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HARAMBEE

REPUBLIC OF KENYA

THE NATIONAL TREASURY

BUDGET REVIEW

AND OUTLOOK PAPER, 2015

SEPTEMBER 2015

SECRET

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Public Relations Office
The National Treasury
Treasury Building
P. O. Box 30007-00100
NAIROBI, KENYA

Tel: +254-20-2252-299
Fax: +254-20-341-082

The document is also available on the website at: www.treasury.go.ke

Foreword

The Kenyan economy has continued to register strong economic growth and preserved macroeconomic stability in the wake of uncertainty in the global currency markets following recovery of the US economy and concerns in the Euro Area. The economy expanded by 5.3 percent in 2014 and 5.5 percent in second quarter 2015. This growth is supported by strong performance in most sectors of the economy which offset the contraction in the tourism sector. In 2015, the economy is expected to expand further by between 5.8- 6.0 percent and 6.5 percent over the medium term, bolstered by the lower oil prices and higher public and private investment that will support strong construction activities and production of cement and steel manufacturing for the Standard Gauge Railway currently ahead of its construction schedule. Further, growth will be lifted by increased consumer confidence and higher total factor productivity that reflects continued implementation of structural reforms and investments in sectors such as security, health and education.

The FY 2014/15 budget was below target due to shortfalls in revenue collection particularly income tax, VAT collection and import and excise duty and lower absorption of both recurrent and development expenditures by the National Government. In the 2015/16 budget, efforts will be made to improve revenue collection and enhance absorption rate of resources by the Ministries, Departments and Agencies (MDAs).

In order to anchor the reform agenda and safeguard against shocks that could derail the development agenda of the Government, the IMF Board approved a precautionary Stand-by Arrangement and a Stand-by Credit arrangement for an amount of SDR 488.52 million or US$ 688.3 million.

While the macroeconomic environment remains favorable, the foreign exchange market has been volatile since April 2015 following indications of recovery of the US economy and strengthening of the US dollar in the international market. This resulted in the depreciation of the Kenya Shilling exchange rate against the US dollar. This situation has since stabilized and the Kenya Shilling exchange rate is now appreciating following foreign exchange inflows in the money market. Short term interest rates that had initially risen following the tightened monetary policy are now on a downward trend and are expected to decline further in the coming months due to increased liquidity and receipt of the syndicated loan for budgetary purposes that will reduce the level of domestic borrowing from the domestic market. We however, call for caution in the fiscal projections for the FY 2016/17 considering the challenges that we have experienced so far in the FY 2015/16 with low outcome in real GDP growth, revenue collection, domestic borrowing and the increased demands for public spending.

In this 2015 BROP, while re-emphasizing the Government's economic and development agenda we have set consistent expenditure ceilings that take into consideration the projected resource envelope. I call upon the Chairpersons of the various Sector Working Groups to adhere to the hard sector ceilings and rationalize all programs to ensure that only those programs within the five pillars with the least cost but highest impact on our core objectives of growth, employment and poverty are given consideration in resource allocation.

HENRY K. ROTICH
CABINET SECRETARY/THE NATIONAL TREASURY

Acknowledgement

This 2015 Budget Review and Outlook Paper (BROP), is prepared in accordance with the Public Finance Management (PFM) Act, 2012 and is the third to be prepared under the Current Administration. The document provides a review of the recent economic developments and actual fiscal performance of the FY 2014/2015 in comparisons to the budget appropriations for the same year. It further provides an overview of how the actual performance of the FY 2014/2015 affected our compliance with the Fiscal Responsibility Principles and the financial objectives spelt in the PFM Act as well as information showing changes from the projections outlined in the February 2015 Budget Policy Statement (BPS).

The preparation of the 2015 BROP was a collaborative effort among various units. The spending units, the Ministries and other Government Departments and Agencies, provided useful information through their budget execution for the FY 2014/15. We are grateful for this. We are also grateful for the variable inputs from the Macro Working Group.

A core team in the National Treasury spent a significant amount of time putting together this BROP. We are particularly grateful to the Director General, Budget, Fiscal and Economic Affairs, Dr. Geoffrey Mwau, Mr. Francis Anyona, Director, Budget Department (BD), and Mr. Musa Kathanje, Deputy Director, Macro and Fiscal Affairs Department for coordinating the execution of this task. Special thanks go to the following officers who worked tirelessly to prepare this document: Mr. John Njera, Ms. Naomi Matheri, Mr. Samuel Kiiru, Mr. Richard Gakunya, Ms. Miriam Musyoki. Since it would not be possible to list everybody individually in this page, I would like to take this opportunity to thank the entire staff of the National Treasury for their dedication, sacrifice and commitment to public service.

DR. KAMAU THUGGE, EBS
PRINCIPAL SECRETARY/THE NATIONAL TREASURY

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Abbreviations and Acronyms

AiA	Appropriation in Aid
BOP	Balance of Payment
BPS	Budget Policy Statement
BROP	Budget Review and Outlook Paper
CBR	Central Bank Rate
CFS	Consolidated Fund Services
CG	County Government
FY	Financial Year
GDP	Gross Domestic Product
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MDAs	Ministries, Departments and Agencies
NG	National Government
MPC	Monetary Policy Committee
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
NFA	Net Foreign Assets
NDA	Net Domestic Assets
PFM	Public Finance Management
SRC	Salaries and Remuneration Commission
SWGs	Sector Working Groups
WEO	World Economic Outlook
VAT	Value Added Tax
CBK	Central Bank of Kenya
NSE	Nairobi Securities Exchange
ICT	Information, Communication and Technology

Legal Basis for the Publication of the Budget Review and Outlook Paper

The Budget Review and Outlook Paper is prepared in accordance with Section 26 of the Public Finance Management Act, 2012. The law states that:

1) The National Treasury shall prepare and submit to - Cabinet for approval, by the 30th September in each financial year, a Budget Review and Outlook Paper, which shall include:

    a. Actual fiscal performance in the previous financial year compared to the budget appropriation for that year;

    b. Updated macro-economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent Budget Policy Statement

    c. Information on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the latest Budget Policy Statement; and

    d. The reasons for any deviation from the financial objectives together with proposals to address the deviation and the time estimated to do so.

2) Cabinet shall consider the Budget Review and outlook Paper with a view to approving it, with or without amendments, not later than fourteen days after its submission.

3) Not later than seven days after the BROP has been approved by Cabinet, the National Treasury shall:

    a. Submit the paper to the Budget Committee of the National Assembly to be laid before each house of Parliament; and

    b. Publish and publicize the paper not later than fifteen days after laying the Paper before Parliament.

Fiscal Responsibility Principles in the Public Finance Management Act

In line with the Constitution, the Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The PFM law (Section 15) states that:

1) Over the medium term, a minimum of 30% of the national budget shall be allocated to development expenditure

2) The national government's expenditure on wages and benefits for public officers shall not exceed a percentage of the national government revenue as prescribed by the regulations.

3) Over the medium term, the national government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure

4) Public debt and obligations shall be maintained at a sustainable level as approved by Parliament (NG) and county assembly (CG)

5) Fiscal risks shall be managed prudently

6) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future

Executive Summary

This Budget Review and Outlook Paper (BROP) is prepared in accordance with the Public Finance Management (PFM) Act, 2012 and is the third under the Jubilee Administration. It presents the Budget performance for FY2014/15 and how the budget adhered to the fiscal responsibility principles and financial objectives set out in the PFM Act, 2012. The updated macro-economic and fiscal forecasts therein also provides the basis to revise the FY2015/16 budget in the context of Supplementary Estimates, as well as set out the broad fiscal parameters for the FY2016/17 budget and the medium term.

In the FY 2014/15, the cumulative revenue collection including A-i-A was Ksh 1,106.4 billion. This revenue was Ksh 64.1billion below the revised target of Ksh 1,170.5 billion due to shortfall in all tax revenue categories. Total expenditures and net lending was Ksh 1,640.3billion, which is Ksh 222.3 billion below the revised target of Ksh 1,862.6 billion. The shortfall was as a result of underperformance in the recurrent expenditures, development expenditures. On the positive side, the execution of the Standard Gauge Railway (SGR) has proceeded faster than expected, resulting in a front loading of development spending.

The fiscal deficit for the FY 2014/15, (on a commitment basis and excluding grants), at Ksh 533.9 billion (equivalent to 9.4 percent of GDP) was lower than the budget of Ksh 692.0 billion (equivalent to 12.2 percent of GDP). Including grants, the deficit (on a cash basis) at 8.3 percent of GDP was lower than the budget of 11.0 percent of GDP. The higher deficit in FY 2014/15 was due to the implementation of the SGR. Including grants and excluding expenditures related to the SGR the deficit for the FY 2014/15 was therefore, 6.4 percent of GDP.

The FY 2014/15 budget adhered to the fiscal responsibility principles and financial objectives set out in the PFM Act, 2012. These include: development as a percent of total budget was 36.1 percent; share of NG wages and benefits to National Government revenues was 33.4 percent; National Government borrowing was used to finance development expenditure only; Public debt and obligations were maintained at a sustainable level as approved by Parliament; improved macroeconomic forecasts to manage fiscal risks; and reforms in the tax administration and legislations were carried out to lock in predictability and enhance compliance with the tax system.

The budget for the FY 2016/17 and the medium term is premised on the favourable macroeconomic environment that Kenya continues to enjoy despite the risks within and from external sources. While the macroeconomic environment remains favorable, the foreign exchange market has been volatile since April 2015 following indications of recovery of the US economy and strengthening of the US dollar in the international market. This resulted in the depreciation of the Kenya Shilling exchange rate against the US dollar. This situation has since stabilized and the Kenya Shilling exchange rate is now appreciating following foreign exchange inflows in the money market. Short term interest rates that had initially risen following the tightened monetary policy are now on a downward trend and are expected to decline further in the coming months due to increased liquidity and receipt of the syndicated loan for budgetary purposes that will reduce the level of domestic borrowing from the domestic market.

The budget for FY 2016/17 targets revenue collection including Appropriation-in-Aid (AiA) of Ksh 1,560.4 billion (21.3 percent of GDP) up from Ksh 1,363.7 billion (21.1 percent of GDP) in FY 2015/16. Ordinary revenues will amount to Ksh 1,444.9 billion (19.7 percent of GDP) in FY 2016/17 up from Ksh 1,250.9 billion (19.4 percent of GDP) in FY 2015/16. Overall expenditure and net lending are projected at Ksh 2,102.4 billion (28.7 percent of GDP) from the projected Ksh 2,014.8 billion (31.2 percent of GDP) in the FY 2015/16. Recurrent expenditures will amount to Ksh 1,112.0 billion (15.2 percent of GDP) while development expenditure is projected at Ksh 705.6 billion (9.6 percent of GDP).

Reflecting the projected expenditures and revenues, the overall fiscal balance (on a commitment basis and excluding grants), is projected at Ksh 542.0 billion (equivalent to 7.4 percent of GDP) in the FY 2016/17. Including grants, the overall fiscal balance is projected at Ksh 482.1 billion (6.6 percent of GDP) in FY 2016/17 against the estimated overall fiscal balance of Ksh 577.7 billion (8.2 percent of GDP) in FY 2015/16. The deficit including grants and excluding expenditures related to the SGR in the FY 2016/17 is projected at 5.4 percent of GDP lower than the 7.1 percent of GDP in FY 2015/16.

The fiscal deficit in FY 2016/17, will be financed by net external financing of Ksh 239.9 billion (3.3 percent of GDP) and Ksh 239.8 billion (3.3 percent of GDP) net domestic borrowing.

There are risks to the medium term framework that include among others, insecurity, pressures on expenditures especially recurrent related expenditures, the expected El Nino rains that might disrupt economic activities and external risks particularly on the uncertainty in the international oil market. The Government will closely monitor the developments and undertake appropriate measures to safeguard macroeconomic stability should these risks materialize.

I. INTRODUCTION

Objective of the Budget Review and Outlook Paper (BROP)

1. The objective of the 2015 BROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in the 2015 Budget Policy Statement (BPS). This together with an updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and the medium term.

2. This BROP, therefore, continues implementation of the development agenda in the 5 thematic areas of creating conducive business environment; investing in agricultural transformation and food security; investing in key infrastructure; investing in quality and accessible healthcare and education; and further entrenching devolution. Details of these medium term policy priorities remain as outlined in the 2015 BPS.

3. The 2015 BROP provides sector ceilings for the 2016/17 budget and the medium term guided by the PFM Act 2012. The Ceilings set in motion the budget preparation for the Fiscal Year 2016/17.

4. The rest of the paper is organised as follows: Section II provides a review of the fiscal performance for the FY 2014/15 and its implications on the financial objectives set out in the 2015 BPS submitted to the National Assembly in February 2015. This is followed in Section III by brief highlights of the recent economic developments. Section IV presents the macroeconomic policies and outlook. The proposed resources allocation framework is detailed in Section V while the Section VI concludes.

II. REVIEW OF FISCAL PERFORMANCE FOR THE FY 2014/15

A. Overview

5. The implementation of the 2014/15 budget faced numerous challenges. First, revenue collection was weaker than projected, reflecting mainly lower-than-expected income tax, VAT collection and excise duties and challenges in the full implementation of the capital gains tax. In addition, there were pressures on other current spending, reflecting to a large extent the need for higher security-related outlays in response to recent security and terrorism events.

6. Total cumulative revenue collection including A-I-A by end June 2015 was at Ksh 1,106.4 billion or Ksh 64.2 billion below the revised target of Ksh 1,170.5 billion. Most tax revenue categories recorded lower revenues than target during the period. On the expenditures side, the Government had to incur additional expenditure to address insecurity, shortfalls in the education sector and infrastructure related projects. Total expenditures and net lending by end June 2015 was Ksh 1,640.3 billion and was below the revised target of Ksh 1,862.6 billion by Ksh 222.3 billion.

7. As a result, the fiscal balance as at end of June 2015, (on a commitment basis and excluding grants), was Ksh 533.9 billion (equivalent to 9.4 percent of GDP) against a targeted deficit of Ksh 692.0 billion (equivalent to 12.2 percent of GDP). Including grants, the fiscal balance (on a cash basis) recorded a deficit of 8.3 percent of GDP against a budget of 11.0 percent of GDP. The fiscal deficit excluding expenditures related to Standard Gauge Railway was 6.4 percent of GDP in FY 2014/15.

B. FY 2014/15 Fiscal Performance

Performance of Revenues

8. By the end of June 2015, total cumulative revenue including AiA collected amounted to Ksh 1,106.4 billion against a revised target of Ksh 1,170.5 billion **(Table 1).** This represented a revenue shortfall of Ksh 64.2 billion (or 5.5 percent deviation from the revised target). Ordinary revenue collection amounted to Ksh 1,031.2 billion against the target of Ksh 1,070.5 billion.

9. Tax revenues were largely below the revised target in all the categories. Income tax was below target by Ksh 23.8 billion largely on account of other income tax, VAT was below target by 10.4 billion on account of VAT imports and Import duty and Excise duty were below target by Ksh 2.7 billion and Ksh 3.7 billion, respectively. Investment revenue was similarly below the revised target by Ksh 2.9 billion while 'Other' revenues (land rent, fines and forfeiture, miscellaneous revenues and others) received higher revenues than target.

10. The Railway Development Levy collection amounted to Ksh 18.4 billion against a target of Ksh 22.9 billion. Cumulative ministerial AiA recorded an under performance in the year due to the persistent problem of under reporting especially by the spending units.

Table 1: Government Revenue and External Grants, 2014/15 (Ksh Million)

	2013/14	2014/15			Deviation
	Actual	Actual	Target	Deviation	(percentage)
Total Revenue (a+b)	**1,001,027**	**1,106,378**	**1,170,529**	**64,151**	**28.5**
(a) Ordinary revenue	**918,990**	**1,031,248**	**1,070,515**	**39,267**	**3.7**
Import Duty	67,555	74,048	76,748	2,700	3.5
Excise Taxes	102,029	115,872	119,559	3,687	3.1
PAYE	249,873	279,796	284,361	4,566	1.6
Other Income Tax	199,717	228,785	248,038	19,253	7.8
VAT Domestic	107,737	127,905	126,766	(1,138)	(0.9)
VAT Imports	124,893	131,781	143,286	11,505	8.0
Investment revenue	10,181	13,460	16,403	2,942	17.9
Traffic Revenue	3,323	2,825	3,010	186	6.2
Others	53,682	56,777	52,344	(4,433)	(8.5)
(b) Appropriation in Aid	**82,037**	**75,130**	**100,014**	**24,884**	**24.9**
(c) External Grants	**26,957**	**27,384**	**66,395**	**39,011**	**58.8**
Total Revenue and Grants	**1,027,984**	**1,133,762**	**1,236,924**	**103,162**	**8.3**
Total Revenue & External Grants as percentage of	**20.4**	**19.9**	**21.7**	**1.8**	-

1/ includes rent on land, capital gains tax, fines and forfeitures, other taxes, IDF fees and miscellaneous revenue.
2/ includes receipts from Road Maintenance Levy Fund and A-I-A from MDAs

Source: National Treasury

11. Similarly, external grants amounted to Ksh 27.4 billion against a target of Ksh 66.4 billion, representing an under performance of Ksh 39.0 billion. Of these external grants, Programme grants (AMISOM reimbursements) amounted to Ksh 3.8 billion against a revised target of Ksh 6.1 billion.

12. As a proportion of GDP, the total cumulative revenue and grants in the FY 2014/15 amounted to 19.9 percent compared to 20.4 percent in the FY 2013/14. External grants amounted to 0.5 percent of GDP against a target of 1.2 percent of GDP.

Expenditure Performance

13. Total expenditure and net lending in FY 2014/15, amounted to Ksh 1,640.3 billion against a target of Ksh 1,862.6 billion, representing an under spending of Ksh 222.3 billion (or 11.9 percent deviation from the revised budget) **(Table 2)**. This shortfall was attributed to lower absorption in both recurrent and development expenditures by the line ministries.

