REPUBLIC OF KENYA

THE NATIONAL TREASURY

2016 BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2016

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Foreword

The Kenyan economy remains resilient registering strong economic growth compared to the average growth for Sub Saharan Africa. The country continues to maintain macroeconomic stability with overall inflation remaining within target, short term interest rates remaining low, a reflection of ample liquidity in the money market. The stability of the Kenya Shilling exchange rate to the US dollar has been achieved within the context of uncertainty in the global currency markets following the decision of the United Kingdom to exit the European Union, weaker global economic performance and the on-going rebalancing of demand in China.

The Kenyan economy expanded by 5.6 percent in 2015 up from 5.3 percent in 2014 and created 841,600 new jobs. This growth was supported by increased output in most of the sectors due to the ongoing public infrastructure spending, favourable weather conditions and strong consumer demand. Economic growth for the first quarter of 2016, improved to 5.9 percent up from 5.0 percent in the same quarter in 2015. Given this momentum and supported by developments in key leading indicators for second quarter of 2016, we project the overall growth for the year 2016 at 6.0 percent and 6.5 percent over the medium term. This growth will create additional new jobs, help reduce poverty and income inequality in the country.

The implementation of the budget for the FY 2015/16 progressed well and picked up towards the end of the fiscal year. However, both revenue collection and expenditures lagged behind their respective targets. During the year, we embarked on various legal and administrative measures for implementation by the Kenya Revenue Authority to seal revenue leakages. Further, in my Budget Statement in June 2016, I spelt out measures that provide for equity in tax collection. We therefore, expect improved revenue collection in the FY 2016/17 – 2017/18 period. On the expenditure side, we aim to improve efficiency so as to get value for money in the delivery of goods and services to the public. Already, we have made significant progress in reforming the financial accountability systems at the National level through a robust legal framework.

We are preparing the budget for the FY 2017/18 under a revised budget calendar that takes into account the preparations for the 2017 General elections. I therefore call upon all Ministries, Departments and Agencies to adhere to the strict deadlines and the revised budget calendar to enable finalization and appropriation of the FY 2017/18 budget by March 2017.

Therefore, in preparation of the FY 2017/18 budget, emphasis needs to be put on high priority and strategic service delivery programmes that provide value for money. A careful scrutiny of individual Ministries, Departments and Agencies (MDAs) budget execution will be done while preparing expenditure estimates for the FY 2017/18 and the medium-term. On the absorption capacity of public projects, the National Treasury has issued guidelines on how capital projects should be planned, appraised and evaluated before funds are finally committed in the budget. The National Treasury will engage Development Partners and execute financial agreements when the project has fulfilled all preliminary conditions for execution.

In this 2016 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 provided and ensure the quality of allocations by eliminating wasteful spending. The appraisal and approval of projects to be funded should be guided by their strategic importance to medium-term goals including the impact on poverty reduction, support to growth, job creation and should be aligned to the Economic Transformation Agenda and the Second Medium Term Plan of the Vision 2030.

HENRY K. ROTICH, EGH
CABINET SECRETARY/THE NATIONAL TREASURY

Acknowledgement

The 2016 Budget Review and Outlook Paper (BROP), is prepared in accordance with the Public Finance Management (PFM) Act, 2012. The document provides actual fiscal performance of the FY 2015/2016 in comparison to the budget appropriations for the same year as well as a review of the recent economic developments in all the sectors of the economy. It further provides an overview of how the actual performance of the FY 2015/2016 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 2016 Budget Policy Statement (BPS).

The implementation of the FY 2015/16 budget progressed well despite the lower than expected revenue performance and lower absorption of expenditures particularly development funds. The issue of low absorption remains a top priority of the Government and the National Treasury has issued guidelines on how capital projects should be planned, appraised and evaluated before funds are finally committed in the budget. In this regard, therefore, the Sector Working Groups are expected to allocate funds only to projects that have the necessary supporting documentation and linked to the Second Medium-Term Plan of the Vision 2030 and priorities under the Economic Transformative Agenda of the Government. The implementing MDAs will be required to clearly demonstrate sufficient capacity to deliver projects on time and within the approved budget.

So far, budget implementation for FY 2016/17 has picked up smoothly and we expect this to continue during the remainder of the financial year. We have put in place a budget implementation monitoring framework at the National Treasury to ensure that budget implementation by all spending units is strictly adhered to as per the cash plans provided.

The preparation of the 2016 Budget Review and Outlook Paper was a collaborative effort among various Government Agencies. We thank all the spending units, the Ministries, Government Departments and Agencies for timely provision of useful data and information through their budget execution for the FY 2015/16. We are also grateful to the Macro Working Group, a sector that reviewed this document to ensure it satisfies the PFM Act, 2012 and set out the sector ceilings contained therein to guide the rest of the sectors in the preparation of their 2017/18 budgets.

This document was put together by a core team of officers at the National Treasury who spent a significant amount of time beyond official working hours. We received inputs from the following departments; Macro and Fiscal Affairs, Budget, Intergovernmental and Fiscal Relations, Resource Mobilization and Debt Policy, Strategy & Risk Management. We are specifically grateful to the core team in the Macro Division that tirelessly put together this document and ensured it was produced in time and is of high quality. Lastly, we thank all institutions and the general public for the useful comments and inputs that we continue to receive in the budget process right from the Launch of the Sector Working Groups at the Kenyatta International Convention Centre on 27th July 2016.

Allow me to reiterate the importance of public participation in the budget preparation process by requesting the Sector Working Groups to devise an engagement framework that not only allows participation which is open to large numbers of stakeholders but also that ensures that the inputs from such engagement is received early in the commencement of the budget process in order to guide in decision making.

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

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Abbreviations and Acronyms

AiA	Appropriation in Aid
BPS	Budget Policy Statement
BROP	Budget Review and Outlook Paper
CBR	Central Bank Rate
FY	Financial Year
GDP	Gross Domestic Product
IMF	International Monetary Fund
KBRR	Kenya Bank's Reference Rate
KNBS	Kenya National Bureau of Statistics
MDAs	Ministries, Departments and Agencies
NG	National Government
MTEF	Medium Term Expenditure Framework
NDA	Net Domestic Assets
PAYE	Pay As You Earn
PFM	Public Finance Management
SGR	Standard Gauge Railway
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 fourth under the current Administration. It presents the budget performance for FY 2015/16 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 set out the broad fiscal parameters for the FY 2017/18 budget and the medium term.

In the FY 2015/16, preliminary outcome indicates that the cumulative revenue collection including A-i-A was Ksh 1,237.9 billion. This revenue was Ksh 62.0 billion below the revised target of Ksh 1,299.9 billion due to shortfall in all tax revenue categories except the excise duty. Total expenditures and net lending was Ksh 1,781.9 billion, which was Ksh 250.6 billion below the revised target of Ksh 2,032.5 billion. The shortfall was as a result of underperformance in both the recurrent expenditures and development expenditures.

The fiscal deficit for the FY 2015/16, (on a commitment basis and excluding grants), at Ksh 544.1 billion (equivalent to 8.4 percent of GDP) was lower than the revised budget of Ksh 732.6 billion (equivalent to 11.4 percent of GDP). Including grants, the deficit (on a cash basis) at 7.6 percent of GDP was lower than the budget of 10.3 percent of GDP, while excluding expenditures related to the Standard Gauge Railway (SGR) the deficit was 6.8 percent of GDP.

The FY 2015/16 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 32.1 percent; share of National Government wages and benefits to National Government revenues was 31.6 percent; National Government borrowing was used to finance development expenditure; 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 from both within and external sources. The macroeconomic environment remains favourable, with the narrowing of the current account deficit due to lower import bill, strong diaspora remittances, stable Kenya shilling exchange rate against the dollar, the increase in the foreign exchange reserves and the strengthening of the foreign exchange market following the approval in March 14, 2016 of the new IMF Precautionary Arrangements amounting to US$ 1,500 million which is expected to provide additional buffer against short term external and domestic shocks.

In the FY 2017/18, the revenue collection target including Appropriation-in-Aid (AiA) is Ksh 1,640.9 billion (20.1 percent of GDP) up from Ksh 1,456.3 billion (20.1 percent of GDP) in FY 2016/17. Ordinary revenues are projected at Ksh 1,495.6 billion (18.3 percent of GDP) in FY 2017/18 up from Ksh 1,318.0 billion (18.2 percent of GDP) in FY 2016/17. Overall expenditure and net lending is projected at Ksh 2,236.7 billion (27.4 percent of GDP) from the projected Ksh 2,074.1 billion (28.6 percent of GDP) in the FY 2016/17 reflecting the completion of Phase I of the SGR. Recurrent expenditures will amount to Ksh 1,250.6 billion (15.3 percent of GDP) while development expenditure is projected at Ksh 673.2 billion (8.3 percent of GDP).

Reflecting the projected expenditures and revenues, the fiscal balance excluding grants, is projected at Ksh 595.8 billion (equivalent to 7.3 percent of GDP) in the FY 2017/18 while including grants, the overall fiscal balance is projected at Ksh 543.8 billion (6.7 percent of GDP) against the estimated overall fiscal balance of Ksh 586.1 billion (8.1 percent of GDP) in FY 2016/17. Further, excluding expenditures related to the SGR, the deficit in the FY 2017/18 is projected at 5.8 percent of GDP lower than the 7.1 percent of GDP in FY 2016/17.

The fiscal deficit in FY 2017/18, will be financed by net external financing of Ksh 231.4 billion (2.8 percent of GDP), Ksh 323.4 billion (4.0 percent of GDP) net domestic borrowing, net repayments of 15.0 billion to CBK and other net receipts of Ksh 4.1 billion.

There are risks to the medium term outlook that include among others; pressures on expenditures especially recurrent related expenditures, adverse weather conditions and external risks particularly the uncertainty in the global markets due to the possible tightening of monetary policy in the US, on-going repercussions of the decision of the United Kingdom to exit from the European Union, uncertainty on the international oil market and continued uneven and sluggish global growth. The Government will closely monitor the developments on these areas and undertake appropriate measures to safeguard macroeconomic stability should these risks materialize.

I. INTRODUCTION

Objective of the Budget Review and Outlook Paper

1. The objective of the 2016 Budget Review and Outlook Paper (BROP) is to provide a review of fiscal performance for the FY 2015/16 and how this performance impacts on the financial objectives and fiscal responsibility principles set out in the 2016 Budget Policy Statement (BPS). Further, the document provides highlights of recent economic developments and outlook and sector ceilings for the 2017/18 budget and the medium term.

2. The sector ceilings are guided by the overall resource envelope that is informed by the macroeconomic and fiscal outlook as presented in section III and IV of this document. The sector ceilings set in motion the budget preparation for the FY 2017/18 and the medium term.

3. The rest of the paper is organised as follows: Section II provides a review of the fiscal performance for the FY 2015/16 and its implications on the financial objectives set out in the 2016 BPS. This is followed by Section III that provides highlights of the recent economic developments and outlook. The proposed Resource Allocation Framework is provided in Section IV while conclusion is in Section V.

II. REVIEW OF FISCAL PERFORMANCE FOR THE FY 2015/16

A. Overview

4. The implementation of the budget for FY 2015/16 progressed well and picked up towards end of the fiscal year. However, both revenue collection and expenditures lagged behind their respective targets. First, revenue collection was weaker than projected, reflecting mainly lower-than-expected income tax from individuals (PAYE), VAT collection on imported goods and import duty and a delay in approving new Excise tax measures.

5. Preliminary cumulative revenue collection including A-I-A by end June 2016 was Ksh 1,237.9 billion or Ksh 62.0 billion below the revised target of Ksh 1,299.9 billion. All tax revenue categories except the Excise Duty recorded lower revenues than target during the period. On the expenditures side, there was lower absorption recorded in both the recurrent (wages and salaries and operations and maintenance) and development expenditures by the National Government. Total expenditures and net lending by end June 2016 was Ksh 1,781.9 billion and was below the revised target of Ksh 2,032.5 billion by Ksh 250.6 billion.

6. As a result, the fiscal balance as at end of June 2016, (on a commitment basis and excluding grants), was Ksh 544.1 billion (equivalent to 8.4 percent of GDP) against a targeted deficit of Ksh 732.6 billion (equivalent to 11.4 percent of GDP). Including grants on a cash basis, the fiscal balance recorded a deficit of 7.6 percent of GDP against a budget deficit target of 10.3 percent of GDP while excluding expenditures related to Standard Gauge Railway the deficit was 6.8 percent of GDP in FY 2015/16.

B. FY 2015/16 Fiscal Performance

Performance of Revenues

7. By the end of June 2016, total cumulative revenue including A-i-A collected amounted to Ksh 1,237.9 billion against a revised target of Ksh 1,299.9 billion **(Table 1)**. This represented a revenue shortfall of Ksh 62.0 billion (or 4.8 percent deviation from the revised target). Ordinary revenue collection amounted to Ksh 1,158.2 billion against the target of Ksh 1,184.4 billion.

8. Tax revenues were largely below the revised target in all the categories except the excise duty. Income tax was below target by Ksh 12.0 billion on account of PAYE, VAT was below target by 10.8 billion on account of both VAT domestic and VAT imports; and import duty was below target by Ksh 4.4 billion. Investment revenue was similarly below the target by Ksh 2.3 billion while 'Other' revenues (land rent, fines and forfeiture, miscellaneous revenues and others) collected higher revenues than target.

9. The Railway Development Levy collection amounted to Ksh 17.3 billion against a target of Ksh 18.0 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, 2015/16 (Ksh Million)

	2014/15	2015/16		Deviation	% Deviation
	Actual	Target	Preliminary Actual		
	Ksh. Millions				
Total Revenue (a+b)	**1,107,772**	**1,299,912**	**1,237,883**	**(62,029)**	**(4.8)**
(a) Ordinary Revenue	**1,031,819**	**1,184,368**	**1,158,211**	**(26,156)**	**(2.2)**
Import Duty	74,048	83,628	79,188	(4,440)	(5.3)
Excise Duty	115,872	137,175	139,540	2,365	1.7
PAYE	279,796	309,189	286,166	(23,023)	(7.4)
Other Income Tax	228,785	268,797	279,834	11,038	4.1
VAT Domestic	127,905	165,758	160,389	(5,369)	(3.2)
VAT Imports	131,781	134,267	128,824	(5,442)	(4.1)
Investment Income	14,031	21,580	19,253	(2,327)	(10.8)
Import Declaration Fees	26,993	26,141	25,245	(896)	(3.4)
Others/ 1	32,609	37,833	39,771	1,938	5.1
(b) Appropriation in Aid (A-I-A) /2	**75,953**	**115,544**	**79,671**	**(35,872)**	**(31.0)**
o/w Railway Development Levy	19,247	17,951	17,273	(677)	(3.8)
External Grants	**28,117**	**65,973**	**29,598**	**(36,376)**	**(55.1)**
Total Revenue and External Grants	**1,135,889**	**1,365,885**	**1,267,480**	**(98,404)**	**(7.2)**
Total Revenue and External Grants as share of GDP	**19.5**	**21.0**	**19.5**	**(56.4)**	

1/ includes rent of buildings, fines and forfeitures, other taxes, reimbursements and other fund contributions, traffic revenue and miscellaneous revenue.
2/ includes receipts from Road Maintenance Levy Fund and A-I-A from Universities
Source: National Treasury

10. Similarly, external grants amounted to Ksh 29.6 billion against a target of Ksh 66.0 billion, representing an under performance of Ksh 36.4 billion. Of these external grants, programme grants (AMISOM reimbursements) amounted to Ksh 4.3 billion against a target of Ksh 6.4 billion.

11. As a proportion of GDP, the total cumulative revenue and grants in the FY 2015/16 amounted to 19.5 percent same as in the FY 2014/15.

Expenditure Performance

12. Total expenditure and net lending in the FY 2015/16, amounted to Ksh 1,781.9 billion against a target of Ksh 2,032.5 billion, representing an under spending of Ksh 250.6 billion (or 12.3 percent deviation from the revised budget) **(Table 2).** This shortfall was attributed to lower absorption in both recurrent and development expenditures by the MDAs.

13. The National Government's recurrent expenditure (inclusive of Judiciary & Parliament) amounted to Ksh 1,027.5 billion against a target of Ksh 1,085.3 billion, representing an under-spending of Ksh 57.8 billion (or 5.3 percent deviation from the approved recurrent expenditure). The under-spending was in respect of operations and maintenance (Ksh 29.9 billion), wages and salaries (Ksh 26.1 billion), as well as pensions and other contribution funds (Ksh 2.7

billion). The lag between spending at the sub-county level and reporting to the headquarters continue in part to contribute to the apparent expenditure underperformance.

14. Expenditure on foreign interest was above the target by Ksh 1.1 billion while domestic interest payments were below target by Ksh 1.3 billion. Foreign interest payments amounted to Ksh 42.5 billion, compared to Ksh 32.3 billion in the same period of the FY 2014/15. The domestic interest payments was Ksh 172.9 billion, higher than Ksh 139.7 billion paid in the corresponding period of the previous financial year.

15. Ministerial appropriation-in-aid in recurrent expenditure recorded an under spending of Ksh 20.6 billion.

Table 2: Expenditure and Net Lending, Ksh Million

	2014/15	2015/16		Deviation	% Deviation
	Actual	Target	Preliminary Actual		
	Ksh. Millions				
1. Recurrent Expenditure	**895,199**	**1,085,307**	**1,027,543**	**(57,764)**	**(5.3)**
Domestic Interest	139,615	174,120	172,857	(1,263)	(0.7)
Foreign Interest due	32,261	41,387	42,471	1,084	2.6
Pensions & Other CFS	37,508	56,129	53,401	(2,728)	(4.9)
Wages & Salaries	297,978	333,527	307,421	(26,105)	(7.8)
Defense and NSIS	93,723	112,498	113,666	1,168	1.0
Others	294,114	367,646	337,726	(29,920)	(8.1)
o/w Appropriation in Aid	50,566	79,165	58,601	(20,564)	(26.0)
2. Development	**510,136**	**671,583**	**478,964**	**(192,619)**	**(28.7)**
Domestically Financed	266,838	316,495	301,276	(15,219)	(4.8)
Foreign Financed	241,173	353,033	175,521	(177,512)	(50.3)
Net Lending	2,125	2,055	2,167	113	5.5
3. County Allocation	229,336	264,219	264,039	(180)	(0.1)
4. Equalization Fund	400	6,400	6,400	-	-
5. Contingency Fund	4,951	5,000	5,000	-	-
TOTAL EXPENDITURE AND NET LENDING	**1,640,022**	**2,032,509**	**1,781,945**	**(250,564)**	**(12.3)**

Wages and salaries; for teachers and civil servants including the police
Source: National Treasury

16. Development expenditures were below target by Ksh 192.6 billion on account of lower than programmed absorption by MDAs of domestically financed programmes by Ksh 15.2 billion, and lower than programmed execution of externally funded programmes by Ksh 177.5 billion.

