IPF
INSTITUTE OF PUBLIC FINANCE

FY 24/25 Budget Performance

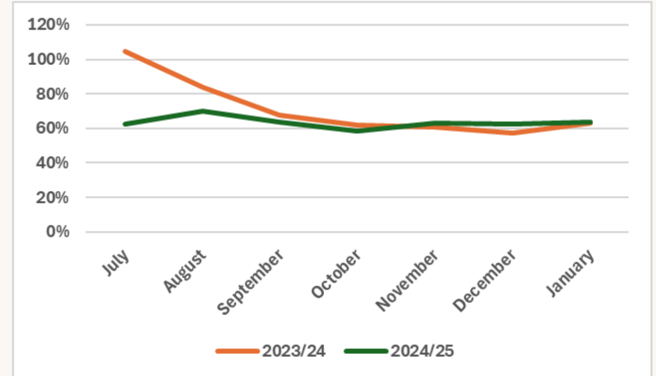
Exchequer releases January 2025

Five months to the end of the FY 2024/25, Kenya recorded a modest 3 percent growth in tax revenues, in spite of the rejection of the 2024 Finance Bill, which was predicted to weaken revenue collection. Both development spending by MDAs and domestic borrowing also increased.

The Good

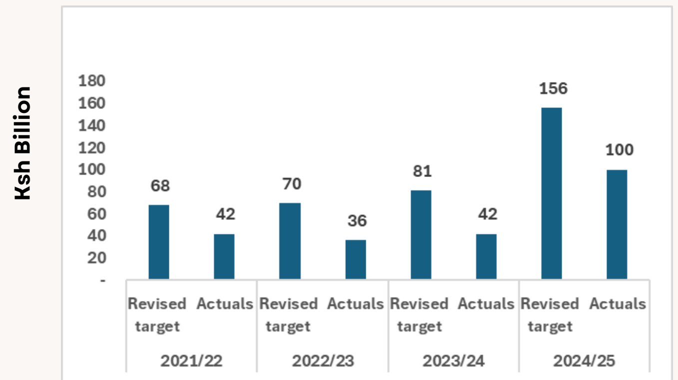
- Revenues(tax+ non-tax) grew by 7 percent relative to the same period last year.
- Most of this growth is coming from non-tax revenue: tax revenues have grown by just 3 percent compared to last year, which is far below the targeted annual growth of 15 percent in FY 2024/25.

During the first seven months of FY 2024/25, an average of 63 percent of tax revenues were used for debt servicing, compared to 71 percent in the same period last year.



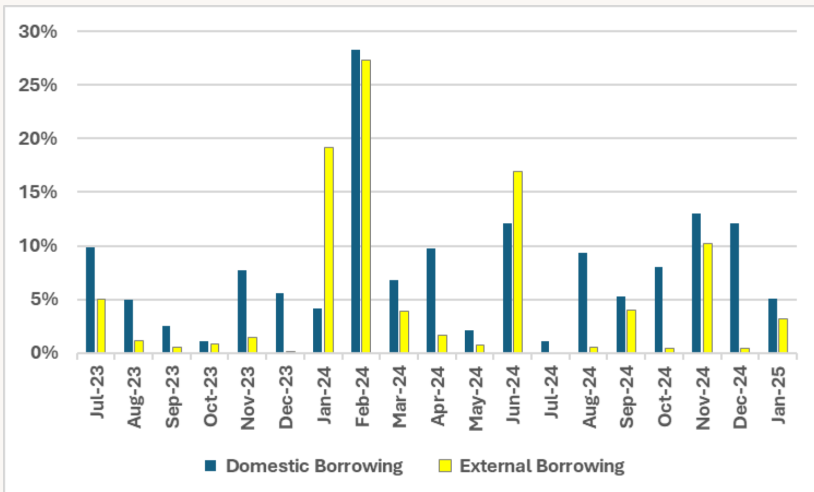
- In line with the Medium Term Revenue Strategy, non-tax revenues are growing rapidly.
- NTRs were at 64 percent of the revised target for the year and grew significantly by 138 percent compared to last year.

