REPUBLIC OF KENYA

THE NATIONAL TREASURY

2017 BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2017

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Foreword

The Kenyan economy remains resilient registering strong economic growth compared to the average growth for Sub Saharan Africa. The economy maintained growth momentum for the third consecutive year to expand by 5.8 percent in 2016 up from a revised growth of 5.7 percent in 2015 and created 832,900 new jobs. This growth was supported by increased output in most of the sectors due to the ongoing public infrastructure spending, favourable weather conditions in the better part of the year, stable and low inflation during the year due to reduced costs of petroleum products and tight monetary policies; remarkable recovery of Tourism from improved security and strong consumer demand.

In 2017, the economy though faced with challenges including effects of the prolonged drought that set in the last quarter of 2016 and pushed prices up and subdued credit to the private sector, it has remained fairly resilient. The economy grew by 4.7 percent in the first quarter of 2017. The transformation Agenda that the government has been implementing for the last four years has seen improvement of security, economic stability, creation of new jobs, expanded access and affordable health care and improved public services.

The implementation of the budget for FY 2016/17 progressed well and picked up towards the end of the fiscal year. In the year, both revenue collection and expenditures lagged behind their respective targets. Total revenues was below target by Ksh 54.8 billion while total expenditures had a shortfall of Ksh 216.9 billion occasioned by the lower absorption of both recurrent and development expenditures by the National Government. In my Budget Statement in March 2017, I spelt out measures that provide for equity in tax collection, promotion of local industries, attract FDIs and encourage re-investments. Therefore, we expect improved revenue collection in the current FY 2017/18 and going forward. On the expenditure side, we aim to rationalize recurrent expenditures to promote prudent use of public resources and improve absorption of development expenditure so as to get value for money in the delivery of goods and services to the public.

In preparation of the FY 2018/19 budget, emphasis will be put on high priority and strategic service delivery programmes that will continue to build on the strong foundations set to continue Kenya's Economic Transformation Agenda. Ministries, Departments and Agencies (MDAs) will undertake a detailed assessment of the achievement in the implementation of the 2014/15 - 2016/17 Medium-Term Budget that will guide in prioritizing high impact programmes in the formulation of the 2018/19 – 2020/2021 Medium-term Budget. The assessment will entail analyzing the previous budgetary allocations, actual expenditure and achievement of actual outputs.

In this 2017 BROP, we have set the spending ceilings and will continue to implement the previously announced tax measures. The Government's fiscal stance takes account of risks associated with the macroeconomic outlook, budget execution and the projected resource envelope. I therefore, urge all 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.

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

Acknowledgement

The 2017 Budget Review and Outlook Paper (BROP), is prepared in accordance with the Public Finance Management (PFM) Act, 2012 and its regulations. The document provides actual fiscal performance of the FY 2016/2017 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 2016/2017 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 2017 Budget Policy Statement (BPS).

The preparation of the 2017 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 2016/17. 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 2018/19 budget.

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; Budget, Intergovernmental and Fiscal Relations, Resource Mobilization and Debt Policy, Pensions and Government Investment and Public Enterprises (GIPE). We are specifically grateful to the core team in the Macro and Fiscal Affairs 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 15th September 2017.

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
CG	County Government

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 Act, 2012 and its regulations. It presents the Budget performance for the FY 2016/17 and how the budget adhered to the fiscal responsibility principles and financial objectives sets out in the PFM Act, 2012. It further provides updated macro-economic and financial forecasts with sufficient information to show changes from the projections outlined in the 2017 Budget Policy Statement (BPS) and set out the broad fiscal parameters for the FY 2018/19 budget and the medium term.

Preliminary outcome for the FY 2016/17 indicate that the cumulative revenue collection including A-i-A was Ksh 1,400.6 billion. This revenue was Ksh 54.8 billion below the revised target of Ksh 1,455.4 billion due to shortfall in ordinary revenue collection (by Ksh.5.5 billion) in particular excise duty and corporate income tax and shortfall in the collection of cumulative ministerial A-i-A (by Ksh.49.2 billion). The total expenditure and net lending amounted to Ksh 2,110.0 billion, against a target of Ksh 2,327.0 billion. The shortfall of Ksh 217.0 billion was attributed to lower absorption recorded in both recurrent (Ksh.58.8 billion) and development expenditures by the National Government (Ksh.158.1 billion).