Ministerial Expenditure

17. The total cumulative ministerial and other public agencies expenditure was Ksh 1,205.7 billion (80.7 percent absorption) against a target of Ksh 1,494.6 billion. Recurrent expenditure was Ksh 734.4 billion (90.3 percent absorption) against a target of Ksh 813.7 billion, while development expenditure was Ksh 471.3 billion (69.2 percent absorption) against a target of Ksh 680.9 billion. As indicated earlier, the discrepancy between actual and target expenditures partly reflect the non-capture of the Sub-County expenditures and hence under reporting by ministries. These ministerial expenditures are therefore, provisional.

18. As at the end of period ending 30th June 2016, expenditures by the Ministry of Education, Science and Technology; Teachers Service Commission and Ministry of Health (Social Sector) accounted for 41.2 percent of total recurrent expenditure, while the State

Department for Interior and Ministry of Defence accounted for 12.0 percent and 12.6 percent respectively.

19. Analysis of development outlay indicates that the Department of Infrastructure accounted for the largest share of the total development expenditures (16.1 percent), followed by the Ministry of Energy and Petroleum (14.4 percent), Department of Transport (14.3 percent) and State Department of Planning and Statistics (11.1 percent mainly on account of Constituency Development Fund). The development expenditures in large ministries were below the target because of non-inclusion of expenditures from the sub- Counties and some donor funded projects. Details of various Ministerial/Departmental and Commissions expenditures for the FY 2015/16 are provided in **Table 3**.

Table 3: Ministerial Expenditures, Period Ending 30th June, 2016 (Ksh Millions)

		Jun-16		Variance	Jun-16		Variance	Jun-16		Variance	% total
	MINISTRY/DEPARTMENT/COMMISSIONS	Reccurent			Development			Total			expenditure
		Actual*	Target		Actual*	Target		Actual*	Target		to total target
1011	The Presidency	7,689	7,859	(170)	509	1,040	(531)	8,198	8,899	(702)	92.1
1021	State Department for Interior	88,175	94,226	(6,051)	11,875	15,506	(3,631)	100,050	109,732	(9,682)	91.2
1022	State Department for Coordination of National Government	16,104	17,583	(1,480)	539	611	(72)	16,643	18,194	(1,551)	91.5
1031	State Department for Planning	17,490	19,441	(1,951)	52,182	54,444	(2,262)	69,672	73,886	(4,213)	94.3
1032	State Department for Devolution	2,511	2,771	(261)	7,277	9,194	(1,917)	9,787	11,966	(2,178)	81.8
1041	Ministry of Defence	92,180	92,270	(90)	-	77	(77)	92,180	92,347	(167)	99.8
1051	Ministry of Foreign Affairs and International Trade	9,009	15,324	(6,314)	346	1,204	(858)	9,355	16,527	(7,172)	56.6
1061	State Department for Education	53,447	58,721	(5,274)	3,487	8,406	(4,918)	56,935	67,127	(10,192)	84.8
1062	State Department for Science and Technology	42,961	60,377	(17,416)	10,601	13,107	(2,505)	53,562	73,484	(19,921)	72.9
1071	The National Treasury	39,778	40,667	(890)	51,858	59,298	(7,440)	91,636	99,966	(8,330)	91.7
1081	Ministry of Health	25,199	29,195	(3,995)	17,254	31,479	(14,225)	42,454	60,674	(18,220)	70.0
1091	State Department of Infrastructure	34,060	41,627	(7,567)	75,838	84,857	(9,019)	109,897	126,484	(16,587)	86.9
1092	State Department of Transport	1,381	5,799	(4,418)	67,353	164,524	(97,171)	68,734	170,323	(101,589)	40.4
1101	Ministry of Environment, Natural Resources and Regional Dev't Authorities	6,453	13,085	(6,631)	3,634	8,230	(4,596)	10,088	21,315	(11,227)	47.3
1102	Ministry of Water and Irrigation	1,976	4,208	(2,232)	18,596	36,810	(18,214)	20,572	41,019	(20,447)	50.2
1111	Ministry of Land Housing and Urban Development	3,784	3,781	3	21,131	26,264	(5,134)	24,914	30,045	(5,131)	82.9
1121	Ministry of Information Communications and Technology	2,762	2,999	(237)	13,524	14,694	(1,170)	16,286	17,693	(1,407)	92.0
1131	Ministry of Sports Culture and Arts	4,408	4,449	(41)	2,271	2,260	10	6,679	6,710	(31)	99.5
1141	Ministry of Labour Social Security and Services	7,983	9,071	(1,088)	12,655	15,278	(2,623)	20,638	24,349	(3,711)	84.8
1151	Ministry of Energy and Petroleum	1,964	2,090	(126)	68,103	94,709	(26,605)	70,067	96,799	(26,731)	72.4
1161	State Department for Agriculture.	5,929	6,295	(366)	13,678	15,808	(2,130)	19,607	22,103	(2,496)	88.7
1162	State Department for Livestock.	1,742	2,065	(323)	2,451	4,016	(1,565)	4,193	6,081	(1,888)	69.0
1163	State Department for Fisheries.	1,276	1,331	(55)	2,309	2,393	(84)	3,584	3,723	(139)	96.3
1171	Ministry of Industrialization and Enterprise Development	2,858	2,973	(114)	4,948	5,242	(294)	7,807	8,215	(409)	95.0
1181	State Department for Commerce and Tourism	2,717	2,784	(67)	4,093	4,381	(288)	6,810	7,164	(355)	95.0
1182	State Department for East African Affairs	1,565	1,621	(57)	20	65	(45)	1,585	1,686	(102)	94.0
1191	Ministry of Mining	617	737	(120)	490	614	(125)	1,107	1,351	(244)	81.9
1251	Office of The Attorney General and Department of Justice	2,987	3,845	(858)	124	453	(329)	3,111	4,298	(1,187)	72.4
1261	The Judiciary	11,258	11,684	(426)	1,689	3,202	(1,513)	12,947	14,886	(1,939)	87.0
1271	Ethics and Anti-Corruption Commission	2,513	2,957	(444)	-	-	-	2,513	2,957	(444)	85.0
1281	National Intelligence Service	21,486	21,507	(21)	-	-	-	21,486	21,507	(21)	99.9
1291	Office of the Director of Public Prosecutions	1,906	2,384	(478)	37	73	(36)	1,943	2,457	(515)	79.1
1301	Commission for the Implementation of the Constitution	296	312	(16)	-	-	-	296	312	(16)	95.0
1311	Office of the Registrar of Political Parties	523	533	(10)	-	-	-	523	533	(10)	98.1
1321	Witness Protection Agency	342	370	(27)	-	-	-	342	370	(27)	92.6
2011	Kenya National Commission on Human Rights	440	459	(19)	-	-	-	440	459	(19)	95.9
2021	National Land Commission	1,238	1,240	(2)	289	289	(0)	1,527	1,529	(2)	99.9
2031	Independent Electoral and Boundaries Commission	4,514	4,889	(374)	27	27	-	4,541	4,916	(374)	92.4
2041	Parliamentary Service Commission	7,643	9,352	(1,710)	1,971	2,100	(129)	9,613	11,452	(1,839)	83.9
2042	National Assembly	14,121	15,461	(1,339)	-	-	-	14,121	15,461	(1,339)	91.3
2051	Judicial Service Commission	403	473	(70)	-	-	-	403	473	(70)	85.2
2061	The Commission on Revenue Allocation	313	328	(15)	-	-	-	313	328	(15)	95.4
2071	Public Service Commission	1,077	1,081	(4)	52	52	(0)	1,129	1,133	(4)	99.7
2081	Salaries and Remuneration Commission	758	970	(213)	-	-	-	758	970	(213)	78.1
2091	Teachers Service Commission	180,974	186,519	(5,544)	100	67	33	181,074	186,586	(5,511)	97.0
2101	National Police Service Commission	471	476	(4)	-	-	-	471	476	(4)	99.1
2111	Auditor General	3,627	3,765	(138)	31	135	(104)	3,658	3,900	(242)	93.8
2121	Controller of Budget	487	529	(42)	-	-	-	487	529	(42)	92.0
2131	The Commission on Administrative Justice	410	481	(70)	-	-	-	410	481	(70)	85.4
2141	National Gender and Equality Commission	303	310	(7)	-	18	(18)	303	328	(25)	92.4
2151	Independent Police Oversight Authority	255	396	(141)	-	-	-	255	396	(141)	64.4
	Total	**734,368**	**813,670**	**(79,303)**	**471,341**	**680,928**	**(209,587)**	**1,205,709**	**1,494,599**	**(288,890)**	**80.7**

Source: National Treasury

Overall Balance and Financing

20. Reflecting the performance in revenue and expenditure, fiscal balance (on a commitment basis and excluding grants), amounted to a deficit of Ksh 544.1 billion (equivalent to 8.4 percent of GDP) that was lower than the budget of Ksh 732.6 billion (equivalent to 11.4 percent of GDP) **(Table 4)**. Including grants, the deficit (on a cash basis) for the FY 2015/16 at 7.6 percent of GDP was lower than the budget of 10.3 percent of GDP while excluding expenditures related to SGR the deficit was 6.8 percent of GDP.

Table 4: Budget Outturn for the FY 2015/16

	FY 2014/15	FY 2015/16		FY 2015/16		FY 2014/15	FY 2015/16		FY 2015/16
	Actual	Actual*	Target	Deviation	% growth	Actual	Actual*	Target	Deviation
	Ksh. Millions					% share of GDP			
A. TOTAL REVENUE AND GRANTS	**1,135,889**	**1,267,480**	**1,365,885**	**(98,404)**	**11.6**	**19.5**	**19.5**	**21.2**	**(1.5)**
1. Revenue	**1,107,772**	**1,237,883**	**1,299,912**	**(62,029)**	**11.7**	**19.1**	**19.0**	**20.2**	**(1.0)**
Ordinary revenue	1,031,819	1,158,211	1,184,368	(26,156)	12.2	17.8	17.8	18.4	(0.4)
Import Duty	74,048	79,188	83,628	(4,440)	6.9	1.3	1.2	1.3	(0.1)
Excise Duty	115,872	139,540	137,175	2,365	20.4	2.0	2.1	2.1	0.0
Income Tax	508,581	566,001	577,985	(11,985)	11.3	8.8	8.7	9.0	(0.2)
VAT	259,685	289,213	300,025	(10,812)	11.4	4.5	4.4	4.7	(0.2)
Investment Income - Others	14,031	19,250	21,580	(2,330)	37.2	0.2	0.3	0.3	(0.0)
Others	59,602	65,019	63,975	1,044	9.1	1.0	1.0	1.0	0.0
Appropriation in Aid	75,953	79,671	115,544	(35,872)	4.9	1.3	1.2	1.8	(0.6)
2. GRANTS	**28,117**	**29,598**	**65,973**	**(36,376)**	**5.3**	**0.5**	**0.5**	**1.0**	**(0.6)**
AMISOM Receipts	3,843	4,294	6,440	(2,146)	11.7	0.1	0.1	0.1	(0.0)
Projects Grants(Revenue)	6,916	7,866	17,025	(9,159)	13.7	0.1	0.1	0.3	(0.1)
Projects Grants(AIA)	16,098	16,275	41,165	(24,890)	1.1	0.3	0.3	0.6	(0.4)
Italian Debt Swap	527	499	500	(1)	(5.4)	0.0	0.0	0.0	(0.0)
County Health Facilities - DANIDA	734	664	844	(180)	(9.5)	0.0	0.0	0.0	(0.0)
B. TOTAL EXPENDITURE AND NET LENDING	**1,640,022**	**1,781,945**	**2,032,509**	**(250,564)**	**8.7**	**28.2**	**27.4**	**31.5**	**(3.9)**
						-	-	-	-
1. Recurrent	**895,199**	**1,027,543**	**1,085,307**	**(57,764)**	**14.8**	**15.4**	**15.8**	**16.8**	**(0.9)**
Domestic Interest	139,615	172,857	174,120	(1,263)	23.8	2.4	2.7	2.7	(0.0)
Foreign Interest	32,261	42,471	41,387	1,084	31.6	0.6	0.7	0.6	0.0
Pensions & Other CFS	37,508	53,401	56,129	(2,728)	42.4	0.6	0.8	0.9	(0.0)
Wages & Salaries	297,978	307,421	333,527	(26,105)	3.2	5.1	4.7	5.2	(0.4)
Defense and NSIS	93,723	113,666	112,498	1,168	21.3	1.6	1.7	1.7	0.0
O&M/Others	294,114	337,726	367,646	(29,920)	14.8	5.1	5.2	5.7	(0.5)
2. Development and Net Lending	**510,136**	**478,964**	**671,583**	**(192,619)**	**(6.1)**	**8.8**	**7.4**	**10.4**	**(3.0)**
3. Equalization Fund/1	400	6,400	6,400	-	1,500.0	0.0	0.1	0.1	-
4. County Governments' Allocation	229,336	264,039	264,219	(180)	15.1	3.9	4.1	4.1	(0.0)
5. Contingencies Fund	4,951	5,000	5,000	-	1.0	0.1	0.1	0.1	-
C. DEFICIT EXCL. OF GRANTS (Commitment basis)	**(532,250)**	**(544,062)**	**(732,597)**	**188,535**	**2.2**	**(9.2)**	**(8.4)**	**(11.4)**	**2.9**
D. DEFICIT INCL. OF GRANTS (Commitment basis)	**(504,133)**	**(514,465)**	**(666,624)**	**152,159**	**2.0**	**(8.7)**	**(7.9)**	**(10.3)**	**2.4**
E. Adjustments to cash basis	16,940	22,387	0	-	**32.2**	**0.3**	**0.3**	**-**	**-**
F. DEFICIT INCL. OF GRANTS (Cash basis)	**(487,193)**	**(492,078)**	**(666,624)**	**152,159**	**1.0**	**(8.4)**	**(7.6)**	**(10.3)**	**2.4**
G. TOTAL FINANCING	**471,479**	**474,570**	**666,624**	**(192,054)**	**0.7**	**8.1**	**7.3**	**10.3**	**(3.0)**
Net Foreign Financing	217,479	269,924	419,010	(149,086)	24.1	3.7	4.1	6.5	(2.3)
Disbuserments	296,574	304,986	457,389	(152,404)	2.8	5.1	4.7	7.1	(2.4)
Commercial Financing	74,961	145,031	154,332	(9,301)	93.5	1.3	2.2	2.4	(0.1)
Project Loans AIA	64,393	55,369	115,499	(60,130)	(14.0)	1.1	0.9	1.8	(0.9)
Project Loans Revenue	30,310	43,654	61,119	(17,465)	44.0	0.5	0.7	0.9	(0.3)
Project Loans SGR _ AIA	123,456	52,357	118,226	(65,869)	(57.6)	2.1	0.8	1.8	(1.0)
Programme Loans	3,454	8,574	8,213	361	148.2	0.1	0.1	0.1	0.0
Debt repayment - Principal	(79,095)	(35,062)	(38,379)	3,317	(55.7)	(1.4)	(0.5)	(0.6)	0.1
Other Domestic Financing	2,897	2,389	2,579	(189)	(17.5)	0.0	0.0	0.0	(0.0)
NET DOMESTIC FINANCING	**251,102**	**202,257**	**245,035**	**(42,779)**	**(19.5)**	**4.3**	**3.1**	**3.8**	**(0.7)**
O/W Sovereign Bond proceeds	**140,509**	**0**	**0**	**0**	**(100.0)**	**2.4**	**-**	**-**	**-**
Nominal GDP (Fiscal Year)	**5,811,195**	**6,508,084**	**6,444,000**	**6,444,000**	**12.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Treasury

/1Equalization Fund expenditures represent actual disbursements to the Fund

21. The deficit incurred at the end of June 2016 was financed through net external financing equivalent to Ksh 269.9 billion against a target of Ksh 419.0 billion, net domestic financing of Ksh 202.3 billion against a target of Ksh 245.0 billion and domestic loan redemption receipts of Ksh 2.4 billion.

22. Total disbursements (inflows) including Appropriations-in-Aid amounted to Ksh 305.0 billion in the FY 2015/16 against a target of Ksh 457.4 billion. This amount included: Ksh 43.7 billion project loans revenues; Ksh 55.4 billion project loans (A.I.A); Ksh 8.6 billion programme loans; Ksh 52.4 billion project loans for SGR; and Ksh 145.0 billion commercial financing.

C. Fiscal Performance for the FY 2015/16 in Relation to Financial Objectives

23. The fiscal performance in the FY 2015/16 has affected the financial objectives set out in the 2016 BPS and the Budget for FY 2016/17 in the following ways:

i. The base for ordinary revenue projections is higher than the actual outcome by about Ksh. 26.2 billion; as such there will be a downward base effect adjustment in ordinary revenues for FY 2016/17 and the medium term. This adjustment in revenues is expected to translate to a mix of downward adjustment in expenditure projections and an upward adjustment in financing for the FY 2016/17. In addition, 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 2016/17;

ii. The baseline ceilings for spending agencies will be adjusted in line with the revised resource envelope under the updated macroeconomic framework in the 2017 Budget Policy Statement. In addition the revisions will take into account the performance in project execution in the FY 2016/17 budget by MDAs and any identified one-off expenditures; and,

iii. The under-spending in both recurrent and development budget for the FY 2015/16 additionally has implications on the base used to project expenditures in the FY 2016/17 and the medium term. Appropriate revisions have been undertaken in the context of this BROP, taking into account the budget outturn for the FY 2015/16.

24. The reasons for the deviations, as explained above, from the financial objectives include: lower than projected revenue collection; under-spending in both recurrent and development; under-reporting on A-in-A expenditures by MDAs; and slow uptake of external resources in the FY 2015/16.

25. To remedy these deviations, the fiscal outlook will focus on reforming the tax and revenue administration systems to enhance revenue yields, promote compliance and facilitate private sector growth and development as indicated in the 2016 BPS. Further, the National Treasury is working on modalities that will be issued requiring that all expenditures are reported as stated in the Financing/Grant Agreements and guidelines. External Resources Units in MDAs have also been established to support the fast-tracking of all project related matters. To improve on the 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.

26. 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 country systems.