14. The National Government's recurrent expenditure amounted to Ksh 897.0 billion (inclusive of Judiciary & Parliament) against a target of Ksh 940.5 billion, representing an under-spending of Ksh 43.5 billion (or 10.1 percent deviation from the approved recurrent expenditure). The under-spending was in respect of operations and maintenance (Ksh 45.1 billion), wages and salaries (Ksh 4.9 billion), as well as pensions and CFS (Ksh 1.2 billion). The lag between spending at the sub-county level and reporting to the headquarters continue to contribute to the apparent expenditure underperformance.

i. Expenditure on foreign and domestic interest payments was above target by Ksh 4.4 billion and Ksh 3.4 billion respectively. Foreign interest payments amounted to Ksh 33.3 billion, compared to Ksh 15.6 billion in the same period of the FY 2013/14. The domestic interest payment totalled KSh 139.6 billion, which was higher than KSh 119.2 billion paid in the corresponding period of the previous financial year, mainly due to higher borrowing as a result of investments in infrastructure development.

ii. Ministerial appropriation-in-aid in recurrent expenditure recorded an under spending of Ksh 11.1 billion

Table 2: Expenditure and Net Lending, Ksh Million

	FY 2013/14 Preliminary Actual	FY 2014/15 Preliminary Actual	Targets	Deviation	% Growth
1. RECURRENT	**814,535**	**896,993**	**940,533**	**(43,540)**	10.1
Domestic Interest	119,193	139,615	136,221	3,394	17.1
Foreign Interest due	15,628	33,330	28,966	4,364	113.3
Pensions etc	30,155	38,232	39,444	(1,212)	26.8
Wages & Salaries	281,197	293,115	297,978	(4,863)	4.2
Defense and NSIS	93,775	97,832	97,911	(79)	4.3
Others (Incl of O & M)	274,588	294,868	340,013	(45,144)	7.4
o/w Ministerial Recurrent AIA	54,814	50,566	61,705	(11,139)	(7.8)
2. DEVELOPMENT	**319,274**	**508,580**	**684,360**	**(175,780)**	59.3
Domestically Financed (Gross)	198,488	266,015	319,992	(53,977)	34.0
Foreign Financed	118,601	240,439	362,245	(121,805)	102.7
Net Lending	2,185	2,125	2,123	2	(2.7)
3. COUNTY TRANSFER	**193,390**	**229,336**	**229,264**	73	18.6
4. EQUILIZATION FUND	-	**400**	**3,411**	(3,011)	-
5. CONTINGENCIES FUND	-	**4,951**	**5,000**	(49)	-
				-	-
TOTAL EXPENDITURES (1+2+3+4+5)	1,327,199	1,640,259	1,862,566	(222,307)	23.6

Wages and salaries; for teachers and civil servants including the police

Source: National Treasury

15. Development expenditures were below target by Ksh 175.8 billion due to the slow take-off in the domestically financed programmes by Ksh 54.0 billion, and lower than programmed execution externally funded programmes by Ksh 121.8 billion. The underperformance in development expenditure reflects low absorption of domestically financed development by MDAs, delay in procurement and low absorption of external funds from development partners. On the positive side, the execution of the Standard Gauge Railway (SGR) has proceeded faster than expected, resulting in a front loading of development spending of about 0.8 percent of GDP.

Ministerial Expenditure

16. The total cumulative ministerial and other public agencies expenditure was Ksh 1,072.3 billion against a target of Ksh 1,409.4 billion. Recurrent expenditure was Ksh 664.3 billion against a target of Ksh 712.8 billion, while development expenditure was Ksh 408.0 billion against a target of Ksh 696.6 billion. The percentage of total expenditures to the target was 76.1 percent (93.2 percent recurrent and

58.6 percent development) as at the end of the period under review. As indicated earlier, the discrepancy between actual and target expenditures partly reflect the non-capture of the district expenditures and hence under reporting by ministries. These ministerial expenditures are therefore, provisional.

17. As at the end of period ending 30th June 2015, expenditures by the Ministry of Education, Science and Technology; Teachers Service Commission and Ministry of Health (Social Sector) accounted for 42.7 percent of total recurrent expenditure. While the State Department for Interior, and Ministry of Defence accounted for 11.0 percent and 11.8 percent respectively.

18. Analysis of development outlay indicates that the Departments of Infrastructure (21.0 percent) accounted for the largest share of the total development expenditures, followed by the State Department for Planning (13.9 percent), Ministry of Energy and Petroleum (12.4 percent) and Departments of Transport (8.9 percent). The development expenditures in large ministries were below the target because of non-inclusion of expenditures from the districts and some donor funded projects. **Table 3** gives details of various Ministerial/Departmental and Commissions expenditures for the period under review.

Table 3: Ministerial Expenditures, Period Ending 30th June 2015 (Ksh Million)

	MINISTRY/DEPARTMENT/COMMISSIONS	Jun-15 Reccurent Actual*	Jun-15 Reccurent Target	Variance	Jun-15 Development Actual*	Jun-15 Development Target	Variance	Jun-15 Total Actual*	Jun-15 Total Target	Variance	% total expenditure to total target
1011	THE PRESIDENCY	6,629	7,217	(587)	1,189	1,237	(47)	7,819	8,453	(635)	92.5
1021	STATE DEPARTMENT FOR INTERIOR	73,164	93,163	(19,999)	3,815	8,702	(4,886)	76,979	101,864	(24,885)	75.6
1022	STATE DEPARTMENT FOR COORDINATION OF NATIONAL GOVERNMENT	16,025	17,113	(1,088)	555	597	(42)	16,580	17,710	(1,130)	93.6
1031	STATE DEPARTMENT FOR PLANNING	16,310	17,343	(1,032)	56,688	59,303	(2,615)	72,998	76,645	(3,647)	95.2
1032	STATE DEPARTMENT FOR DEVOLUTION	4,294	4,330	(36)	5,563	10,161	(4,598)	9,857	14,491	(4,634)	68.0
1041	MINISTRY OF DEFENCE	78,695	78,781	(86)	-	-	-	78,695	78,781	(86)	99.9
1051	MINISTRY OF FOREIGN AFFAIRS	9,003	13,415	(4,411)	741	1,626	(884)	9,745	15,041	(5,296)	64.8
1061	STATE DEPARTMENT FOR EDUCATION	48,907	50,304	(1,397)	5,766	9,739	(3,973)	54,673	60,043	(5,370)	91.1
1062	STATE DEPARTMENT FOR HIGHER EDUCATION, SCIENCE AND TECHNOLOGY	39,147	42,624	(3,477)	11,691	14,383	(2,692)	50,838	57,007	(6,168)	89.2
1071	THE NATIONAL TREASURY	29,087	29,815	(728)	26,981	41,489	(14,508)	56,068	71,304	(15,236)	78.6
1081	MINISTRY OF HEALTH	25,614	26,466	(852)	15,248	24,848	(9,600)	40,862	51,314	(10,452)	79.6
1091	STATE DEPARTMENT FOR INFRASTRUCTURE	24,157	25,732	(1,576)	85,865	111,719	(25,854)	110,022	137,451	(27,430)	80.0
1092	STATE DEPARTMENT FOR TRANSPORT	3,342	5,871	(2,529)	36,381	181,870	(145,489)	39,723	187,741	(148,017)	21.2
1101	STATE DEPARTMENT FOR ENVIRONMENT AND NATURAL RESOURCES	10,518	8,804	1,713	6,063	8,227	(2,164)	16,581	17,032	(451)	97.4
1102	STATE DEPARTMENT FOR WATER AND REGIONAL AUTHORITIES	2,173	4,191	(2,018)	26,159	33,505	(7,346)	28,332	37,696	(9,364)	75.2
1111	MINISTRY OF LAND, HOUSING AND URBAN DEVELOPMENT	4,357	4,353	4	19,352	25,307	(5,955)	23,709	29,660	(5,951)	79.9
1121	MINISTRY OF INFORMATION, COMMUNICATIONS AND TECHNOLOGY	2,151	2,530	(379)	5,313	7,688	(2,375)	7,464	10,218	(2,754)	73.0
1131	MINISTRY OF SPORTS, CULTURE AND ARTS	2,787	2,891	(104)	1,329	1,567	(238)	4,116	4,458	(342)	92.3
1141	MINISTRY OF LABOUR, SOCIAL SECURITY AND SERVICES	6,892	8,799	(1,907)	10,334	11,843	(1,509)	17,226	20,641	(3,415)	83.5
1151	MINISTRY OF ENERGY AND PETROLEUM	2,003	2,019	(16)	50,747	88,757	(38,010)	52,751	90,776	(38,026)	58.1
1161	STATE DEPARTMENT FOR AGRICULTURE	7,508	9,938	(2,430)	20,347	29,119	(8,772)	27,855	39,058	(11,202)	71.3
1162	STATE DEPARTMENT FOR LIVESTOCK	1,549	1,819	(271)	2,690	3,782	(1,092)	4,239	5,602	(1,363)	75.7
1163	STATE DEPARTMENT FOR FISHERIES	1,071	1,114	(43)	2,056	2,105	(49)	3,127	3,219	(91)	97.2
1171	MINISTRY OF INDUSTRIALIZATION AND ENTERPRISE DEVELOPMENT	3,032	3,285	(253)	5,259	5,738	(478)	8,291	9,023	(731)	91.9
1181	STATE DEPARTMENT FOR COMMERCE & TOURISM	2,947	2,988	(41)	2,813	2,888	(75)	5,760	5,876	(117)	98.0
1182	STATE DEPARTMENT FOR EAST AFRICAN AFFAIRS	1,580	1,619	(39)	55	65	(10)	1,635	1,684	(49)	97.1
1191	MINISTRY OF MINING	761	766	(5)	1,212	1,193	19	1,972	1,958	14	100.7
1251	OFFICE OF THE ATTORNEY GENERAL AND DEPARTMENT OF JUSTICE	2,992	3,627	(636)	186	505	(319)	3,178	4,133	(954)	76.9
1261	THE JUDICIARY	10,322	10,732	(410)	1,367	3,093	(1,726)	11,689	13,825	(2,136)	84.5
1271	ETHICS AND ANTI-CORRUPTION COMMISSION	1,736	1,746	(10)	-	208	(208)	1,736	1,954	(218)	88.8
1281	NATIONAL INTELLIGENCE SERVICE	19,137	19,142	(4)	-	-	-	19,137	19,142	(4)	100.0
1291	DIRECTORATE OF PUBLIC PROSECUTIONS	1,363	1,727	(364)	12	67	(55)	1,375	1,794	(419)	76.6
1301	COMMISSION FOR THE IMPLEMENTATION OF THE CONSTITUTION	38	306	(268)	-	-	-	38	306	(268)	12.6
1311	REGISTRAR OF POLITICAL PARTIES	468	476	(8)	-	-	-	468	476	(8)	98.3
1321	WITNESS PROTECTION AGENCY	10	295	(285)	-	-	-	10	295	(285)	3.3
2011	KENYA NATIONAL COMMISSION ON HUMAN RIGHTS	337	357	(19)	-	-	-	337	357	(19)	94.5
2021	NATIONAL LAND COMMISSION	1,169	1,094	75	509	442	67	1,678	1,536	142	109.2
2031	INDEPENDENT ELECTORAL AND BOUNDARIES COMMISSION	5,179	6,795	(1,615)	74	178	(104)	5,254	6,973	(1,719)	75.3
2041	PARLIAMENTARY SERVICE COMMISSION	21,387	22,391	(1,004)	1,491	4,075	(2,584)	22,878	26,466	(3,588)	86.4
2051	JUDICIAL SERVICE COMMISSION	300	338	(38)	-	-	-	300	338	(38)	88.8
2061	COMMISSION ON REVENUE ALLOCATION	234	277	(43)	-	-	-	234	277	(43)	84.4
2071	PUBLIC SERVICE COMMISSION	989	1,008	(19)	163	168	(5)	1,152	1,176	(24)	98.0
2081	SALARIES AND REMUNERATION COMMISSION	664	840	(176)	-	-	-	664	840	(176)	79.0
2091	TEACHERS SERVICE COMMISSION	169,758	169,636	122	-	-	-	169,758	169,636	122	100.1
2101	NATIONAL POLICE SERVICE COMMISSION	452	470	(19)	-	-	-	452	470	(19)	96.1
2111	AUDITOR GENERAL	2,818	2,911	(93)	-	405	(405)	2,818	3,316	(498)	85.0
2121	CONTROLLER OF BUDGET	371	396	(25)	-	-	-	371	396	(25)	93.7
2131	THE COMMISSION ON ADMINISTRATIVE JUSTICE	356	395	(39)	-	-	-	356	395	(39)	90.2
2141	NATIONAL GENDER AND EQUALITY COMMISSION	283	290	(7)	-	-	-	283	290	(7)	97.4
2151	INDEPENDENT POLICING OVERSIGHT AUTHORITY	234	291	(56)	-	-	-	234	291	(56)	80.6
	Total	**664,300**	**712,827**	**(48,527)**	**408,017**	**696,598**	**(288,581)**	**1,072,317**	**1,409,425**	**(337,109)**	**76.1**

Source: National Treasury

Overall balance and financing

19. Reflecting the performance in revenue and expenditure, fiscal balance (on a commitment basis and excluding grants), amounted to a deficit of Ksh 533.9 billion (equivalent to 9.4 percent of GDP) that was lower than the budget of Ksh 692.0 billion (equivalent to 12.2 percent of GDP) **(Table 4)**. Including grants, the deficit (on a cash basis) at 8.3 percent of GDP was lower than the budget of 11.0 percent of GDP. The higher deficit in FY 2014/15 was due to the implementation of the SGR. Including grants and excluding expenditures related to the SGR the deficit for the FY 2014/15 was therefore, 6.4 percent of GDP.

Table 4: Budget Outturn for the FY 2014/15

	2013/2014 Actual	2014/2015		Deviation	% growth	2014/2015 as a % of GDP		2013/2014 Actual as a % of GDP
		Actual*	Targets			Actual	Targets	
A. TOTAL REVENUE AND GRANTS	**1,027,984**	**1,133,762**	**1,236,924**	**(103,162)**	**10.29**	**19.90**	**21.71**	**20.38**
1. Revenue	**1,001,027**	**1,106,378**	**1,170,529**	**(64,151)**	**10.52**	**19.42**	**20.54**	**19.84**
Ordinary Revenue(Inc RDL)	918,990	1,031,248	1,070,515	(39,267)	12.22	18.10	18.79	18.22
Import Duty	67,555	74,048	76,748	(2,700)	9.61	1.30	1.35	1.34
Excise Duty	102,029	115,872	119,559	(3,687)	13.57	2.03	2.10	2.02
Income tax	449,590	508,581	532,399	(23,819)	13.12	8.93	9.34	8.91
VAT	232,630	259,685	270,052	(10,367)	11.63	4.56	4.74	4.61
Investment Revenue	10,181	13,460	16,403	(2,942)	-	0.24	0.29	0.20
Others	57,004	59,602	55,355	4,247	4.56	1.05	0.97	1.13
Appropriation-in-Aid	82,037	75,130	100,014	(24,884)	(8.42)	1.32	1.76	1.63
2. Grants	**26,957**	**27,384**	**66,395**	**(39,011)**	**1.58**	**0.48**	**1.17**	**0.53**
AMISOM Receipts	4,695	3,843	6,100	(2,257)	-	0.00	0.11	0.09
Revenue	6,431	6,182	14,229	(8,047)	(3.87)	0.11	0.25	0.13
Appropriation-in-Aid	15,317	16,098	44,805	(28,707)	5.10	0.28	0.79	0.30
Italian Debt Swap	514	527	527	0	-	0.00	-	0.00
County Health Facilities - DANIDA	0	734	734	0	-	0.00	-	0.00
B. EXPENDITURE and NET LENDING	**1,327,199**	**1,640,259**	**1,862,566**	**(222,307)**	**23.59**	**28.79**	**32.69**	**26.31**
1. Recurrent	**814,535**	**896,993**	**940,533**	**(43,540)**	**10.12**	**15.74**	**16.51**	**16.15**
Domestic Interest	119,193	139,615	136,221	3,394	17.13	2.45	2.39	2.36
Foreign Interest	15,628	33,330	28,966	4,364	113.27	0.58	0.51	0.31
Pension	30,155	38,232	39,444	(1,212)	26.79	0.67	0.69	0.60
Wages and Salaries	281,197	293,115	297,978	(4,863)	4.24	5.14	5.23	5.57
O & M/Others	368,362	392,700	437,923	(45,223)	6.61	6.89	7.69	7.30
2. Development and Net Lending	**319,274**	**508,980**	**687,770**	**(178,791)**	**59.42**	**8.93**	**12.07**	**6.33**
3. Equalization Fund	0	400	3,411	(3,011)	-	0.00	0.06	0.00
4. County Governments	193,390	229,336	229,264	73	18.59	4.03	4.02	3.83
5. CF	0	4,951	5,000	(49)	-	0.09	0.09	0.00
C. DEFICIT EXCL.GRANT (Commitment basis)	**(326,172)**	**(533,881)**	**(692,037)**	**158,156**	**63.68**	**(9.37)**	**(12.15)**	**(6.47)**
D. DEFICIT INCL.GRANTS (Commitment basis)	**(299,214)**	**(506,497)**	**(625,642)**	**119,145**	**69.28**	**(8.89)**	**(10.98)**	**(5.93)**
E. ADJUSTMENT TO CASH BASIS	**(8,506)**	**36,042**	-	**36,042**	**(523.72)**	**0.63**	-	**(0.17)**
F. DEFICIT INCL.GRANTS (Cash basis)	**(307,720)**	**(470,455)**	**(625,642)**	**155,187**	**52.88**	**(8.26)**	**(10.98)**	**(6.10)**
G. FINANCING	**307,720**	**470,455**	**625,642**	**(155,187)**	**52.88**	**8.26**	**10.98**	**6.10**
1. Foreign financing	**104,726**	**216,361**	**301,921**	**(85,560)**	**106.60**	**3.80**	**5.30**	**2.08**
Disbursements	**132,204**	**296,574**	**383,858**	**(87,284)**	**124.33**	**5.21**	**6.74**	**2.62**
Programme Loans	0	3,454	5,375	(1,921)	-	0.00	0.09	0.00
Project Cash Loans	28,432	30,310	49,439	(19,129)	6.60	0.53	0.87	0.56
Project Loans AIA	68,420	64,393	130,315	(65,922)	(5.89)	1.13	2.29	1.36
Project Loans SGR _ AIA	0	123,456	123,456	-	-	2.17	2.17	0.00
Commercial Finanacing	35,352	74,961	75,272	(311)	-	1.32	1.32	0.70
Repayment (current)	(27,479)	(80,214)	(81,937)	1,723	191.91	(1.41)	(1.44)	(0.54)
2. Domestic Loan Repayments(Receipts)	1,267	2,992	2,113	879	-	0.05	0.04	0.03
3. Kenya Airways Reimbursements	0	0	5,300	(5,300)	-	0.00	0.09	0.00
4. Mumias Rights Issue	0	0	2,000	(2,000)	-	0.00	0.04	0.00
5. Euro Bond Balance	0	0	141,406	(141,406)	-	0.00	2.48	0.00
6. Domestic financing	201,727	251,102	172,901	78,201	24.48	4.41	3.03	4.00
MEMO ITEM								
GDP ESTIMATE	5,044,236.10	5,697,540.60	5,697,540.60					

Source: National Treasury

20. The deficit incurred at the end of June 2015 was financed through net external financing equivalent to Ksh 216.4 billion against a target of Ksh 301.9 billion, net domestic financing of Ksh 251.1 billion against a target of Ksh 314.3 billion and domestic loan redemption receipts of Ksh 3.0 billion.

