	**22.1%**	**25.3%**	**25.5%**
Ordinary Revenue (excl. LATF)	20.9%	21.1%	22.0%	22.3%	22.0%	22.5%	20.3%	22.6%	22.8%
Income tax	8.5%	8.7%	9.2%	9.3%	9.3%	9.4%	8.3%	9.5%	9.5%
Import duty (net)	1.7%	1.7%	1.8%	1.8%	1.7%	1.8%	1.5%	1.7%	1.7%
Excise duty	3.2%	3.1%	3.1%	3.2%	3.1%	3.2%	3.0%	3.2%	3.2%
Value Added Tax	5.8%	5.9%	6.2%	6.2%	6.2%	6.3%	5.9%	6.5%	6.6%
Investment income	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.3%	0.4%	0.4%
Other	1.4%	1.4%	1.3%	1.4%	1.3%	1.4%	1.3%	1.4%	1.4%
LATF	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.4%	0.5%	0.5%
Ministerial and Departmental fees (AiA)	1.1%	1.3%	2.4%	2.5%	2.1%	2.3%	1.3%	2.2%	2.2%
EXPENDITURE AND NET LENDING	**27.7%**	**30.1%**	**33.1%**	**32.9%**	**30.5%**	**31.8%**	**27.3%**	**31.3%**	**30.7%**
Recurrent expenditure	19.8%	20.9%	21.3%	22.2%	20.1%	20.8%	17.9%	19.2%	19.3%
Interest payments	2.4%	2.6%	2.7%	2.8%	2.9%	2.7%	2.9%	2.6%	2.6%
Domestic interest	2.1%	2.4%	2.5%	2.5%	2.6%	2.4%	2.5%	2.4%	2.2%
Foreign interest	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Wages and benefits (civil service)	7.1%	7.2%	6.9%	7.3%	6.8%	7.1%	6.5%	7.1%	7.1%
Contribution to civil service pension fund	0.3%	0.0%	0.0%	0.0%	0.4%	0.3%	0.4%	0.3%	0.3%
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%	1.0%	1.1%	1.0%	1.0%	0.8%	1.0%	1.0%
Other	6.8%	7.6%	8.6%	8.8%	7.2%	7.8%	5.7%	6.5%	6.9%
Defense and NSIS	2.2%	2.4%	2.0%	2.3%	1.8%	1.9%	1.6%	1.7%	1.5%
Development and Net lending	7.6%	8.9%	11.7%	10.4%	10.3%	10.7%	9.3%	11.9%	11.3%
Domestically financed	5.1%	6.3%	6.4%	6.5%	6.0%	6.7%	5.3%	6.7%	6.7%
Foreign financed	2.4%	2.5%	5.2%	3.8%	4.2%	3.9%	3.9%	5.2%	4.5%
Net lending	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Drought Expenditures	0.2%	0.3%	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%
Constitution Reform	0.0%	0.0%	0.0%	0.1%	0.0%	0.3%	0.0%	0.1%	0.1%
Balance *(commitment basis excl. grants)*	**-5.2%**	**-7.4%**	**-8.2%**	**-7.7%**	**-5.9%**	**-6.6%**	**-5.2%**	**-6.0%**	**-5.2%**
Adjustment to cash basis	0.6%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Project grants	0.9%	0.9%	1.5%	1.2%	1.5%	1.2%	1.4%	1.3%	1.3%
Programmme grants	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Balance *(cash basis including grants)*	**-3.7%**	**-6.5%**	**-6.8%**	**-6.5%**	**-4.4%**	**-5.3%**	**-3.8%**	**-4.7%**	**-3.9%**
Statistical discrepancy	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FINANCING	**4.1%**	**6.5%**	**6.8%**	**6.5%**	**3.8%**	**5.3%**	**3.3%**	**4.7%**	**3.9%**
Net foreign financing	0.8%	0.9%	3.0%	1.9%	2.0%	1.9%	1.3%	3.2%	2.4%
Project loans	1.5%	1.7%	3.7%	2.6%	2.7%	2.7%	2.0%	2.7%	2.7%
Programme loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Commercial Fin./Sovereign bond	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	0.5%
Repayments due	-0.8%	-0.8%	-0.7%	-0.8%	-0.8%	-0.8%	-0.7%	-0.7%	-0.8%
Change in arears	0.1%	0.1%	0.0%	0.0%	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	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Refinancing - Telkom	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net domestic borrowing	3.2%	5.5%	3.8%	4.6%	1.9%	3.4%	2.0%	1.5%	1.4%
Financing gap	0.0%	0.0%	0.0%	0.0%	-0.5%	0.0%	-0.5%	0.0%	0.0%