The fiscal deficit for the FY 2016/17, (on a commitment basis and excluding grants), was at Ksh 709.4 billion (equivalent to 9.2 percent of GDP) against a targeted deficit of Ksh 871.6 billion (equivalent to 11.7 percent of GDP). Including grants, the fiscal deficit stood at 8.9 percent of GDP against a targeted deficit of 10.9 percent of GDP.

The outcome of the FY 2016/17 budget adhered to the Fiscal Responsibility Principles and financial objectives set out in the PFM Act, 2012. These include: National Government development as a percent of total budget was 35.4 percent; share of National Government wages and benefits to National Government revenues was 30.2 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 2017/18 and the medium term is premised on the favourable macroeconomic environment that Kenya continues to enjoy despite the risks emanating from the uncertainty in the global financial market. 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 stability of the foreign exchange market. The Budget will also implement the third medium term plan of vision 2030 that is currently under preparation.

In the FY 2018/19, the revenue collection target including Appropriation-in-Aid (AiA) is Ksh 1,855.9 billion (18.6 percent of GDP) up from Ksh 1,634.1 billion (18.6 percent of GDP) in FY 2017/18. Ordinary revenues are projected at Ksh 1,690.5 billion (16.9 percent of GDP) in FY 2018/19 up from Ksh 1,477.1 billion (16.8 percent of GDP) in FY 2017/18. Overall expenditure and net lending is projected at Ksh 2,499.3 billion (25.0 percent of GDP) from the projected Ksh 2,384.7 billion (27.1 percent of GDP) in the FY 2017/18 reflecting the completion of Phase I of the SGR. Recurrent expenditures will amount to Ksh 1,486.5 billion (14.9 percent of GDP) while development expenditure is projected at Ksh 679.2 billion (6.8 percent of GDP).

Reflecting the projected expenditures and revenues, the fiscal balance excluding grants, is projected at Ksh 643.3 billion (equivalent to 6.4 percent of GDP) in the FY 2018/19. Including grants, in FY 2018/19 the overall fiscal balance is projected at Ksh 592.8 billion (5.9 percent of GDP) compared to the estimated overall fiscal balance of Ksh 643.2 billion (7.3 percent of

GDP) in FY 2017/18. Further, excluding expenditures related to the SGR, the deficit in the FY 2018/19 is projected at 5.4 percent of GDP lower than the 6.7 percent of GDP in FY 2017/18.

The fiscal deficit in FY 2018/19, will be financed by net external financing of Ksh 205.6 billion (2.1 percent of GDP), Ksh 383.0 billion (3.8 percent of GDP) net domestic borrowing, and other net receipts of Ksh 4.2 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 2017 Budget Review and Outlook Paper (BROP) is to provide a review of fiscal performance for the FY 2016/17 and how this performance impacts on the financial objectives and fiscal responsibility principles set out in the 2017 Budget Policy Statement (BPS). Further, the document provides highlights of recent economic developments and outlook and sector ceilings for the 2018/19 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 2018/19 and the medium term.

3. As required by the PFM Act, 2012, budget process aims to promote the efficient and effective use of resources, based on evidence and rational deliberation. To achieve this, the Government remains committed to a measured, prudent course of fiscal consolidation to narrow the budget deficit and stabilize debt.

4. In this context, the 2017 Budget Policy Statement (BPS) set out a series of macroeconomic policies, proposals to raise additional revenue and sustain core expenditure, improve value for money spent, stabilise the public finances, and contribute to economic growth and employment creation. As a result of the improved fiscal discipline and competent management of the economy, the macro-indicators for the FY 2017/18 are pointing in the right direction. The economy continues to register robust growth while macroeconomic stability is preserved.

5. To meet the current commitments as contained in the 2017/18 Budget, the Government proposed tax measures aimed at raising the tax revenue and providing incentives for industries to thrive and create employment opportunities.

6. However, the underperformance in both revenue collection and expenditure in the FY 2016/17 has implications on the financial objectives outlined in the 2017 BPS and the 2017/18 Budget. In particular, the baseline for projecting both the revenue and expenditures for the FY 2017/18 and the medium term has changed.

