Macro - Fiscal Analytic Snapshot Kenya

2024

Macro-Fiscal Analytic Snapshot: Kenya

IPF INSTITUTE OF PUBLIC FINANCE

Oxford Policy Management

Introduction

Kenya's Macro-Fiscal Analytic Snapshot (MFAS) is an annual flagship product produced by the Institute of Public Finance (IPF) in partnership with Oxford Policy Management (OPM) and with funding from the Bill & Melinda Gates Foundation (BMGF). It offers a comprehensive and consolidated overview of key macro and fiscal indicators in Kenya. The report delves into five critical aspects of the country's economy: (i) the macroeconomic context and outlook, (ii) a review of revenue and expenditure, (iii) updates on aid, (iv) in-depth analysis of selected sectors, and (v) institutional developments. It is built on a review of past performance, and presents projections for medium term as well as an outlook for 2024.

1 Macro & Outlook

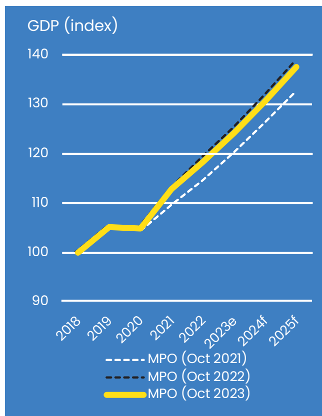
Kenya's economy has maintained a steady recovery in investment and a GDP growth of around 5%. In an economic sense, this should allow for a steady rise in real per capita income and reductions in poverty. However, the rising cost of living, marked by an annual average inflation of 7% continues to erode consumers' purchasing power. Much as the country has managed to avoid the absurd price increases experienced in other countries such as Ethiopia (28%) and Nigeria (28.9%), it is essential to monitor the inflation rates in relation to the country's economic recovery strategy.

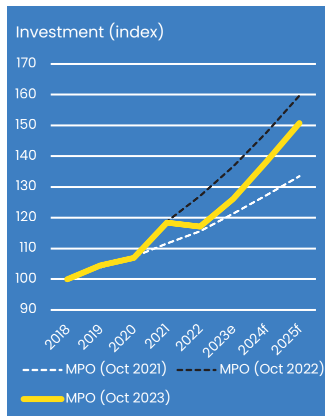
5%

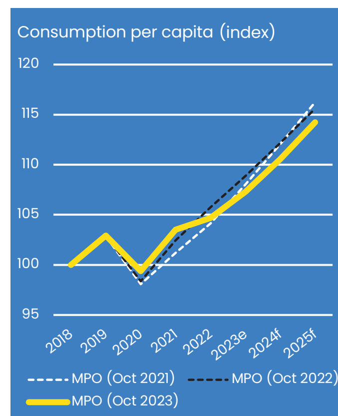
7% Kenya

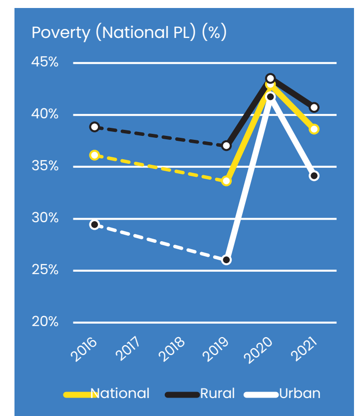
28% Ethiopia

28.9% Nigeria



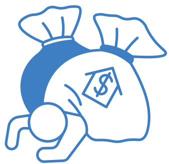






2 Debt

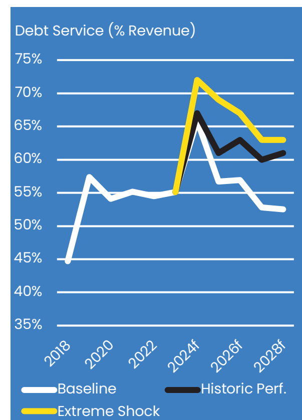
Kenya is still at a **high risk of debt distress** on account of it breaching the upper thresholds of several critical debt sustainability ratios. Even if the IMF would reclassify Kenya as a country with "high" debt-carrying capacity, it is projected that Kenya would still be in breach of the upper limit until at least 2027. The forecast shows that in the case of a major shock (e.g. further depreciation) Kenya risks increasing her inability to service debts that could potentially precipitate a crisis.