Memo items									
Total public debt (net)	43.3%	45.7%	46.0%	47.7%	44.4%	47.7%	43.1%	47.2%	46.3%
Domestic Debt (gross)	23.7%	27.2%	27.1%	28.7%	27.2%	28.8%	26.9%	27.1%	25.6%
Domestic Debt (net)	18.6%	22.2%	22.9%	24.3%	22.3%	24.9%	21.4%	23.6%	22.5%
Infrastructure bonds	0.9%	0.0%	1.1%	1.1%	0.6%	1.0%	0.6%	1.6%	0.9%
Primary budget balance	-1.4%	-3.9%	-4.1%	-3.8%	-1.5%	-2.7%	-0.9%	-2.0%	-1.3%
Tax Revenue	19.2%	19.4%	20.1%	20.3%	20.3%	20.7%	18.7%	20.9%	21.1%
Transfers to Counties	…	…	…	…	0.0%	…	0.0%	3.0%	3.0%
Equalization Fund	…	…	…	…	0.0%	…	0.0%	0.3%	0.3%
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 I: Recurrent Sectoral Ceilings for the MTEF Period 2011/12 - 2013/14 (KShs. Million)

	NAME OF SECTOR		2009/10 Approved	Printed 2010/11	Ceiling 2011/12	Projections 2012/13	2013/14
S01	**AGRICULTURE AND RURAL DEVELOPMENT**	**Gross**	**14,088**	**13,219**	**13,878**	**16,409**	**18,483**
		A-I-A	601	651	683	717	753
		Net	13,487	12,568	13,195	15,692	17,730
	Of Which:	Salaries	7,668	8,082	8,405	8,741	8,916
		Grants & Transfers	2,325	1,729	1,729	1,729	1,729
		Others	4,095	3,408	3,744	5,938	7,838
S02	**TRADE, TOURISM AND INDUSTRY**	**Gross**	**7,455**	**6,703**	**7,416**	**7,992**	**9,327**
		A-I-A	533	289	307	325	345
		Net	6,921	6,414	7,109	7,667	8,982
	Of Which:	Salaries	1,026	1,141	1,179	1,203	1,227
		Grants & Transfers	3,949	3,933	3,933	3,933	4,589
		Others	2,479	1,630	2,304	2,856	3,510
S03	**PHYSICAL INFRASTRUCTURE**	**Gross**	**40,806**	**48,364**	**51,143**	**54,392**	**58,975**
		A-I-A	33,540	39,780	42,167	44,697	47,379
		Net	7,266	8,584	8,976	9,695	11,596
	Of Which:	Salaries	2,813	3,095	3,178	3,252	3,317
		Grants & Transfers	22,002	39,402	42,000	44,000	47,000
		Others	15,991	5,867	5,966	7,140	8,659
S04	**ENVIRONMENT, WATER AND IRRIGATION**	**Gross**	**10,012**	**11,900**	**12,499**	**12,831**	**13,974**
		A-I-A	1,979	2,883	3,027	3,178	3,337
		Net	8,033	9,017	9,472	9,653	10,637
	Of Which:	Salaries	2,414	2,509	2,682	2,769	2,825
		Grants & Transfers	4,915	6,895	6,895	6,895	6,895
		Others	2,683	2,495	2,921	3,166	4,253
S05	**HUMAN RESOURCE DEVELOPMENT**	**Gross**	**146,877**	**166,728**	**173,607**	**181,662**	**195,449**
		A-I-A	295	6,859	6,866	6,982	8,148
		Net	146,582	159,870	166,741	174,680	187,300
	Of Which:	Salaries	106,309	115,577	122,729	127,183	131,727
		Grants & Transfers	20,091	27,461	27,461	27,461	32,047
		Others	20,478	23,690	23,418	27,018	31,675
S06	**RESEARCH, INNOVATION AND TECHNOLOGY**	**Gross**	**37,752**	**49,584**	**50,463**	**52,750**	**57,559**
		A-I-A	130	15,586	16,366	17,184	18,043
		Net	37,622	33,998	34,097	35,566	39,516
	Of Which:	Salaries	2,538	2,931	2,995	3,060	3,122
		Grants & Transfers	23,964	41,858	42,777	43,044	50,232
		Others	11,250	4,795	4,691	6,646	4,205
S07	**GOVERNANCE, JUSTICE, LAW & ORDER**	**Gross**	**78,206**	**77,173**	**78,685**	**84,460**	**89,647**
		A-I-A	4,387	4,663	4,942	5,141	5,398
		Net	73,818	72,510	73,742	79,320	84,250
	Of Which:	Salaries	42,603	47,802	51,258	52,283	53,329
		Grants & Transfers	10,249	4,193	3,698	3,757	4,384
		Others	25,354	25,178	23,729	28,420	31,934
S08	**PUBLIC ADMINISTRATION**	**Gross**	**30,874**	**44,875**	**34,151**	**38,544**	**42,326**