21. Total disbursements (inflows) including Appropriations-in-Aid amounted to Ksh 296.6 billion for the period ending 30th June 2015 against a target of Ksh 383.9 billion. This amount included: Ksh 30.3 billion project loans revenues; Ksh 64.4 billion project loans (A.I.A); Ksh 3.5 billion programme loans; Ksh 123.5 billion project loans for Standard Gauge Railway; and Ksh 75.0 billion Commercial Financing.

C. Fiscal Performance of the Counties

22. County Governments completed their second year of operations in FY 2014/15. In this second year, budget execution by County Governments was well above average though not on target. The aggregate approved Budget Estimates for the County Governments in the FY 2014/15, was Ksh 321.56 billion and comprised of Ksh181.28 billion (56.4 per cent) allocation for recurrent expenditure and Ksh 140.29 billion (43.6 per cent) to development expenditure. The allocation for development activities conforms with PFM Act fiscal responsibility principle which requires that over the medium term, a minimum of thirty per cent of the County Government's budget shall be allocated to development activities

23. During the first nine months of the FY 2014/15, the funds available to the County Governments amounted to Ksh 203.7 billion (Kshs.138.06 billion direct transfer from National Government, Ksh 25.17 billion from local sources, and Ksh 40.48 billion cash balance brought forward from the FY 2013/14). The local revenue raised during the period was 44.0 per cent of the total annual local revenue target of Kshs.57.19 billion. In the period, County Governments accessed Ksh 183.64 billion (57.0 per cent combined approved budgets for FY 2014/2015) from the County Revenue Funds consisting of Ksh 65.71 billion (35.8 per cent) for development activities and Ksh 117.93 (64.2 per cent) for recurrent expenditure.

24. Counties have shown tremendous improvement on sector performance especially health; Agriculture, Infrastructure and Early Childhood Development amongst others. Furthermore, available evidence indicates that County Own source Revenue has improved over and above what defunct Local Governments collected. This can be attributed to improved fiscal effort by the counties, especially through automation of revenue collection, improved tax administration and enhanced capacity of staff. This is expected to further improve in the current FY, mainly as a result of various initiatives between the National and County Government. For instance, based on data for twenty-five County Governments for the FY 2013/14, transfers from the Exchequer constituted on average 92 percent of actual resources of the counties. An estimated 5.4 percent of the resources of these twenty-five counties was drawn from local sources.

Challenges in the Counties

25. Counties continue facing challenges in the implementation of their budgets. These include: failure to align Supplementary Budgets with financial records prior to approval by the County Assembly; diversion of exchequer releases activities outside the approved work plan; lack of effective monitoring and evaluation frameworks; and frequent labour actions by health workers that interrupt the health sector service delivery.

26. There is also a major concern on the pending payments and outstanding imprests. In FY 2013/14, twenty-five counties that had been reviewed cumulatively recorded pending payments totaling Ksh 12 billion (equivalent to 14 percent of their combined total spending). The bulk of this amount was pending accounts payable, most of it related to construction of buildings and civil works, and supply of goods and services. There was also pending staff payables, mostly connected with salary deductions to various SACCOs. Similarly, nineteen of the twenty-five counties whose audit reports had been analyzed in the FY 2013/14, had un-surrendered imprests amounting to Ksh 0.9 billion.

27. In terms of spending, compensation of employees continued to claim the lion's share of county budgetary resources. In FY 2013/14 for instance, the twenty-five counties mentioned in the foregoing paragraph devoted a total of 41.8 percent of their combined resources towards personnel-related spending. Compensation of employees was followed closely by acquisition of non-financial assets, (accounted for 25.3 percent of their combined resources and use of goods and services, (24.4 percent of total budgetary resources). Under this last category, the most significant spending -- total for all twenty-five counties -- was on domestic and foreign travel and subsistence (Ksh 5.3 billion).

28. Some of the remedies to address these challenges include: adherence to the law that requires alignment of Supplementary Budgets to exchequer issues, expenditure, and commitments to eliminate instances of over issues; Executive Committee members responsible for finance to designate a person responsible for administering each established County Funds in line with Section 116 of the PFM Act, 2012; establish effective monitoring and evaluation units to enhance oversight and reporting on development projects, and formulate clear strategies to address the labour issues in the health sector.

D. Fiscal Performance for FY 2014/15 in relation to Fiscal Responsibility Principles and Financial Objectives

29. The fiscal performance in the FY 2014/15 has affected the financial objectives set out in the February 2015 BPS and the Budget for FY 2015/16 in the following ways:

(i) The base for revenue and expenditure projections is broadly in line with the outcomes in FY 2014/15, as such there will be no significant base effect adjustments in the fiscal aggregates for the current budget. However, adjustments will be made to fiscal aggregates to reflect revisions in the macroeconomic projections as well as revenue performance for the first two months of FY 2015/16; and,

(ii) The outcome of the first quarter of 2015 indicates that economic growth is still strong, but below expectation, this outcome could have a dampening effect on resource mobilization prospects in FY 2015/16. The National Treasury will therefore attempt to keep expenditure for FY 2015/16 at the levels approved by Parliament. MDAs are therefore, advised to desist from the observed tendency of requesting for additional expenditures.

(iii) The baseline ceilings for spending agencies will be adjusted in line with the revised resource envelope under the updated macro framework in the 2016 Budget Policy Statement. In addition the revisions will take into account the performance in project execution in the FY 2015/16 budget by MDAs and any identified one-off expenditures in the FY 2014/15.

30. Though the outcome of the first quarter of 2015 was below the target, it was an improvement compared to the same quarter of 2014, indicating resilience of the economy. However uncertainty in the global foreign exchange market that has resulted in strengthening of the US dollar globally and the uncertainty around the timing of the first interest rate increase in the US following the tapering of quantitative easing, may slow our growth prospects. While we expect the economy to remain resilient, our projections remain cautious. We expect real GDP to grow by 6.7 percent in FY 2015/16. This is expected to pick up to 6.9 percent in FY 2016/17 and to about 7.0 percent in the outer years. This growth outlook will be supported by the on going public investments and strong growth in the sub-region. In addition, inflation is expected to stabilize at the medium term target of around 5 percent.

31. Overall revenue collection in FY 2014/15 was lower than projected, reflecting mainly lower-than-expected income tax and VAT collection, and challenges in the full implementation of the capital gains tax. In this respect therefore, the fiscal outlook will focus on reforming the tax and revenue systems to enhance revenue yields, promote compliance and facilitate private sector growth and development as indicated in the 2015 BPS.

32. It has been observed that there is under-reporting on A-in-A expenditures by MDAs. To this end, the National Treasury is working on modalities that will be issued requiring all expenditures are reported as stated in the Financing/Grant Agreements and guidelines. This includes flow charts for the required expenditure information and their supporting documents with indicative timelines to allow for sufficient time for responding by our Development Partners. External Resources Units in MDAs have also been established to support the fast-tracking of all project related matters.

33. The under-spending in both recurrent and development budget for the FY 2014/15 additionally has implications on the base used to project expenditures in the FY 2015/16 and the medium term. Appropriate revisions have been undertaken in the context of this BROP, taking into account the budget outturn for the FY 2014/15.

34. The slow uptake of external resources remains a challenge. The National Treasury will work closely with the implementing agencies to improve resource absorption to at least 80 percent of externally financed projects. To improve on this absorption of external resources Accounting Officers are expected to realistically prepare budgets and work plans for projects, monitor closely the

implementation of these projects and observe high standard of accounting, auditing and procurement procedures in order to scale up absorption to at least 80 percent. A framework for monitoring implementation of capital projects and reporting to the Cabinet has been put in place at the National Treasury.

35. Other remedial measures the Government is putting in place include convening quarterly meetings of the Aid Effectiveness Group so as to engage Ministries and Development Partners to come up with solutions to the challenges that hamper project implementation and encourage Development Partners to utilize County Systems.

Fiscal Responsibility Principles

36. In line with the Constitution, the new Public Finance Management (PFM) Act, 2012, and in keeping with the prudence and transparent management of public resources, the Government has adhered to the fiscal responsibility principles as set out in the statutes as follows:

a. The National Government's development as a percent of total budget was 36.0 percent in FY 2014/15 and is set to increase to 41.1 percent by the FY 2018/19 **(Table 5)**. These resources for development are above the 30 percent minimum threshold set out in the PFM law.

Table 5: Revenues and Expenditures (Ksh Billion)

Financial Year	2013/14	2014/15		2015/16		2016/17		2017/18		2018/19
	Act.	Budget	Prel.	BPS'14	BROP'15	BPS'14	BROP'15	BPS'14	BROP'15	BROP'15
1.0 Total Expenditures & Net Lending	1,300.6	1,806.7	1,640.3	1,970.8	1,986.9	2,049.5	2,099.2	2,248.0	2,320.3	2,523.5
1.1 Total National Govt Expenses	1,107.2	1,577.4	1,410.9	1,712.8	1,727.1	1,764.6	1,824.1	1,933.4	2,003.6	2,173.9
Total Recurrent	787.9	935.4	897.0	1,021.6	1,017.5	1,104.4	1,112.0	1,244.3	1,199.9	1,264.8
CFS (Interest & Pensions)	165.0	204.6	211.2	228.8	233.3	248.8	242.4	290.4	246.0	250.5
Total ministerial Reccurrent	623.0	730.8	685.8	792.9	784.2	855.6	869.6	953.9	953.9	1,014.3
Wages	281.2	305.1	293.1	315.4	333.5	360.8	360.8	396.9	396.9	436.6
Wages as % of National Government Revenues/1	*36.0%*	*32.5%*	*33.3%*	*28.6%*	*30.2%*	*27.5%*	*28.1%*	*25.9%*	*26.9%*	*25.6%*
Development	319.3	633.6	508.6	711.6	722.1	648.5	699.6	677.9	791.3	893.2
Devt. as % of NG Expenditures	*28.8%*	*40.2%*	*36.0%*	*41.5%*	*41.8%*	*36.8%*	*38.4%*	*35.1%*	*39.5%*	*41.1%*
Domestic	200.7	312.1	268.1	362.2	372.7	368.1	419.2	437.5	550.9	636.8
External	118.6	321.5	240.4	349.5	349.3	280.4	280.4	240.4	240.4	256.4
Contingencies	-	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
1.2 County Allocation	193.4	229.3	229.3	258.0	259.8	284.9	275.0	314.5	316.7	349.6
2.0 Total Revenues	974.4	1,166.7	1,108.5	1,360.1	1,365.8	1,594.6	1,560.4	1,845.3	1,791.5	2,051.8
3.0 Total National Govt - Revenues (Incl. A-I-A)	781.0	937.5	879.1	1,102.1	1,106.0	1,309.7	1,285.3	1,530.8	1,474.8	1,702.2
4.0 National Government Domestic Borrowing	201.7	163.7	251.1	219.2	229.9	176.1	239.8	166.7	273.4	246.3

Source: National Treasury

/1 *Wages: For teachers and civil servants including the police*

b. The law further requires that regulations shall be developed to set a ratio of National Government expenditures on wages and benefits for public officers to National Government revenue that shall not be exceeded. These regulations are currently in Parliament. In the meantime, the National Government has put in place measures aimed at containing the growth of the public wage bill. The share of National Government wages and benefits to revenues was 33.3 percent in FY 2014/15, and is projected at 30.2 percent in FY 2015/16, declining to 25.6 percent by FY 2018/19.

c. Another fiscal responsibility principle requires that the national government's borrowings be used only for the purpose of financing development expenditure and not for recurrent expenditure. This principle continues to be adhered to by the government ensuring that its policy as set out in the Medium Term Debt Strategy and other policy documents requires that external financing is done only for development purposes. In addition, domestic borrowing is consistently less than the allocation to domestically financed development projects in line with the stated principle.

d. The government is further required to maintain Public debt and obligations at a sustainable level as approved by Parliament (for National Government) and county assemblies (for County Governments). The limits are set and approved through the Medium Term Debt Strategy. Furthermore, our debt ratios, compared with internationally recognized thresholds, continue to show that our public debt is within sustainable levels for a country rated as a strong performer. The debt sustainability indicators show that Kenya faces a low risk of external debt distress **(Table 6).** This is attributed to the high level of concessionality of current external debt and the positive outlook in other macroeconomic indicators.

Table 6: Kenya's External Debt Sustainability Indicators (In percent)

Indicator	Threshold	2013	2014	2015	2016	2017	2018	2024	2034
PV of debt–to-GDP ratio	50	13.5	18.0	19.4	20.5	20.3	20.2	18.9	17.9
PV of debt-to-exports ratio	200	69.5	93.1	101.7	108.0	108.5	107.8	100.1	88.1
PV of debt-to-revenue ratio	300	70.5	89.5	92.0	93.3	89.9	87.7	79.4	72.9
Debt service-to-exports ratio	25	4.0	8.7	5.8	7.1	7.9	8.0	13.0	7.8
Debt service-to-revenue ratio	22	4.0	8.4	5.2	6.1	6.5	6.5	10.3	6.4

Source: IMF Staff report for Request for Stand-By Arrangement and an Arrangement under the Standby Credit Facility– Debt Sustainability Analysis—Update prepared by International Monetary Fund

e. To manage fiscal risks prudently as required, the Government has improved its macroeconomic forecasts and regularly reviews the impact of macroeconomic projections and their implications on the budget. Potential fiscal risks arising from contingent liabilities, including from Public Private Partnership funded projects among others as taken into account and a contingency provision made to caution the economy from unforeseeable shocks.

f. On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, the Government continues to carry out tax reforms through modernising and simplifying tax laws. Some of the laws that have been passed include: VAT; Tax Appeals Tribunal; Income Tax was amended through the Finance Act, 2015; and Excise Duty Act. Going forward, tax Procedure bill is in the pipeline. These reforms are intended to lock in predictability and enhance compliance with the tax system.

37. The Central Government and fiscal projections shown in **Table 7** provide comparisons between the updated projections in the BROP 2015 and the 2015 BPS for the financial year 2016/17 and in the medium term. The deviations, in the revision in revenues and expenditures are due to the macroeconomic assumptions contained in this BROP, which will be firmed up in the context of the 2016 BPS. The Government will not deviate from the fiscal responsibility principles, but will make appropriate modifications to the financial objectives contained in the latest BPS to reflect the changed circumstances.

