PRESS STATEMENT

Introduction

1. Since assuming this office as the Minister for Finance in end of January this year, my attention has been drawn to several articles and debates on the media about the state of our economy, its impact on our budget implementation and perceived governance challenges. This press briefing is, therefore, intended to put into correct perspective the state of our economy today and going forward, what that entails for our budget and the governance reforms being implemented to ensure efficiency in service delivery and value for money.

Recent Economic Development

2. As we are all aware, our economy grew robustly to reach 7 percent in 2007 from 0.5 percent in 2002. However, in 2008, we experienced four major shocks namely, the post-election violence, high international oil and fertilizer prices, delayed and inadequate rains and global financial crisis. In particular, the higher fertilizer and fuel prices, together with delayed land preparation and poor rains, resulted in a sharp decline in domestic maize supplies. As a result, the importation of maize to bridge the deficit has put pressure on our budgetary resources, external balance of payments and the shilling exchange rate.

3. In 2009, we expect the global economic crisis to start impacting negatively on key sectors of our economy with growth in fiscal year 2008/09 now revised downwards from 5.8 percent to about 3 percent. The on-going recession in advanced countries will reduce the demand for our exports, including tea, horticulture and coffee in 2009, if protracted, in the medium-term. As such, earnings from these key commodities as well as those from tourism, remittance and capital inflows are expected to decline.

4. But given our commitment to maintaining macro-economic stability, rein on inflation and restore growth crucial for employment creation and poverty reduction, the Government has started implementing immediate and appropriate fiscal, monetary and structural reform measures. I have confidence that these measures we are now implementing together with other interventions I will be proposing in the next 2009 Budget, will hasten the process to reverting to a higher growth path consistent with our Vision 2030.

Progress in 2008/09 Budget Implementation

5. Turning to the 2008/09 Budget, we are all aware that programmed expenditure amounts to KShs.673.1 billion. This was to be financed by revenues amounting to KShs.546.5 billion, leaving a deficit of KShs.127 billion. As we have shared in the recent past with the public, this deficit is fully financed as follows: (i) KShs.25.2 billion net foreign funding; (ii) KShs.52.1 billion infrastructure bond comprising Kshs 18.5 billion domestic long-term bond and Kshs 33.6 billion proceeds from sovereign eurobond; (iii) KShs.36 billion net domestic borrowing; (iv) KShs.8 billion privatization receipts; and (v) KShs.5.7 billion comprising of refinancing of KShs.3.0 billion shareholder loan to Telkom Kenya Ltd and KShs.2.7 billion to Kenya Petroleum Refinery Ltd.

6. So far in the first half of the financial year to December 2008, the implementation of the budget progressed well and was broadly in line with the program, contrary to alarmist statements published in the media in the recent past. The true position is that as at end of December 2008, ordinary revenues amounted to KShs.216.7 billion or 98 percent against a target of KShs.221.8 billion, representing KShs.5.1 billion below target.

7. On the expenditure side, reflecting some minor delays in scheduled procurements and donor fund disbursements, the overall expenditures issued to line ministries for recurrent and development amounted to KShs.262.9 billion by end of December 2008 against a target of KShs.309.9 billion or KShs.47 billion below programmed target. This under utilization of funds budgeted comprised of KShs.21.8 billion in recurrent budget and KShs.24.9 in development budget.

8. On the outlook to June 2009, we recognize that the growth for Fiscal Year 2008/09 will now be lower than we had earlier programmed due to on-going global economic crisis and its adverse effects on exports and growth. However, we remain fully committed to implementing appropriate economic policies and structural reforms to ensure we restore our economy gradually to a higher growth path.

9. On the recent report about under-funding to Free Primary and Secondary schooling, let me state as follows: The Government remains fully committed to providing free primary and free tuition in secondary schooling as part of poverty alleviation program. This commitment is reflected by continued support to the sector. In 2008/09 budget, the Ministry of Education was allocated Kshs. 117.5 billion Budget. This is 20.1% of the total ministerial budgets of which:

- Recurrent expenditures - Kshs. 106.9 billion
- Development expenditures - Kshs. 10.6 billion

10. By February 2009, the overall exchequer released by the Treasury to the Ministry of Education is Kshs. 64.4 billion or 84% against a target of 76.7, of which:

- Recurrent Exchequer - Kshs. 60.6 billion
- Development Exchequer - Kshs. 3.9 billion

11. The under issue of Kshs. 12.3 billion is mainly on account of shortfall in projected revenues and domestic borrowing we experienced in the first half of this fiscal year. I wish to inform the general public and especially the parents that Treasury will disburse Kshs. 2.6 billion and Kshs. 4.3 billion for Free Primary and Secondary Education respectively that are urgently required to ensure that the programme is implemented as planned.