		A-I-A	656	775	806	838	896
		Net	30,219	44,100	33,345	37,706	41,430
	Of Which:	Salaries	5,750	6,738	6,275	6,401	6,529
		Commuter Allowance	-	**2,000**	**5,982**	**5,982**	**5,982**
		Grants & Transfers	11,050	16,187	11,274	11,362	13,259
		Others	14,074	19,949	10,620	14,800	16,556
S09	**SPECIAL PROGRAMMES**	**Gross**	**16,551**	**13,262**	**13,616**	**14,853**	**15,833**
		A-I-A	75	82	90	98	115
		Net	16,476	13,180	13,525	14,754	15,718
	Of Which:	Salaries	2,207	2,523	2,608	2,681	2,735
		Grants & Transfers	2,460	2,665	2,665	2,665	3,110
		Others	11,883	8,074	8,342	9,506	9,988
S10	**NATIONAL SECURITY**	**Gross**	**58,644**	**56,686**	**57,186**	**58,800**	**60,000**
		A-I-A	623	423	438	455	531
		Net	58,021	56,263	56,748	58,345	59,469
	Of Which:	Salaries	561	575	606	631	736
		Grants & Transfers	57,916	54,782	55,585	57,225	58,325
		Others	167	1,328	995	944	939
	TOTAL RECURRENT	**Gross**	**441,265**	**488,494**	**492,644**	**522,693**	**561,573**
		A-I-A	**42,819**	**71,990**	**75,693**	**79,617**	**84,945**
		Net	**398,446**	**416,503**	**416,951**	**443,077**	**476,628**
	Of Which:	**Salaries**	**173,889**	**192,975**	**207,898**	**214,187**	**220,443**
		Grants & Transfers	**158,923**	**199,106**	**198,017**	**202,072**	**221,573**
		Others	**108,453**	**96,413**	**86,729**	**106,435**	**119,558**

Annex II: Development Sectoral Ceilings for the MTEF Period 2011/12 - 2013/14 (KShs. Million)

	NAME OF SECTOR		Approved	Printed	Ceilings	Projections	
			2009/10	2010/11	2011/12	2012/13	2013/14
S01	**AGRICULTURE AND RURAL DEVELOPMENT**	**Gross**	**13,420**	**18,709**	**17,728**	**16,782**	**18,004**
		GOK	6,621	10,805	10,329	9,316	10,806
		Loans	2,247	4,270	2,811	2,867	2,764
		Grants	4,552	3,763	4,588	4,599	4,433
S02	**TRADE, TOURISM AND INDUSTRY**	**Gross**	**4,218**	**5,306**	**5,808**	**5,716**	**5,706**
		GOK	3,112	4,175	4,584	4,499	4,532
		Loans	265	275	265	265	255
		Grants	840	855	959	952	918
S03	**PHYSICAL INFRASTRUCTURE**	**Gross**	**111,220**	**137,669**	**135,354**	**128,238**	**141,641**
		GOK	63,614	68,816	73,771	70,527	81,811
		Loans	40,190	57,441	43,836	43,836	42,258
		Grants	2,995	3,780	8,481	8,418	8,115
		Local A-I-A	4,420	7,632	9,266	9,457	9,457
S04	**ENVIRONMENT, WATER AND SANITATION**	**Gross**	**28,114**	**39,063**	**35,303**	**32,237**	**33,700**
		GOK	13,801	15,710	16,451	13,385	15,527
		Loans	9,961	17,952	14,160	14,160	13,651
		Grants	4,352	5,402	4,692	4,692	4,523
S05	**HUMAN RESOURCE DEVELOPMENT**	**Gross**	**28,562**	**30,421**	**30,398**	**28,158**	**29,287**
		GOK	18,225	12,975	13,321	10,932	12,681
		Loans	1,926	6,215	6,017	6,166	5,944
		Grants	8,411	11,231	11,059	11,059	10,661
S06	**RESEARCH, INNOVATION AND TECHNOLOGY**	**Gross**	**9,314**	**17,363**	**13,501**	**14,391**	**13,705**
		GOK	5,823	10,477	10,090	10,980	10,417
		Loans	2,437	5,393	2,246	2,246	2,165
		Grants	1,054	1,493	1,166	1,166	1,124
S07	**GOVERNANCE, JUSTICE, LAW & ORDER**	**Gross**	**8,037**	**9,257**	**10,317**	**10,425**	**11,928**
		GOK	7,133	8,421	9,476	9,584	11,117
		Loans	25	31	25	25	24
		Grants	879	805	816	816	787
S08	**PUBLIC ADMINISTRATION**	**Gross**	**32,747**	**38,897**	**28,919**	**38,456**	**42,892**