Table 7: Central Government Fiscal Projections, FY 2012/13-2018/19

	2012/13	2013/14	2014/15		2015/16				2016/17			2017/18			2018/19
	Act.	*Act.*	*Rev. Budget*	*Prel.*	*BPS'14*	*BROP'14*	*BPS'15*	*BROP'15*	*BROP'14*	*BPS'15*	*BROP'15*	*BROP'14*	*BPS'15*	*BROP'15*	*BROP'15*
Total Revenue	847.2	974.4	1,164.6	1,106.4	1,473.8	1,352.2	1,358.0	1,363.7	1,558.9	1,594.6	1,560.4	1,752.9	1,845.3	1,791.5	2,051.8
Total Revenue as a % of GDP	*18.8%*	*19.3%*	*20.4%*	*19.4%*	*23.4%*	*21.8%*	*20.8%*	*21.1%*	*22.3%*	*21.5%*	*21.3%*	*22.1%*	*21.8%*	*21.6%*	*21.9%*
Ordinary Revenue	779.4	919.0	1,070.5	1,031.2	1,382.6	1,249.9	1,254.9	1,250.9	1,447.8	1,490.2	1,444.9	1,632.6	1,730.2	1,663.5	1,913.9
Ordinary Revenues as a % of GDP	*17.3%*	*18.2%*	*18.7%*	*18.1%*	*22.0%*	*20.8%*	*19.2%*	*19.4%*	*21.3%*	*20.1%*	*19.7%*	*21.2%*	*20.5%*	*20.1%*	*20.4%*
Tax Revenue	701.2	851.8	998.8	958.2	1,174.5	1,161.7	1,157.8	1,153.7	1,350.6	1,386.9	1,341.6	1,522.8	1,616.3	1,547.9	1,784.3
Non-Tax Revenue	78.3	67.2	71.8	73.1	208.1	88.1	97.0	97.2	97.2	103.3	103.2	109.8	113.9	115.7	129.7
AIA	67.8	55.4	94.1	75.1	91.1	102.3	103.2	112.8	111.0	104.4	115.5	120.3	115.1	128.0	137.9
Expenditure	1,107.3	1,300.6	1,806.7	1,640.3	1,795.6	1,800.5	1,998.5	2,014.8	1,987.6	2,052.6	2,102.4	2,216.4	2,251.4	2,323.6	2,526.9
Expenditure as a % of GDP	*24.6%*	*25.8%*	*31.6%*	*28.8%*	*28.5%*	*27.8%*	*30.6%*	*31.2%*	*27.1%*	*27.6%*	*28.7%*	*26.7%*	*26.6%*	*28.0%*	*27.0%*
Recurrent	808.3	787.9	935.4	897.0	925.0	916.7	1,015.0	1,017.5	990.0	1,104.4	1,112.0	1,136.7	1,244.3	1,199.9	1,264.8
Development	298.9	319.3	637.0	509.0	622.3	633.4	717.6	728.1	729.8	654.5	705.6	793.2	683.4	796.8	901.8
Contingencies	-	-	5.0	5.0		5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
County Transfer	-	193.4	229.3	229.3	239.3	245.5	260.9	264.2	262.9	288.8	279.9	281.5	318.7	321.9	355.3
Equalization Fund	-	-	3.4	0.4	6.0	6.0	6.0	6.0	6.9	6.0	6.0	7.7	5.5	5.5	8.7
Budget Balance (Deficit (-) excl. Grants	(260.0)	(326.2)	(642.0)	(533.9)	(321.8)	(448.4)	(640.5)	(651.1)	(428.8)	(458.0)	(542.0)	(463.5)	(406.1)	(532.1)	(475.1)
Deficit as % of GDP	*-5.8%*	*-6.5%*	*-11.2%*	*-9.4%*	*-5.1%*	*-7.1%*	*-9.8%*	*-10.1%*	*-6.0%*	*-6.2%*	*-7.4%*	*-5.8%*	*-4.8%*	*-6.4%*	*-5.1%*
Grants	20.9	26.9	66.4	27.4		64.7	73.5	73.4	71.5	59.8	59.9	79.2	64.9	65.0	73.0
Budget Balance (Deficit (-) incl. Grants	(239.1)	(299.2)	(575.6)	(506.5)		(383.7)	(567.0)	(577.7)	(357.3)	(398.2)	(482.1)	(384.4)	(341.2)	(467.1)	(402.1)
Deficit as % of GDP	*-5.3%*	*-5.9%*	*-10.1%*	*-8.9%*		*-6.1%*	*-8.7%*	*-8.9%*	*-5.0%*	*-5.4%*	*-6.6%*	*-4.8%*	*-4.0%*	*-5.6%*	*-4.3%*
Net Foreign Financing	62.7	106.4	261.2	216.4	117.0	241.0	340.5	340.5	193.6	219.7	239.9	212.1	171.9	191.2	153.3
Domestic Loan Repayments (receipts)	-	1.3	2.1	3.0	193.9	2.0	2.2	2.3	2.0	2.4	2.4	2.0	2.6	2.5	2.5
Sovereign Bond Proceeds	-	-	141.4	140.5	193.9	-	-	-	-	-	-	-	-	-	-
Domestic borrowing	169.8	201.7	163.7	110.6	193.9	140.7	219.2	229.9	161.6	176.1	239.8	170.3	166.7	273.4	246.3
Domestic borrowing as % of GDP	*3.8%*	*4.0%*	*2.9%*	*1.9%*	*3.1%*	*2.2%*	*3.4%*	*3.6%*	*2.3%*	*2.4%*	*3.3%*	*2.1%*	*2.0%*	*3.3%*	*2.6%*
Public Debt to GDP (Gross)		*48.0%*	*45.8%*	*45.8%*		*46.1%*	*49.1%*	*51.4%*	*46.0%*	*45.2%*	*48.0%*	*45.3%*	*43.6%*	*47.6%*	*46.7%*
Public Debt to GDP (net of deposits)	*38.5%*	*44.0%*	*43.8%*	*43.8%*	*43.4%*	*43.1%*	*46.1%*	*47.7%*	*43.3%*	*42.6%*	*44.7%*	*43.0%*	*41.3%*	*44.7%*	*44.1%*
Nominal GDP (Ksh billion)	4,496.0	5,044.2	5,719.1	5,697.5	6,294.2	6,290.4	6,520.5	6,457.9	7,113.1	7,430.2	7,327.6	8,029.7	8,448.2	8,290.8	9,362.7

Source: National Treasury

38. As the country remains vulnerable to risks such as weather-related shocks and potential volatility in capital flows, we shall focus policies on the following priorities so as to help strengthen resilience and support sustained growth:

- Maintaining a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities. Adherence to the adopted framework establishing guidelines for county borrowing will be observed.
- Scaling up infrastructure investment in areas of transport, irrigation and alternative sources of energy to expand trade and mitigate weather related vulnerabilities, given our high dependence on hydro-power generation and rain-fed agriculture. Efforts to mobilize domestic revenue will be enhanced to fund these priorities.

- Strengthening capacity-building in public financial management to ensure that the high expectations linked to devolution are met.
- Enhancing the government's cash management system to avoid undue pressure on payment flows and interest rates, and reduce borrowing costs for the government and the private sector.
- Effective natural resource management of recent oil and gas discoveries. A sound fiscal framework, including transparent management rules and the full integration of these resources into the budget will be done in order to fully realize this potential.

III. RECENT ECONOMIC DEVELOPMENTS

A. Introduction

39. Kenya's macroeconomic performance remains strong in the face of headwinds, supported by significant infrastructure investments, mining, and lower energy prices. Growth remains robust, despite the adverse impact on tourism challenges. Inflation is within our target band, despite the impact of higher food prices in early 2015, due to the coming on stream of low-cost geothermal energy and lower oil prices.

40. The international foreign exchange market has been volatile since April 2015 following indications of recovery of the US economy resulting in the strengthening of the US dollar in the international market. This resulted in the depreciation of the Kenya Shilling exchange rate against the US dollar. This situation has since stabilized and the Kenya Shilling exchange rate is now appreciating following foreign exchange inflows in the money market. The current level of foreign exchange reserves, backstopped by the precautionary program with the IMF, continues to provide an adequate cushion against exogenous shocks.

41. Short term interest rates that had initially risen following the tightened monetary policy in June 2015 are now on a downward trend and are expected to decline further in the coming months due to increased liquidity and receipt of the syndicated loan for budgetary purposes that will reduce the level of domestic borrowing from the domestic market.

Going forward, the macroeconomic outlook remains favourable although risks remain. Some of the challenges include among others, insecurity, pressures on expenditures especially recurrent related expenditures, the expected El Nino rains that might disrupt economic activities and external risks particularly on the uncertainty in the international oil market. The Government will closely monitor the developments and undertake appropriate measures to safeguard macroeconomic stability should these risks materialize.

B. Growth in Real GDP remains resilient

42. The economy expanded by 5.3 percent in 2014 and 5.5 percent in second quarter 2015 supported by strong performance in most sectors of the economy which offset the contraction in the tourism sector. The economy is expected to expand further by between 5.8 - 6.0 percent in 2015 and by 6.5 percent over the medium term.

43. The second quarter of 2015 was characterized by a fairly stable macroeconomic environment supported by a slowdown in inflation and decline in interest rates. The country experienced good rains that led to improved agricultural activities despite suppressed demand of key agricultural exports in the quarter. The 5.5 percent growth in GDP in the second quarter of 2015 was supported by improvements in most sectors of the economy **(Chart 1 and Table 8).**

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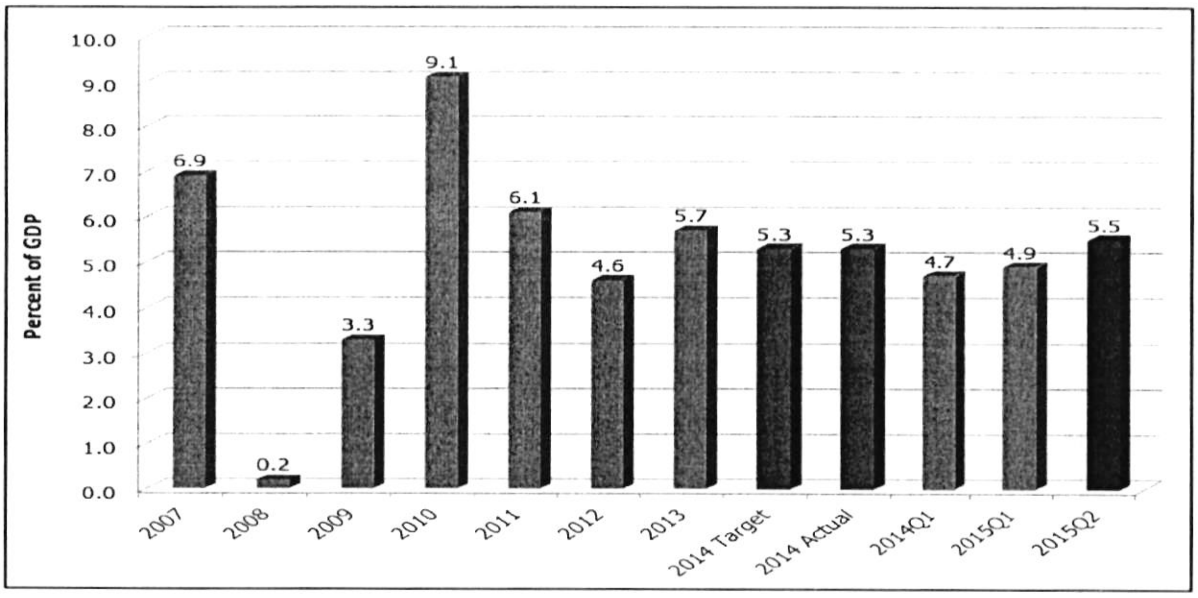
Chart 1: GDP Growth Rates



Source: KNBS

44. The construction sector recorded a decelerated growth of 9.9 per cent during the second quarter 2015 compared to a growth of 16.6 per cent during the same quarter in 2014. The growth was on account of increased public infrastructure projects and private sector development in the real estate sector.

Table 8: Gross Domestic Product Growth (Percent)

Gross Domestic Product by Activity	2011	2012	2013	2014	2014		2015	
					Q1	Q2	Q1	Q2
Agriculture, forestry and fishing	2.4	2.9	5.2	3.5	2.2	2.1	4.4	5.4
Mining and quarrying	19.0	19.0	-8.9	14.2	10.5	26.9	4.6	7.5
Manufacturing	7.2	-0.6	5.6	3.4	6.4	8.3	3.5	4.5
Electricity and water supply	9.4	9.5	6.6	5.7	3.9	4.6	8.4	10.2
Construction	4.0	11.3	5.8	13.1	7.6	16.6	11.3	9.9
Wholesale and retail trade; repairs	8.3	7.0	8.5	6.9	9.7	5.2	6.7	5.5
Accomodation and restaurants	4.1	3.1	-4.6	-17.2	-14.1	-19.3	-7.5	-0.8
Transport and storage	7.1	2.7	1.2	5.0	3.8	5.7	6.0	6.2
Information and communication	22.1	2.4	12.3	13.4	12.7	8.1	9.4	7.6
Financial and insurance activities	4.6	6.0	8.1	8.3	8.3	7.9	9.1	6.0
Public administration	2.4	4.0	3.1	5.8	-4.2	16.2	8.4	5.9
Professional, admin and support services	2.0	4.0	3.6	2.7	3.0	2.5	4.4	6.1
Real estate	5.1	4.0	4.1	5.6	6.3	6.7	2.0	4.2
Education	7.5	11.1	6.3	7.4	6.6	8.2	3.3	3.5
Human health and social work activities	-2.6	-2.8	7.7	7.2	5.1	7.5	7.4	8.1
Other service activities	1.5	2.3	4.6	4.2	5.5	4.4	3.0	1.7
FISIM	9.1	10.1	5.2	11.2	8.3	11.1	14.0	8.4
All economic activities	**5.3**	**4.1**	**5.3**	**5.4**	**4.6**	**6.1**	**5.0**	**5.5**
Taxes on products	12.6	7.7	8.7	5.2	5.9	5.0	4.5	5.6
GDP at market prices	**6.1**	**4.6**	**5.7**	**5.3**	**4.7**	**6.0**	**4.9**	**5.5**

Source: KNBS

45. The financial and insurance sector recorded a growth of 6.0 per cent in the second quarter of 2015 compared to 7.9 per cent in the same quarter of 2014. This growth was mainly driven by increased

uptake of loans and advances as domestic credit by commercial banks rose by 29.2 per cent compared to a growth of 14.6 per cent over the same period in 2014. Similarly, credit to the private sector expanded by 20.6 per cent.

46. The electricity and water supply sector recorded a growth of 10.2 per cent in the second quarter of 2015 compared to 4.6 per cent in the corresponding quarter of 2014. The accelerated growth was mainly due to expansion of electricity generation by geothermal and hydro sources which increased by 89.5 and 5.0 per cent, respectively. This was attributed to the injection of 280 megawatts to the national grid in second half of 2014 and good rainfall received during the review quarter. Generation of power by thermal contracted by 57.4 per cent. Electricity consumption increased by 22.8 per cent due to an increase in electricity connections especially under rural electrification program, the reduction of electricity connection fees, and lower power costs.

47. The transport and storage sector is estimated to have grown by 6.2 per cent compared to 5.7 per cent during the same quarter of 2014. The communication sector on the other hand recorded a slower growth of 7.6 per cent over the same period compared to an 8.1 per cent growth in the same quarter of 2014. The key indicator to the sector such as consumption of light diesel expanded by 13.3 per cent during the second quarter 2015 partly due to a decline in fuel prices. However, there was a slight decline in the volume of cargo handled at the port.

48. Agriculture, forestry and fishing sector is estimated to have expanded by 5.4 per cent during the second quarter of 2015 compared to 2.1 per cent growth for a similar quarter in 2014. The improved performance of the sector is attributed to increased activities in the growing of maize, vegetables, and fruits as a result of favourable climatic conditions in contrast to last year. Higher output from these core crops far outweigh farm losses of beans and potatoes, which were adversely affected by heavy rains in some regions. Exports of horticultural produce presented mixed results. The volume of fruits exported increased by 22.2 per cent. However, the volume of cut flower exports reduced by 4.2 per cent while tea production declined by 17.2 per cent and export of coffee declined. Tea fetched higher prices at an average of US$ 3.0 in the second quarter of 2015 compared to US$ 2.1 during the same quarter in 2014.

49. The Manufacturing sector expanded by 4.5 per cent during the second quarter of 2015 compared to a growth of 8.3 per cent in 2014. The growth in the sector was partly attributed to the reduced cost of inputs such as electricity during the second quarter 2015. In the food manufacturing sub-sector, there was an increase in the manufacture of soft drinks and processing of canned foods which recorded growths of 8.4 per cent and 19.2 per cent, respectively. In non-food manufacturing, increased demand for cement in construction sector led to increased production by 9.3 per cent during the second quarter 2015, higher than the production of 1,397.6 thousand metric tonnes recorded during the second quarter of 2014.

50. Accommodation and food services experienced a slower contraction of 0.8 per cent compared to a contraction of 19.3 per cent in the same quarter of 2014. Visitors arrivals from JKIA and MIA recorded mixed results with arrivals from JKIA increasing by 2.8 per cent and that from MIA recording a contraction of 39.1 per cent. Overall, the sector recorded a 1.9 per cent drop in hotel occupancies.

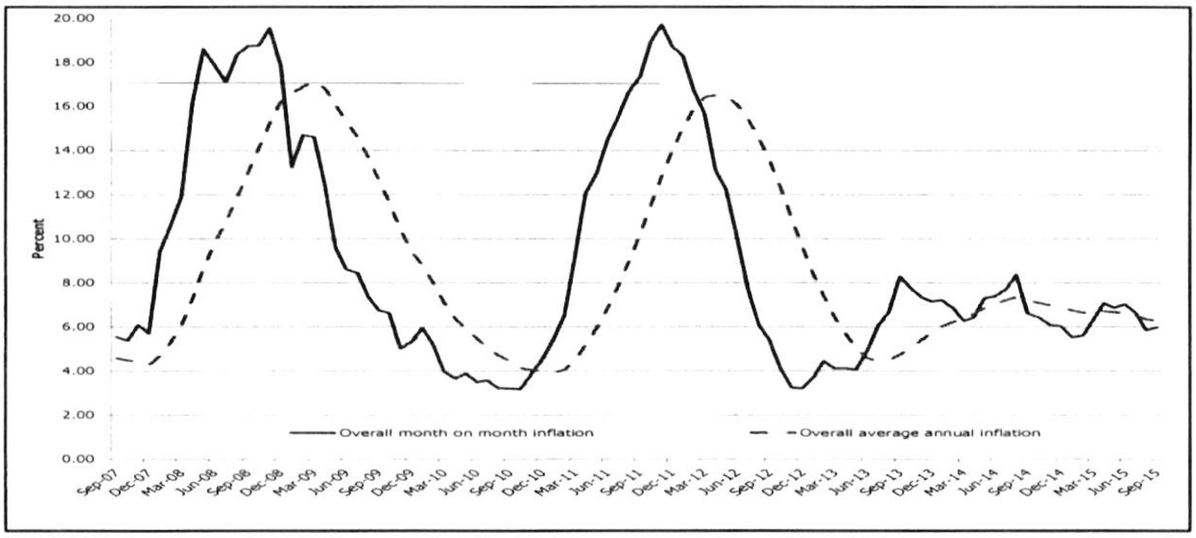
C. Macroeconomic Indicators

Inflation maintained within allowable margins

51. Overall month on month inflation increased to 5.97 percent in September from 5.84 percent in August 2015 **(Chart 2)**. The increase was attributed to the increase in Food and Non Acoholic Drink's Index that rose by 0.48 percent following increases in prices of several food items. Meanwhile, Housing, Water, Electricity, Gas and other fuels' indicies declined by 0.18 percent after costs of common cooking fuels and other household utilities declined.

52. On average, the annual inflation rate was 6.3 percent in September 2015 compared to 7.2 percent in September 2014, and was therefore, within the current allowable margin of 2.5 percent on either side of the target of 5.0 percent. The slowdown in inflation was mainly occasioned by; lower prices of fuel oils; electricity; transport; communication; and housing.

Chart 2: Inflation Rate



Source: KNBS

53. To anchor inflation expectations and contain the second round effect of the weaker shilling on wages and prices, the CBK raised the Central Bank Rate (CBR) twice (in June and July 2015) by a cumulative 300 basis points to 11.5 percent and also introduced a 3-day repo to further expand the menu of instruments for liquidity management. The Monetary Policy Committee in the September 2015 meeting retained the Policy rate at 11.5 percent.