D. Fiscal Responsibility Principles

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

28. The National Government's development expenditure as a percent of total budget was 32.1percent in FY 2015/16 and is set to increase to 35.9 percent by the FY 2019/20 **(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)

	FY 2014/15	FY 2015/16		FY 2016/17		FY 2017/18		FY 2018/19		FY 2019/20
Ksh. billions	Actual	Revised Budget	Prel. Actual	Budget	BROP'16	BPS'16	BROP'16	BPS'16	BROP'16	BROP'16
1.0 Total Expenditure & Net Lending	1,640.0	2,032.5	1,781.9	2,275.6	2,074.1	2,219.9	2,236.7	2,391.5	2,401.5	2,628.5
1.1 Total National Govt Expenses	1,405.7	1,763.3	1,512.9	1,985.8	1,784.4	1,922.3	1,923.8	2,073.1	2,064.1	2,264.0
Total Recurrent	895.2	1,085.3	1,027.5	1,168.5	1,183.5	1,193.8	1,250.6	1,278.4	1,337.2	1,450.4
CFS (Interest & Pensions)	209.4	271.6	268.7	311.0	311.0	292.1	342.0	307.1	359.7	397.9
Total Ministerial Recurrent	685.8	813.7	758.8	857.5	872.5	901.6	908.7	971.2	977.4	1,052.5
o/w Wages & Salaries	298.0	333.5	307.4	360.8	360.8	396.9	378.8	436.5	397.8	417.6
Wages as % National Government Revenues/1	***33.9%***	***32.2%***	***31.6%***	***29.7%***	***30.8%***	***28.3%***	***28.4%***	***27.0%***	***26.1%***	***23.3%***
Development	510.5	678.0	485.4	817.3	600.9	706.5	673.2	772.2	726.9	813.6
Development as % NG expenditures	***36.3%***	***38.4%***	***32.1%***	***41.2%***	***33.7%***	***36.8%***	***35.0%***	***37.3%***	***35.2%***	***35.9%***
Domestic	269.4	324.9	309.8	403.7	402.9	410.6	414.8	462.8	441.1	486.3
External	241.2	353.0	175.5	413.6	198.0	290.4	258.5	300.8	285.8	327.3
Contingencies	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
1.2 County Allocation	229.3	264.2	264.0	284.8	284.8	297.6	307.9	318.4	332.4	359.5
2.0 Total Revenues	1,107.8	1,299.9	1,237.9	1,500.5	1,456.3	1,702.2	1,640.9	1,933.7	1,856.2	2,154.3
3.0 Total National Government Revenues (Incl. A-I-A)	878.4	1,035.7	973.8	1,215.7	1,171.5	1,404.6	1,333.0	1,615.3	1,523.7	1,794.8
4.0 National Government Domestic Borrowing (net)	251.1	245.0	202.3	236.1	294.6	228.0	323.4	161.3	274.2	207.7
of which Sovereign Bond Proceeds	140.5	-	-	-	-	-	-	-	-	-
Others	110.6	245.0	202.3	236.1	294.6	228.0	323.4	161.3	274.2	207.7

Source: National Treasury

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

29. The law requires that the national government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed 35 percent of the national government's equitable share of the revenue raised nationally plus other revenues generated by the national government pursuant to Article 209 (4) of the Constitution. In conformity to this regulation, the National Government share of wages and benefits to revenues was 31.6 percent in the FY 2015/16, and is projected at 30.8 percent in the FY 2016/17, declining to 23.3 percent by FY 2019/20.

30. 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.

31. 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.

32. 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 **(Table 6)**. The baseline public debt path remains consistent with the EAC convergence criteria (deficit and debt) and below the relevant public debt benchmark.

33. The external debt sustainability indicators illustrates that Kenya faces a low risk of external debt distress. 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 per cent)

Indicator	**Threshold**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2025**
PV of Debt-to-GDP ratio	50	30.9	35.7	38.3	39.6	40.1	41.6	42.6	47.6
PV of Debt-to-export ratio	200	97.0	118.5	140.9	138.8	138.0	134.3	134.6	130.3
PV of Debt-to-revenue ratio	300	91.1	109.5	122.2	118.6	116.5	114.5	114.4	109.3
Debt service-to-export ratio	25	16.6	6.4	9.0	14.8	9.1	13.9	8.7	9.7
Debt service-to-revenue ratio	22	15.6	5.9	6.9	12.7	7.7	11.9	7.4	8.1

Source: IMF Staff Report for Kenya, March 2016

34. 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 projects among others are taken into account and a contingency provision made to caution the economy from unforeseeable shocks.

35. 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; Tax procedure, and Excise Duty Act. These reforms are intended to lock in predictability and enhance compliance with the tax system.

36. The National Government fiscal projections **(Table 7)** provide comparisons between the updated projections in the BROP 2016 and the 2016 BPS for the financial year 2017/18 and in the medium term. The deviations, in the revision in revenues and expenditures are due to the base effect on revenue forecast and macroeconomic assumptions contained in this BROP, which will be firmed up in the context of the 2017 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: Government Fiscal Projections, FY 2016/17-2019/20

	2012/13	2013/14	2014/15	2015/16		2016/17		2017/18		2018/19		2019/2020
	Act.	*Act.*	*Act.*	*Rev. Budget*	*Prel.*	*Budget*	*BROP'16*	*BPS'16*	*BROP'16*	*BPS'16*	*BROP'16*	*BROP'16*
Total Revenue	866.5	974.4	1,107.8	1,299.9	1,237.9	1,500.5	1,456.3	1,720.0	1,640.9	1,955.1	1,856.2	2,154.3
Total Revenue as a % of GDP	***19.3%***	***19.2%***	***19.1%***	***20.2%***	***19.0%***	***20.7%***	***20.1%***	***21.1%***	***20.1%***	***21.3%***	***20.3%***	***21.9%***
Ordinary Revenue	775.7	919.0	1,031.8	1,184.4	1,158.2	1,376.4	1,318.0	1,593.8	1,495.6	1,819.1	1,703.3	1,971.3
Ordinary Revenues as a % of GDP	***17.2%***	***18.1%***	***17.8%***	***18.4%***	***17.8%***	***19.0%***	***18.2%***	***19.6%***	***18.3%***	***19.9%***	***18.6%***	***20.0%***
Tax Revenue	701.3	851.8	958.2	1,098.8	1,073.9	1,282.3	1,226.5	1,473.7	1,394.0	1,684.4	1,591.1	1,832.9
Non-Tax Revenue	74.4	67.2	73.6	85.6	84.3	94.2	91.5	120.1	101.6	134.7	112.2	138.4
AIA	90.8	55.4	76.0	115.5	79.7	124.1	138.3	126.2	145.3	136.0	152.9	183.0
Expenditure	1,132.1	1,300.6	1,640.0	2,032.5	1,781.9	2,275.6	2,074.1	2,247.1	2,236.7	2,412.8	2,401.5	2,628.5
Expenditure as a % of GDP	***25.2%***	***25.6%***	***28.2%***	***31.5%***	***27.4%***	***31.3%***	***28.6%***	***27.6%***	***27.4%***	***26.3%***	***26.2%***	***26.7%***
Recurrent	816.4	787.9	895.2	1,085.3	1,027.5	1,168.5	1,183.5	1,193.8	1,250.6	1,276.0	1,337.2	1,450.4
Development	306.0	319.3	510.5	678.0	485.4	817.3	600.9	739.5	673.2	790.8	726.9	813.6
Contingencies	-	-	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
County Transfer	9.8	193.4	229.3	264.2	264.0	284.8	284.8	308.9	307.9	341.0	332.4	359.5
Equalization Fund	-	-	0.4	6.4	6.4	6.0	6.0	5.5	7.5	8.7	8.5	9.9
Budget Balance (Deficit (-) excl. Grants	(265.6)	(326.2)	(532.3)	(732.6)	(544.1)	(775.0)	(617.9)	(527.1)	(595.8)	(457.7)	(545.3)	(474.1)
Deficit as % of GDP	***-5.9%***	***-6.4%***	***-9.2%***	***-11.4%***	***-8.4%***	***-10.7%***	***-8.5%***	***-6.5%***	***-7.3%***	***-5.0%***	***-6.0%***	***-4.8%***
Grants	21.0	27.0	28.1	66.0	29.6	72.7	31.7	64.9	51.9	72.8	60.9	80.8
Budget Balance (Deficit (-) incl. Grants	(244.6)	(299.2)	(504.1)	(666.6)	(514.5)	(702.3)	(586.1)	(462.3)	(543.8)	(384.8)	(484.4)	(393.3)
Deficit as % of GDP	***-5.4%***	***-5.9%***	***-8.7%***	***-10.3%***	***-7.9%***	***-9.7%***	***-8.1%***	***-5.7%***	***-6.7%***	***-4.2%***	***-5.3%***	***-4.0%***
Net Foreign Financing	85.3	104.0	217.5	419.0	269.9	462.3	287.6	250.3	231.4	229.7	221.0	196.4
Domestic Loan Repayments (receipts)	2.1	1.3	2.9	2.6	2.4	4.0	4.0	2.7	4.1	2.8	4.2	4.3
Sovereign Bond Proceeds	-	-	140.5	-	-							
Domestic borrowing	169.8	201.7	251.1	245.0	202.3	236.1	294.6	222.0	323.4	165.2	274.2	207.7
Domestic borrowing as % of GDP	***3.8%***	***4.0%***	***4.3%***	***3.8%***	***3.1%***	***3.3%***	***4.1%***	***2.7%***	***4.0%***	***1.8%***	***3.0%***	***2.1%***
Public Debt to GDP (net of deposits)	*38.2%*	*43.7%*	*43.8%*	*48.8%*	*49.3%*	*49.1%*	*47.4%*	*45.8%*	*49.1%*	*45.6%*	*49.3%*	*50.0%*
Nominal GDP (Ksh billion)	4,500.1	5,071.7	5,811.2	6,444.0	6,508.1	7,259.0	7,259.0	8,150.7	8,150.7	9,158.6	9,158.6	9,838.0
Source: National Treasury												

37. Kenya remains vulnerable to risks such as weather-related shocks among others and we shall focus on the following priorities so as to help strengthen resilience and support sustained growth:

i. 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.
ii. 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.
iii. Strengthening capacity-building in public financial management to ensure that the high expectations linked to devolution are met.

iv. 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.
v. Effective management of natural resources including the 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 for prudent accountability and effective management.

E. County Governments' Fiscal Performance

38. In FY 2015/16, the County Governments received Ksh 259.8 billion as their equitable share of revenues raised nationally representing 100 percent of the expected disbursements for the FY 2015/16) **(Table 8)**. In addition to the equitable share of revenue, County Governments had by June 30th, 2016 received Ksh. 12.3 billion in the form of conditional allocations as follows, this amount was disbursed by June 30th, 2016., bringing total fiscal transfers to Ksh 272.1 billion:

i. Conditional grant for level 5 hospitals (Ksh 3.6 billion);
ii. Conditional grant from DANIDA to supplement financing of county health facilities (Ksh 663.7 million);
iii. Conditional grant for free maternal healthcare (Ksh 3.3 billion);
iv. Compensation for foregone user fees (Ksh 900 million);
v. Proceeds from a World Bank loan to supplement financing of county health facilities (Ksh 508.2 million); and,
vi. Proceeds from the Road Maintenance Fuel Levy Fund (Ksh 3.3 billion).

39. This implies that by June 30th, 2016, County Governments had received a total of Ksh 272.1 billion as transfers.

Table 8: Transfers to County Governments in 2015/16 (Ksh millions)

County	Equitable Share Transfer	Additional Conditional Allocations						Total
		Level Five Hospital	Free Maternal Healthcare	Foregone User Fees Compensation	Road Maintenance Levy Fund	Danida (HSPS III)	World Bank (KHSSP-HSSF)	
Baringo	4,440.6	-	51.3	13.0	56.4	13.0	17.2	**4,591.4**
Bomet	4,706.9	-	43.2	16.9	59.8	17.6	-	**4,844.4**
Bungoma	7,675.7	-	145.0	38.0	97.5	7.4	-	**7,963.7**
Busia	5,440.2	-	69.3	11.4	69.1	13.0	-	**5,603.0**
Elgeyo Marakwet	3,270.4	-	44.4	8.6	41.5	20.8	20.2	**3,406.0**
Embu	3,837.9	192.9	41.1	12.0	48.8	6.9	-	**4,139.6**
Garissa	5,771.7	360.0	42.1	14.5	73.3	9.0	15.1	**6,285.7**
Homa Bay	5,635.0	-	91.8	22.5	71.6	24.8	-	**5,845.6**
Isiolo	3,056.6	-	18.7	3.3	38.8	8.0	8.7	**3,134.2**
Kajiado	4,412.6	-	44.1	16.0	56.1	17.9	31.6	**4,578.3**
Kakamega	8,908.2	342.9	165.9	38.7	113.2	11.8	-	**9,580.7**
Kericho	4,505.1	-	83.1	17.7	57.2	19.9	-	**4,683.0**
Kiambu	7,463.5	330.0	197.0	37.8	94.8	19.2	-	**8,142.4**
Kilifi	7,441.2	-	132.7	25.9	94.5	15.5	66.8	**7,776.6**
Kirinyaga	3,538.2	-	53.8	12.3	44.9	12.8	-	**3,662.0**
Kisii	7,093.6	338.6	134.5	26.9	90.1	23.0	-	**7,706.6**
Kisumu	5,681.3	338.6	107.9	22.6	72.2	16.6	-	**6,239.2**
Kitui	7,267.3	-	50.8	23.6	92.3	37.0	47.0	**7,518.0**
Kwale	5,125.7	-	74.4	15.1	65.1	13.6	45.8	**5,339.7**
Laikipia	3,449.5	-	52.5	9.3	43.8	11.5	18.8	**3,585.5**
Lamu	2,051.9	-	12.3	2.4	26.1	7.6	7.1	**2,107.4**
Machakos	6,768.7	304.3	96.4	25.6	86.0	-	-	**7,281.0**
Makueni	5,969.7	-	90.9	20.6	75.8	12.1	-	**6,169.1**
Mandera	8,955.7	-	37.5	23.9	113.8	14.6	13.7	**9,159.2**
Marsabit	5,189.5	-	18.2	6.8	65.9	7.7	10.1	**5,298.2**
Meru	6,493.6	244.3	106.1	31.6	82.5	-	-	**6,958.1**
Migori	5,836.9	-	104.6	21.4	74.1	10.2	67.0	**6,114.2**
Mombasa	5,197.9	402.9	98.4	21.9	66.0	-	-	**5,787.2**
Murang'a	5,356.0	-	69.5	22.0	68.0	24.8	-	**5,540.3**
Nairobi	12,996.6	-	233.8	73.2	165.1	-	-	**13,468.6**
Nakuru	8,116.3	377.2	184.4	37.4	103.1	25.3	-	**8,843.6**
Nandi	4,755.1	-	41.7	17.6	60.4	18.3	-	**4,893.1**
Narok	5,287.9	-	40.6	19.8	67.2	17.9	38.1	**5,471.5**
Nyamira	4,154.5	-	47.3	13.9	52.8	23.9	-	**4,292.5**
Nyandarua	4,307.1	-	30.7	13.9	54.7	18.9	-	**4,425.2**
Nyeri	4,449.2	368.6	63.3	16.2	56.5	22.9	-	**4,976.8**
Samburu	3,552.3	-	13.1	5.2	45.1	11.0	8.7	**3,635.4**
Siaya	4,995.3	-	74.6	19.6	63.5	27.5	-	**5,180.5**
Taita Taveta	3,309.6	-	32.5	6.6	42.0	14.8	17.2	**3,422.8**
Tana River	3,984.6	-	13.4	5.6	50.6	9.3	8.5	**4,072.0**
Tharaka Nithi	3,137.6	-	27.8	8.5	39.9	12.3	13.9	**3,239.9**
Trans Nzoia	5,099.6	-	68.4	19.1	64.8	5.7	-	**5,257.5**
Turkana	10,479.0	-	23.9	19.9	133.1	6.0	20.5	**10,682.5**
Uasin Gishu	5,190.9	-	30.1	20.8	65.9	17.3	-	**5,325.1**
Vihiga	3,871.4	-	41.3	12.9	49.2	14.2	-	**3,989.0**
Wajir	7,232.7	-	38.9	15.4	91.9	10.0	16.4	**7,405.3**
West Pokot	4,313.7	-	37.7	12.0	54.8	12.2	15.8	**4,446.1**
Grand Total	**259,774.5**	**3,600.5**	**3,321.0**	**900.0**	**3,300.0**	**663.7**	**508.2**	**272,067.9**

Notes:

1. *The above Table excludes transfers relating to two conditional grants namely: i) Government of Kenya-financed Medical Equipment Services; and, ii) World Bank-financed National Urban Transport Improvement Project (NUTRIP).*

40. In the first nine months of FY 2015/16, collection of own-source revenue (OSR) by County Governments amounted to Ksh 25.9 billion (equivalent to 46.9 percent) of the full-year target. Most Counties (31) realized less than half of their targets by March 2016 **(Table 9).** With this trend, it is probable that a financing gap in budget implementation was created by the end of FY 2015/16.