Non-tax revenues have grown significantly in the current financial year



- Ministries, Departments, and Agencies(MDAs) development spending grew by 35 percent compared to the same period last year, reaching Ksh 139 billion, which was 40 percent of the revised target of Ksh 351 billion. While development spending has typically lagged, government has accelerated expenditure this year. This could be as a result of improved procurement processes in the current financial year.
- On the other hand, recurrent spending increased by 8 percent compared to the same period last year.

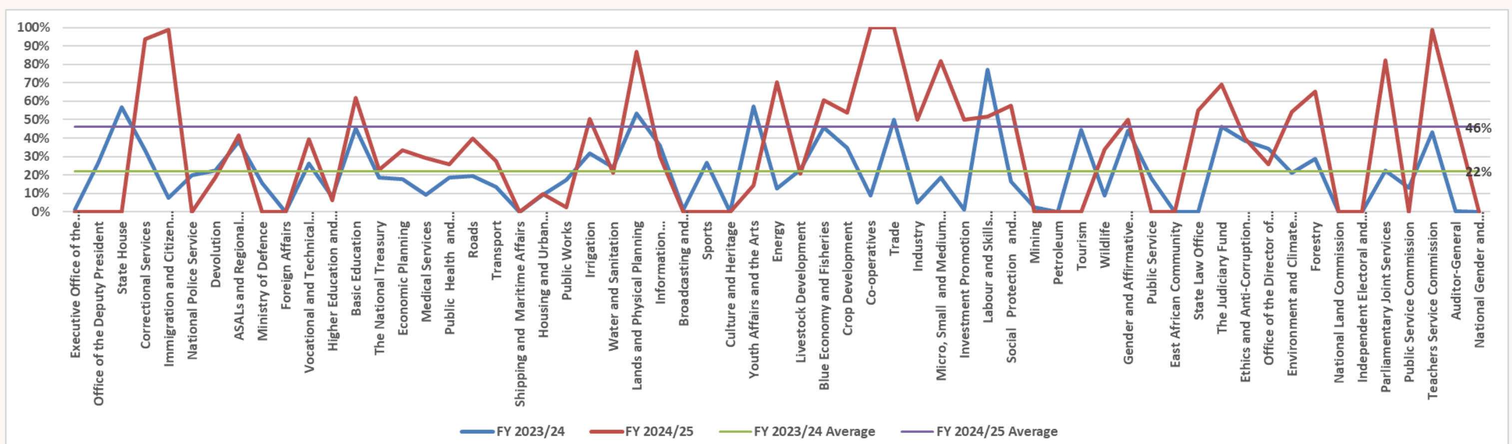
While increased domestic borrowing in FY 2024/25 has reduced currency risk, it is often more expensive, with higher interest rates than external concessional finance.



However, the cost of domestic borrowing has gradually dropped. By mid-February 2025, the 364-Day treasury bills had an average interest rate of 11 percent compared to 17 percent recorded in the same period last year. This follows the monetary policy committee's decision to lower the Central Bank Rate, citing stable core inflation, low energy prices, and exchange rate stability, which reduced the government's risk premium.

Domestic borrowing jumped by 73 percent, while external borrowing dropped by 54 percent compared to the same period last year.

Actual MDAs development receipts against revised budget as of end of January(%)



By January 2025, MDAs spent an average of 46 percent of their revised annual development budget, marking a significant improvement from the 22 percent recorded in the same period in FY 2023/24.