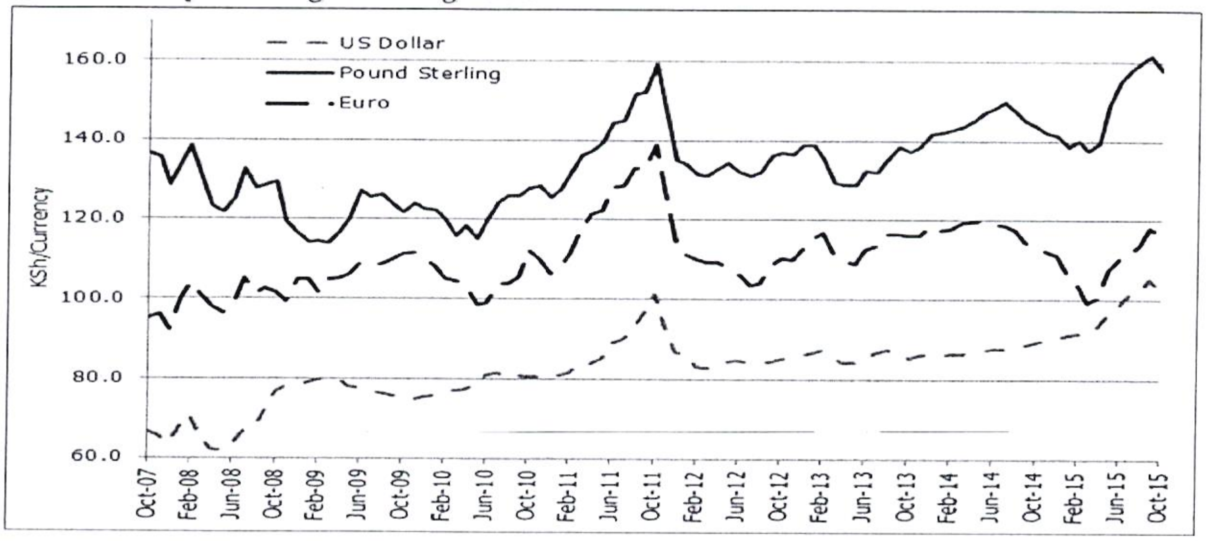
Kenya Shilling Exchange Rate

54. The Kenya Shilling exchange rate that had weakened against major international currencies has started appreciating following foreign exchange inflows into the money market. The currency appreciated against the US dollar to Ksh 103.1 as of 22nd October 2015 from Ksh 105.3 in September 2015. The depreciation of the currency in the recent months was mainly due to the global strengthening

of the US Dollar on the international market, and high dollar demand by importers in the domestic market **(Chart 3).**

55. Against the Sterling Pound, the shilling depreciated to Ksh 161.5 in September 2015 from Ksh 159.8 in August 2015 and against the Euro, the exchange rate also depreciated to Ksh 118.2 in September 2015 from Ksh 114.1 in August 2015. However, the Kenya shilling has continued to display relatively less volatility compared with the major regional currencies due to Diaspora remittances, increased foreign investor participation in the NSE and enhanced confidence following successful issuance of the sovereign bond

Chart 3: Kenya Shillings Exchange Rate



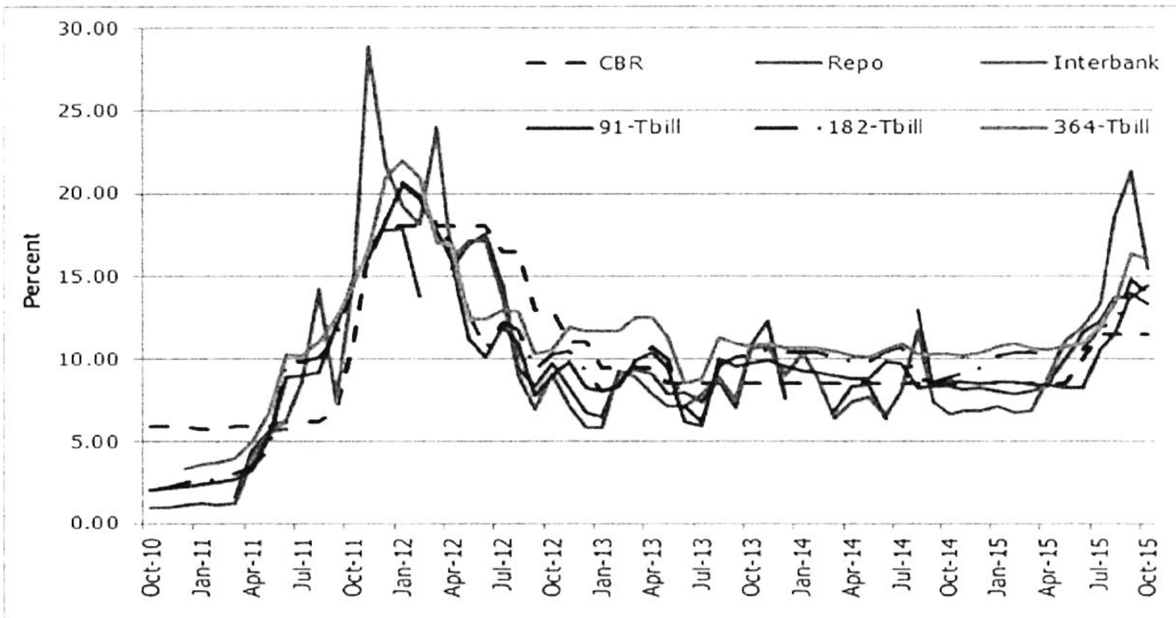
Source: CBK

Interest Rates

56. To anchor inflation expectations in the presence of continued high food prices, the shilling depreciation in the recent months and the partial reversal of oil prices, the MPC in an extraordinary meeting of June 9, 2015, the MPC raised the CBR by 150 basis points. Further, in its meeting of July 7, the MPC further raised the CBR further by 150 basis points to 11.5 percent, and also introduced a 3-day repo to further expand the menu of instruments for liquidity management. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile increased in September 2015 and early October 2015 from 10.6 percent in July 2015.

57. Short term interest rates that had initially risen following the tightened monetary policy are now on a downward trend and are expected to decline further in the coming months due to increased liquidity and receipt of the syndicated loan for budgetary purposes that will reduce the level of domestic borrowing from the domestic market. The average interbank rate decreased to 15.5 percent as of 21st October 2015 **(Chart 4)** from 21.3 percent in September 2015 as the Kenya shilling exchange rate appreciated following increased foreign exchange inflows into the economy.

Chart 4: Short-Interest Rate



Source: CBK

58. The KBRR initially set at 9.13 percent in July 2014 was reviewed down to 8.54 percent in January 2015. This led to reduction in the average lending rates to 15.8 percent in July 2015 from 17.1 percent in July 2014 while the deposit rate decreased to 6.3 percent from 6.6 percent over the same period. Interest rate spread narrowed to 9.4 percent in July 2015 from 10.3 percent in July 2014, a reflection of the decline in the lending rate. However, following the upward revision of CBR, in July 2015 the KBRR was reviewed upwards to 9.87 percent.

Growth in Money Supply, M3

59. Broad money supply, M3, grew by 14.0 percent in the year to August 2015 compared to a growth of 21.8 percent in the year to August 2014. The growth in M3 in the year to August 2015 was due to an improved growth in the net domestic assets (NDA) of the banking system that more than offset the contraction in growth of the net foreign assets (NFA) of the banking system.

Improvement in Private Sector Credit

60. Bank credit to the private sector grew by 21.0 percent in August 2015 compared with a growth of 24.5 percent in the same period in 2014. Productive sectors the economy continued to receive bank credit in the year to August 2015. Main sectors of the economy that received the bulk of the credit include: Building and Construction, Trade, Manufacturing, Agriculture, Real Estate, Transport and Communication, Business Services, Finance and Insurance and Private Households

Capital Markets Developments

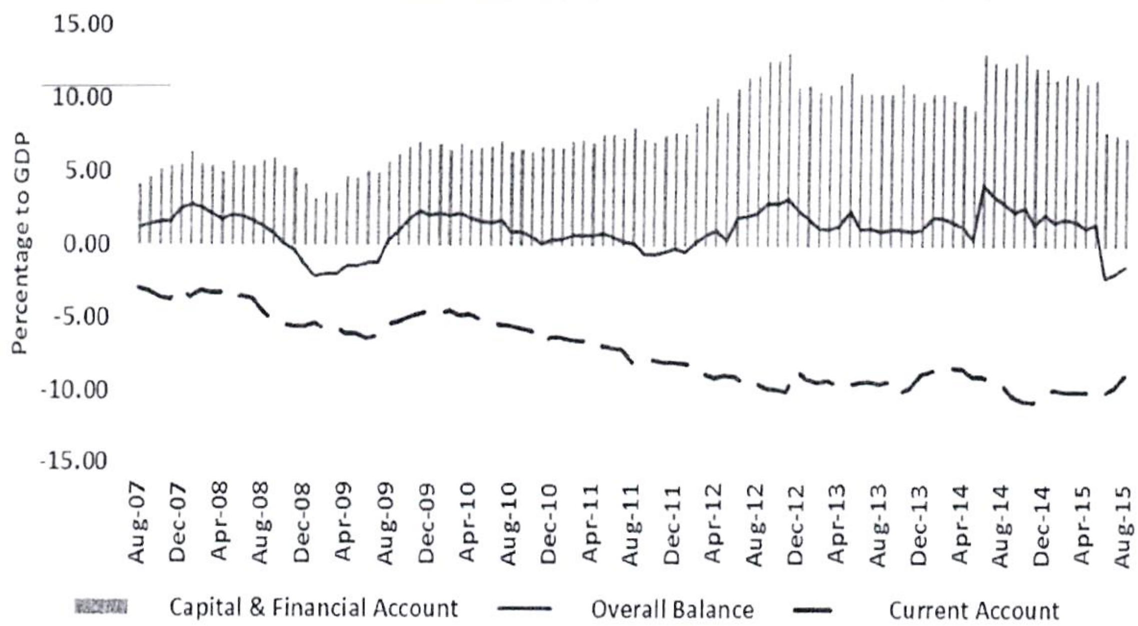
61. Activities at the stock market remained strong in the year to September 2015. The NSE 20 share index recorded 4,174 points in September 2015 compared to 5,256 points in September 2014. Market capitalization was at Ksh 2,046 billion in September 2015 compared to Ksh 2,309 billion in September 2014. The drop in market capitalization is as a result of an increase in share supply which depressed the overall share prices.

62. Foreign equity market turnover for the month of September 2015 stood at Ksh 16.7 billion from Ksh 20.8 billion in August 2015, representing a decline of 19.7 percent. Bond turnover in September 2015 stood at Ksh 18.3 billion, 4.2 percent lower than Ksh 19.1 billion recorded in August 2015.

D. External Sector Developments

63. The overall Balance of Payments recorded a deficit of US$ 798 million in the year to August 2015 from a surplus of US$ 1,626 million in the year to August 2014 **(Chart 5).** The deficit reflected worsening of the current account deficit and a decrease in the capital and financial account surplus.

Chart 5: Balance of Payments (US$ Millions)



Source: CBK

64. As a share to GDP, the current account deficit improved to 8.9 percent in the year to August 2015 from 9.4 percent in the year to August 2014 reflecting improvement in the share of the merchandise account deficit to GDP on account of a decline in the share of imports to GDP during the review period.

Strong Foreign Exchange Reserves

65. Gross foreign exchange holdings of the banking system decreased by 4.8 percent from US$ 9,731 million in August 2014 to US$ 9,265 million in August 2015. This was due to the decrease in official

reserves held by the Central Bank to US$ 6,963 million (4.4 months of import cover) in August 2015, from US$ 7,814 million (5.1 months of import cover) in August 2014. The foreign exchange reserves have declined following interventions by the CBK to moderate volatility in the foreign exchange market.

E. Implementation of the FY 2015/16 Budget

66. Ministries/Departments/Agencies (MDAs) have commenced the implementation of the FY 2015/16 Budget. The National Treasury prepared and dispatched guidelines on budget implementation to MDAs. So far, the implementation of the 2015/16 budget is progressing well despite initial challenges encountered at the start of the financial year. Adequate measures have been taken to ensure priority programmes are fully implemented. This include directing MDAs to prepare and submit their annual work plans, cash flow plans, and procurement plans to The National Treasury to facilitate in line with the PFM Act requirements. Implementation of priority programmes will be tracked and feedback given periodically.

67. The National Treasury is also in the process of establishing the 'Treasury Single Account (TSA)' from which all payments shall be processed in compliance with the Public Finance Management Act, 2012. Previously, MDAs managed fragmented banking arrangement which resulted in Government-owned financial resources lying idle for extended periods in bank accounts held by some spending units while the National Treasury continued to borrow.

68. Regarding revenue, the collection for the FY 2015/16 is broadly on course and therefore we expect that the outturn will be within the target. The Exchequer returns for end August 2015 show that ordinary revenue amounted to Ksh 155.0 billion against a target of Ksh 165.1 billion while the Ministerial AiA was below target by Ksh 9.5 billion. Thus, the total revenue collection was below target by Ksh 19.6 billion in the first two months of the year.

69. Preliminary outturn indicates that the total expenditure (net issues) by August 2015 was Ksh 138.7 billion compared to a target of Ksh 268.9 billion. This underperformance being in both recurrent and development expenditures. We expect higher absorption rate in the coming months as spending on capital projects picks up.

IV. MACROECONOMIC POLICIES AND OUTLOOK

A. Introduction

70. The Government's economic agenda will continue to anchor macroeconomic stability so as to sustain higher and inclusive growth and job creation. The broad economic policies and development agenda will therefore continue to be the same as those outlined in the 2015 Budget Policy Statement (BPS) as follows:

(i) creation of a conducive business environment;
(ii) investing in agricultural transformation and food security;
(iii) investing in infrastructure, transport and logistics;
(iv) investing in quality and accessible healthcare services and quality education as well as strengthening the social safety net to reduce the burden on the households; and
(v) Supporting devolution for better service delivery and enhanced economic development.

B. Growth Prospects

71. The global growth remains moderate, with a gradual pickup in advanced economies and a slowdown in emerging markets and developing economies. The global economy is projected to strengthen from 3.1 percent in 2015 to 3.6 percent in 2016 despite the temporary slowdown in the growth in the US economy in the first quarter of 2015. The Eurozone economies have shown notable signs of recovery attributed to improved private consumption and exports mainly driven by lower interest rates and a weaker Euro response to the European Central Bank's Qualitative Easing. However uncertainty around Greece Debt bailout by the IMF remains the main risk to the Eurozone growth prospects.

72. In emerging market and developing economies, growth is projected to slow from 4.6 percent in 2014 to 4.0 percent in 2015. The continued growth slowdown reflects several factors, including lower commodity prices and tighter external financial conditions, structural bottlenecks, rebalancing in China and economic distress related to geopolitical factors. In 2016, growth in emerging market and developing economies is expected to pick up to 4.5 percent, largely on account of the projected improvement in economic conditions in a number of distressed economies, including Russia and some economies in the Middle East and North Africa.

73. Growth in Sub-Saharan Africa is expected to remain relatively robust despite risks from the lower commodity prices in some oil and commodity producing countries. Growth is projected to slow down to 3.8 percent in 2015, from 5.0 percent in 2014 largely due to lacklustre economic performance of Nigeria and South Africa. However, in 2016, the economy of the Sub Saharan region is expected to recover to 4.3 percent, due to the impact of lower oil prices and investment in infrastructure.

74. The distribution of risks to global economic activity is still tilted to the downside. Near-term risks include increased financial market volatility and disruptive asset price shifts, while lower potential output growth remains an important medium-term risk in both advanced and emerging market

economies. Lower commodity prices also pose risks to the outlook in low-income developing economies after many years of strong growth.

75. Against this backdrop, the macroeconomic forecasts are cautious considering the mixed performance of global growth and SSA growth and the continued downside risks for emerging market economies. The Macroeconomic Framework guiding the projections takes into account, the Government's national strategic objectives as outlined in the second Medium Term Plan (MTP) for the period 2013-2017 of Vision 2030 and the broad development policies of the Jubilee Government.

76. On the domestic front, growth and employment prospects remain favourable. We have continued to implement prudent fiscal and monetary policies which have resulted in low inflation, low interest rates, stable exchange rate and a sustainable public debt position. During the third quarter of 2015, the Kenya shilling exchange rate to the dollar depreciated due to the expected recovery of the US economy and strengthening of the dollar in the international markets. The Kenya Shilling exchange rate against the US dollar has since started appreciating following inflows of the foreign exchange into the money market. At the same time, the short term interest rates that had initially risen following the tightened monetary policy are now on a downward trend and are expected to decline further in the coming months due to increased liquidity and receipt of the syndicated loan for budgetary purposes that will reduce the level of domestic borrowing from the domestic market.

77. The economy expanded by 5.3 percent in 2014 and 5.5 percent in second quarter 2015. This growth was supported by strong performance in most sectors of the economy which offset the contraction in the tourism sector. In 2015, the economy is expected to expand further by between 5.8 - 6.0 percent and 6.5 percent over the medium term, bolstered by the lower oil prices and higher public and private investment that will support strong construction activities and production of cement and steel manufacturing for the Standard Gauge Railway currently ahead of its construction schedule. Further, the higher public and private investment, increased consumer confidence and higher total factor productivity reflecting continued implementation of structural reforms and increased investment in health and education continue to support the growth momentum.

78. Over the medium-term, growth will pick up gradually as global conditions improve and macroeconomic stability is sustained. The growth estimates for the medium term, therefore, in terms of fiscal years, are therefore 6.2 percent in FY 2015/16, 6.5 percent in FY 2016/17 - 2018/19 period **(Table 9 and Annex Table 1)**.