Table 9: County Governments' Fiscal Performance (July 2015–March 2016)

County	Local Revenue (Kshs m)			Budget Estimates (Kshs m)			Expenditure (Kshs m)			Absorption Rate (%)		
	Actual	*Target*	*%*	*Rec't*	*Dev't*	*TOTAL*	*Rec't*	*Dev't*	*TOTAL*	*Rec.*	*Dev't*	*OVERALL*
Baringo	202	300	67.5	3,430	2,414	**5,844**	2,611	672	**3,283**	76.1	27.8	**56.2**
Bomet	105	335	31.2	2,644	2,714	**5,358**	1,602	1,599	**3,202**	60.6	58.9	**59.8**
Bungoma	328	820	40.0	5,780	4,192	**9,972**	3,545	1,912	**5,458**	61.3	45.6	**54.7**
Busia	257	543	47.3	3,312	2,958	**6,270**	2,361	1,002	**3,363**	71.3	33.9	**53.6**
Elgeyo Marakwet	95	150	63.3	2,417	1,433	**3,850**	1,563	333	**1,896**	64.6	23.3	**49.2**
Embu	293	631	46.4	3,301	1,575	**4,876**	2,183	313	**2,495**	66.1	19.9	**51.2**
Garissa	78	500	15.6	3,918	3,444	**7,362**	2,747	1,301	**4,048**	70.1	37.8	**55.0**
Homa Bay	138	182	76.2	3,950	2,213	**6,162**	3,083	1,143	**4,226**	78.1	51.7	**68.6**
Isiolo	86	360	23.8	2,115	1,686	**3,801**	1,481	664	**2,145**	70.0	39.4	**56.4**
Kajiado	565	1,135	49.8	3,927	2,661	**6,589**	2,215	735	**2,950**	56.4	27.6	**44.8**
Kakamega	359	1,000	35.9	6,276	6,054	**12,330**	4,005	2,449	**6,454**	63.8	40.4	**52.3**
Kericho	249	553	45.0	3,267	1,814	**5,081**	2,013	1,016	**3,029**	61.6	56.0	**59.6**
Kiambu	1,815	3,683	49.3	7,980	3,969	**11,949**	3,875	1,229	**5,104**	48.6	31.0	**42.7**
Kilifi	384	1,407	27.3	5,588	5,932	**11,520**	3,070	1,555	**4,626**	54.9	26.2	**40.2**
Kirinyaga	282	500	56.4	3,266	1,511	**4,777**	1,935	586	**2,521**	59.2	38.8	**52.8**
Kisii	214	700	30.6	5,579	3,601	**9,180**	3,530	1,435	**4,965**	63.3	39.8	**54.1**
Kisumu	776	1,869	41.6	5,707	3,931	**9,638**	3,301	990	**4,292**	57.8	25.2	**44.5**
Kitui	311	608	51.2	4,791	5,435	**10,226**	2,454	1,941	**4,395**	51.2	35.7	**43.0**
Kwale	178	300	59.2	2,834	4,777	**7,611**	1,475	1,981	**3,456**	52.0	41.5	**45.4**
Laikipia	391	500	78.2	2,859	2,270	**5,129**	1,845	611	**2,456**	64.5	26.9	**47.9**
Lamu	45	107	42.2	1,757	1,323	**3,080**	976	420	**1,397**	55.6	31.8	**45.4**
Machakos	796	2,372	33.6	5,250	5,694	**10,945**	4,333	1,526	**5,859**	82.5	26.8	**53.5**
Makueni	151	400	37.8	4,478	4,972	**9,450**	2,678	742	**3,421**	59.8	14.9	**36.2**
Mandera	60	199	29.9	4,217	7,285	**11,501**	2,261	1,999	**4,260**	53.6	27.4	**37.0**
Marsabit	85	130	65.1	3,028	2,807	**5,835**	1,611	825	**2,437**	53.2	29.4	**41.8**
Meru	361	998	36.2	5,107	3,388	**8,495**	3,026	617	**3,643**	59.2	18.2	**42.9**
Migori	239	400	59.7	4,046	3,223	**7,269**	2,516	1,126	**3,642**	62.2	34.9	**50.1**
Mombasa	1,583	4,072	38.9	6,617	3,363	**9,979**	4,352	1,550	**5,903**	65.8	46.1	**59.1**
Murang'a	451	850	53.1	3,548	3,352	**6,900**	2,589	1,873	**4,462**	73.0	55.9	**64.7**
Nairobi	9,622	17,528	54.9	19,819	11,009	**30,829**	13,940	3,762	**17,702**	70.3	34.2	**57.4**
Nakuru	1,523	2,911	52.3	8,357	5,375	**13,732**	5,339	1,387	**6,726**	63.9	25.8	**49.0**
Nandi	159	256	62.0	2,771	2,673	**5,443**	2,070	620	**2,689**	74.7	23.2	**49.4**
Narok	1,403	3,507	40.0	5,061	3,938	**8,999**	3,334	1,276	**4,610**	65.9	32.4	**51.2**
Nyamira	80	241	33.0	2,905	2,640	**5,544**	1,938	559	**2,497**	66.7	21.2	**45.0**
Nyandarua	190	392	48.5	3,377	2,220	**5,597**	2,165	562	**2,727**	64.1	25.3	**48.7**
Nyeri	499	1,082	46.1	4,420	1,858	**6,278**	2,564	218	**2,782**	58.0	11.7	**44.3**
Samburu	122	357	34.2	2,593	1,748	**4,341**	1,603	629	**2,233**	61.8	36.0	**51.4**
Siaya	95	343	27.6	3,724	3,222	**6,946**	2,166	869	**3,035**	58.2	27.0	**43.7**
Taita Taveta	117	310	37.6	2,878	1,008	**3,886**	2,037	230	**2,267**	70.8	22.9	**58.3**
Tana River	18	120	15.2	1,926	2,772	**4,698**	1,235	1,636	**2,870**	64.1	59.0	**61.1**
Tharaka Nithi	91	248	36.7	2,277	1,539	**3,816**	1,333	253	**1,587**	58.6	16.5	**41.6**
Trans Nzoia	236	389	60.7	3,247	2,908	**6,155**	2,279	618	**2,898**	70.2	21.3	**47.1**
Turkana	85	200	42.3	4,132	9,252	**13,383**	2,862	3,328	**6,189**	69.3	36.0	**46.2**
Uasin Gishu	543	1,037	52.3	4,594	2,949	**7,543**	2,476	931	**3,406**	53.9	31.6	**45.2**
Vihiga	95	252	37.8	2,536	1,832	**4,368**	1,395	1,026	**2,421**	55.0	56.0	**55.4**
Wajir	63	200	31.5	3,729	4,411	**8,140**	2,612	2,378	**4,990**	70.1	53.9	**61.3**
West Pokot	76	177	43.0	2,823	2,007	**4,830**	1,853	892	**2,746**	65.7	44.4	**56.8**
TOTAL	**25,892**	**55,155**	**46.9**	**202,157**	**163,352**	**365,509**	**128,439**	**55,323**	**183,762**	**63.5**	**33.9**	**50.3**

Source: Controller of Budget

41. The low performance of own-source revenue against respective target has been witnessed since 2013 when County Governments were established. Indeed, a recent survey by the National Treasury of eight County Governments revealed, among other findings, that: i) County Governments' revenue forecasting is not underpinned by objective macroeconomic assumptions or a credible methodology; ii) because no in-year monitoring is done, revenue forecasts once included in the budget are hardly updated; and, iii) there is an ambiguity of roles within County Governments in the own-source revenue forecasting process -- in a number of instances, County Executives prepare revenue forecasts which are later raised by County Assemblies.

42. Counties' OSR collections are not only less than projections; for some, the trajectory of growth is also below levels attained by former Local Authorities. Earlier fiduciary reviews and assessments -- by the Transition Authority (TA), the Public Finance Management Reforms Secretariat, the Internal Audit Department of the National Treasury and also by the Commission on Implementation of the Constitution (CIC) -- attributed this weak revenue growth to accounting and accountability overlaps, especially during the transition period. Recent reports including by the Auditor-General point to loopholes and leakages in counties' revenue collection systems arising mainly from lack of automation and corruption as well as "political interests" in the revenue collection process. Underlying these challenges is the general lack of clear rules and guidelines for revenue collection together with fragile institutional frameworks. In order to address these challenges, the Government is developing an overarching policy through which County Governments' local revenue raising activities will be better supported and the coordination between counties improved. In addition, a national framework legislation on counties' own source revenue is being drafted to help address growing complaints by private sector about multiplicity of charges and inconsistencies in the levying of user fees throughout the country.

43. For the FY 2015/16, the aggregate County Governments' budget amounted to Ksh 365.5 billion comprising of Ksh 202.2 billion (55.3 percent) for recurrent expenditure and Ksh 163.4 billion (44.7 percent) for development expenditure. Turkana County allocated the highest amount to development at 69.1 percent followed by Mandera (63.3 percent) and Kwale at 62.8 percent. The Counties that allocated lower amounts to development included Kirinyaga, Nyeri and Taita Taveta that allocated 31.6 percent, 29.6 percent and 25.9 percent respectively.

44. The overall expenditure by the County Governments during the first nine months of 2015/16 amounted to Ksh 183.8 billion (representing 50.3 percent of the total approved budget for the FY 2015/16). Including both the development and the recurrent expenditure, Homa Bay County registered the highest absorption rate at 68.6 percent, followed by Murang'a County (64.7 percent) and Wajir (61.3 percent). On development expenditure, Tana River County reported the highest absorption rate at 59 percent while on recurrent expenditure, Machakos County had the highest absorption rate at 82.5 percent.

F. County Governments' Compliance with the PFM Act

45. County Governments have shown some positive trends in terms of timely approval of budgets, and containment of aggregate recurrent expenditure within legally prescribed limits. Below is a summary of some positive trends during the first nine months of FY 2015/16:

i. ***Most County Assemblies approved respective county budgets within the legally prescribed time:*** The PFM Act requires that County Assemblies consider and approve their respective County Governments' budget estimates in time for the budget to be passed by 30th June each year. Information provided by the Controller of Budget shows that this requirement was fulfilled in 31 counties, signifying a major improvement from previous years.

ii. ***County Governments complied with the requirement in the Public Finance Management Act, 2012 that recurrent expenditure should not exceed total revenue:*** Counties' aggregate recurrent expenditure for personnel and operations and maintenance (O&M) was Ksh 128.4 billion, while total revenue (transfers from the National Government and own-source revenue) was Ksh 191.4 billion. On average, the counties' recurrent expenditure was 67 percent of total revenue, even though for some counties the proportion was much higher particularly in Baringo (91 percent); Mombasa (88 percent); Taita Taveta (85 percent); and Kirinyaga (81 percent).

46. However, County Governments are encountering difficulties containing their wage bills within legal thresholds. The Public Finance Management (County Governments) Regulations, 2015, requires that counties' wage bill be set at 35 percent of total revenue. In the first nine months of FY 2015/16, County Governments' spent an aggregate of Ksh 85.8 billion on personnel emoluments, equivalent to 44.8 percent of cumulative revenue during this period. The legal requirement for personnel emolument costs to be lower than 35 percent of total revenue was achieved by only eight counties (Samburu, Kwale, Wajir, Turkana, Kiambu, Marsabit, Tana River and Mandera). In some 14 counties including Nairobi, Mombasa and Kisumu, actual personnel emolument costs during the review period were above 50 percent of total revenue.

47. It is anticipated that implementation of recommendations of the Capacity Assessment and Rationalization of the Public Service (CARPS) initiative will help to alleviate wage bill difficulties being experienced by the County Governments. The overall objective of CARPS is to ensure that functions at both levels of Government are properly structured and staffed for efficient and effective service delivery. Through the initiative, an analysis was undertaken of optimal staffing levels at the National and the County Government, leading to recommendations on re-structuring and re-organization as well as re-deployment. The recommendations include the need to implement norms and standards in the civil service at both levels of Government. According to the Public Service Commission (PSC), the absence of norms and standards has contributed to haphazard employment by County Public Service Boards (CPSBs), causing wage bills to be unsustainable.

48. The PFM Act requires that over the medium term a minimum of 30 percent of each County Government's budget shall be allocated to development expenditure. In their FY 2015/16 budgets, all but two counties allocated at least 30 percent of their planned spending to development. However, in the first nine months, only 20 counties managed to achieve the 30 percent development spending legal requirement. With a few exceptions, counties that attained this requirement are mostly those with lower population and/or are more rural residents e.g. Garissa (32.1 percent); Kilifi (33.6 percent); Kitui (44.2 percent); Turkana (53.8 percent); Tana River (57.0 percent); and, Kwale (57.3 percent). By contrast, counties that did not achieve the 30 percent development spending requirement include mostly those that are more populated and/or more urbanized such as Kisii (28.9 percent); Mombasa (26.3 percent); Kiambu (24.1 percent); Nairobi (21.3 percent); Nakuru (20.6 percent); and, Nyeri (7.8 percent).

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Overview

49. Kenya's macroeconomic performance remains broadly stable in the face of headwinds from the global economic slowdown, supported by significant investment in infrastructure, construction and mining sectors, lower energy prices and improved agricultural production following improved weather conditions. Inflation is within the target band while interest rates are low and stable despite global financial pressures. Improved earnings from tea and horticulture exports, resilient remittances and lower oil bill in the FY 2015/16 led to a stable exchange rate and a narrower current account deficit.

50. Going forward, the economy is projected to expand further by 6.0 percent in 2016 and 6.5 percent in the medium term supported by strong output in agriculture with a stable weather outlook and completion of key public projects in roads, rail and energy generation. In addition, strong consumer demand and private sector investment as well as stable macroeconomic environment will help reinforce this growth.

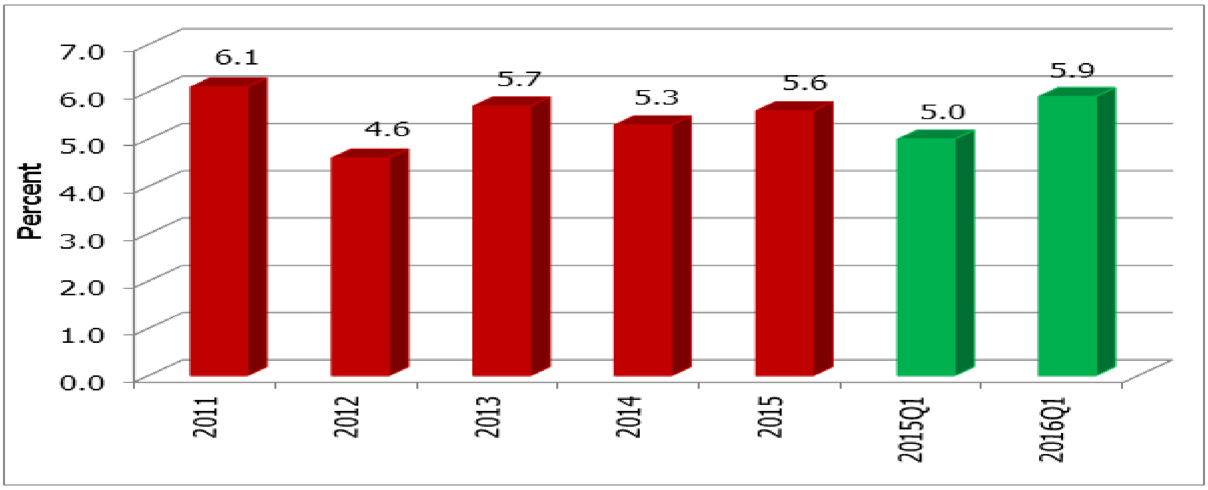
51. The growth outlook may be affected by both internal and external shocks. The Government, aware of the impact of these shocks, negotiated a two year precautionary program with the International Monetary Fund (IMF) to provide a buffer for external shocks. In the event that any of the risks materializes, the Government will undertake appropriate measures to safeguard macroeconomic stability and draw down on the IMF facility in the event there is a balance of payments need.

B. Recent Developments

Real Sector Developments

52. The economy grew by 5.6 percent in 2015 compared to 5.3 percent growth in 2014. This growth momentum continued in the first quarter of 2016 with a growth of 5.9 percent compared to a growth of 5.0 percent in the same quarter in 2015. This strong growth was supported by positive growths in agriculture, forestry and fishing (4.8 percent), mining and quarrying (6.9 percent), transport and storage (8.4 percent), electricity and water supply (8.5 percent), wholesale and retail trade (7.3 percent), accommodation and restaurant (12.1 percent) and information and communication (9.7 percent). Growth in other sectors, particularly manufacturing, construction, finance and insurance and real estate, remained robust **(Chart 1 and Table 10).**

Chart 1: Kenya's Economic Growth Rates



Source: KNBS

53. Agriculture sector expanded by 4.8 percent during the first quarter of 2016 compared to 2.9 percent growth in quarter one of 2015. The improved performance is attributed to favourable weather conditions and improved international prices of key export crops such as tea, coffee and horticultural crops. The favourable weather conditions experienced during the quarter also necessitated the scaling down of the more expensive thermal generation in favour of hydro and geothermal generation. This led to improved growth in the electricity and water supply sectors from 7.4 percent in the first quarter of 2015 to 8.5 percent in the first quarter of 2016.

Table 10: Economic Performance by Sectors (Percent Growth Rate)

Sectors/Activities	2012	2013	2014	2015	2015	2016
					Q1	Q1
Agriculture, forestry and fishing	2.9	5.4	3.5	5.6	2.9	4.8
Mining and quarrying	19	-4.3	14.5	11	5.7	6.9
Manufacturing	-0.6	5.6	3.2	3.5	4.1	3.6
Electricity and water supply	9.5	6.6	6.2	7.1	7.4	8.5
Construction	11.3	6	13.1	13.6	12.6	9.9
Wholesale and retail trade; repairs	7	7.8	7.5	6	6.4	7.3
Accommodation and restaurants	3.1	-4.6	-16.7	-1.3	-11.4	12.1
Transport and storage	2.7	1.5	4.6	7.1	6.7	8.4
Information and communication	2.4	12.6	14.6	7.3	8.6	9.7
Financial and insurance activities	6	8.2	8.3	8.7	10.6	8
Public administration	4	2.8	5.3	5.4	8.8	5.7
Professional, admin and support services	4	3.6	3	2.6	2.8	3.5
Real estate	4	4.1	5.6	6.2	7.8	6.7
Education	11.1	6.4	6.3	4.7	4.3	5.5
Human health and social work activities	-2.8	7.7	8.1	6.6	5.8	4.2
Other services	2.3	4.6	4.2	3.8	4.6	4.4
FISIM	10.1	5.2	11.3	15	14.7	7.7
All economic activities	**4.1**	**5.4**	**5.3**	**5.8**	**5.2**	**6.1**
Taxes on products	7.7	8.1	5.3	4.2	2.9	4.3
GDP at market prices	**4.6**	**5.7**	**5.3**	**5.6**	**5**	**5.9**

Source: KNBS

54. The lower international oil prices favoured the transport and storage sector hence recording an improved growth of 8.4 percent in the first quarter of 2016 compared to 6.7 percent during the same quarter of 2015. Similarly, the improved security and mitigation measures that were instituted to boost tourist arrivals have yielded positive results for the accommodation and restaurants sector after a period of poor performance. The sector grew by 12.1 percent in the first quarter of 2016 from a contraction of 11.4 percent in the first quarter of 2015.