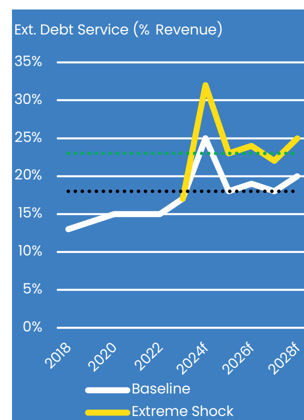


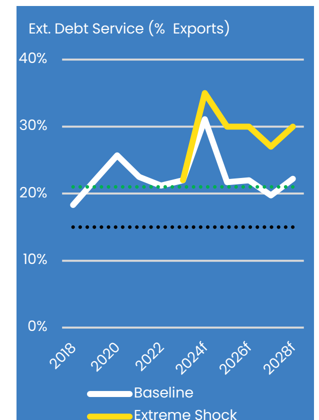
Repayment of the **US $2 billion Eurobond** in June 2024 creates a major concern on the implications of such lump sum withdrawal from the economy or the alternative refinancing at an elevated cost. At present Kenya appears unlikely to default. Even so, owing to the implication of such harsh conditionalities, decision making should not be left only to the executive and creditors, but rather, should include engagement with parliament, civil society, and other actors.

Weakening Shilling against the US Dollar:

Fast depreciation of the shilling is making inflation and debt pressure worse; and the international reserves are running down, currently at 3.6 months of imports cover which is below the minimum statutory requirement of 4 months of import cover. If no measures are taken, the manufacturing sector is likely to be adversely affected as imports get strained by the depreciation and low foreign reserves. There is a need to strengthen the country's manufacturing and value addition as a strategy to the country's economic recovery







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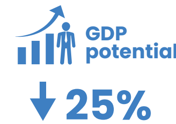
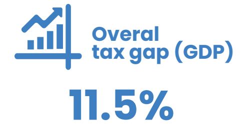
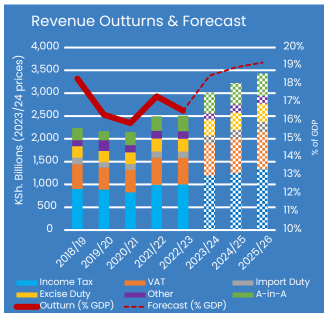
❸ Revenue, expenditure, and fiscal consolidation

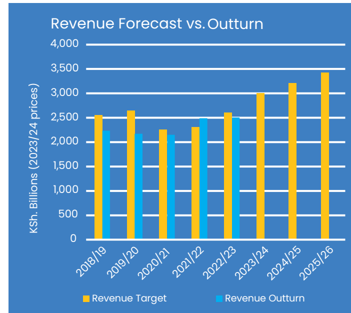
The **IMF-driven fiscal consolidation measures,** have relied more on adjustments to expenditure as revenue targets remain unmet, despite the introduction of new tax policy and administration reforms. Tax revenue performance continues to be well below the potential of 25% of GDP as estimated by the IMF and recorded an overall tax gap of 11.5% of GDP in 2022/23. Key issues to monitor are the tax reforms aimed at growing the country's revenues through the Medium Term Revenue Strategy(MTRS).

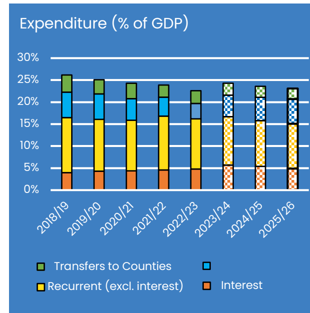


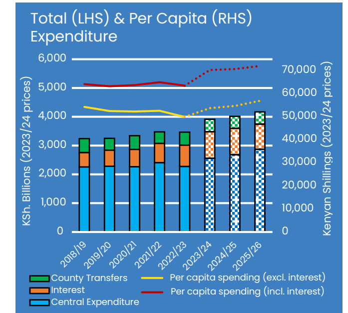


Expenditure (as a percentage of GDP) has recorded a reduction at a faster rate than originally planned in the fiscal consolidation targets, indicating the government's firm break on expenditure.







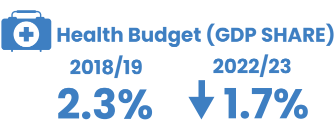


The projection by the government is that, in three years, the expenditure in debt interest and development spending will increase – but much of this will depend on revenue performance. If revenue remains significantly below target, per capita spending (excluding interest) is likely to stagnate or possibly even decline while no significant change is foreseen in the transfers to the county governments. Evidently, this is a big challenge to the counties as their **expenditure is on average supported by equitable share and grants at 91% and OSR financing at just 9% – in FY 2022/23.**

The maiden Medium-Term Revenue Strategy (MTRS) is anticipated to generate additional revenue through a set of proposals aimed at addressing 'hard-to-tax' sectors of the economy, revenue administration challenges and a review of tax incentives that continue to erode Kenya's tax base. The MTRS, however, does not include a breakdown of revenue impact of each of the proposed measures, making it difficult to track progress and impact in their implementation.