7. To remedy these deviations, the 2017 BROP details appropriate revisions taking into account the budget outturn for the FY 2016/17. In addition, the fiscal outlook contained in this BROP focuses 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 2017 BPS. Further, the National Treasury has issued guidelines on how capital projects should be planned, appraised and evaluated before funds are committed in the budget.

8. With this background, the rest of the paper is organized as follows: Section II provides a review of the fiscal performance for the FY 2016/17 and its implications on the financial objectives set out in the 2017 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 2016/17

A. Overview

9. The implementation of the budget for FY 2016/17 progressed well and picked up towards end of the fiscal year. However, both revenue collection and expenditures lagged behind their respective targets. Total revenues were Ksh 54.8 billion short of the revised target reflecting shortfalls in Appropriation in Aid (Ksh.49.2 billion), Corporate Income Tax (Ksh.17.4 billion), excise duty (Ksh.4.8 billion) and Import Declaration Fees (Ksh.1.7 billion). However, corporation tax recorded a significant over performance which aided in offsetting the overall total revenue under performance. Total expenditures fell short of the revised target by Ksh 217.0 billion occasioned by the lower absorption of both recurrent and development expenditures by the National Government.

10. Cumulative revenue collection including A-i-A by end of June 2017 was Ksh 1,400.6 billion or Ksh 54.8 billion below the revised target of Ksh 1,455.4 billion. Ministerial A-i-A, corporate income tax and 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 of June 2017 was Ksh 2,110.0 billion and was below the revised target of Ksh 2,327.0 billion by Ksh 217.0 billion.

11. As a result, the fiscal balance as at end of June 2017 (on a commitment basis and excluding grants) was Ksh 709.4 billion (equivalent to 9.2 percent of GDP) against a targeted deficit of Ksh 871.6 billion (equivalent to 11.7 percent of GDP). Inclusive of grants, the fiscal balance recorded a deficit of 8.9 percent of GDP against a budget deficit target of 10.9 percent of GDP.

B. FY 2016/17 Fiscal Performance

Performance of Revenues

12. By the end of June 2017, total cumulative revenue including A-i-A collected amounted to Ksh 1,400.6 billion against a revised target of Ksh 1,455.4 billion **(Table 1a)**. This represented a revenue shortfall of Ksh 54.8 billion (or 3.8 percent deviation from the revised target). Ordinary revenue collection amounted to Ksh 1,305.8 billion against the target of Ksh 1,311.3 billion.

13. Tax revenues were largely above the revised target in all the broad categories except the Excise duty which was below target by Ksh 4.8 billion, other income tax (Ksh 17.4 billion) and Other revenues (land rent, fines and forfeiture, miscellaneous revenues and others) (Ksh 4.3 billion). This collection represented a growth of 13.6 percent compared to the previous financial year FY 2015/16.

Table 1a: Government Revenue and External Grants, 2016/17 (Ksh Million)

	2015/16	2016/17		Deviation	% Deviation
	Actual	Target	Preliminary Actual		
	Ksh. Millions				
Total Revenue (a+b)	**1,232,644**	**1,455,355**	**1,400,578**	**(54,777)**	**(3.8)**
(a) Ordinary Revenue	**1,152,972**	**1,311,323**	**1,305,794**	**(5,529)**	**(0.4)**
Import Duty	79,188	89,220	89,943	723	0.8
Excise Duty	139,540	170,258	165,474	(4,784)	(2.8)
PAYE	313,356	318,047	336,596	18,549	5.8
Other Income Tax	247,406	305,825	288,454	(17,371)	(5.7)
VAT Domestic	160,389	194,185	194,234	48	0.0
VAT Imports	128,824	143,385	144,800	1,415	1.0
Investment Income	19,253	28,322	28,524	202	0.7
Import Declaration Fees	25,245	24,669	22,947	(1,723)	(7.0)
Others/ 1	39,771	37,412	34,822	(2,590)	(6.9)
(b) Appropriation in Aid (A-I-A)	**79,671**	**144,032**	**94,784**	**(49,248)**	**(34.2)**
o/w Railway Development Levy	17,273	18,530	18,903	373	2.0
External Grants	**29,597**	**58,784**	**26,312**	**(32,471)**	**(55.2)**
Total Revenue and External Grants	**1,262,240**	**1,514,139**	**1,426,890**	**(87,248)**	**(5.8)**
Total Revenue and External Grants as share of GDP	**18.8**	**20.4**	**18.5**		

1/ includes rent of buildings, fines and forfeitures, other taxes, reimbursements and other fund contributions, traffic revenue and miscellaneous revenue.
Source: National Treasury

14. During the FY2016/17, the Government received investment income in form of dividends, surplus funds and directors' fees of Ksh 28.9 billion against a revised target of Ksh 26.5 billion, resulting to a positive variance of Ksh 2.4 billion **(Table 1b)**. Government equity participation in strategic investment was Ksh. 3.6 billion in the same period.