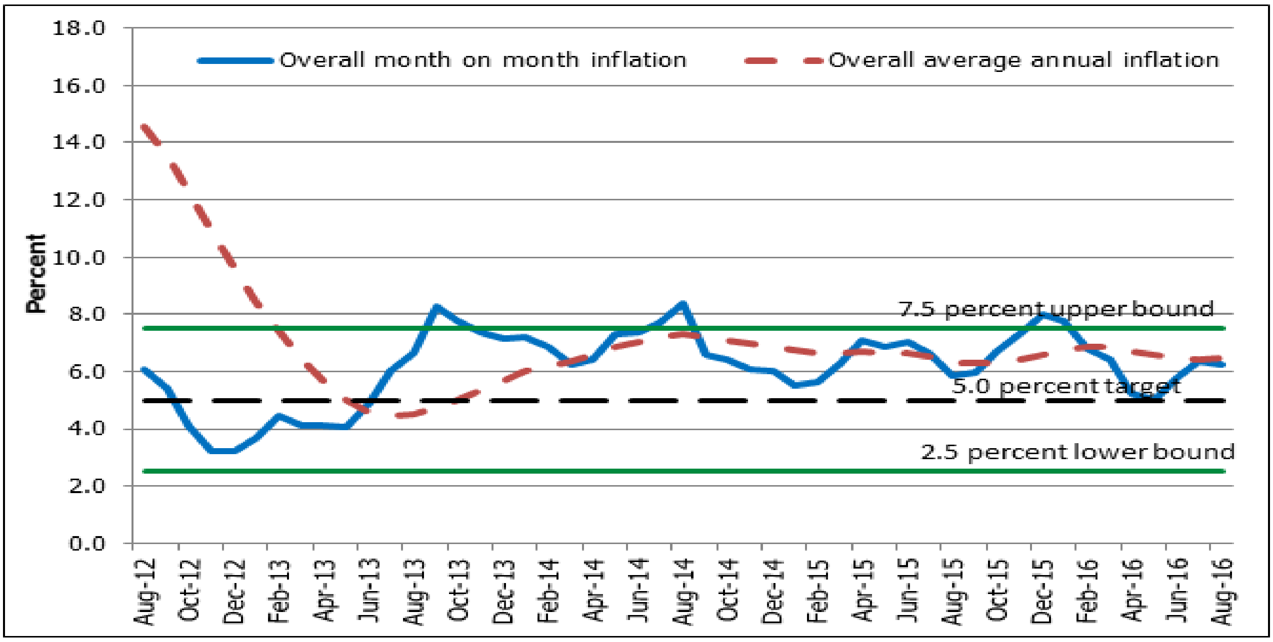
55. The construction and manufacturing sectors recorded a lower growth in the first quarter of 2016 of 9.9 percent and 3.6 percent from growths of 12.6 percent and 4.1 percent respectively in the first quarter of 2015. This reflects lower appetite for construction materials in the heavy projects that the government started as some are near completion and also less private sector involvement in the real estate sector which is evident in reduced cement consumption and reduced credit to the sector by commercial banks during the period. The reduced credit dampened the financial sector growth, despite its vibrancy, to 8.0 percent expansion in the first quarter of 2016 compared to a growth of 10.6 percent in the first quarter of 2015.

Inflation Rate

56. Overall month on month inflation was stable at 6.26 percent in August 2016 compared with 6.39 percent in July 2016. The annual average inflation rate at 6.5 percent in the year to August 2016 was within the target range of 2.5 percent on either side of the 5.0 percent target.

The average annual inflation rate has broadly stabilized within the target range since November 2013 **(Chart 2).**

Chart 2: Inflation Rate



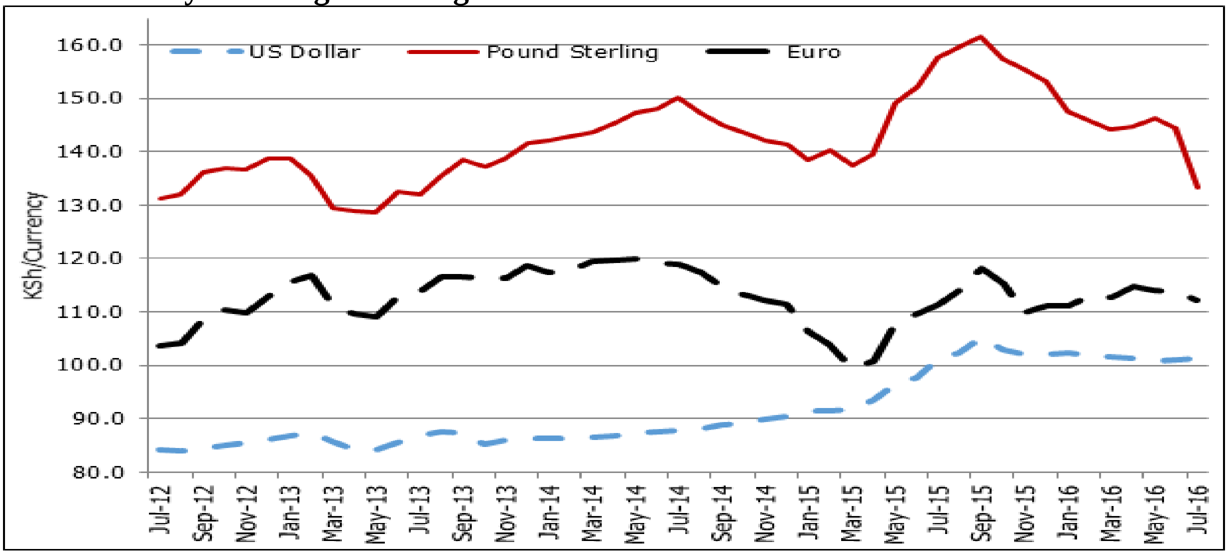
Source: KNBS an National Treasury

Kenya Shilling Exchange Rate

57. The Kenya Shilling has continued to display relatively less volatility compared with the major regional currencies due to improved diaspora remittances and the narrowing of the current account deficit. The Kenya Shilling exchange rate strengthened in July 2016 against major international currencies as world financial markets came under pressure after the result of Britain's vote to exit the European Union.

58. Against the Sterling Pound, the Kenya Shilling strengthened to Ksh 133.4 in July 2016 from Ksh 157.5 in July 2015. However, against the US dollar and the Euro, the Kenya Shilling remained broadly stable at Ksh 101.3 and Ksh 112.1 in July 2016 compared to Ksh 101.2 and Ksh 111.4 in July 2015, respectively **(Chart 3).**

Chart 3: Kenya Shillings Exchange Rate



Source: CBK

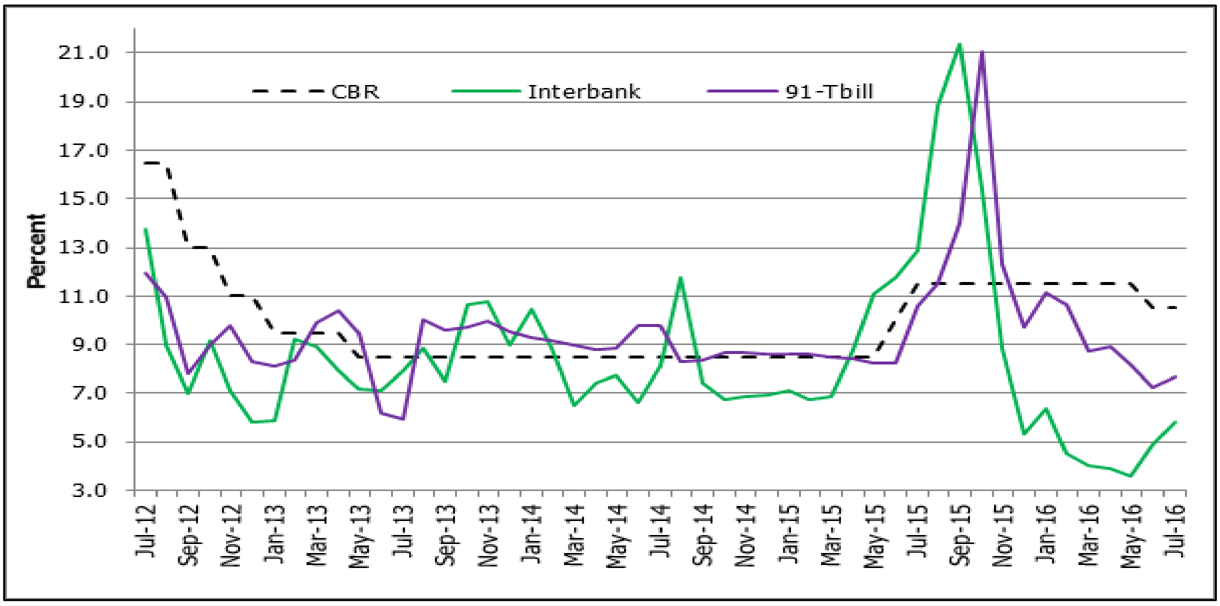
Interest Rates

59. Improved performance of the Kenya Shilling exchange rate and the decline in the overall inflation in the recent months led to the easing of the monetary policy stance in May 2016. The CBR was lowered by 100 basis points to 10.5 percent in May 2016 from the 11.5 percent level that was in place since July 2015. Liquidity conditions in the market have continued to stabilize contributing to the decline in the interest rates.

60. The interbank rate eased to 5.8 percent in July 2016 from 12.9 percent in July 2015 while the 91-day Treasury bill rate averaged 7.7 percent from 10.6 percent over the same period. **(Chart 4).** However, the review upwards of the Kenya Bank Reference rate (KBRR) from an initial rate of 8.54 percent in January 2015 to 9.87 in July 2015, resulted in increased average lending rates to 18.2 percent in June 2016 from 15.5 percent in June 2015, while the deposit rate increased to 6.8 percent from 6.6 percent over the same period. Consequently, interest rate spread rose to 11.4 percent in June 2016 from 9.4 percent in June 2015.

61. In August 2016, His Excellency the President assented to the Banking (Amendment) Bill, 2015 on the capping of interest rates. The assented Bill provides for capping of interest rates that are applicable to banks' loans at 4.0 percent above the base rate to be published by the Central Bank of Kenya and sets the minimum interest to be paid for a saving product at 70 per cent of the same base rate.

Chart 4: Short Term Interest Rates



Source: CBK

Money Supply

62. Growth of broad money supply, M3, slowed to 7.9 percent in the year to June 2016 compared to a growth of 18.6 percent in the year to June 2015. The slowdown in growth was largely on account of a decline in the Net Domestic Assets (NDA) of the banking system as a result of a slowdown in domestic credit uptake both by the government and the private sector.

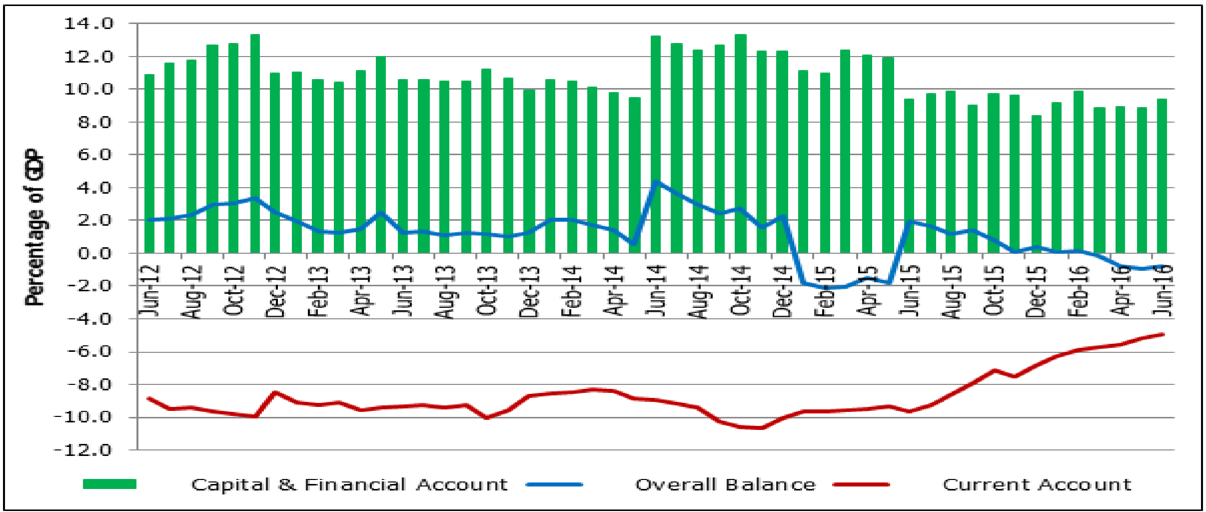
Private Sector Credit

63. Bank credit to the private sector has been on a gradual slowdown in the year to June 2016. The credit slowed to a growth of 8.7 percent (Ksh 181.3 billion) from a 20.5 percent growth (Ksh 352.4 billion) in the same period in 2015.

External Sector Developments

64. The overall balance of payments position recorded a deficit of US$ 480.3 million in the year to June 2016 from a deficit of US$ 1,176.3 million in the year to June 2015. As a share to GDP, the current account deficit improved to 4.9 percent in June 2016 from 9.3 percent in June 2015 **(Chart 5)**. This improvement reflects increase in the value of the merchandise account as payments for merchandise imports particularly oil, machinery and transport equipment declined, reflecting low commodity prices in the international market, particularly that of oil.

Chart 5: Balance of Payments

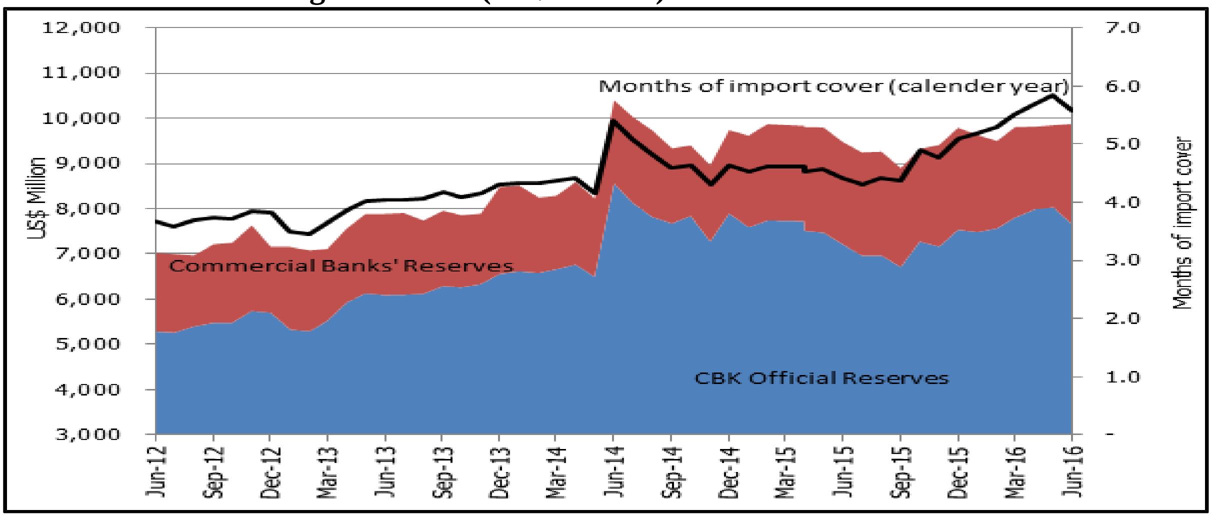


Source: CBK

Foreign Exchange Reserves

65. The banking system's total foreign exchange holdings increased to US$ 9,880 million in June 2016 from US$ 9,473 million in June 2015**(Chart 6).** This was due to the increase in the Official reserves held by the Central Bank (constituting the bulk of the gross reserves) to US$ 7,648 million (5.1 months of import cover) in June 2016 from US$ 7,212 million (4.5 months of import cover) in June 2015. However, reserves held by commercial banks decreased to US$ 2,232 million in 2016 from US$ 2,262 million in 2015.

Chart 6: Official Foreign Reserves (US$ Million)



Source: CBK

Capital Markets

66. The capital market recorded mixed performance in both equities and bonds market segments in the year to June 2016. Activities at the stock market slowed down with the Nairobi Securities Exchange (NSE) 20 share index recording 3,641.1 points in June 2016 compared to 4,906 points in June 2015. Market capitalization was at Ksh 1,995 billion in June 2016 compared to Ksh 2,274 billion in June 2015. The drop in market capitalization is as a result of an increase in share supply which depressed the overall share prices.

67. There has been a gradual recovery of the NSE reflecting restoration of market stability and improved confidence in the economy. The NSE index had been weighed down by the prolonged uncertainty in the global financial markets, and capital outflows from emerging and frontier market economies.

68. The accent of the Banking Amendment Bill, 2015 on capping lending rates at no more than four percent above the Central Bank Rate (CBR) into law, initially led to share prices of some banking institutions declining as investors sell off. This effect is temporary. The low interest rates will have a positive impact on credit flow to the private sectors creating more investment opportunities once implementation starts.

C. Medium Term Economic Outlook

Global Growth Outlook

69. The outcome of the Britain's vote to exit the European Union (Brexit) has created uncertainty in the global financial markets. This, in addition to the sluggish world economic performance and the rebalancing of demand in China, has worsened the global outlook for 2016-17. This uncertainty is projected to take a toll on confidence and investment, including through its repercussions on financial conditions and market sentiment more generally. The initial financial market reaction was severe but generally orderly. As of end-August 2016, the pound has weakened by about 11.2 percent; despite some rebound, equity prices are lower in some sectors, especially for European banks; and yields on safe assets have declined.

70. Global growth is therefore estimated at 3.1 percent in 2015 (lower than the 3.4 percent in 2014) and 3.1 percent in 2016. Recovery is projected to strengthen in 2017 and beyond, driven primarily by emerging market and developing economies, as conditions in stressed economies start gradually to normalize.

71. Growth in the Sub-Saharan Africa is estimated to decline from 3.3 percent in 2015 to 1.6 percent in 2016, reflecting challenging macroeconomic conditions in its largest economies especially Nigeria and South Africa, which are adjusting to lower commodity revenues. However, growth is expected to pick up in 2017 to 3.3 percent supported by a modest rebound in commodity prices and timely policy implementation.

72. Growth in the East African Community (EAC) region (Kenya, Uganda, Tanzania, Rwanda and Burundi) is estimated to increase from 5.8 percent in 2015 to 6.1 percent in 2016, supported by ongoing infrastructure investment efforts and strong private consumption. The decline in oil prices has also helped these countries, though the windfall has tended to be smaller than expected, as exposure to the decline in other commodity prices and currency depreciations have partly offset the gains in some of them.

Domestic Growth Outlook

73. Despite the global economic slowdown, our economy is projected to grow by 6.0 percent in 2016 compared to a growth of 5.6 percent in 2015. Performance of Kenya's economy will mostly be dictated by internal factors. However, exogenous factors will also shape the

economy but probably to a lesser extent. Generally, all the sectors of the economy are expected to continue in their current growth trajectory.

74. This level of growth will be sustained by increased activities in the manufacturing sector supported by continued lower fuel prices and improved supply of electricity as well as sustained delivery of inputs to the agriculture sector. The financial sector particularly banking sector may initially slowdown as banks reflect on how to implement the new Banking Amendment Act, 2015 on the capping of interest rates that was recently accented into law. This slowdown will however be short lived. The construction industry is also expected to maintain an increased role in the creation of value addition due to the ongoing public infrastructure development and continued investment in fixed assets by the private sector.