Table 9: Main Macroeconomic Indicators Underlying the Medium Term Fiscal Framework

	2012/13	2013/14	2014/15		2015/16		2016/17		2017/18		2018/19
	Act.	Act.	Rev. Budget	Prel.	Budget	Proj.	Projections				
	Annual percentage change										
National Account and Prices											
Real GDP	5.1	5.5	6.1	5.5	7.0	6.2	7.1	6.5	7.0	6.5	6.5
GDP Deflator	7.2	6.3	6.7	7.0	6.5	6.8	6.4	6.5	6.2	6.2	6.0
CPI Index (eop)	5.8	6.8	5.3	6.1	5.0	5.3	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	4.6	7.1	5.7	6.6	5.0	5.6	5.0	5.0	5.0	5.0	5.0
Terms of Trade (-deterioration)	2.0	1.1	0.2	1.5	0.3	0.4	0.2	-1.0	0.2	0.6	-1.0
	in percentage of GDP										
Investment and saving											
Investment	20.9	21.7	24.6	24.2	26.9	25.5	25.2	24.9	25.6	25.3	24.1
Gross National Saving	12.4	12.7	16.6	15.7	19.7	17.8	18.0	17.7	18.2	18.3	17.7
Central government budget											
Total revenue	18.8	19.3	20.4	19.4	20.8	21.1	21.5	21.3	21.8	21.6	21.9
Total expenditure and net lending	24.6	25.8	31.6	28.8	30.6	31.2	27.6	28.7	26.6	28.0	27.0
Overall balance (commitment basis) excl. grants	-5.8	-6.5	-11.2	-9.4	-9.8	-10.1	-6.2	-7.4	-4.8	-6.4	-5.0
Overall balance (commitment basis) incl. grants	-5.3	-5.9	-10.1	-8.6	-8.7	-8.9	-5.4	-6.6	-4.0	-5.6	-4.3
Nominal public debt, net	38.5	44.0	45.4	45.7	46.1	47.7	42.6	44.7	41.3	44.7	44.1
External sector											
Current external balance, including official transfers	-8.5	-9.0	-8.0	-8.5	-7.2	-7.7	-7.2	-7.2	-7.4	-7.0	-6.5
Gross international reserve coverage in months of imports	3.8	4.1	4.6	4.6	4.8	4.8	5.1	5.1	5.3	5.3	5.4

Source: National Treasury

Source: National Treasury

79. This level of growth will be supported by increased production in agriculture, continued investment in infrastructure projects, expansion of activities in other sectors of the economy such as building and construction, manufacturing, retail and wholesale and financial intermediation.

80. The growth will accelerate in the outer years as issues suppressing growth are addressed which include: infrastructure development, removal of obstacles that includes cost of energy by increased geothermal generation, successful integration, financing access, opportunities for the SMEs, and the development of the oil and gas sector.

C. Inflation Outlook

81. The focus of monetary policy will be to maintain a stable inflation target of 5.0 percent with an allowable margin of 2.5 percent on either side the target to cater for shocks. Monetary policy will also focus on stable interest rates and exchange rates.

82. Overall inflation is projected to decline gradually in 2015 and is expected to be at 5.0 percent by 2017. The decline is supported by the monetary policy measures in place, the declining international oil prices which will dampen pressure on the prices of food and other key items in the consumer basket and the increasing output of geothermal generated power which will continue to moderate electricity prices and support lower consumer prices.

83. However, the main risks to the inflation outlook include possibility of imported inflation with continued movements in the exchange rate in case of a protracted global strengthening of the US dollar

against international currencies. In addition, given the dominance of food in the CPI consumer basket, there remains a vulnerability to short-falls in the rains.

D. Medium Term Fiscal Framework

i. Fiscal Policy Objective

84. The fiscal policy objective aims at supporting rapid economic growth and ensuring the debt position remains sustainable while at the same time supporting the devolved system of government for effective delivery of public goods and services in a sustainable manner.

ii. Debt and Deficit Financing Policy

85. The Government's borrowing plans remain anchored in the medium term debt management strategy which aims at ensuring public debt sustainability. The strategy outlines the desired levels, sources and terms which have to be adhered. Government will continue borrowing from domestic and external sources with the latter being largely on concessional terms and also diversify financing sources by continuing to access commercial sources of financing. The levels of domestic borrowing will be controlled to avoid crowding out the private sector given the need to increase private investment to accelerate economic expansion. A cautious approach will be adopted in the issuance of external Government loan guarantees to minimize the level of contingent liabilities.

86. Furthermore, the government adopted a framework establishing guidelines for county borrowing consistent with the PFM Act. The framework includes the following safeguards: prior approval by National Treasury of all county borrowing; a limit on each county's debt (20 percent of the most recent audited revenues); and a limit on each county's debt service (15 percent of the most recent audited revenues). These safeguards effectively limit county-level indebtedness to 1 percent of GDP.

iii. Medium Term Fiscal Projections

87. Over the medium term, driven by continued reforms, revenue collection is expected to rise to about 21.3 percent of GDP in 2016/17 and 21.9 percent of GDP by 2018/19 **(Annex Tables 2 and 3)**. Overall expenditures will decline gradually from 28.7 percent of GDP in FY 2016/17 to 27.0 percent of GDP in 2018/19. Overall recurrent expenditures are expected to decline from 15.2 percent of GDP in 2016/17 to 13.5 percent in the medium term. The decline in development expenditures from 11.3 percent of GDP in 2015/16 to 9.6 percent of GDP in 2018/19 reflects the winding down of some key projects such as the Standard Gauge Railway. The Government remains committed to reorienting expenditures from recurrent to development and improving the productivity of our resources.

88. In the medium term, the overall budget deficit and current account deficit are projected to decline as major infrastructural projects such as the Standard Gauge Railway (SGR) and currently being implemented by the Government are completed.

iv. 2016/17 Budget Framework

89. **Revenue Projections:** The FY 2016/17 budget targets revenue collection including Appropriation-in-Aid (AiA) of Ksh 1,560.4 billion (21.1 percent of GDP) up from Ksh 1,363.7 billion (21.1 percent of GDP). This revenue performance will be underpinned by on-going reforms in tax policy and revenue administration. Ordinary revenues will amount to Ksh 1,444.9 billion (19.7 percent of GDP) in FY 2016/17 up from Ksh 1,250.9 billion (19.4 percent of GDP) in FY 2015/16.

90. **Expenditure Forecasts:** In FY 2016/17, overall expenditure and net lending are projected at Ksh 2,102.4 billion (28.3 percent of GDP) from the estimated Ksh 2,014.8 billion (31.2 percent of GDP) in the FY 2015/16 revised budget.

91. Recurrent expenditures will amount to Ksh 1,112.0 billion (15.2 percent of GDP) compared with Ksh 1,017.5 billion (15.8 percent of GDP) in the FY 2015/16. Development expenditure is projected at Ksh 705.6 billion (9.6 percent of GDP). Domestic interest payments are expected to reduce relative to GDP to 2.0 percent in the FY 2016/17 from 2.4 percent in the FY 2015/16. The contribution to civil service pension fund amounts to Ksh 14.8 billion (0.2 percent of GDP) in the FY 2016/17.

92. In terms of percentage of GDP, the wages and salaries for teachers and civil servants including the police is expected to reduce to 4.9 percent of GDP in the FY 2016/17 from 5.2 percent in the FY 2015/16.

93. Expenditure ceilings on goods and services for sectors/ministries are based on funding allocation in the FY 2015/16 budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in the FY 2015/16 and then an adjustment factor is applied to take into account the general increase in prices.

94. A contingency of Ksh 5.0 billion is provided for in the FY 2016/17. In addition, Ksh 6.0 billion is provided for as conditional grants to marginal areas, same as what was provided in the FY 2015/16.

95. **Overall Deficit and Financing:** Reflecting the projected expenditures and revenues, the overall fiscal balance (on a commitment basis and excluding grants), is projected at Ksh 542.0 billion (equivalent to 7.4 percent of GDP) in the FY 2016/17. Including grants, the overall fiscal balance is projected at Ksh 482.1 billion (6.6 percent of GDP) in FY 2016/17 against the estimated overall fiscal balance of Ksh 577.7 billion (8.9 percent of GDP) in FY 2015/16. The deficit including grants and excluding expenditures related to the SGR in the FY 2016/17 is projected at 5.4 percent of GDP lower than the 7.1 percent of GDP in FY 2015/16.

96. The fiscal deficit in FY 2016/17, will be financed by net external financing of Ksh 239.9 billion (3.3 percent of GDP) and net domestic borrowing of Ksh 239.8 billion (3.3 percent of GDP).

E. Risks to the Economic Outlook

97. The risk to the outlook for 2016 and medium-term include continued uncertainty in the global markets due to strengthening of the US economy. Further, geopolitical uncertainty on the international oil markets is likely to have impact on the global and domestic economic outlook.

98. Internally, public expenditure pressures, particularly wage related recurrent expenditures, continue to pose a fiscal risk. In addition, the impact of insecurity on tourism, the expected El Niño rains in late 2015 could disrupt economic activities further affecting exports and agricultural production respectively. Further, the increase in the domestic interest rates through the tightened monetary policy in 2015 may weaken investment prospects further impacting negatively on the growth outlook.

99. In the event, the above risks materialize, we shall revise the macro framework and the Medium Term Sector Ceilings in the 2016 Budget Policy Statement.

100. In the meantime, the Government continues to monitor the above risks and will undertake appropriate measures to safeguard macroeconomic stability.

V. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2015/16 Budget

101. The fiscal framework for FY2015/16 aims at striking an appropriate balance between support for growth and continued fiscal discipline. The Government will continue to address debt sustainability issues by putting emphasis on efficiency and effectiveness of public spending and improving revenue performance. Considering the tight fiscal position and the assumptions underpinning the medium term fiscal framework for FY 2015/16, we must contain expenditures by adhering to the fiscal responsibilities outlined in the Public Finance Management Act, 2012.

102. Ministries/Departments/Agencies (MDAs) have just commenced in the implementation of the FY 2015/16 Budget. As we consider making any adjustments to the FY 2015/16 Budget, we need to contain additional/supplementary funding to areas of emergency in nature. Frequent changes in the budget during implementation stage are not in line with best practice. Such changes may be construed to mean that budgets are not credible. That is, budgets are not being planned well, implemented as planned or there are cases of policy reversal by the Government.

103. Given the fiscal performance in FY 2014/15 and the updated macroeconomic outlook for FY 2015/16, there are some inherent risks to the FY 2015/16 budget framework. Expenditure pressures and in particular those relating to salaries and others of recurrent nature, pose a serious challenge to budget implementation and may further constrain funding for capital projects. The slow implementation of projects in the MDAs continues to be a source of concern and especially with regard to externally funded projects. These risks will be closely monitored and appropriate action taken in the context of the FY2015/16 Supplementary Budget.

104. In addition, there are risks associated with the huge wage bill in the public sector. The rising wage bill is crowding out resources for essential services and economic development. The Government has already taken measures to contain the rising wage bill in the public sector. These include freezing of new recruitment with the exception of essential services teachers/lecturers, health workers, police and security personnel.

105. The Government has also concluded the biometric registration of civil servants across the country. The exercise will be extended to all Government agencies with the aim of putting to rest the issue of ghost workers in the public service and ensure efficient management of the wage bill. This will entrench efficiency and effectiveness in public service and ensure that all public servants can accounted for

B. Medium-Term Expenditure Framework

106. Resource allocation will continue to be aligned to development programmes under the five pillar economic transformation program highlighted in Part IV of this document. The FY 2016/17 MTEF Budget will therefore focus on the following:

(i) Quality and Accessible Education and Health Care Services

107. Education and Health sectors currently receive a combined allocation of over 27.4 percent of total discretionary expenditures. Going forward, these sectors will continue to be allocated additional resources as well as entrenching quality control to ensure utilization of existing funds efficiently to generate fiscal space to accommodate other strategic interventions within the two sectors.

(ii) Infrastructure Development: Energy, Infrastructure and ICT

108. This sector receives the second largest share of resources (about 25.4 percent of total expenditure) after the education sector. The sector is the driver of the economy and reflects Government's commitment in improving infrastructure countrywide, such as roads, energy and rail. The sector allocation will continue to be maintained or increased over the medium term. This is in line with the government policy of developing infrastructure for accelerating sustainable growth.

(iii) Funding programs to Create Conducive Business Environment

109. The Government will continue to fund the governance reforms programmes to reduce the cost of doing business and improving security to create a conducive business environment that encourages innovation, investment, growth and expansion of economic and employment opportunities.

110. The Governance, Justice, Law and Order (GJLOS) and National Security sectors receive about 20 percent of the total discretionary expenditures. Funding over the medium term will facilitate the implementation of the critical and priority programmes such as safeguarding the security of the country, retooling and modernization of the policing services, implementation of the Constitution, judicial and prosecution services, entrenchment of democracy and promotion of good governance.

(iv) Other priority programmes

111. Other priority programmes including social welfare, youth and development of arid regions, which will continue to receive adequate resources. Specifically, the main areas of interventions will cover food security, improved access to quality health care, empowering youth and women as well as putting in place a transformative education system. Resources earmarked for these interventions are ring fenced over the medium term.

112. Reflecting the above medium-term expenditure framework **Table 10 and Annex Tables 4 and 5** provides the tentative projected baseline ceilings for the FY 2016/17 – 2018/19 MTEF period classified by sector.

Table 10: Medium Term Sector Ceilings, FY 2016/17-2018/19 (Ksh Million)

SECTOR		PRINTED 2015/16	2016/17 BPS PROJECTION	2016/17 BROP CEILING	PROJECTIONS 2017/18	PROJECTIONS 2018/19	% SHARE OF TOTAL EXPENDITURE PRINTED 2015/16	2016/17 BPS PROJECTION	2016/17 BROP CEILING	PROJECTIONS 2017/18	PROJECTIONS 2018/19
Agriculture, Rural & Urban Development	Sub_Total	79,692	70,124	69,347	71,658	72,363	5.3%	5.0%	4.5%	4.4%	4.6%
	Rec. Gross	16,671	16,889	16,301	16,771	17,252	1.1%	1.2%	1.1%	1.0%	1.1%
	Dev. Gross	63,021	53,235	53,046	54,887	55,111	4.2%	3.8%	3.5%	3.4%	3.5%
Energy, Infrastructure & ICT	Sub_Total	404,670	271,681	358,276	362,810	291,060	26.9%	19.4%	23.5%	22.3%	18.4%
	Rec. Gross	40,847	36,333	42,682	44,637	46,725	2.7%	2.6%	2.8%	2.7%	2.9%
	Dev. Gross	363,823	235,348	315,595	318,173	244,335	24.2%	16.8%	20.7%	19.6%	15.4%
General Economic & Commercial Affairs	Sub_Total	21,296	15,216	19,359	18,863	18,584	1.4%	1.1%	1.3%	1.2%	1.2%
	Rec. Gross	7,126	7,062	7,340	7,544	7,665	0.5%	0.5%	0.5%	0.5%	0.5%
	Dev. Gross	14,170	8,154	12,020	11,319	10,919	0.9%	0.6%	0.8%	0.7%	0.7%
Health	Sub_Total	59,184	53,341	61,492	63,652	65,437	3.9%	3.8%	4.0%	3.9%	4.1%
	Rec. Gross	28,520	28,758	29,826	30,403	30,688	1.9%	2.1%	2.0%	1.9%	1.9%
	Dev. Gross	30,664	24,583	31,666	33,249	34,749	2.0%	1.8%	2.1%	2.0%	2.2%
Education	Sub_Total	336,252	361,928	359,365	379,434	393,115	22.3%	25.8%	23.5%	23.3%	24.8%
	Rec. Gross	299,597	324,047	318,464	335,536	348,437	19.9%	23.1%	20.9%	20.6%	22.0%
	Dev. Gross	36,656	37,881	40,901	43,898	44,678	2.4%	2.7%	2.7%	2.7%	2.8%
Governance, Justice, Law & Order	Sub_Total	154,047	170,810	175,766	186,329	191,340	10.2%	12.2%	11.5%	11.5%	12.1%
	Rec. Gross	133,474	139,886	153,313	163,136	167,647	8.9%	10.0%	10.0%	10.0%	10.6%
	Dev. Gross	20,573	30,924	22,453	23,193	23,693	1.4%	2.2%	1.5%	1.4%	1.5%
Public Administration & International Relations	Sub_Total	243,354	245,240	256,191	296,982	298,141	16.2%	17.5%	16.8%	18.3%	18.8%
	Rec. Gross	115,465	142,573	125,939	144,888	149,332	7.7%	10.2%	8.3%	8.9%	9.4%
	Dev. Gross	127,889	102,667	130,252	152,094	148,809	8.5%	7.3%	8.5%	9.4%	9.4%
National Security	Sub_Total	112,513	131,224	117,262	135,198	141,956	7.5%	9.4%	7.7%	8.3%	9.0%
	Rec. Gross	112,471	131,224	117,220	135,156	141,914	7.5%	9.4%	7.7%	8.3%	9.0%
	Dev. Gross	42		42	42	42	0.0%	0.0%	0.0%	0.0%	0.0%
Social Protection, Culture & Recreation	Sub_Total	31,483	28,287	31,998	32,223	32,913	2.1%	2.0%	2.1%	2.0%	2.1%
	Rec. Gross	12,262	11,479	12,477	13,002	13,292	0.8%	0.8%	0.8%	0.8%	0.8%
	Dev. Gross	19,221	16,808	19,521	19,221	19,621	1.3%	1.2%	1.3%	1.2%	1.2%
Environment Protection, Water & Natural Resources	Sub_Total	63,001	53,073	77,011	78,569	78,990	4.2%	3.8%	5.0%	4.8%	5.0%
	Rec. Gross	17,771	14,950	20,341	21,034	21,834	1.2%	1.1%	1.3%	1.3%	1.4%
	Dev. Gross	45,230	38,123	56,670	57,535	57,157	3.0%	2.7%	3.7%	3.5%	3.6%
TOTAL	TOTAL	1,505,492	1,400,923	1,526,067	1,625,719	1,583,899	100.0%	100.0%	100.0%	100.0%	100.0%
	Rec. Gross	784,204	853,200	843,901	912,108	944,785	52.1%	60.9%	55.3%	56.1%	59.6%
	Dev. Gross	721,289	547,723	682,166	713,611	639,114	47.9%	39.1%	44.7%	43.9%	40.4%

VI. CONCLUSION AND NEXT STEPS

113. The FY2016/17-2018/19 MTEF presented in this BROP is developed taking into account the key policy challenges facing the economy. It is therefore marked by moderate growth in overall expenditure, taking into account the economic outlook and the need to maintain fiscal discipline in all levels of the government for maximum return from public resources. The policies, therefore, are broadly in line with the fiscal responsibility principles outlined in the PFM law.