Table 1b: Investment Income for the FY 2016/17 (Ksh Million)

Details	FY2016/17			Variance
	Printed Estimates	Revised Estimates	Actual	
Dividends	14,505.0	22,271.7	23,485.4	1,213.7
Surplus Funds	4,785.0	4,209.3	5,375.2	1,165.9
Directors Fees	25.4	26.0	18.3	-7.7
Total	**19,315.4**	**26,507.0**	**28,878.9**	**2,371.8**

15. The Railway Development Levy collection amounted to Ksh 18.9 billion against a target of Ksh 18.5 billion. Cumulative ministerial A-i-A recorded an under performance in the year due to the persistent problem of under reporting especially by the spending units.

16. Similarly, external grants amounted to Ksh 26.3 billion against a target of Ksh 58.8 billion, representing an under performance of Ksh 32.5 billion. Of these external grants, programme grants (AMISOM reimbursements) amounted to Ksh 6.8 billion against a target of Ksh 6.4 billion.

17. As a proportion of GDP, the total cumulative revenue and grants in the FY 2016/17 amounted to 18.5 percent which is lower than 18.8 percent recorded in the FY 2015/16.

Expenditure Performance

18. Total expenditure and net lending in the FY 2016/17, amounted to Ksh 2,110.0 billion against a target of Ksh 2,326.9 billion, representing an under spending of Ksh 216.9 billion (or 9.3 percent deviation from the revised budget) **(Table 2).** This shortfall was attributed to lower absorption in both recurrent and development expenditures by the national government.

19. The National Government's recurrent expenditure (exclusive of Judiciary & Parliament) amounted to Ksh 1,142.4 billion against a target of Ksh 1,197.5 billion, representing an under-spending of Ksh 55.1 billion (or 4.6 percent deviation from the approved recurrent expenditure). The under-spending was in respect of operations and maintenance (Ksh 75.5 billion), wages and salaries (Ksh 4.5 billion), as well as pensions and other contribution funds (Ksh 2.2billion). The lag between spending at the sub-county level and reporting to the headquarters continue in part to contribute to the apparent expenditure underperformance.

20. Expenditure on domestic interest payments was above the target by Ksh 31.1 billion while foreign interest was below target by Ksh 4.0 billion. Foreign interest payments amounted to Ksh 58.4 billion, compared to Ksh 42.5 billion in the same period of the FY 2015/16. The domestic interest payments was Ksh 212.9 billion, higher than Ksh 172.9 billion paid in the corresponding period of the previous financial year.

21. Ministerial appropriation-in-aid in recurrent expenditure recorded an under spending of Ksh 25.6 billion.

Table 2: Expenditure and Net Lending, Ksh Million

	2015/16	2016/17		Deviation	
	Actual	Target	Preliminary Actual		% Deviation
	Ksh. Millions				
1. Recurrent Expenditure	**1,027,543**	**1,238,337**	**1,179,497**	**(58,840)**	**(4.8)**
Domestic Interest	172,857	181,789	212,865	31,076	17.1
Foreign Interest due	42,471	62,387	58,368	(4,020)	(6.4)
Pensions & Other CFS	53,401	65,091	63,958	(1,133)	(1.7)
Wages & Salaries	307,421	341,155	336,636	(4,519)	(1.3)
Defense and NSIS	113,666	129,914	130,194	280	0.2
Others	337,726	458,000	377,477	(80,523)	(17.6)
o/w Appropriation in Aid	58,601	88,457	62,842	(25,614)	(29.0)
2. Development	**478,964**	**797,857**	**639,771**	**(158,086)**	**(19.8)**
Domestically Financed	301,276	430,295	389,613	(40,682)	(9.5)
Foreign Financed	175,521	365,236	247,714	(117,522)	(32.2)
Net Lending	2,167	2,326	2,443	117	5.0
3. County Allocation	264,039	284,722	284,708	(14)	(0.0)
4. Equalization Fund	6,400	6,000	6,000	-	-
5. Contingency Fund	5,000	-	-	-	-
TOTAL EXPENDITURE AND NET LENDING	**1,781,945**	**2,326,916**	**2,109,976**	**(216,940)**	**(9.3)**