75. 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 6.1 percent in FY 2016/17, 6.3 percent in FY 2017/18 and 6.7 percent in FY 2019/20 **(Table 11 and Annex Table 1).**

Table 11: Macroeconomic Indicators Underlying the Medium Term Fiscal Framework

	2014/15	2015/16		2016/17		2017/18		2018/19		2019/20
	Act.	Rev. Budget	Prel.	Budget'16	BROP'16	BPS'16	BROP'16	BPS'16	BROP'16	BROP'16
	Annual percentage change									
National Account and Prices										
Real GDP	5.5	5.8	5.8	6.1	6.1	6.3	6.3	6.5	6.6	6.7
GDP Deflator	8.6	6.8	6.8	6.2	5.3	5.6	5.8	5.4	5.9	4.8
CPI Index (eop)	6.5	5.3	6.0	5.0	5.3	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	6.6	5.6	6.4	5.0	5.6	5.0	5.0	5.0	5.0	5.0
Terms of Trade (-deterioration)	-0.2	0.3	0.0	-0.9	1.0	0.9	0.6	-1.0	0.8	0.0
	in percentage of GDP									
Investment and saving										
Investment	22.5	23.5	23.5	22.8	24.6	24.5	25.1	23.8	26.4	27.2
Gross National SavingS	14.4	16.4	16.2	17.4	19.4	19.2	19.8	18.2	21.2	22.1
Central government budget										
Total revenue	19.1	20.7	19.0	20.7	20.1	21.1	20.1	21.3	20.3	21.9
Total expenditure and net lending	28.2	31.5	27.4	31.3	28.6	27.6	27.4	26.3	26.2	26.8
Overall balance (commitment basis) excl. grants	-9.2	-11.4	-8.4	-10.7	-8.5	-6.2	-7.3	-4.9	-6.0	-4.8
Overall balance (commitment basis) incl. grants	-8.4	-10.3	-7.6	-9.7	-8.1	-5.4	-6.7	-4.1	-5.3	-4.0
Nominal public debt, net	44.8	48.8	49.3	49.1	47.4	45.8	49.1	45.6	49.3	50.0
External sector										
Current external balance, including official transfers	-8.2	-7.2	-7.3	-5.4	-5.3	-5.2	-5.3	-5.6	-5.1	-5.0
Gross international reserve coverage in months of imports	4.6	4.8	4.8	5.1	5.1	5.3	5.3	5.4	5.4	5.5

Source: National Treasury

Monetary Policy Outlook

76. 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 of the target to cater for shocks and will seek to sustain an ample level of international reserves. Monetary policy will also focus on stable interest rates and exchange rate.

77. The current inflation rate of 6.26 percent by August 2016 is projected to decline gradually to 5.0 percent by June 2017 supported by the prevailing monetary policy stance, the lower international oil prices and the increasing output of geothermal generated power which will continue to moderate electricity prices and support lower consumer prices.

78. However, there are risks to the inflation outlook that includes the uncertainties around the Britain's vote to exit the European Union and the expected tightening of US Monetary policy. In addition, weather shocks could as well put pressure on inflation given the dominance of food in the CPI consumer basket.

79. Interest rates are expected to remain low and stable for borrowers to access credit for development. This follows assent into law, the Bill capping lending rates to no more than 4 percent above the base rate published by the CBK. Further, short term interest rates are also expected to remain stable under the CBK monetary operations.

External Sector Outlook

80. Kenya's external position is projected to strengthen over the medium term supported by a narrower current account deficit due to lower petroleum products imports, lower payments for merchandise imports particularly machinery and transport equipment, improved earnings from tea and horticulture exports, and the resilient diaspora remittances. The Kenya Shilling exchange rate is expected to remain stable supported by the improving earnings from agricultural exports, recovery in tourism and resilient diaspora remittances. In addition, the two year IMF Precautionary Arrangements (US$ 1,500 million) is expected to provide additional buffer against short term external and domestic shocks.

D. Risks to the Domestic Economic Outlook

81. Our economic growth is impacted by both internal and external factors. The risks to the economic growth projected include, continued uneven and sluggish growth in advanced and emerging market economies as well as falling commodity prices that may have a negative impact on our exports and tourism activities. Further, the uncertainty in the global markets due to potential tightening of US monetary policy and consequent increase in the US interest rates, Britain's vote to exit the European Union and persistent geopolitical uncertainty on the international oil markets may have an impact on our economy.

82. Domestically, the economy is exposed to risks including any occurrence of adverse weather conditions, public expenditure pressures especially recurrent expenditures pose a fiscal risk and any inefficiency in spending government resources that may lower impact of development expenditure.

83. In the event, the above risks materialize; the macro framework and the Medium Term Sector Ceilings shall be revised in the 2017 Budget Policy Statement.

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

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustments to the FY 2016/17 Budget

85. The Medium Term Fiscal Framework (MTFF) for the FY2016/17 emphasizes on efficiency and effectiveness of public spending and improving revenue collection to ensure the debt position remains sustainable while at the same time supporting rapid and inclusive economic growth and continued fiscal discipline.

86. Ministries/Departments/Agencies (MDAs) commenced well in the implementation of the FY 2016/17 Budget. As we consider making any adjustments to the FY 2016/17 Budget to accommodate expenditure arrears carried forward from the FY2015/16, we will ensure that supplementary funding is restricted to unforeseen areas of emergency in nature.

87. Given the fiscal performance in FY 2015/16 and the updated macroeconomic outlook for FY 2016/17, there are some inherent risks to the FY 2016/17 budget framework. Expenditure pressures and in particular those of recurrent nature, pose a serious challenge to budget implementation and may also constrain funding for capital projects. The slow implementation of projects as witnessed in FY 2015/16, continues to be a source of great concern and especially with regard to externally funded projects. These risks will be closely monitored and appropriate action taken to improve implementation. Risks relating to expenditure pressure and low absorption will be reviewed further in the context of the FY 2016/17 Supplementary Budget.

B. Medium Term Fiscal Projections

88. Over the medium term, driven by continued reforms, revenue collection is expected to rise to about 21.9 percent of GDP by 2019/20 **(Annex Tables 2 and 3)**. Overall expenditures will decline gradually from 28.6 percent of GDP in FY 2016/17 to 26.7 percent of GDP in 2019/20. Overall recurrent expenditures are expected to decline from 16.3 percent of GDP in 2016/17 to 14.7 percent in the medium term while development expenditures remain at 8.3 percent of GDP in the FY 2016/17 and the medium term. The Government remains committed to reorienting expenditures from recurrent to development and improving the productivity of our resources.

89. The overall budget deficit is projected to decline in the medium term, as major infrastructural projects currently being implemented by the Government are completed.

C. 2017/18 FY Budget Framework

90. **Revenue Projections:** The FY 2017/18 budget targets revenue collection including Appropriation-in-Aid (AiA) of Ksh 1,640.9 billion (20.1 percent of GDP) up from Ksh 1,456.3 billion (20.1 percent of GDP) in the FY 2016/17. This revenue performance will be underpinned by on-going reforms in tax policy and revenue administration. Ordinary revenues will amount to Ksh 1,495.6 billion (18.3 percent of GDP) in FY 2017/18 up from Ksh 1,318.0 billion (18.2 percent of GDP) in FY 2016/17.

91. **Expenditure Projections:** In the FY 2017/18, overall expenditure and net lending are projected at Ksh 2,236.7 billion (27.4 percent of GDP) from the estimated Ksh 2,074.1 billion (28.6 percent of GDP) in the FY 2016/17 revised budget. These expenditures comprises among

others, recurrent of Ksh 1,250.6 billion (15.3 percent of GDP), development of Ksh 673.2 billion (8.3 percent of GDP) and other expenditures of Ksh 312.9 billion (3.8 percent of GDP).

92. In terms of percentage of GDP, the wages and salaries bill for teachers and civil servants including the police is expected to reduce to 4.6 percent of GDP in the FY 2017/18 from 5.0 percent in the FY 2016/17. Domestic interest payments are expected to reduce relative to GDP to 2.6 percent in the FY 2017/18 from 2.7 percent in the FY 2016/17.

93. Expenditure ceilings on goods and services for sectors/ministries are based on funding allocation in the FY 2016/17 budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in the FY 2016/17. An adjustment factor is then applied to take into account the general increase in prices.

94. A contingency of Ksh 5.0 billion is provided for in the FY 2017/18 budget. In addition, Ksh 7.5 billion is provided for as conditional grants to marginal areas, an increase from the 6.0 billion provided in the FY 2016/17 budget.

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 595.8 billion (equivalent to 7.3 percent of GDP) in the FY 2017/18. Including grants, the overall fiscal balance is projected at Ksh 543.8 billion (6.7 percent of GDP) in FY 2017/18 against the estimated overall fiscal balance of Ksh 586.1 billion (8.1 percent of GDP) in FY 2016/17. The deficit including grants and excluding expenditures related to the SGR in the FY 2017/18 is projected at 5.8 percent of GDP lower than the 7.1 percent of GDP in FY 2016/17.

96. The fiscal deficit in FY 2017/18, will be financed by net external financing of Ksh 231.4 billion (2.8 percent of GDP), Ksh 323.4 billion (4.0 percent of GDP) net domestic borrowing, net repayments of 15.0 billion to CBK and other net receipts of Ksh 4.1 billion

D. Medium-Term Expenditure Framework

97. Resource allocation will continue to be aligned to development programmes/projects under the economic transformation agenda highlighted in the 2016 BPS. The FY 2017/18 MTEF Budget will therefore focus on the following:

(i) Quality and Accessible Education and Health Care Services

98. Education and Health sectors currently receive a combined allocation of about 24.9 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 Sector

99. This sector receives the largest share of resources of about 29.4 percent of total discretionary expenditure. The sector is the driver of the economy and reflects Government's commitment in improving infrastructure countrywide, such as roads, energy and rail. The allocation to the sector will continue to rise over the medium term. This is in line with the government policy of developing infrastructure for accelerating sustainable growth. The sector allocation will continue to be maintained or increased over the medium term.

(iii) Funding Programs to Create Conducive Business Environment

100. 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. Of course, maintaining macroeconomic stability will be key in creating a conducive business environment.

101. The Governance, Justice, Law and Order (GJLOS) and National Security sectors receive about 19.3 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, facilitation of the 2017 general elections, 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

102. Other priority programmes including social welfare, youth empowerment and development of arid regions, which will continue to receive adequate resources. Specifically, other areas of interventions will cover food security, improved road network, empowering youth and women. Resources earmarked for strategic interventions will be ring-fenced over the medium term.

103. Reflecting the above medium-term expenditure framework for FY 2017/18, **Table 12 and Annex Tables 4 and 5** provide the tentative projected baseline ceilings for the medium-term period covering FY 2017/18 – 2019/20 classified by sector.

Table 12: Medium Term Sector Ceilings, FY 2017/18-2019/20 (Ksh Million)

SECTOR		Printed Estimates 2016/17	BROP CEILING 2017/18	Projections 2018/19	Projections 2019/20	% Share of the Total Expenditure: Estimates 2016/17	BROP Ceiling 2017/18	Projections 2018/19	Projections 2019/20
Agriculture, Rural & Urban Development	**Sub_Total**	**46,544.2**	**46,598.1**	**50,325.2**	**51,728.4**	**2.8%**	**2.8%**	**2.8%**	**2.7%**
	Rec. Gross	15,752.4	16,117.3	16,529.4	16,952.6	**0.9%**	**1.0%**	**1.0%**	**1.0%**
	Dev. Gross	30,791.9	30,480.8	33,795.8	34,775.8	**1.8%**	**1.8%**	**2.0%**	**2.0%**
Energy, Infrastructure & ICT	**Sub_Total**	**529,162.9**	**486,253.3**	**472,033.5**	**471,221.9**	**31.5%**	**29.4%**	**28.3%**	**27.6%**
	Rec. Gross	41,945.7	43,756.7	45,643.3	47,619.7	2.5%	2.6%	2.7%	2.8%
	Dev. Gross	487,217.1	442,496.6	426,390.2	423,602.2	29.0%	26.8%	25.5%	24.8%
General Economic & Commercial Affairs	**Sub_Total**	**23,666.2**	**19,922.9**	**20,442.1**	**21,239.8**	**1.4%**	**1.2%**	**1.2%**	**1.2%**
	Rec. Gross	12,604.4	10,069.1	10,252.3	10,400.1	0.8%	0.6%	0.6%	0.6%
	Dev. Gross	11,061.8	9,853.8	10,189.8	10,839.8	0.7%	0.6%	0.6%	0.6%
Health	**Sub_Total**	**60,269.9**	**60,888.9**	**61,969.7**	**62,751.9**	**3.6%**	**3.7%**	**3.7%**	**3.7%**
	Rec. Gross	28,990.1	29,609.1	30,107.9	30,383.1	1.7%	1.8%	1.8%	1.8%
	Dev. Gross	31,279.8	31,279.8	31,861.8	32,368.8	1.9%	1.9%	1.9%	1.9%
Education	**Sub_Total**	**339,924.4**	**349,860.5**	**365,212.6**	**374,660.1**	**20.3%**	**21.2%**	**21.9%**	**22.0%**
	Rec. Gross	315,749.1	326,515.9	340,199.5	349,294.4	18.8%	19.8%	20.4%	20.5%
	Dev. Gross	24,175.3	23,344.6	25,013.1	25,365.6	1.4%	1.4%	1.5%	1.5%
Governance, Justice, Law & Order	**Sub_Total**	**195,518.0**	**192,837.3**	**189,982.1**	**197,781.7**	**11.7%**	**11.7%**	**11.4%**	**11.6%**
	Rec. Gross	165,821.4	169,460.4	161,007.5	165,128.1	9.9%	10.3%	9.6%	9.7%
	Dev. Gross	29,696.6	23,376.9	28,974.6	32,653.6	1.8%	1.4%	1.7%	1.9%
Public Administration & International Relations	**Sub_Total**	**224,909.7**	**235,444.1**	**239,656.4**	**248,845.5**	**13.4%**	**14.3%**	**14.3%**	**14.6%**
	Rec. Gross	114,907.0	123,345.9	119,513.6	121,593.2	6.8%	7.5%	7.2%	7.1%
	Dev. Gross	110,002.8	112,098.2	120,142.8	127,252.3	6.6%	6.8%	7.2%	7.5%
National Security	**Sub_Total**	**124,045.2**	**126,104.5**	**130,401.5**	**134,853.3**	**7.4%**	**7.6%**	**7.8%**	**7.9%**
	Rec. Gross	124,000.2	126,059.5	130,356.5	134,808.3	7.4%	7.6%	7.8%	7.9%
	Dev. Gross	45.0	45.0	45.0	45.0	0.0%	0.0%	0.0%	0.0%
Social Protection, Culture & Recreation	**Sub_Total**	**44,647.5**	**45,285.2**	**47,807.3**	**49,050.3**	**2.7%**	**2.7%**	**2.9%**	**2.9%**
	Rec. Gross	18,199.2	19,145.9	19,696.2	20,379.2	1.1%	1.2%	1.2%	1.2%
	Dev. Gross	26,448.2	26,139.3	28,111.1	28,671.1	1.6%	1.6%	1.7%	1.7%
Environment Protection, Water & Natural Resources	**Sub_Total**	**88,999.4**	**88,538.8**	**92,580.1**	**94,449.8**	**5.3%**	**5.4%**	**5.5%**	**5.5%**
	Rec. Gross	19,556.4	19,656.8	19,774.0	19,894.8	1.2%	1.2%	1.2%	1.2%
	Dev. Gross	69,442.9	68,882.0	72,806.0	74,555.0	4.1%	4.2%	4.4%	4.4%
TOTAL	**TOTAL**	**1,677,687.4**	**1,651,733.6**	**1,670,410.6**	**1,706,582.6**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
	Rec. Gross	**857,526.0**	**883,736.7**	**893,080.3**	**916,453.3**	**51.1%**	**53.5%**	**53.5%**	**53.7%**
	Dev. Gross	**820,161.4**	**767,997.0**	**777,330.3**	**790,129.3**	**48.9%**	**46.5%**	**46.5%**	**46.3%**

Source: National Treasury

V. CONCLUSION AND NEXT STEPS

104. The FY 2017/18 and the Medium Term budget and fiscal framework projections presented in this BROP takes into account the global economic slowdown and adverse economic circumstances and challenges facing our economy. It also takes into account the revenue measures undertaken for broadening the tax base and improving tax administration.

105. As such, there is moderate growth in the overall revenue collection and a decline in overall current expenditure as more resources are allocated to development projects. These measures take into account 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.

106. 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.

107. The policies and sector ceilings in this document will guide the Sector Working Groups and line ministries in the preparations of the FY 2017/18 budget that is being prepared under a revised budget calendar taking into account the preparations of the 2017 General elections. The ceilings will form inputs into the next Budget Policy Statement (BPS) which will be finalized by November 2016.