The Bad

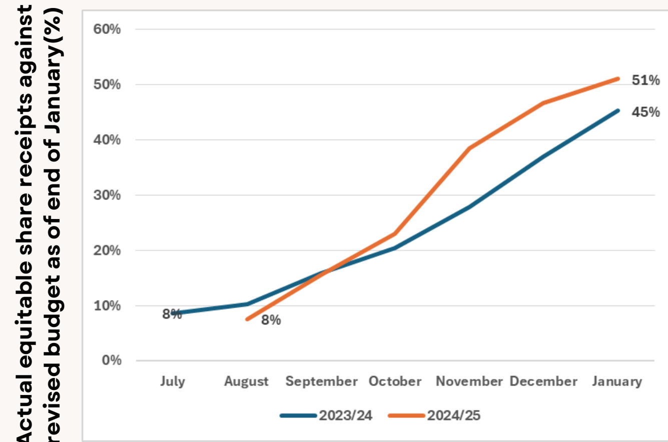
- Arbitrary revision of budget numbers: the State Department for Internal Security and National Administration exceeded its revised annual development budget by 694%. Originally, the department had an allocation of Ksh 8 billion which was cut to Ksh 360 million in the Supplementary budget 1. However, by January 2025, the department had spent around Ksh 3 billion.
- MDAs need to strictly operate within their allocated budgets without exceptions.
- 4 State departments—National Police Service, Culture and Heritage, Public Service, and the Gender and Equality Commission—received no allocated development funds, which could delay project implementation.

Trends to Watch

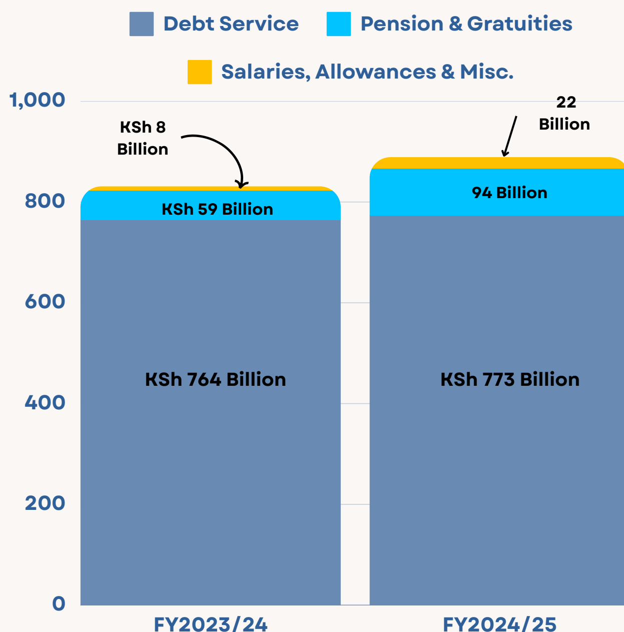
1. Will counties receive their money in time to spend it?

- **By January, FY 2024/25 disbursements were at 51% of the revised budget compared to 45% last year, highlighting improved performance despite slower early months.**
- **Counties received a Ksh 16 billion disbursement for January, about half of the Ksh 32 billion they should receive per month on average.**
- **While shortfalls in national revenue affect disbursements, procedural issues also contribute significantly. These include delays in providing the required documentation to the Office of the Controller of Budget (OCOB), as well as the submission of incomplete or non-compliant documents, which hinder or delay OCOB's approval of fund transfers to County Revenue Fund (CRF) accounts.**
- **Notably, it is crucial for the government to publish the approved cash disbursement schedule for FY 2024/25, which is still pending release, as mandated by law.**

Excluding arrears(31 billion) disbursed in July 2024, counties had received Ksh 177 billion by January 2025



2. How will the government manage the rising debt service costs in FY 2024/25 and the medium term?



Debt service continues to draw away a significant share of financing from other government spending. During the period under review, debt service reduced from 63 percent of tax revenue in January 2024 to 62 percent in January 2025. Only 38 percent of tax revenue was left for the rest of the government spending, both recurrent and development.

Notably, salaries & allowances to constitutional officeholders and miscellaneous saw a sharp increase of 156 percent compared to the same period last year, reaching 516 percent of revised estimates in January 2025.

Source: Kenya Gazette(Vol. CXXVII-No. 31) published online on 17th February 2025