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

Actual for 2016/17 higher that the reported figures in the Q4 2017 QEBR by Ksh 1 billion due to the figure for Pensions

Source: National Treasury

22. Development expenditures were below target by Ksh 158.1 billion on account of lower than programmed absorption by MDAs of domestically financed programmes by Ksh 40.7 billion and lower than programmed execution of externally funded programmes by Ksh 117.5 billion.

Ministerial Expenditure

23. The total cumulative ministerial and other public agencies expenditure was Ksh 1,466.8 billion (84.8 percent absorption) against a target of Ksh 1,730.5 billion. Recurrent expenditure was Ksh 844.3 billion (90.9 percent absorption) against a target of Ksh 929.1 billion, while development expenditure was Ksh 622.5 billion (77.7 percent absorption) against a target of Ksh 801.4 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.

24. As at the end of period ending 30th June 2017, expenditures by the Ministry of Education, Science and Technology; Teachers Service Commission and Ministry of Health (Social Sector) accounted for 35.8 percent of total recurrent expenditure, while the State Department for Interior and Ministry of Defence accounted for 10.9 percent and 12.0 percent respectively.

25. Analysis of development outlay indicates that the Department of Transport accounted for the largest share of the total development expenditures (23.9 percent), followed by the Department of Infrastructure (17.3 percent), Ministry of Energy and Petroleum (12.8 percent) and State Department of Planning and Statistics (4.8 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 2016/17 are provided in **Table 3**.

Table 3: Ministerial Expenditures, Period Ending 30th June, 2017 (Ksh Millions)