114. Going forward, the set of policies outlined in this BROP ensures continuity in resource allocation based on prioritized programs that have been earmarked by the government to accelerate growth, employment creation and poverty reduction.

115. The policies and sector ceilings annexed herewith will guide the line ministries in preparation of the FY 2016/17 budget.

116. The next Budget Policy Statement (BPS) will be finalized by the February 2016 deadline as per the PFM law.

Annex Table 1: Main Macroeconomic Indicators

	2012/13	2013/14	2014/15		2015/16			2016/17			2017/18			2018/19
	Act	*Act*	Rev. Budget	Prel.	*BROP'14*	*Budget*	Rev. Budget	*BROP'14*	*BPS'15*	*BROP'15*	*BROP'14*	*BPS'15*	*BROP'15*	*BROP'15*
Annual percentage change, unless otherwise indicated														
National Account and Prices														
Real GDP	5.1	5.5	6.1	5.5	6.3	7.0	6.2	6.5	7.1	6.5	6.7	7.0	6.5	6.5
GDP deflator	7.2	6.3	6.7	7.0	6.4	6.5	6.8	6.2	6.4	6.5	5.8	6.2	6.2	6.0
CPI Index (eop)	5.8	6.8	5.3	6.1	5.0	5.0	5.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	4.6	7.1	5.7	6.6	5.0	5.0	5.6	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	2.0	1.1	0.2	1.5	6.5	0.3	0.4	3.4	0.2	-1.0	0.9	0.2	0.6	-1.0
Exchange Rate (Ksh/US$, average)	...	...	...	...	...	...	...	...	...	...				
Money and Credit (end of period)														
Net domestic assets	15.6	11.2	8.5	30.5	9.2	10.1	11.5	7.8	8.1	6.5	8.2	8.9	7.1	9.0
Net domestic credit to the Government	27.4	-25.4	27.9	84.5	20.5	29.2	21.2	19.5	18.2	18.3	18.0	14.5	17.6	13.5
Credit to the rest of the economy	12.9	25.5	14.3	20.5	11.8	10.9	16.2	12.2	12.6	14.1	12.3	13.7	14.1	13.8
Broad Money, M3 (percent change)	14.2	18.2	13.2	18.6	13.2	14.0	13.3	13.1	14.0	13.5	12.9	13.7	13.1	12.9
Reserve money (percent change)	11.7	12.6	14.2	14.9	10.4	11.8	15.7	10.4	11.7	11.2	11.8	12.6	12.0	11.8
In percentage of GDP, unless otherwise indicated														
Investment and Saving														
Investment	20.9	21.7	24.6	24.2	26.5	26.9	25.5	27.1	25.2	24.9	27.5	25.6	25.3	24.1
Central Government	6.9	6.3	11.0	8.9	9.9	10.9	11.1	10.1	8.7	9.3	9.8	8.0	9.3	9.4
Other	13.9	14.0	14.1	15.9	16.6	16.0	14.3	17.0	16.5	15.6	17.7	17.6	15.9	14.8
Gross National Saving	12.4	12.7	16.6	15.7	18.4	19.7	17.8	19.5	18.0	17.7	20.0	18.2	18.3	17.7
Central Government	0.2	3.8	4.0	3.7	7.1	5.3	5.4	8.2	6.8	6.3	6.1	5.1	16.6	8.4
Other	12.2	8.9	12.6	12.1	11.3	14.5	12.3	11.3	11.2	11.3	13.9	13.1	1.7	9.3
Central Government Budget														
Total revenue	18.8	19.3	20.4	19.4	21.5	20.8	21.1	21.9	21.5	21.3	21.8	21.8	21.6	21.9
Total expenditure and net lending	24.6	25.8	31.6	28.8	28.6	30.6	31.2	27.9	27.6	28.7	27.7	26.6	28.0	27.0
Overall balance (commitment basis) excl. grants	-5.8	-6.5	-11.2	-9.4	-7.1	-9.8	-10.1	-6.0	-6.2	-7.4	-5.9	-4.8	-6.4	-5.0
Overall balance (commitment basis) incl. grants	-5.3	-5.9	-10.1	-8.6	-6.1	-8.7	-8.9	-5.0	-5.4	-6.6	-4.9	-4.0	-5.6	-4.3
Overall balance (commitment basis) incl. grants Exl SGR			-9.5	-6.4	-5.4	-6.9	-7.1	-4.2	-4.2	-5.4	-4.5	-3.8	-5.4	-4.3
Primary budget balance	-2.6	-3.3	-7.2	-5.6	-3.6	-5.9	-6.0	-2.5	-2.9	-4.0	-2.4	-1.6	-3.7	-2.7
Net domestic borrowing	3.8	4.0	2.9	1.9	2.2	3.4	3.6	2.3	2.4	3.3	2.2	2.0	3.3	2.6
Total external support (grant & loans)	2.2	2.4	5.7	4.3	4.5	5.5	5.5	3.8	3.9	3.9	3.8	2.9	3.0	2.8
External Sector														
Exports value, goods and services	20.5	19.2	20.1	19.7	21.1	20.5	21.5	21.4	20.5	22.3	21.5	20.5	22.9	23.1
Imports value, goods and services	33.7	32.8	32.4	32.7	33.4	31.5	33.6	32.9	31.3	33.6	32.7	31.2	33.5	32.9
Current external balance, including official transfers	-8.5	-9.0	-8.0	-8.5	-8.1	-7.2	-7.7	-7.6	-7.2	-7.2	-7.6	-7.4	-7.0	-6.5
Gross international reserve coverage in months of next year imports (end of period)	3.6	3.9	4.2	4.3	4.3	4.3	4.3	4.6	4.6	4.6	4.8	4.8	4.8	4.6
Gross international reserve coverage in months of this year's imports (end of period)	3.8	4.1	4.6	4.6	4.8	4.8	4.8	5.1	5.1	5.1	5.3	5.3	5.3	5.4
Public debt														
Nominal central government debt (eop), gross	42.1	48.0	48.8	49.9	47.5	49.1	51.4	47.1	45.2	48.0	46.6	43.6	47.6	46.7
Nominal central government debt (eop), net of deposits	38.5	44.0	45.4	45.7	44.4	46.1	47.7	44.3	42.6	44.7	44.2	41.3	44.7	44.1
Domestic (gross)	23.4	25.5	25.3	24.9	24.3	25.6	25.6	23.7	24.1	25.0	23.3	23.1	25.4	25.1
Domestic (net)	19.8	21.4	21.9	20.7	21.2	22.6	21.8	21.0	21.5	21.7	20.9	20.8	22.5	22.6
External	18.8	22.6	23.5	25.0	23.2	23.5	25.8	23.3	21.1	23.0	23.3	20.5	22.2	21.6
Memorandum Items:														
Nominal GDP (in Ksh Billion)	4,496	5,044	5,719	5,698	6,290	6,521	6,458	7,113	7,430	7,328	8,030	8,448	8,291	9,363
Nominal GDP (in US$ Million)	52,710	58,191	64,728	62,356	70,440	73,096	64,983	78,895	82,501	73,032	88,213	92,910	81,845	91,547

Source: National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper; SGR = Standard Gauge Railway

Annex Table 2: Government Operations (in billions of Kenya Shillings)

	2012/13	2013/14	2014/15			2015/16			2016/17			2017/18			2018/19
	Act.	Act.	Budget	Rev. Budget	Prel.	BROP'14	Budget	Rev Budget	BROP'14	BPS'15	BROP'15	BROP'14	BPS'15	BROP'15	BROP'15
TOTAL REVENUE	**847.2**	**974.4**	**1,180.5**	**1,128.8**	**1,106.4**	**1,352.2**	**1,358.0**	**1,363.7**	**1,558.9**	**1,594.6**	**1,560.4**	**1,752.9**	**1,845.3**	**1,791.5**	**2,051.8**
Ordinary Revenue	779.4	919.0	1,086.4	1,028.9	1,031.2	1,249.9	1,254.9	1,250.9	1,447.8	1,490.2	1,444.9	1,632.6	1,730.2	1,663.5	1,913.9
Income tax	373.4	449.6	541.9	509.9	508.6	626.5	623.2	608.8	738.5	753.7	713.5	833.7	883.2	830.5	965.9
Import duty (net)	57.6	67.6	77.7	72.9	74.0	90.6	82.2	84.6	102.6	92.9	96.2	115.7	98.5	109.2	124.1
Excise duty	85.5	102.0	119.8	113.1	115.9	125.0	142.1	145.3	141.3	162.0	170.5	159.0	185.1	193.7	220.0
Value Added Tax	184.6	232.6	267.1	259.3	259.7	319.5	310.3	314.9	368.2	378.4	361.4	414.4	449.7	414.4	474.3
Investment income	15.3	10.2	17.4	16.4	13.5	18.2	23.4	22.4	18.1	20.0	23.9	20.5	21.8	25.5	27.2
Other	63.0	57.0	62.5	57.3	59.6	69.9	73.7	74.9	79.1	83.2	79.4	89.3	92.1	90.2	102.4
Railway Development Levy	0.0	19.7	22.9	22.9	18.4	26.1	25.7	24.0	29.6	28.8	27.3	33.4	32.2	31.0	35.2
Ministerial and Departmental fees (AiA)	49.7	35.7	71.2	77.0	56.7	76.2	77.5	88.7	81.4	75.6	88.2	86.9	82.9	97.0	102.7
EXPENDITURE AND NET LENDING	**1,107.3**	**1,300.6**	**1,597.6**	**1,860.5**	**1,640.3**	**1,800.5**	**1,998.5**	**2,014.8**	**1,987.6**	**1,987.6**	**2,102.4**	**2,216.4**	**2,233.9**	**2,323.6**	**2,526.9**
Recurrent expenditure	808.3	787.9	871.3	940.2	897.0	916.7	1,015.0	1,017.5	990.0	1,039.4	1,112.0	1,136.7	1,226.8	1,199.9	1,264.8
Interest payments	121.2	134.8	147.4	165.2	172.9	158.1	185.3	189.9	182.6	182.6	190.3	201.3	206.3	161.9	153.8
Domestic interest	110.2	119.2	122.9	136.2	139.6	133.6	154.8	154.8	145.6	145.6	145.8	160.1	155.1	110.7	110.7
Foreign interest	11.1	15.6	24.5	29.0	33.3	24.4	30.5	35.1	37.1	37.1	44.5	41.2	51.2	51.2	43.1
Wages and benefits /1	274.4	281.2	303.3	298.0	293.1	317.1	315.4	333.5	356.7	360.8	360.8	400.9	396.9	396.9	436.6
Contribution to civil service pension fund	0.0	0.0	9.5	0.0	0.0	10.9	6.0	4.8	13.8	14.8	14.8	19.3	17.7	17.7	18.8
Civil service Reform	0.0	0.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.5	1.5	1.0	1.0	1.0	0.0
Pensions etc	27.0	30.2	36.6	39.4	38.2	40.2	43.4	43.4	44.2	66.2	52.1	48.7	84.1	84.1	96.7
Other	294.4	248.0	282.7	338.6	293.9	299.3	351.3	332.4	296.0	282.3	375.3	363.4	371.5	411.9	425.0
Defense and NSIS	91.2	93.8	90.7	97.9	97.8	90.1	112.5	112.5	95.7	131.2	117.2	102.1	149.3	126.4	134.0
Development and Net lending	298.9	319.3	492.0	686.1	509.0	633.4	717.6	728.1	729.8	654.5	705.6	793.2	683.4	796.8	901.8
Domestically financed	201.8	198.5	298.7	320.0	266.0	347.3	360.0	370.6	398.7	365.7	401.8	459.3	435.0	533.4	619.1
Domestically financed Ministerial		191.0	266.3	281.7	241.5	265.8	324.0	325.0	323.5	327.3	352.3	352.7	392.7	478.2	557.7
Foreign financed	94.7	118.6	187.8	360.6	240.4	277.9	349.5	349.3	321.9	280.4	280.4	331.5	240.4	240.4	256.4
Net lending	2.4	2.2	2.1	2.1	2.1	2.2	2.2	2.2	2.3	2.4	17.4	2.4	2.6	17.6	17.7
Contingencies	0.0	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
County Allocation	0.0	193.4	229.3	229.3	229.3	245.5	260.9	264.2	262.9	288.8	279.9	281.5	318.7	321.9	355.3
Of which: sharable		190.0	226.7	226.7	226.7	245.5	258.0	259.8		284.9	275.0		314.5	316.7	349.6
Conditional Level Five Hospitals		3.4	1.9	1.9	1.9		2.1	3.6		2.3	4.0		2.5	4.4	4.8
County Health Facilities - DANIDA		16.6	0.7	0.7	0.7	0.7	0.8	0.8	0.0	0.7	0.8	0.0	0.7	0.8	0.8
Equalization Fund for Marginal areas	0.0	0.0	3.4	3.4	0.4	6.0	6.0	6.0	6.9	6.0	6.0	7.7	5.5	5.5	8.7
Fiscal Balance ***(commitment basis excl. grants)***	**-260.0**	**-326.2**	**-417.0**	**-732.0**	**-533.9**	**-448.4**	**-640.5**	**-651.1**	**-428.8**	**-458.0**	**-542.0**	**-463.5**	**-406.1**	**-532.1**	**-475.1**
Adjustment to cash basis	-0.2	0.0	0.0	0.0	16.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	15.1	21.7	51.4	58.0	22.28	57.4	65.8	65.6	64.2	52.5	52.5	71.8	57.5	57.5	65.5
Debt Swap		0.5	0.5	0.5	0.53	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Programmme grants	5.8	4.7	6.1	6.1	3.84	6.1	6.4	6.4	6.1	6.1	6.1	6.1	6.1	6.1	6.1
County Health Facilities - DANIDA			0.7	0.7	0.7	0.7	0.8	0.8	0.7	0.7	0.8	0.7	0.7	0.8	0.8
Fiscal Balance ***(cash basis incl. grants)***	**-239.3**	**-299.2**	**-358.3**	**-666.7**	**-489.6**	**-383.7**	**-567.0**	**-577.7**	**-357.3**	**-398.2**	**-482.1**	**-384.4**	**-341.2**	**-467.1**	**-402.1**
Fiscal Balance ***(cash basis incl. grants) Exl. SGR***				**-543.2**	**-366.1**	**-339.8**	**-448.7**	**-459.5**	**-299.2**	**-309.9**	**-393.8**	**-357.8**	**-321.5**	**-447.4**	**-402.1**
Statistical discrepancy	-6.8	10.2	0.3	0.0	-19.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCING	**232.5**	**309.4**	**358.6**	**666.7**	**470.5**	**383.7**	**567.0**	**577.7**	**357.3**	**398.2**	**482.1**	**384.4**	**341.2**	**467.1**	**402.1**
Net Foreign Financing/1	62.7	106.4	165.8	301.3	216.4	241.0	340.5	340.5	193.6	219.7	239.9	212.1	171.9	191.2	153.3
Project loans	79.6	96.9	141.8	302.6	218.2	220.6	283.7	283.7	199.2	227.9	227.9	224.8	182.8	182.8	190.8
Programme loans	0.0	0.0	0.0	5.4	3.5	0.0	8.2	8.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Financing	6.6	35.4	51.5	75.3	75.0	51.7	71.8	71.8	52.2	52.2	52.2	52.7	52.7	52.7	53.2
Export Credit-Commercial Fiancing							11.5	11.5			0.0				
Repayments due	-24.0	-25.8	-27.5	-81.9	-80.2	-31.2	-34.7	-34.7	-57.8	-60.4	-40.2	-65.5	-63.7	-44.3	-90.8
Rescheduling/Debt swap	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.0	0.5	0.5	0.0	0.5	0.5	0.0	0.0
NBK Rights Issue		0.0	0.0	0.0	0.0	0.0	5.0	5.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Loan Repayments (Receipts)		1.3	2.0	2.1	3.0	2.0	2.2	2.3	2.0	2.4	2.4	2.0	2.6	2.5	2.5
Sovereign Bond Proceeds			0.0	141.4	140.5						0.0				
Net Domestic Borrowing	169.8	201.7	190.8	214.5	110.6	140.7	219.2	229.9	161.6	176.1	239.8	170.3	166.7	273.4	246.3
Financing gap	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items															
External Debt	962.3	1,138.5	1,158.8	1,354.0	1,423.5	1,459.0	1,533.5	1,669.2	1,658.1	1,571.4	1,686.4	1,873.8	1,729.6	1,840.5	2,018.0
Domestic Debt (gross)	1,097.0	1,284.3	1,443.5	1,498.9	1,420.4	1,527.2	1,667.2	1,650.3	1,689.4	1,787.5	1,834.2	1,867.9	1,954.2	2,107.6	2,353.9
Domestic Debt (net)	945.1	1,078.8	1,282.1	1,232.6	1,178.2	1,333.7	1,473.8	1,408.0	1,495.9	1,594.0	1,591.9	1,674.4	1,760.7	1,865.4	2,111.6
Primary budget balance	-118.1	-164.4	-210.9	-501.5	-316.6	-225.6	-381.6	-387.8	-174.6	-215.6	-291.8	-183.0	-134.9	-305.2	-248.3
Nominal GDP	4,496.0	5,044.2	5,633.2	5,727.3	5,697.5	6,290.4	6,520.5	6,457.9	7,113.1	7,430.2	7,327.6	8,029.7	8,448.2	8,290.8	9,362.7

Source: The National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper; SGR = Standard Gauge Railway

/1 Wages and benefits: For teachers and civil servants including the police

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Annex Table 3: Government Operations (in percent of GDP)