12. And taking into account the likely revenue shortfalls to end-June 2009 as a result of lower growth, additional priority expenditures, including drought mitigation interventions, Kazi Kwa Vijana (officially launched today by His Excellency the President and the Rt. Hon. Prime Minister), and postponement of the issuance of the sovereign bond, we now expect a financing gap of about KShs.25 billion.

13. We plan to close this gap through expenditure measures as outlined in the Treasury's Circular quoted by the media today, particulary the headline on Nation Newspaper. Among the areas targeted for expenditure cuts include domestic and international travels, conferences and workshops, training and furniture. In addition, recruitment of new officers and projects whose implementation have not commenced shall be postponed to next fiscal year.

14. We are doing this as part of our effort to rationalize expenditure to ensure only priority projects and activities are implemented. This exercise also allows us to create fiscal room to fund

other priority expenditures that will have direct and immediate positive effect on growth and poverty reduction such as the drought mitigation and public works.

Debt Stock and Debt Management Strategy

15. Let me also make some comments about debt stock and debt management. It should be noted that as at the end of **January 2009**, the total public debt owed by the Government stood at Kshs 960 billion (USD 12.0 billion). It is composed of:

- Domestic debt – **Kshs 448 billion** (USD 5.6 billion) representing **47%** of total debt.
- External Debt – **Kshs 512 billion** (USD 6.4 billion) representing **53%** of total debt. The total is comprised of central government debt of Kshs 416 billon and Kshs 36 billion debt of public entities.

16. Over the years, the Government has maintained a prudent Debt Management Policy. That is why Kenya is not classified as a Highly Indebted Poor Country (HIPC) by the International Community. Our Debt Susstainability Analysis and ratings by Standard and Poors and Fitch Rating has indicated that Kenya's debt position is sustainable and stable. To ensure sustainability is maintained in the medium and long term, the Government will:-

- Continue to pursue a prudent fiscal framework to ensure that the public debt remains within sustainable levels.
- Prioritize multilateral and bilateral concessional borrowing with a minimum grant element of 35 percent.
- Seek debt relief from external creditors on bilateral basis in the form of debt cancellations or Debt for Development Swaps.
- Continue to lengthen the maturity profile of domestic debt through issuance of longer dated instruments.
- Step up monitoring and management of all contingent liabilities to safeguard against risks.

Governance Reforms

17. This government recognizes that an efficient, accountable, effective and transparent public service is critical in fostering trust in the Government, and we would like to assure the Kenyan people that our Governance Strategy is aimed at making the public sector operate in ways that makes corruption difficult to commit, likely to be detected, and certain to be punished.

18. To this end, significant strides have also been made especially in establishing a legal foundation for the fight against corruption. Under prevention--several laws have been enacted to prevent corruption, enhance public sector efficiency and effectiveness, while the anti-corruption institutions have been strengthened. The capacity of prosecution has also been enhanced, including through hiring of more prosecutors and judges.

19. As you are aware, following corruption allegations in Kenya Tourism Board and The Kenya Pipeline Corporations, both the Chief Executives have been suspended and investigations are on going. And on the recent maize scandal, and once again as a sign of the Government's commitment to transforming our country to make it free of corruption, the Government is in the process of carrying out a forensic audit of all financial transactions of NCPB and its handling of imported grains since July 1, 2008. This audit is to be conducted by a reputable international firm and its findings will be made public. The forensic audit is being undertaken with the view of holding to account those found in any wrongdoing.

20. The Government recognizes that while significant progress has been registered towards improvement of governance and the fight against corruption in the recent past, many challenges

remain. These challenges, both legislative and institutional in nature, form the basis for the implementation of further reform measures in the areas of corruption prevention, investigations and prosecution/restitution.

21. The Government will continue to work closely with all our partners, both within and external to the Government to ensure that we are reinforcing good governance in the Public service. I would like to urge all Kenyans to recognize and support the effort the Government is making in the fight against corruption and in the improvement of governance in our country. We as a people need to appreciate the virtues of good governance and the harm caused by corruption to the political and socio-economic systems.

22. Going forward let me assure Kenyans and the media in particular that this economy is on a strong footing built over the 2003 – 2007 through implementation of bold economic policies and structural reforms. The slow down forecast on the key sectors of our economy due to the on-going global financial crisis reflects our cautious and prudent outlook. It is to this end that in the interest of our country and accurate reporting, I wish to caution the media and other contributors to report accurately on important policy matters that are of national interest.

HON. UHURU KENYATTA, EGH, MP
DEPUTY PRIME MINISTER &
MINISTER FOR FINANCE

12th March 2009