	MINISTRY/DEPARTMENT/COMMISSIONS	Jun-17 Reccurent		Variance	Jun-17 Development		Variance	Jun-17 Total		Variance	% total expenditure to total target
		Actual*	Target		Actual*	Target		Actual*	Target		
1011	The Presidency	9,954	10,476	(522)	254	471	(217)	10,207	10,946	(739)	93.2
1021	State Department for Interior	92,091	107,603	(15,512)	24,630	27,434	(2,804)	116,722	135,037	(18,315)	86.4
1023	State Department for Correctional Services	17,094	20,227	(3,133)	254	525	(271)	17,348	20,752	(3,403)	83.6
1032	State Department for Devolution	779	794	(16)	394	1,065	(671)	1,172	1,859	(687)	63.1
1033	State Department for Special Programmes	8,823	8,331	491	6,289	7,460	(1,171)	15,111	15,791	(680)	95.7
1034	State Department for Planning and Statistics	5,671	5,385	286	29,696	31,192	(1,496)	35,367	36,577	(1,210)	96.7
1041	Ministry of Defence	101,148	101,150	(2)	-	25	(25)	101,148	101,175	(27)	100.0
1052	Ministry of Foreign Affairs	10,826	18,120	(7,294)	159	2,750	(2,591)	10,985	20,870	(9,884)	52.6
1063	State Department for Basic Education	54,842	58,134	(3,292)	8,196	13,304	(5,108)	63,038	71,438	(8,400)	88.2
1064	State Department for Vocational And Technical Training	2,446	2,529	(83)	5,427	5,889	(461)	7,874	8,418	(544)	93.5
1065	State Department for University Education	54,282	63,594	(9,313)	9,380	9,966	(586)	63,662	73,560	(9,898)	86.5
1071	The National Treasury	35,343	37,528	(2,185)	21,472	36,105	(14,633)	56,815	73,633	(16,818)	77.2
1081	Ministry of Health	29,806	35,737	(5,931)	26,791	35,697	(8,906)	56,597	71,434	(14,837)	79.2
1091	State Department for Infrastructure	38,760	49,946	(11,186)	107,821	168,322	(60,502)	146,581	218,268	(71,687)	67.2
1092	State Department for Transport	1,511	5,825	(4,314)	148,836	163,305	(14,469)	150,347	169,131	(18,783)	88.9
1093	State Department for Marine time Affairs	241	254	(13)	-	-	-	241	254	(13)	94.9
1094	State Department for Housing & Urban Development	2,324	1,318	1,006	14,015	16,211	(2,196)	16,339	17,529	(1,190)	93.2
1095	State Department for Public Works	753	776	(23)	999	1,169	(169)	1,752	1,944	(192)	90.1
1103	State Department for Water Services	2,305	4,687	(2,382)	33,441	44,205	(10,764)	35,745	48,892	(13,147)	73.1
1104	State Department for Irrigation	470	869	(400)	8,634	11,911	(3,276)	9,104	12,780	(3,676)	71.2
1105	State Department of Environment	2,778	3,669	(891)	1,557	2,621	(1,064)	4,335	6,290	(1,956)	68.9
1106	State Department for Natural Resources	6,400	12,563	(6,163)	1,537	1,957	(420)	7,937	14,520	(6,583)	54.7
1112	Ministry of Lands and Physical Planning	2,118	2,260	(142)	2,945	3,368	(423)	5,062	5,627	(565)	90.0
1122	State Department for Information Communication and Technology & Innovation	1,045	1,146	(101)	25,283	27,235	(1,952)	26,328	28,381	(2,052)	92.8
1123	State Department for Broadcasting & Telecommunications	3,103	3,305	(202)	329	329	(0)	3,432	3,634	(202)	94.4
1132	State Department for Sports Development	3,564	3,560	4	2,010	2,011	(0)	5,574	5,571	4	100.1
1133	State Department For Arts And Culture	2,887	2,925	(38)	488	496	(8)	3,375	3,421	(46)	98.7
1152	State Department of Energy	2,022	2,083	(61)	79,568	109,343	(29,774)	81,590	111,426	(29,836)	73.2
1153	State Department of Petroleum	182	203	(21)	1,470	2,870	(1,400)	1,652	3,073	(1,421)	53.8
1161	State Department for Agriculture	11,532	11,618	(86)	9,583	11,458	(1,874)	21,116	23,076	(1,960)	91.5
1162	State Department for Livestock	5,677	6,035	(358)	2,963	9,126	(6,162)	8,640	15,161	(6,521)	57.0
1164	State Department for Fisheries and The Blue Economy	1,796	1,835	(39)	2,707	2,738	(31)	4,503	4,573	(70)	98.5
1172	State Department for Investment and Industry	2,721	2,858	(137)	3,384	3,250	134	6,106	6,108	(2)	100.0
1173	State Department for Cooperatives	3,092	3,159	(68)	530	530	(0)	3,621	3,689	(68)	98.2
1174	State Department for Trade	3,414	3,499	(86)	119	123	(4)	3,532	3,622	(89)	97.5
1183	State Department for East African Integration	1,506	1,512	(6)	16	40	(24)	1,522	1,552	(30)	98.1
1184	State Department for Labour	1,366	1,529	(163)	382	419	(36)	1,748	1,947	(199)	89.8
1185	State Department for Social Protection	6,909	8,009	(1,100)	13,665	14,459	(794)	20,574	22,468	(1,894)	91.6
1191	Ministry of Mining	643	900	(257)	1,252	1,331	(79)	1,894	2,231	(336)	84.9
1201	Ministry of Tourism	1,438	2,453	(1,015)	3,247	3,592	(345)	4,686	6,045	(1,360)	77.5
1211	State Department of Public Service and Youth Affairs	13,077	14,368	(1,291)	14,173	14,757	(583)	27,251	29,125	(1,874)	93.6
1212	State Department for Gender	699	777	(77)	3,430	3,442	(12)	4,129	4,219	(90)	97.9
1252	State Law Office and Department of Justice	3,936	4,645	(709)	60	239	(179)	3,996	4,884	(888)	81.8
1261	The Judiciary	11,428	12,956	(1,528)	2,632	4,153	(1,521)	14,060	17,109	(3,049)	82.2
1271	Ethics and Anti-Corruption Commission	3,180	3,230	(50)	250	250	-	3,430	3,480	(50)	98.6
1281	National Intelligence Service	29,046	29,064	(18)	-	-	-	29,046	29,064	(18)	99.9
1291	Directorate of Public Prosecutions	1,480	2,114	(634)	12	99	(86)	1,492	2,213	(721)	67.4
1311	Registrar of Political Parties	674	827	(153)	-	-	-	674	827	(153)	81.5
1321	Witness Protection Agency	320	388	(68)	-	-	-	320	388	(68)	82.5
2011	Kenya National Commission on Human Rights	419	421	(2)	-	-	-	419	421	(2)	99.6
2021	National Land Commission	1,256	1,267	(12)	103	103	(0)	1,359	1,371	(12)	99.1
2031	Independent Electoral and Boundaries Commission	21,313	23,066	(1,753)	-	552	(552)	21,313	23,617	(2,304)	90.2
2041	Parliamentary Service Commission	8,474	10,486	(2,012)	1,880	3,150	(1,270)	10,354	13,636	(3,282)	75.9
2042	National Assembly	15,740	16,948	(1,208)	-	-	-	15,740	16,948	(1,208)	92.9
2051	Judicial Service Commission	418	450	(32)	-	-	-	418	450	(32)	92.9
2061	Commission on Revenue Allocation	318	357	(39)	-	-	-	318	357	(39)	89.2
2071	Public Service Commission	1,225	1,229	(3)	38	39	(1)	1,264	1,268	(4)	99.7
2081	Salaries and Remuneration Commission	536	556	(20)	-	-	-	536	556	(20)	96.4
2091	Teachers Service Commission	190,925	191,020	(95)	6	100	(94)	190,931	191,120	(189)	99.9
2101	National Police Service Commission	428	435	(7)	-	-	-	428	435	(7)	98.3
2111	Auditor General	4,122	4,253	(131)	144	176	(32)	4,266	4,429	(163)	96.3
2121	Controller of Budget	498	521	(23)	-	-	-	498	521	(23)	95.6
2131	The Commission on Administrative Justice	419	449	(30)	-	-	-	419	449	(30)	93.3
2141	National Gender and Equality Commission	378	387	(9)	-	18	(18)	378	405	(27)	93.4
2151	Independent Policing Oversight Authority	336	485	(149)	-	-	-	336	485	(149)	69.4
	Total	844,307	929,102	(84,795)	622,455	801,377	(178,921)	1,466,762	1,730,479	(263,717)	84.8