Annex Table 1: Macroeconomic Indicators, FY 2017/18-2019/20

	2012/13	2013/14	2014/15	2015/16		2016/17		2017/18		2018/19		2019/20
	Act	*Act*	Prel.	Rev. Budget'16	Prel.	*Budget'16*	*BROP'16*	*BPS'16*	*BROP'16*	*BPS'16*	*BROP'16*	*BROP'16*
	annual percentage change, unless otherwise indicated											
National Account and Prices												
Real GDP	5.1	5.6	5.5	5.8	5.8	6.1	6.1	6.3	6.3	6.5	6.6	6.7
GDP deflator	7.4	6.7	8.6	6.8	6.8	6.2	5.3	5.6	5.8	5.4	5.9	4.8
CPI Index (eop)	5.8	6.8	6.5	5.3	6.0	5.0	5.3	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	4.6	7.1	6.6	5.6	6.4	5.0	5.6	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	-1.8	-3.7	-0.2	0.3	0.0	-0.9	1.0	0.9	0.6	-1.0	0.8	0.0
Money and Credit (end of period)												
Net domestic assets	15.6	28.9	19.6	12.3	10.1	7.3	-4.0	6.0	5.1	6.9	7.0	10.9
Net domestic credit to the Government	27.4	-24.4	72.9	22.3	14.4	18.2	25.0	15.4	22.0	9.9	15.3	10.0
Credit to the rest of the economy	12.9	28.7	20.3	16.8	8.4	14.8	17.1	13.5	14.6	12.7	15.1	21.6
Broad Money, M3 (percent change)	14.2	18.2	18.6	13.0	7.9	12.6	11.5	12.3	12.3	12.4	12.4	14.2
Reserve money (percent change)	11.7	12.6	14.9		4.9	10.4	14.8	11.2	11.2	11.3	11.3	13.1
	in percentage of GDP, unless otherwise indicated											
Investment and Saving												
Investment	20.9	21.8	22.5	23.5	23.5	22.8	24.6	24.5	25.1	23.8	26.4	27.2
Central Government	6.9	6.3	8.7	10.4	7.3	11.1	8.2	9.0	8.1	8.5	7.8	8.1
Other	14.0	15.6	13.8	13.1	16.1	11.7	16.5	15.5	17.0	15.3	18.5	19.0
Gross National Saving	12.0	12.9	14.4	16.4	16.2	17.4	19.4	19.2	19.8	18.2	21.2	22.1
Central Government	0.2	3.7	3.6	3.3	3.3	4.7	3.8	6.7	5.0	7.4	5.7	7.2
Other	11.9	9.1	10.7	13.0	13.0	12.7	15.6	12.6	14.8	10.7	15.6	15.0
Central Government Budget												
Total revenue	19.3	19.2	19.1	20.2	19.0	20.7	20.1	21.1	20.1	21.3	20.3	21.9
Total expenditure and net lending	25.2	25.6	28.2	31.5	27.4	31.3	28.6	27.6	27.4	26.3	26.2	26.8
Overall balance (commitment basis) excl. grants	-5.9	-6.4	-9.2	-11.4	-8.4	-10.7	-8.5	-6.2	-7.3	-4.9	-6.0	-4.8
Overall balance (commitment basis) incl. grants	-5.4	-5.9	-8.4	-10.3	-7.6	-9.7	-8.1	-5.4	-6.7	-4.1	-5.3	-4.0
Overall balance (commitment basis) incl. grants exl SGR			-6.3	-10.3	-6.8	-8.0	-7.1	-5.7	-5.8	-4.2	-4.7	-3.5
Primary budget balance	-2.7	-3.2	-5.4	-7.0	-4.3	-6.2	-4.6	-2.9	-3.3	-1.6	-2.2	-2.6
Net domestic borrowing	3.8	4.0	4.3	0.0	3.1	3.3	4.1	-0.2	4.0	-0.2	3.0	2.8
Total external support (grant & loans)	2.7	2.4	4.3	5.6	2.8	5.8	2.8	3.9	3.2	3.4	3.2	3.4
External Sector												
Exports value, goods and services	20.5	19.1	19.6	21.7	21.9	22.8	22.5	23.7	23.6	24.1	24.4	25.6
Imports value, goods and services	34.1	32.7	32.2	33.2	33.4	32.1	31.7	32.6	32.6	33.1	32.9	33.9
Current external balance, including official transfers	-8.9	-9.0	-8.2	-7.2	-7.3	-5.4	-5.3	-5.2	-5.3	-5.6	-5.1	-5.0
Gross international reserve coverage in months of next year imports (end of period)	3.6	3.8	4.4	4.5	4.5	4.5	4.5	4.7	4.7	5.1	4.9	5.0
Gross international reserve coverage in months of this year's imports (end of period)	3.8	4.1	4.6	4.8	4.8	5.1	5.1	5.3	5.3	5.4	5.4	5.5
Public debt												
Nominal central government debt (eop), net of deposits	38.2	43.7	44.8	48.8	49.3	49.1	47.4	45.8	49.1	45.6	49.3	50.0
Domestic (gross)	23.3	25.3	24.4	25.1	27.9	24.9	28.3	23.4	29.2	22.6	28.9	29.1
Domestic (net)	19.8	21.3	20.3	21.4	21.6	21.5	22.7	20.4	24.2	20.0	24.5	24.9
External	18.4	22.4	24.5	27.4	27.7	27.6	24.7	25.4	24.9	25.6	24.9	25.1
Memorandum Items:												
Nominal GDP (in Ksh Billion)	4,500	5,072	5,811	6,444	6,508	7,259	7,259	8,151	8,151	9,159	9,159	9,838
Nominal GDP (in US$ Million)	52,759	58,508	63,600	64,843	64,373	72,348	71,909	80,462	79,973	89,551	89,007	94,699

Source: National Treasury

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

Annex Table 2: Government Operations, FY 2017/18-2019/20 (Ksh Billion)

	2013/14	2014/15	2015/16		2016/17		2017/18		2018/19		2019/20
	Act.	Act	Rev. Budget	Prel	Budget'16	BROP'16	BPS'16	BROP'16	BPS'16	BROP'16	BROP'16
TOTAL REVENUE	**974.4**	**1,107.8**	**1,299.9**	**1,237.9**	**1,500.5**	**1,456.3**	**1,702.2**	**1,640.9**	**1,933.7**	**1,856.2**	**2,154.3**
Ordinary Revenue	919.0	1,031.8	1,184.4	1,158.2	1,376.4	1,318.0	1,575.9	1,495.6	1,797.7	1,703.3	1,971.3
Income Tax	449.6	508.6	578.0	566.0	671.1	653.5	766.6	742.5	881.4	855.4	997.9
Import duty (net)	67.6	74.0	83.6	79.2	96.3	89.8	107.1	100.8	120.3	113.3	127.2
Excise duty	102.0	115.9	137.2	139.5	169.3	154.0	204.9	175.3	231.8	194.2	222.2
Value Added Tax	232.6	259.7	300.0	289.2	345.6	329.3	377.2	375.4	429.5	428.2	485.5
Investment income	10.2	14.0	21.6	19.3	19.7	17.7	25.4	18.7	27.1	19.8	22.3
Other	57.0	59.6	64.0	65.0	74.5	73.8	94.6	82.9	107.6	92.3	116.1
Railway Development Levy	19.7	19.2	18.0	17.3	20.2	19.5	31.3	21.9	35.5	*24.5*	*31.0*
Ministerial and Departmental fees (AiA)	35.7	56.7	97.6	62.4	103.9	118.9	95.0	123.4	100.5	128.4	152.0
EXPENDITURE AND NET LENDING	**1,300.6**	**1,640.0**	**2,032.5**	**1,781.9**	**2,275.6**	**2,074.1**	**2,207.5**	**2,236.7**	**2,379.0**	**2,401.5**	**2,628.5**
Recurrent expenditure	787.9	895.2	1,085.3	1,027.5	1,168.5	1,183.5	1,193.8	1,250.6	1,278.4	1,337.2	1,450.4
Interest payments	134.8	171.9	215.5	215.3	250.8	250.8	228.1	273.3	236.7	284.1	316.6
Domestic interest	119.2	139.6	174.1	172.9	197.3	197.3	170.1	215.2	178.6	226.0	257.6
Foreign Interest /1	15.6	32.3	41.4	42.5	53.5	53.5	58.0	58.0	58.2	58.2	59.0
Wages and Salaries/2	281.2	298.0	333.5	307.4	360.8	360.8	396.9	378.8	436.5	397.8	417.6
Contribution to civil service pension fund	0.0	0.0	0.0	0.0	0.0	0.0	17.7	17.0	18.8	17.9	18.8
Civil service Reform	0.0	1.0	1.0	0.0	1.5	1.5	1.0	1.0	0.0	0.0	0.0
Pensions etc	30.2	37.5	56.1	53.4	60.2	60.2	64.0	68.7	70.4	75.6	81.2
Other	248.0	293.1	366.6	337.7	371.2	386.2	359.4	386.2	382.9	431.9	481.8
Defense and NSIS	93.8	93.7	112.5	113.7	124.0	124.0	126.7	125.6	133.1	129.9	134.3
Development and Net lending	319.3	510.5	678.0	485.4	817.3	600.9	706.5	673.2	772.2	726.9	813.6
Domestically financed	198.5	266.8	316.5	301.3	395.5	394.8	408.6	405.3	460.8	429.8	474.0
o/w Domestically Financed (Net)/3	191.0	241.5	280.1	280.2	338.2	338.2	355.1	345.0	401.3	365.3	382.8
o/w Exchequer Issues/4		228.1	280.1	280.2	338.2	338.2	355.1	345.0	401.3	365.3	382.8
Ministerial Development AIA		25.4	36.4	21.1	57.4	56.6	53.4	60.3	59.5	64.5	91.1
Foreign financed/5	118.6	241.2	353.0	175.5	413.6	198.0	290.4	258.5	300.8	285.8	327.3
Net lending	2.2	2.1	2.1	2.2	2.1	2.1	2.0	2.0	2.0	2.7	2.5
Contingencies/4	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
County Allocation	193.4	229.3	264.2	264.0	284.8	284.8	302.3	307.9	323.4	332.4	359.5
Of which: sharable	193.4	228.6	259.8	259.8	280.4	280.4	297.6	303.2	318.4	327.5	353.6
Conditional Level Five Hospitals	0.0	0.0	3.6	3.6	4.0	4.0	4.3	4.3	4.5	4.5	5.0
County Health Facilities - DANIDA	0.0	0.7	0.8	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.8
Health Care Facilities Compensation											
Other conditional transfer											
Equalization Fund for Marginal areas /7	0.0	0.4	6.4	6.4	6.0	6.0	5.5	7.5	8.7	8.5	9.9
Fiscal Balance ***(commitment basis excl. grants)***	**-326.2**	**-532.3**	**-732.6**	**-544.1**	**-775.0**	**-617.9**	**-505.3**	**-595.8**	**-445.3**	**-545.3**	**-474.1**
Adjustment to cash basis	0.0	16.9	0.0	22.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	**27.0**	**28.1**	**66.0**	**29.6**	**72.7**	**31.7**	**64.5**	**51.9**	**72.6**	**60.9**	**80.8**
Of which: Project grants	21.7	23.0	58.2	24.1	65.4	24.4	57.5	44.9	65.5	53.9	75.0
Debt Swap	0.5	0.53	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.0
Programmme grants	4.7	3.84	6.4	4.3	6.4	6.4	6.1	6.1	6.1	6.1	5.0
County Health Facilities - DANIDA	0.0	0.7	0.8	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.8
Fiscal Balance ***(cash basis incl. grants)***	**-299.2**	**-487.2**	**-666.6**	**-492.1**	**-702.3**	**-586.1**	**-440.8**	**-543.8**	**-372.7**	**-484.4**	**-393.3**
Fiscal Balance ***(cash basis incl. grants) Exl. SGR***	**-299.2**	**-363.7**	**-548.4**	**-439.7**	**-584.1**	**-512.5**	**-421.0**	**-471.9**	**-328.3**	**-434.4**	**-347.6**
Statistical discrepancy	7.8	-15.7	0.0	-17.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCING	**307.0**	**471.5**	**666.6**	**474.6**	**702.3**	**586.1**	**440.8**	**543.8**	**372.7**	**484.4**	**393.3**
Net Foreign Financing	104.0	217.5	419.0	269.9	462.3	287.6	225.7	231.4	224.4	221.0	196.4
Project loans	96.9	218.2	294.8	151.4	348.3	173.6	232.8	213.5	235.2	231.9	252.3
Programme loans	0.0	3.5	8.2	8.6	3.9	3.9	0.0	0.0	0.0	0.0	0.0
Commercial Financing/6	34.6	74.96	154.3	145.0	153.8	153.8	125.0	150.0	125.0	125.0	53.2
of which: Syndicated Loan	0.0	0.00	0.0	0.0							
Repayments due	-27.5	-79.1	-38.4	-35.1	-43.6	-43.6	-132.2	-132.2	-135.9	-135.9	-109.2
O/W syndicated Loan repayments	-	-52.8	-	-	-	-	-77.0	-77.0	-	-	-
Other Domestic Financing	1.3	2.9	2.6	2.4	4.0	4.0	-12.8	-10.9	-12.9	-10.8	-10.7
Of which: NBK Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Loan Repayments (Receipts)	1.3	2.9	2.6	2.4	4.0	4.0	2.7	4.1	2.8	4.2	4.3
Domestic Loan Repayments CBK	0.0	0.0	0.0	0.0	0.0	0.0	-15.6	-15.0	-15.7	-15.0	-15.0
Net Domestic Financing	201.7	251.1	245.0	202.3	236.1	294.6	228.0	323.4	161.3	274.2	207.7
Of which: Sovereign Bond proceeds	-	140.5	-	-	-	-	-	-	-	-	-
Others	201.7	110.6	245.0	202.3	236.1	294.6	228.0	323.4	161.3	274.2	207.7
Financing gap	0.0	0.0	0.0	-17.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items											
External Debt	1,138.5	1,423.3	1,803.3	1,803.3	1,926.5	1,795.9	2,066.9	2,030.4	2,316.2	2,276.0	2,470.7
Domestic Debt (gross)	1,284.3	1,420.4	1,815.1	1,815.1	1,995.4	2,053.8	1,916.7	2,377.2	2,078.0	2,651.4	2,859.1
Domestic Debt (net)	1,078.8	1,178.2	1,406.7	1,406.7	1,587.0	1,645.5	1,674.5	1,968.9	1,835.8	2,243.0	2,450.7
Primary budget balance	-164.4	-315.3	-451.1	-276.7	-451.5	-335.3	-212.7	-270.6	-136.0	-200.3	-76.7
Nominal GDP	5,071.7	5,811.2	6,444.0	6,508.1	7,259.0	7,259.0	8,149.0	8,150.7	9,149.0	9,158.6	9,838.0

Source: The National Treasury

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

Note/1 Interest payments for FY 2014/15 includes Ksh 401.3 million on syndicated loan

Note /2 Salaries and Wages reflect the wages for civil service inclusive of the police and prison officers and teachers

Note /3 Domestically financed development for FY 2014/15 is higher than Exchequer issued of Ksh 233.5 billion on account of commitments

Note /4 Comprises total excheque releases (Ksh 233.5 billion) excluding from grants and loans (Ksh 36.8 billion)

Note /5 Foreign Financed development for FY 2014/15 includes grants and loans through the exchequer of Ksh 36.8 billion

Note /6 Commercial Financing item includes all forms of external financing not related to projects including, first Eurobond receipts, Eurobond tap sales, syndicated loans

Note /7 Equalization Fund expenditures for actual years represent actual disbursements to the Fund

Annex Table 3: Government Operations, FY 2017/18-2019/20 (in percent of GDP)

	2013/14	2014/15	2015/16		2016/17		2017/18		2018/19		2019/20
	Act.	Act	Rev. Budget	Prel	Budget'16	BROP'16	BPS'16	BROP'16	BPS'16	BROP'16	*BROP'16*
TOTAL REVENUE	**19.2**	**19.1**	**20.2**	**19.0**	**20.7**	**20.1**	**20.9**	**20.1**	**21.1**	**20.3**	**21.9**
Ordinary Revenue	18.1	17.8	18.4	17.8	19.0	18.2	19.3	18.3	19.6	18.6	20.0
Income tax	8.9	8.8	9.0	8.7	9.2	9.0	9.4	9.1	9.6	9.3	10.1
Import duty (net)	1.3	1.3	1.3	1.2	1.3	1.2	1.3	1.2	1.3	1.2	1.3
Excise duty	2.0	2.0	2.1	2.1	2.3	2.1	2.5	2.2	2.5	2.1	2.3
Value Added Tax	4.6	4.5	4.7	4.4	4.8	4.5	4.6	4.6	4.7	4.7	4.9
Investment income	0.2	0.2	0.3	0.3	0.3	0.2	0.3	0.2	0.3	0.2	0.2
Other	1.1	1.0	1.0	1.0	1.0	1.0	1.2	1.0	1.2	1.0	1.2
Railway Development Levy	0.4	0.3	0.3	0.3	0.3	0.3	0.4	0.3	0.4	0.3	0.3
Ministerial and Departmental fees (AiA)	0.7	1.0	1.5	1.0	1.4	1.6	1.2	1.5	1.1	1.4	1.5
EXPENDITURE AND NET LENDING	**25.6**	**28.2**	**31.5**	**27.4**	**31.3**	**28.6**	**27.1**	**27.4**	**26.0**	**26.2**	**26.7**
Recurrent expenditure	15.5	15.4	16.8	15.8	16.1	16.3	14.6	15.3	14.0	14.6	14.7
Interest payments	2.7	3.0	3.3	3.3	3.5	3.5	2.8	3.4	2.6	3.1	3.2
Domestic interest	2.4	2.4	2.7	2.7	2.7	2.7	2.1	2.6	2.0	2.5	2.6
Foreign Interest /1	0.3	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.6	0.6	0.6
Wages and Salaries/2	5.5	5.1	5.2	4.7	5.0	5.0	4.9	4.6	4.8	4.3	4.2
Contribution to civil service pension fund	0.0	0.0	0.0	0.0	0.0	0.0	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
Pensions etc	0.6	0.6	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other	4.9	5.0	5.7	5.2	5.1	5.3	4.4	4.7	4.2	4.7	4.9
Defense and NSIS	1.8	1.6	1.7	1.7	1.7	1.7	1.6	1.5	1.5	1.4	1.4
Development and Net lending	6.3	8.8	10.5	7.5	11.3	8.3	8.7	8.3	8.4	7.9	8.3
Domestically financed	3.9	4.6	4.9	4.6	5.4	5.4	5.0	5.0	5.0	4.7	4.8
o/w Domestically Financed (Net)/3	3.8	4.2	4.3	4.3	4.7	4.7	4.4	4.2	4.4	4.0	3.9
o/w Exchequer Issues/4	0.0	3.9	4.3	4.3	4.7	4.7	4.4	4.2	4.4	4.0	3.9
Ministerial Development AIA	0.0	0.4	0.6	0.3	0.8	0.8	0.7	0.7	0.7	0.7	0.9
Foreign financed/5	2.3	4.2	5.5	2.7	5.7	2.7	3.6	3.2	3.3	3.1	3.3
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingencies/4	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
County Allocation	3.8	3.9	4.1	4.1	3.9	3.9	3.7	3.8	3.5	3.6	3.7
Of which: sharable	3.8	3.9	4.0	4.0	3.9	3.9	3.7	3.7	3.5	3.6	3.6
Equalization Fund for Marginal areas /7	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Fiscal Balance (commitment basis excl. grants)	**-6.4**	**-9.2**	**-11.4**	**-8.4**	**-10.7**	**-8.5**	**-6.2**	**-7.3**	**-4.9**	**-6.0**	**-4.8**
Adjustment to cash basis	0.0	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.5	0.5	1.0	0.5	1.0	0.4	0.8	0.6	0.8	0.7	0.8
Of which: Project grants	0.4	0.4	0.9	0.4	0.9	0.3	0.7	0.6	0.7	0.6	0.0
Debt Swap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Programmme grants	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0
Fiscal Balance (cash basis incl. grants)	**-5.9**	**-8.4**	**-10.3**	**-7.6**	**-9.7**	**-8.1**	**-5.4**	**-6.7**	**-4.1**	**-5.3**	**-4.0**
Fiscal Balance (cash basis incl. grants) Exl. SGR	**-5.9**	**-6.3**	**-8.5**	**-6.8**	**-8.0**	**-7.1**	**-5.2**	**-5.8**	**-3.6**	**-4.7**	**-3.5**
FINANCING	**6.1**	**8.1**	**10.3**	**7.3**	**9.7**	**8.1**	**5.4**	**6.7**	**4.1**	**5.3**	**4.0**
Net Foreign Financing	2.1	3.7	6.5	4.1	6.4	4.0	2.8	2.8	2.5	2.4	2.0
Project loans	1.9	3.8	4.6	2.3	4.8	2.4	2.9	2.6	2.6	2.5	2.6
Programme loans	0.0	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Commercial Financing/6	0.7	1.3	2.4	2.2	2.1	2.1	1.5	1.8	1.4	1.4	0.5
of which: Syndicated Loan	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments due	-0.5	-1.4	-0.6	-0.5	-0.6	-0.6	-1.6	-1.6	-1.5	-1.5	-1.1
O/W syndicated Loan repayments	0.0	-0.9	0.0	0.0	0.0	0.0	-0.9	-0.9	0.0	0.0	0.0
Other Domestic Financing	0.0	0.0	0.0	0.0	0.1	0.1	-0.2	-0.1	-0.1	-0.1	-0.1
Of which: NBK Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Loan Repayments (Receipts)	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Domestic Loan Repayments CBK	0.0	0.0	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2
Net Domestic Financing	**4.0**	**4.3**	**3.8**	**3.1**	**3.3**	**4.1**	**2.8**	**4.0**	**1.8**	**3.0**	**2.1**
Of which: Sovereign Bond proceeds	0.0	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Others	4.0	1.9	3.8	3.1	3.3	4.1	2.8	4.0	1.8	3.0	2.1
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	-0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo Items											
Total Public Debt (net)	43.7	44.8	48.8	49.3	49.1	47.4	45.8	49.1	45.6	49.3	50.0
External Debt	22.4	24.5	28.0	27.7	26.5	24.7	25.4	24.9	25.3	24.9	25.11
Domestic Debt (gross)	25.3	24.4	28.2	27.9	27.5	28.3	23.5	29.2	22.7	28.9	29.1
Domestic Debt (net)	21.3	20.3	21.8	21.6	21.9	22.7	20.5	24.2	20.1	24.5	24.9
Primary budget balance	-3.2	-5.4	-7.0	-4.3	-6.2	-4.6	-2.6	-3.3	-1.5	-2.2	-0.8
Nominal GDP	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