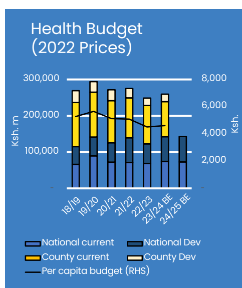
❹ Health

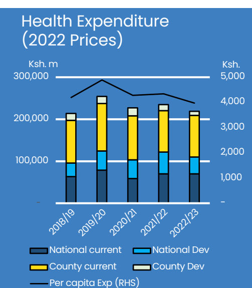
The national level budget for the health sector **suffered a 2% cut in the FY 2023/24 Supplementary Budget I.** Between FY 2018/19 to 2022/23, the health budget has been declining as a share of GDP, from 2.3% to 1.7%. This decline has caused a consistent downward trend in budgeted health spending per capita over the past five years in real terms.

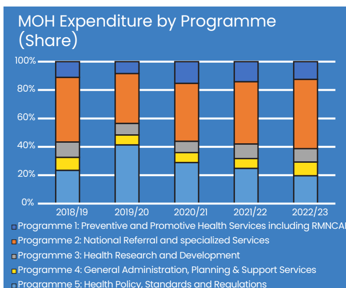


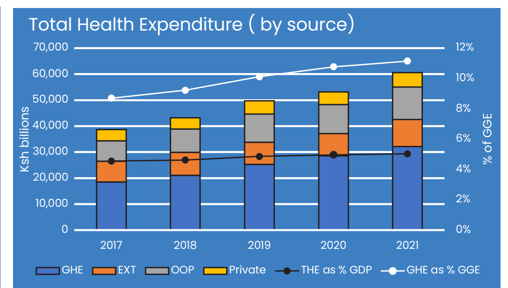
Moreover, per capita health expenditure has been on a decline in real terms, over the period **FY 2018/19 to 2022/23**. Equally, total MoH expenditures fell from **1.8% to 1.5% of GDP.**

Counties, as the principal custodians of primary healthcare have seen their contribution to **Kenya's total health care decline from 57% in FY 2018/19 to less than 50% by 2022/23.**









At the national level, the budget execution for preventive and promotive health services including RMNCAH averaged 61% for the period 2018/19 - 2022/23 compared to the MoH's overall rate of 87%. Secondary and tertiary care recorded the highest average budget execution rate at 94% over the same period. Moving forward the government needs to check the budget allocation and execution of the health care services, where there is potential for setbacks.

Overall budget execution rates in health have been improving over the past five years averaging 85%. However, the execution of health development expenditures at the county level has been notably low, averaging 55% over the same period.

Government Health Expenditure (GHE) has also risen as a share of Total Health Expenditure (THE) but has been insufficient to offset a rise in Out Of Pocket (OOP) spending. In sum, whilst there have been some improvements in THE, OOP remains too high to ensure UHC. It has been estimated that the government should increase spending on health to at least 5% of GDP to achieve Universal Primary Care Services.

Key Policy Issues to Monitor in 2024

Settlement of the Eurobond: Kenya must settle its $2 billion Eurobond, a decision that will shape its fiscal future. It is necessary to observe the approach to be adopted by the government to achieve this, and its fiscal implications.

Fiscal Deficit Management: Kenya's ability to keep the fiscal deficit in line with the planned levels remains uncertain. The question remains whether there will be an increase in public investment, and what the subsequent impacts on future expenditure and borrowing will be.

Privatization of State-Owned Enterprises poses potential risks of inefficiency and corruption. Key concerns involve the extent of public participation, transparency, accountability, and proactive oversight by parliament in the privatization process.

Implementation of the Medium Term-Revenue Strategy: The government has unveiled a draft Medium Term-Revenue Strategy, which warrants monitoring of the actual implementation of proposed tax measures and their effectiveness in yielding tangible revenue gains.

Implementation of the UHC laws: The recent enactment of Universal Health Coverage (UHC) laws will have a notable effect on public health expenditure. It is crucial to closely observe the execution of these reforms, especially the abolishment of the National Social Insurance Fund (NHIF) and the establishment of the Social Health Insurance Authority.

Acknowledgement:

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The findings and conclusions contained within are those of the authors and do not necessarily reflect the positions or policies of the Bill & Melinda Gates Foundation.

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