		GOK	24,314	27,534	20,160	29,698	34,449
		Loans	2,346	2,659	2,456	2,456	2,367
		Grants	6,087	8,705	6,303	6,303	6,076
S09	**SPECIAL PROGRAMMES**	**Gross**	**20,860**	**24,283**	**25,120**	**23,880**	**25,434**
		GOK	9,883	11,340	11,832	12,315	14,286
		Loans	7,657	8,486	6,526	4,475	4,314
		Grants	3,320	4,457	6,762	7,090	6,835
	TOTAL DEVELOPMENT	**Gross**	**256,492**	**320,968**	**302,448**	**298,284**	**322,298**
		GOK	**152,527**	**170,252**	**170,014**	**171,235**	**195,626**
		Loans	**67,054**	**102,722**	**78,343**	**76,497**	**73,743**
		Grants	**32,491**	**40,491**	**44,825**	**45,095**	**43,472**
		Local A-I-A	**4,420**	**7,632**	**9,266**	**9,457**	**9,457**

Annex III: Budget Calendar: Schedule of 2011/12 – 2013/14 MTEF Budget and 2010/11 Supplementary Estimates

ACTIVITY	RESPONSIBILITY	TIMEFRAME/DEADLINE
2011/12 – 2013/14 MTEF BUDGET		
▪ Update Ministerial Strategic Plans	MPND/MDAs	July - August 2010
▪ Training and capacity building on PBB	Treasury	September – October 2010
▪ Undertake Ministerial Public Expenditure Reviews	Ministries/Departments	September 2010
▪ Develop and issue MTEF Guidelines	Treasury/MPND	September – October 2010
▪ Convene Sector Working Groups (SWGs)	Treasury/MPND	October 2010
▪ Develop Budget Outlook Paper (BOPA)	Macro Working Group (MWG)	October 2010
▪ Finalize BOPA and present to Cabinet for approval	Treasury/MWG	By end of October 2010
▪ Circulate approved BOPA to Accounting Officers	Treasury	By 29th October 2010
▪ Submission of Districts inputs to Relevant Ministry Headquarters	Departments in the Districts	End of October 2010
▪ Submission of Initial Sector reports to Treasury	Sector Chairpersons	20th November 2010
▪ Hold Sector Hearings	Treasury/MPND/SWGs	By 17th December 2010
▪ Submit Final Sector Reports	Sector Working Groups	Mid December 2010
▪ Publish Final Sector Reports	Treasury	By Mid January 2011
▪ Issue Final Treasury Circular on 2011/12 – 2013/14 MTEF Estimates and PBB	Treasury	By 28th February 2011
▪ Finalize and Circulate Budget Strategy Paper to Accounting Officers	Treasury	By 28th February 2011
▪ Finalize Ministerial itemized and Programme Based Budgets	Ministries/Departments/Agencies (MDAs)	By 11th March 2011
▪ Prepare and Submit BPS to Parliament	Treasury	By 21st March 2011
▪ Review and finalize Ministerial itemized and Programme Based Budgets	Treasury/BSD/MDAs	By 25th March 2011
▪ Submission of Budget Estimates to Cabinet for Approval	Minister for Finance	By 1st April 2011
▪ Publish itemized MTEF Estimates and Programme Based Budgets	Treasury/Govt. Printer	By 15th April 2011
▪ Submission of Budget Estimates to Parliament	Minister for Finance	By 28th April 2011
▪ Budget Speech	Minister for Finance	By 15th June 2010
2010/11 SUPPLEMENTARY BUDGET		
▪ Develop and Issue Circular on 2010/11 Supplementary Budget	Treasury	Mid November 2010
▪ Submission of Supplementary Budget Proposals to Treasury	Line Ministries	By 31st December 2010
▪ Review of Supplementary Budget Proposals	Treasury	By 21st January 2011
▪ Submission of Supplementary Budget to Cabinet	Treasury	By 31st January 2011
▪ Submission of Supplementary Budget to Parliament	Treasury	By end of February 2011