Note/1 Interest payments for FY 2014/15 includes Ksh 401.3 million on syndicated loan

Note /2 Salaries and Wages reflect the wages for civil service inclusive of the police and prison officers and teachers

Note /3 Domestically financed development for FY 2014/15 is higher than Exchequer issued of Ksh 233.5 billion on account of commitments

Note /4 Comprises total excheque releases (Ksh 233.5 billion) excluding from grants and loans (Ksh 36.8 billion)

Note /5 Foreign Financed development for FY 2014/15 includes grants and loans through the exchequer of Ksh 36.8 billion

Note /6 Commercial Financing item includes all forms of external financing not related to projects including, first Eurobond receipts, Eurobond tap sales, syndicated loans

Note /7 Equalization Fund expenditures for actual years represent actual disbursements to the Fund

Annex Table 4: Development Sector Ceilings, MTEF Period 2017/18 - 2019/20 (Ksh Million)

Sector Code	SECTOR		Printed Estimates	BROP Ceiling	Projections	
			2016/17	2017/18	2018/19	2019/20
010	**Agriculture, Rural & Urban Development**	**Gross**	**30,791.9**	**30,480.8**	**33,795.8**	**34,775.8**
		GOK	6,295.6	5,974.5	8,320.0	9,300.0
		Loans	12,401.7	12,401.7	12,401.7	12,401.7
		Grants	3,574.1	3,574.1	3,574.1	3,574.1
		S.I.	8,520.5	8,530.5	9,500.0	9,500.0
020	**Energy, Infrastructure & ICT**	**Gross**	**487,217.1**	**442,496.6**	**426,390.2**	**423,602.2**
		GOK	82,289.3	82,485.7	86,886.0	88,522.0
		Loans	273,817.9	227,792.9	205,855.2	201,531.2
		Grants	9,455.0	9,455.0	9,455.0	9,455.0
		Local A-I-A	57,386.0	57,386.0	57,386.0	57,386.0
		S.I.	64,268.9	65,377.0	66,808.0	66,708.0
030	**General Economic & Commercial Affairs**	**Gross**	**11,061.8**	**9,853.8**	**10,189.8**	**10,839.8**
		GOK	10,367.0	9,159.0	9,495.0	10,145.0
		Loans	303.6	303.6	303.6	303.6
		Grants	391.2	391.2	391.2	391.2
		S.I.	-	-	-	-
040	**Health**	**Gross**	**31,279.8**	**31,279.8**	**31,861.8**	**32,368.8**
		GOK	2,213.0	2,013.0	2,093.0	2,600.0
		Loans	6,736.6	6,736.6	6,736.6	6,736.6
		Grants	13,032.2	13,032.2	13,032.2	13,032.2
		S.I.	9,298.0	9,498.0	10,000.0	10,000.0
050	**Education**	**Gross**	**24,175.3**	**23,344.6**	**25,013.1**	**25,365.6**
		GOK	13,660.1	13,479.4	15,147.9	15,500.4
		Loans	4,756.0	4,756.0	4,756.0	4,756.0
		Grants	5,759.2	4,109.2	4,109.2	4,109.2
		S.I.	-	1,000.0	1,000.0	1,000.0
060	**Governance, Justice, Law & Order**	**Gross**	**29,696.6**	**23,376.9**	**28,974.6**	**32,653.6**
		GOK	9,162.0	6,842.3	12,440.0	16,119.0
		Loans	2,832.0	2,832.0	2,832.0	2,832.0
		Grants	1,702.6	1,702.6	1,702.6	1,702.6
		S.I.	16,000.0	12,000.0	12,000.0	12,000.0
070	**Public Administration & International Relations**	**Gross**	**110,002.8**	**112,098.2**	**120,142.8**	**127,252.3**
		GOK	34,360.2	33,433.9	38,671.7	40,622.7
		Loans	4,923.0	4,923.0	4,923.0	4,923.0
		Grants	21,214.6	21,214.6	21,214.6	21,214.6
		S.I.	3,000.0	2,668.8	2,000.0	1,000.0
		CF & EF	11,000.0	12,476.0	13,508.0	14,915.0
		CDF	35,505.0	37,381.9	39,825.5	44,577.0
080	**National Security**	**Gross**	45.0	45.0	45.0	45.0
		GOK	-	-	-	-
		Loans	-	-	-	-
		Grants	45.0	45.0	45.0	45.0
090	**Social Protection, Culture & Recreation**	**Gross**	**26,448.2**	**26,139.3**	**28,111.1**	**28,671.1**
		GOK	9,057.1	9,148.1	9,120.0	9,180.0
		Loans	644.0	644.0	644.0	644.0
		Grants	4,130.2	4,130.2	4,130.2	4,130.2
		S.I.	12,616.9	12,216.9	14,216.9	14,716.9
0100	**Environment Protection, Water & Natural Resources**	**Gross**	**69,442.9**	**68,882.0**	**72,806.0**	**74,555.0**
		GOK	21,549.0	21,989.0	25,913.0	27,662.0
		Loans	41,841.3	40,840.3	40,840.3	40,840.3
		Grants	6,052.7	6,052.7	6,052.7	6,052.7
		S.I.				
	TOTAL	**Gross**	**820,161.4**	**767,997.0**	**777,330.3**	**790,129.3**
		GOK	**188,953.2**	**184,524.9**	**208,086.6**	**219,651.1**
		Loans	**348,256.1**	**301,230.2**	**279,292.5**	**274,968.5**
		Grants	**65,356.8**	**63,706.8**	**63,706.8**	**63,706.8**
		Local A-I-A	**57,386.0**	**57,386.0**	**57,386.0**	**57,386.0**
		S.I.	**113,704.3**	**111,291.2**	**115,524.9**	**114,924.9**
		CF & EF	**11,000.0**	**12,476.0**	**13,508.0**	**14,915.0**
		CDF	**35,505.0**	**37,381.9**	**39,825.5**	**44,577.0**
	Note: (1) S.I=Strategic Intervention; (2) CF = Contingency Fund; EF = Equalization Fund; (3) CDF= National Constituency Development Fund					

Source: National Treasury

Annex Table 5: Recurrent Sector Ceilings, MTEF Period 2017/18 - 2019/20 (Ksh Million)

Sector Code	SECTOR	Classification	Budget Estimates	Ceiling	Projections	
			2016/17	2017/18	2018/19	2019/20
010	**Agriculture, Rural & Urban Development**	**Gross**	**15,752.4**	**16,117.3**	**16,529.4**	**16,952.6**
		A-I-A	62.4	62.4	62.4	62.4
		Net	15,689.9	16,054.9	16,467.0	16,890.2
		Salaries	5,281.3	5,439.7	5,602.9	5,771.0
		Grants & Other Transfers	6,715.9	6,847.3	6,981.3	7,118.0
		Other Recurrent	3,755.2	3,830.3	3,945.2	4,063.6
020	**Energy, Infrastructure & ICT**	**Gross**	**41,945.7**	**43,756.7**	**45,643.3**	**47,619.7**
		A-I-A	32,015.5	33,594.3	35,252.1	36,992.8
		Net	9,930.2	10,162.4	10,391.2	10,626.9
		Salaries	3,240.0	3,337.2	3,437.3	3,540.4
		Grants & Other Transfers	35,758.1	37,361.1	39,055.8	40,834.6
		Other Recurrent	2,947.6	3,058.4	3,150.2	3,244.7
030	**General Economic & Commercial Affairs**	**Gross**	**12,604.4**	**10,069.1**	**10,252.3**	**10,400.1**
		A-I-A	1,029.4	1,029.4	1,029.4	1,029.4
		Net	11,575.0	9,039.7	9,222.9	9,370.6
		Salaries	1,115.3	1,148.7	1,183.2	1,218.7
		Grants & Other Transfers	6,968.6	7,268.6	7,268.6	7,268.6
		Other Recurrent	4,520.6	1,651.8	1,800.5	1,912.8
040	**Health**	**Gross**	**28,990.1**	**29,609.1**	**30,107.9**	**30,383.1**
		A-I-A	3,977.9	3,977.9	3,977.9	3,977.9
		Net	25,012.2	25,631.2	26,130.0	26,405.2
		Salaries	5,720.7	5,892.3	6,069.1	6,251.2
		Grants & Other Transfers	20,630.3	21,042.9	21,276.2	21,276.2
		Other Recurrent	1,739.1	1,773.8	1,862.5	1,955.7
		S.I.	*900.0*	*900.0*	*900.0*	*900.0*
050	**Education**	**Gross**	**315,749.1**	**326,515.9**	**340,199.5**	**349,294.4**
		A-I-A	18,335.2	18,335.2	18,335.2	18,335.2
		Net	297,413.9	308,180.7	321,864.3	330,959.2
		Salaries	189,983.5	195,683.0	201,553.5	207,600.1
		Grants & Other Transfers	73,174.5	73,174.5	74,174.5	75,674.5
		Other Recurrent	46,091.1	46,658.4	47,971.5	49,519.9
		S.I.	-	*4,500.0*	*10,000.0*	*10,000.0*
		Medical Insurance	*6,500.0*	*6,500.0*	*6,500.0*	*6,500.0*
060	**Governance, Justice, Law & Order**	Gross	165,821.4	169,460.4	161,007.5	165,128.1
		A-I-A	773.2	773.2	773.2	773.2
		Net	165,048.2	168,687.2	160,234.3	164,354.9
		Salaries	90,462.0	93,175.9	96,132.6	99,016.6
		Grants & Other Transfers	7,077.2	7,211.7	7,353.0	7,501.3
		Other Recurrent	35,448.7	35,739.3	36,718.8	37,807.0
		S.I.	*25,986.5*	*26,486.5*	*13,956.1*	*13,956.1*
		Medical Insurance	*6,847.1*	*6,847.1*	*6,847.1*	*6,847.1*
070	**Public Administration & International Relations**	**Gross**	**114,907.0**	**123,345.9**	**119,513.6**	**121,593.2**
		A-I-A	830.7	830.7	830.7	830.7
		Net	114,076.3	122,515.2	118,683.0	120,762.5
		Salaries	32,331.8	39,801.8	34,407.4	35,496.1
		Grants & Other Transfers	26,516.3	26,516.3	26,516.3	26,516.3
		Other Recurrent	44,735.2	45,204.1	46,560.3	47,957.1
		S.I.	*8,100.0*	*8,600.0*	*8,806.0*	*8,400.0*
		Medical Insurance	*3,223.7*	*3,223.7*	*3,223.7*	*3,223.7*
080	**National Security**	**Gross**	**124,000.2**	**126,059.5**	**130,356.5**	**134,808.3**
		A-I-A	-	-	-	-
		Net	124,000.2	126,059.5	130,356.5	134,808.3
		Salaries	773.9	797.1	821.0	845.7
		Grants & Other Transfers	123,015.0	125,044.8	129,311.4	133,731.8
		Other Recurrent	211.2	217.5	224.1	230.8
		S.I.				
090	**Social Protection, Culture & Recreation**	**Gross**	**18,199.2**	**19,145.9**	**19,696.2**	**20,379.2**
		A-I-A	63.8	63.8	63.8	63.8
		Net	18,135.5	19,082.1	19,632.4	20,315.4
		Salaries	2,510.4	2,585.7	2,663.3	2,743.2
		Grants & Other Transfers	5,742.5	6,124.3	6,161.1	6,624.3
		Other Recurrent	4,739.5	4,529.0	4,664.9	4,804.8
		S.I.	*5,206.9*	*5,906.9*	*6,206.9*	*6,206.9*
0100	**Environment Protection, Water & Natural Resources**	**Gross**	**19,556.4**	**19,656.8**	**19,774.0**	**19,894.8**
		A-I-A	9,610.7	9,610.7	9,610.7	9,610.7
		Net	9,945.7	10,046.1	10,163.4	10,284.1
		Salaries	2,336.1	2,406.2	2,478.4	2,552.7
		Grants & Other Transfers	15,749.4	15,749.4	15,749.4	15,749.4
		Other Recurrent	1,470.9	1,501.2	1,546.3	1,592.7
	TOTAL	**Gross**	**857,526.0**	**883,736.7**	**893,080.3**	**916,453.3**
		A-I-A	**66,698.8**	**68,277.6**	**69,935.4**	**71,676.1**
		Net	**790,827.2**	**815,459.0**	**823,144.9**	**844,777.2**
		Salaries	**333,754.9**	**350,267.6**	**354,348.7**	**365,035.6**
		Grants & Other Transfers	**321,347.7**	**326,340.9**	**333,847.7**	**342,295.0**
		Other Recurrent	**145,659.1**	**144,164.0**	**148,444.3**	**153,089.0**
		S.I.	***40,193.4***	***46,393.4***	***39,869.0***	***39,463.0***
		Medical Insurance	***16,570.7***	***16,570.7***	***16,570.7***	***16,570.7***

Note: S.I. = Strategic Interventions; A-I-A = Appropriations - in - Aid

Source: National Treasury

Annex Table 6: Budget Calendar for the FY 2017/18 Medium-Term Budget

		FY2016/17	FY2017/18
ACTIVITY	**RESPONSIBILITY**	**DEADLINE**	**DEADLINE**
1. Develop and issue MTEF guidelines	**National Treasury**	**20-Aug-15**	**15-Jul-16**
2. Launch of Sector Working Groups	**National Treasury**	**28-Aug-15**	**22-Jul-16**
3. Programme Performance & Strategic Reviews	**MDAs**	**15-Sep-15**	**12-Aug-16**
3.1 Review and update of strategic plans	"	"	"
3.2 Review of programme outputs and outcomes	"	"	"
3.3 Expenditure Review	"	"	"
3.4 Review and approval of projects for FY2017/18	Project Committees		"
3.5 Progress report on MTP implementation	"	"	"
3.6 Preparation of annual plans	"	"	"
4. Development of Medium-Term Budget Framework	**Macro Working Group**	**30-Sep-15**	**9-Sep-16**
4.1 Estimation of Resource Envelope	"	"	26-Aug-16
4.2 Determination of policy priorities	"	"	"
4.3 Preliminary resource allocation to Sectors, Parliament, Judiciary & Counties	"	"	"
4.4 Draft Budget Review and Outlook Paper (BROP)	"	"	"
4.5 Submission and approval of BROP by Cabinet	"	15-Oct-15	2-Sep-16
4.6 Submission of approved BROP to Parliament	"	30-Oct-15	9-Sep-16
5. Preparation of MTEF budget proposals	**Line Ministries**	**01-Oct-15**	**18-Oct-16**
5.1 Retreats to draft Sector Reports	Sector Working Group	"	4-23 Sep -16
5.2 Public Sector Hearing	National Treasury	15-Nov-15	3-7 Oct-16
5.3 Review and incorporation of stakeholder inputs in the Sector proposals	Sector Working Group	22-Nov-15	12-Oct-16
5.4 Submission of Sector Report to Treasury	Sector Chairpersons	30-Nov-15	14-Oct-16
5.5 Consultative meeting with CSs/PSs on Sector Budget proposals	National Treasury	02-Dec-15	18-Oct-16
6. Draft Budget Policy Statement (BPS)	**Macro Working Group**	**03-Dec-15**	**10-Nov-16**
6.1 Draft BPS	Macro Working Group	03-Dec-15	24-Oct-16
6.2 Division of Revenue Bill (DORB)	National Treasury	15-Dec-15	"
6.3 County Allocation of Revenue Bill (CARB)	National Treasury	15-Dec-15	"
6.4 Cabinet Retreat on Finalization of FY2017/18 Budget	Presidency		26-28 Oct 2016
6.5 Submission of BPS, DORB and CARB to Cabinet for approval	National Treasury	15-Jan-16	3-Nov-16
6.6 Submission of BPS, DORB and CARB to Parliament for approval	National Treasury	15-Feb-16	10-Nov-16
7. Preparation of Pre Election Report	National Treasury		**31-Jan-17**
8. Preparation and approval of Final MDAs Budgets			**15-Mar-17**
7.1 Develop and issue final guidelines on preparation of 2017/18 MTEF Budget	National Treasury	28-Feb-16	2-Dec-16
7.2 Submission of Budget Proposals to Treasury	Line Ministries	15-Mar-16	22-Dec-16
7.3 Consolidation of the Draft Budget Estimates	National Treasury	01-Apr-16	26-Jan-17
7.4 Submission of Draft Budget Estimates to Parliament	National Treasury	30-Apr-16	27-Jan-17
7.5 Review of Draft Budget Estimates by Parliament	National Assembly	15-May-16	22-Feb-17
7.6 Report on Draft Budget Estimates from Parliament	National Assembly	30-May-16	24-Feb-17
7.7 Consolidation of the Final Budget Estimates	National Treasury	15-Jun-16	10-Mar-17
7.8 Submission of Appropriation Bill to Parliament	National Treasury	15-Jun-16	15-Mar-17
7.9 Submission of Vote on Account to Parliament	National Treasury	30-Jun-16	15-Mar-17
9. Budget Statement	**National Treasury**	**15-Jun-16**	**17-Mar-17**
10. Appropriation Bill Passed	**National Assembly**	**30-Jun-16**	**31-Mar-17**

Source: National Treasury

THE NATIONAL TREASURY