	2012/13	2013/14	2014/15			2015/16			2016/17			2017/18			2018/19
	Act.	Act.	Budget	Rev. Budget	Prel.	BROP'14	Budget	Rev. Budget	BROP'14	BPS'15	BROP'15	BROP'14	BPS'15	BROP'15	*BROP'15*
TOTAL REVENUE	**18.8%**	**19.3%**	**21.0%**	**19.7%**	**19.4%**	**21.5%**	**20.8%**	**21.1%**	**21.9%**	**21.5%**	**21.3%**	**21.8%**	**21.8%**	**21.6%**	**21.9%**
Ordinary Revenue	17.3%	18.2%	19.3%	18.0%	18.1%	19.9%	19.2%	19.4%	20.4%	20.1%	19.7%	20.3%	20.5%	20.1%	20.4%
Income tax	8.3%	8.9%	9.6%	8.9%	8.9%	10.0%	9.6%	9.4%	10.4%	10.1%	9.7%	10.4%	10.5%	10.0%	10.3%
Import duty (net)	1.3%	1.3%	1.4%	1.3%	1.3%	1.4%	1.3%	1.3%	1.4%	1.3%	1.3%	1.4%	1.2%	1.3%	1.3%
Excise duty	1.9%	2.0%	2.1%	2.0%	2.0%	2.0%	2.2%	2.3%	2.0%	2.2%	2.3%	2.0%	2.2%	2.3%	2.3%
Value Added Tax	4.1%	4.6%	4.7%	4.5%	4.6%	5.1%	4.8%	4.9%	5.2%	5.1%	4.9%	5.2%	5.3%	5.0%	5.1%
Investment income	0.3%	0.2%	0.3%	0.3%	0.2%	0.3%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Other	1.4%	1.1%	1.1%	1.0%	1.0%	1.1%	1.1%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Railway Development Levy	0.0%	0.4%	0.4%	0.4%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Ministerial and Departmental fees (AiA)	1.1%	0.7%	1.3%	1.3%	1.0%	1.2%	1.2%	1.4%	1.1%	1.0%	1.2%	1.1%	1.0%	1.2%	1.1%
EXPENDITURE AND NET LENDING	**24.6%**	**25.8%**	**28.4%**	**32.5%**	**28.8%**	**28.6%**	**30.6%**	**31.2%**	**27.9%**	**27.6%**	**28.7%**	**27.7%**	**26.6%**	**28.0%**	**27.0%**
Recurrent expenditure	18.0%	15.6%	15.5%	16.4%	15.7%	14.6%	15.6%	15.8%	13.9%	14.9%	15.2%	14.2%	14.7%	14.5%	13.5%
Interest payments	2.7%	2.7%	2.6%	2.9%	3.0%	2.5%	2.8%	2.9%	2.6%	2.5%	2.6%	2.5%	2.4%	2.0%	1.6%
Domestic interest	2.5%	2.4%	2.2%	2.4%	2.5%	2.1%	2.4%	2.4%	2.0%	2.0%	2.0%	2.0%	1.8%	1.3%	1.2%
Foreign interest	0.2%	0.3%	0.4%	0.5%	0.6%	0.4%	0.5%	0.5%	0.5%	0.5%	0.6%	0.5%	0.6%	0.6%	0.5%
Wages and benefits/1	6.1%	5.6%	5.4%	5.2%	5.1%	5.0%	4.8%	5.2%	5.0%	4.9%	4.9%	5.0%	4.7%	4.8%	4.7%
Contribution to civil service pension fund	0.0%	0.0%	0.2%	0.0%	0.0%	0.2%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Civil service Reform	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pensions etc	0.6%	0.6%	0.6%	0.7%	0.7%	0.6%	0.7%	0.7%	0.6%	0.9%	0.7%	0.6%	1.0%	1.0%	1.0%
Other	6.5%	4.9%	5.0%	5.9%	5.2%	4.8%	5.4%	5.1%	4.2%	4.7%	5.1%	4.5%	4.6%	5.0%	4.5%
Defense and NSIS	2.0%	1.9%	1.6%	1.7%	1.7%	1.4%	1.7%	1.7%	1.3%	1.8%	1.6%	1.3%	1.8%	1.5%	1.4%
Development and Net lending	6.6%	6.3%	8.7%	12.0%	8.9%	10.1%	11.0%	11.3%	10.3%	8.8%	9.6%	9.9%	8.1%	9.6%	9.6%
Domestically financed	4.5%	3.9%	5.3%	5.6%	4.7%	5.5%	5.5%	5.7%	5.6%	4.9%	5.5%	5.7%	5.1%	6.4%	6.6%
Foreign financed	2.1%	2.4%	3.3%	6.3%	4.2%	4.4%	5.4%	5.4%	4.5%	3.8%	3.8%	4.1%	2.8%	2.9%	2.7%
Net lending	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.0%	0.0%	0.2%	0.2%
Contingencies	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Constitution Reform	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
County Allocation		3.8%	4.1%	4.0%	4.0%	3.9%	4.0%	4.1%	3.7%	3.9%	3.8%	3.5%	3.8%	3.9%	3.8%
Of which: sharable		3.8%	4.0%	4.0%	4.0%	3.9%	4.0%	4.0%	0.0%	3.8%	3.8%	0.0%	3.7%	3.8%	3.7%
Equalization Fund for Marginal areas	0.0%	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Fiscal Balance ***(commitment basis excl. grants)***	**-5.8%**	**-6.5%**	**-7.4%**	**-12.8%**	**-9.4%**	**-7.1%**	**-9.8%**	**-10.1%**	**-6.0%**	**-6.2%**	**-7.4%**	**-5.9%**	**-4.8%**	**-6.4%**	**-5.1%**
Adjustment to cash basis	0.0%	0.0%	0.0%	0.0%	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Project grants	0.3%	0.4%	0.9%	1.0%	0.4%	0.9%	1.0%	1.0%	0.9%	0.7%	0.7%	0.9%	0.7%	0.7%	0.7%
Programmme grants	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Fiscal Balance ***(cash basis incl. grants)***	**-5.3%**	**-5.9%**	**-6.4%**	**-11.6%**	**-8.6%**	**-6.1%**	**-8.7%**	**-8.9%**	**-5.0%**	**-5.4%**	**-6.6%**	**-4.9%**	**-4.0%**	**-5.6%**	**-4.3%**
Fiscal Balance ***(cash basis incl. grants) Excl. SGR***			**0.0%**	**-9.5%**	**-6.4%**	**-5.4%**	**-6.9%**	**-7.1%**	**-4.2%**	**-4.2%**	**-5.4%**	**-4.5%**	**-3.8%**	**-5.4%**	**-4.3%**
Statistical discrepancy	-0.2%	0.2%	0.0%	0.0%	-0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FINANCING	**5.2%**	**6.1%**	**6.4%**	**11.6%**	**8.3%**	**6.1%**	**8.7%**	**8.9%**	**5.0%**	**5.4%**	**6.6%**	**4.9%**	**4.0%**	**5.6%**	**4.3%**
Net Foreign Financing	1.4%	2.1%	2.9%	5.3%	3.8%	3.8%	5.2%	5.3%	2.7%	3.0%	3.3%	2.6%	2.0%	2.3%	1.6%
Project loans	1.8%	1.9%	2.5%	5.3%	3.8%	3.5%	4.4%	4.4%	2.8%	3.1%	3.1%	2.8%	2.2%	2.2%	2.0%
Commercial Financing	0.1%	0.7%	0.9%	1.3%	1.3%	0.8%	1.1%	1.1%	0.7%	0.7%	0.7%	0.7%	0.6%	0.6%	0.6%
Domestic Loan Repayments (Receipts)	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Sovereign Bond Proceeds			0.0%	2.5%	2.5%	0.0%	0.1%	0.1%							
Net domestic borrowing	3.8%	4.0%	3.4%	3.7%	1.9%	2.2%	3.4%	3.6%	2.3%	2.4%	3.3%	2.2%	2.0%	3.3%	2.6%
Financing gap	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Memo Items															
Total Public Debt (net)	45.9%	44.0%	43.3%	45.2%	45.7%	44.4%	46.1%	47.7%	44.3%	42.6%	44.7%	44.2%	41.3%	44.7%	44.1%
External Debt		22.6%	20.6%	23.6%	25.0%	23.2%	23.5%	25.8%	23.3%	21.1%	23.0%	23.3%	20.5%	22.2%	
Domestic Debt (gross)	24.4%	25.5%	25.6%	26.2%	24.9%	24.3%	25.6%	25.6%	23.7%	24.1%	25.0%	23.3%	23.1%	25.4%	25.1%
Domestic Debt (net)	21.0%	21.4%	22.8%	21.5%	20.7%	21.2%	22.6%	21.8%	21.0%	21.5%	21.7%	20.9%	20.8%	22.5%	22.6%
Primary budget balance	-2.6%	-3.3%	-3.7%	-8.8%	-5.6%	-3.6%	-5.9%	-6.0%	-2.5%	-2.9%	-4.0%	-2.4%	-1.6%	-3.7%	-2.7%
Nominal GDP	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: The National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper; SGR = Standard Gauge Railway

/1 Wages and benefits: For teachers and civil servants including the police

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Annex Table 4: Development Sector Ceilings for the MTEF Period 2016/17 - 2018/19 (KSh Million)

SECTOR		BUDGET ESTIMATE	BPS PROJECTION	BROP CEILING	PROJECTION	
		2015/16	2016/17	2016/17	2017/18	2018/19
Agriculture, Rural & Urban Development	**Gross**	63,021	53,235	53,046	54,887	55,111
	GOK	20,098	26,351	19,514	20,464	20,688
	Loans	22,067	10,676	22,067	22,067	22,067
	Grants	6,215	3,208	6,215	6,215	6,215
	Local A-I-A	537	500	537	537	537
	S.I.	14,104	12,500	4,714	5,604	5,604
Energy, Infrastructure & ICT	**Gross**	363,823	235,348	315,595	318,173	244,335
	GOK	85,164	92,155	85,810	91,051	14,553
	Loans	226,922	98,180	158,014	146,576	158,014
	Grants	10,589	9,132	10,589	13,365	10,589
	Local A-I-A	35,149	35,881	48,682	47,681	41,679
	S.I.	6,000	-	12,500	19,500	19,500
General Economic & Commercial Affairs	**Gross**	**14,170**	**8,154**	**12,020**	**11,319**	**10,919**
	GOK	8,579	7,612	8,629	7,712	7,312
	Loans	-	-	-	-	-
	Grants	391	542	391	607	607
	S.I.	5,200	-	3,000	3,000	3,000
Health	**Gross**	30,664	24,583	31,666	33,249	34,749
	GOK	1,842	1,456	1,842	2,924	3,424
	Loans	5,176	1,927	5,176	5,176	5,176
	Grants	13,848	10,461	13,848	13,848	13,848
	S.I.	9,798	10,740	10,800	11,300	12,300
Education	**Gross**	36,656	37,881	40,901	43,898	44,678
	GOK	14,757	14,580	15,418	16,770	17,550
	Loans	2,996	2,468	2,996	2,971	2,971
	Grants	1,323	2,669	1,323	2,109	2,109
	S.I.	17,580	18,164	21,164	22,048	22,048
Governance, Justice, Law & Order	**Gross**	20,573	30,924	22,453	23,193	23,693
	GOK	17,115	27,080	18,995	19,739	20,239
	Loans	2,832	2,832	2,832	2,832	2,832
	Grants	626	1,012	626	622	622
	Local A-I-A	-				
Public Administration & International Relations	**Gross**	127,889	102,667	130,252	152,094	148,809
	GOK	43,941	27,829	39,970	42,674	43,389
	Loans	3,802	4,836	3,802	3,802	3,802
	Grants	23,391	18,646	23,339	23,339	23,339
	Local A-I-A	56	56	56	56	56
	S.I.	19,355	13,055	24,855	39,355	32,355
	CDF	37,343	38,245	38,230	42,868	
National Security	**Gross**	**42**		**42**	**42**	**42**
	GOK	-		-	-	-
	Loans	-		-	-	-
	Grants	42		42	42	42
Social Protection, Culture & Recreation	**Gross**	**19,221**	**16,808**	**19,521**	**19,221**	**19,621**
	GOK	3,440	6,137	3,740	4,440	5,040
	Loans	644	1,282	644	644	644
	Grants	1,774	1,223	1,774	1,774	1,774
	S.I.	13,363	8,166	13,363	12,363	12,163
Environment Protection, Water & Natural Resources	**Gross**	**45,230**	**38,123**	**56,670**	**57,535**	**57,157**
	GOK	18,291	18,353	18,350	19,501	20,211
	Loans	19,263	15,324	19,263	20,787	20,787
	Grants	7,421	4,191	7,421	4,842	4,104
	Local A-I-A	255	255	255	255	255
	S.I.	-	-	11,381	12,150	1,300
TOTAL	**Gross**	**721,289**	**547,723**	**682,166**	**713,611**	**639,114**
	GOK	213,225	221,553	212,266	225,276	152,406
	Loans	283,701	137,525	214,794	204,855	216,293
	Grants	65,622	51,082	65,569	66,763	63,249
	Local A-I-A	35,997	36,692	49,530	48,530	42,528
	S.I.	85,400	62,625	101,777	125,320	108,270
	CDF	37,343	38,245	38,230	42,868	45,868

Note: (1) A-I-A = Appropriations -in-Aid, (2) S.I. = Strategic Interventions, (3) CDF = Constituency Development Fund

Annex Table 5: Recurrent Sector Ceilings for the MTEF Period 2016/17 - 2018/19 (KSh Million)

SECTOR		BUDGET ESTIMATES 2015/16	BPS PROJECTIONS 2016/17	BROP CEILING 2016/17	PROJECTIONS 2017/18	PROJECTIONS 2018/19
Agriculture, Rural & Urban Development	**Gross**	**16,671**	**16,889**	**16,301**	**16,771**	**17,252**
	A-I-A	466	500	66	66	66
	Net	16,206	16,389	16,235	16,705	17,186
	Salaries	6,033	6,030	6,085	6,267	6,455
	Grants & O.T.	5,424	5,451	4,851	4,880	4,892
	Other Recurrent	5,215	5,408	5,365	5,624	5,905
Energy, Infrastructure & ICT	**Gross**	**40,847**	**36,333**	**42,682**	**44,637**	**46,725**
	A-I-A	32,944	29,597	34,587	36,311	38,122
	Net	7,902	6,736	8,095	8,326	8,602
	Salaries	2,342	2,500	2,413	2,485	2,560
	Grants & O.T.	36,232	30,702	37,898	39,640	41,436
	Other Recurrent	2,272	3,131	2,371	2,512	2,678
General Economic & Commercial Affairs	**Gross**	**7,126**	**7,062**	**7,340**	**7,544**	**7,665**
	A-I-A	79	65	79	79	79
	Net	7,047	6,997	7,261	7,465	7,587
	Salaries	1,148	1,170	1,183	1,218	1,255
	Grants & O.T.	4,408	4,106	4,540	4,628	4,628
	Other Recurrent	1,570	1,786	1,617	1,698	1,783
Health	**Gross**	**28,520**	**28,758**	**29,826**	**30,403**	**30,688**
	A-I-A	3,978	4,097	3,978	3,978	3,978
	Net	24,542	24,661	25,848	26,426	26,710
	Salaries	5,970	5,744	6,149	6,333	6,523
	Grants & O.T.	19,935	20,311	20,677	20,677	20,677
	Other Recurrent	1,715	1,803	1,801	1,893	1,988
	S.I	900	900	1,200	1,500	1,500
Education	**Gross**	**299,597**	**324,047**	**318,464**	**335,536**	**348,437**
	A-I-A	19,011	21,952	19,011	19,011	19,011
	Net	280,585	302,094	299,453	316,525	329,425
	Salaries	183,635	178,627	189,144	194,819	200,663
	Grants & O.T.	69,004	83,270	74,454	81,537	88,038
	Other Recurrent	46,957	62,149	52,366	57,180	57,735
	S.I.		-	2,500	2,000	2,000
Governance, Justice, Law & Order	**Gross**	**133,474**	**139,886**	**153,313**	**163,136**	**167,647**
	A-I-A	760	721	760	760	760
	Net	132,714	131,996	152,552	162,376	166,887
	Salaries	85,364	85,947	87,925	90,563	93,276
	Grants & O.T.	6,586	5,176	6,369	6,515	6,613
	Other Recurrent	31,524	36,554	32,525	33,458	35,158
	S.I	10,000	12,209	26,493	32,600	32,600
Public Administration & International Relations	**Gross**	**115,465**	**142,573**	**125,939**	**144,888**	**149,332**
	A-I-A	1,410	1,414	342	342	342
	Net	114,055	141,159	125,597	144,547	148,990
	Salaries	43,981	78,004	44,931	56,763	58,466
	Grants & O.T.	24,714	25,353	25,613	25,613	26,557
	Other Recurrent	39,070	32,436	40,045	41,928	43,724
	S.I.	7,700	6,780	15,350	20,585	20,585
National Security	**Gross**	**112,471**	**131,224**	**117,220**	**135,156**	**141,914**
	A-I-A	-	-	-	-	-
	Net	112,471	131,224	115,851	127,364	140,027
	Salaries	790	800	814	838	863
	Grants & O.T.	111,404	130,206	116,115	134,012	140,730
	Other Recurrent	277	218	291	305	320
	S.I.	-	-	-	-	-
Social Protection, Culture & Recreation	**Gross**	**12,262**	**11,479**	**12,477**	**13,002**	**13,292**
	A-I-A	167	139	167	167	167
	Net	12,095	11,340	12,310	12,835	13,125
	Salaries	2,083	2,140	2,146	2,210	2,276
	Grants & O.T.	2,233	2,276	2,300	2,614	2,683
	Other Recurrent	2,853	2,305	2,938	3,085	3,239
	S.I.	5,093	4,758	5,093	5,093	5,093
Environment Protection, Water & Natural Resources	**Gross**	**17,771**	**14,950**	**20,341**	**21,034**	**21,834**
	A-I-A	8,369	4,994	8,769	8,769	8,769
	Net	9,402	9,956	11,572	12,265	13,064
	Salaries	2,180	2,185	2,374	2,445	2,519
	Grants & O.T.	13,964	11,380	16,271	16,808	17,445
	Other Recurrent	1,628	1,386	1,697	1,781	1,870
TOTAL	**Gross**	**784,204**	**853,200**	**843,901**	**912,108**	**944,785**
	A-I-A	62,834	63,479	67,758	69,483	71,293
	Net	717,019	782,552	774,774	834,834	871,605
	Salaries	333,527	363,145	343,163	363,942	374,856
	Grants & O.T.	293,904	318,230	309,088	336,924	353,699
	Other Recurrent	133,081	147,177	141,015	149,465	154,402
	S.I	23,693	24,647	50,636	61,778	61,778

Note. (1) A-I-A = Appropriations -in-Aid, (2) S.I. = Strategic Interventions, (3) O.T. = Other Transfers

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