Source: National Treasury

Overall Balance and Financing

26. Reflecting the performance in revenue and expenditure, fiscal balance (on a commitment basis and excluding grants), amounted to a deficit of Ksh 709.4 billion (equivalent to 9.2 percent of GDP) that was lower than the budget of Ksh 871.6 billion (equivalent to 11.7 percent of GDP) **(Table 4)**. Including grants, the deficit (on a cash basis) for the FY 2016/17 at 8.9 percent of GDP was lower than the budget of 10.9 percent of GDP while excluding expenditures related to SGR the deficit was 7.4 percent of GDP.

Table 4: Budget Outturn for the FY 2016/17

	FY 2015/16	FY 2016/17		FY 2016/17		FY 2015/16	FY 2016/17		FY 2016/17
	Actual	Actual*	Target	Deviation	% growth	Actual	Actual*	Target	Deviation
	Ksh. Millions					% share of GDP			
A. TOTAL REVENUE AND GRANTS	**1,262,240**	**1,426,890**	**1,514,139**	**(87,248)**	**13.0**	**18.8**	**18.5**	**20.4**	**(1.2)**
1. Revenue	**1,232,644**	**1,400,578**	**1,455,355**	**(54,777)**	**13.6**	**18.4**	**18.2**	**19.6**	**(0.7)**
Ordinary revenue	1,152,972	1,305,794	1,311,323	(5,529)	13.3	17.2	16.9	17.6	(0.1)
Import Duty	79,188	89,943	89,220	723	13.6	1.2	1.2	1.2	0.0
Excise Duty	139,540	165,474	170,258	(4,784)	18.6	2.1	2.1	2.3	(0.1)
Income Tax	560,762	625,050	623,872	1,178	11.5	8.4	8.1	8.4	0.0
VAT	289,213	339,034	337,570	1,464	17.2	4.3	4.4	4.5	0.0
Investment Income - Others	19,253	28,524	28,322	202	48.2	0.3	0.4	0.4	0.0
Others	65,016	57,769	62,081	(4,312)	(11.1)	1.0	0.7	0.8	(0.1)
Appropriation in Aid	79,671	94,784	144,032	(49,248)	19.0	1.2	1.2	1.9	(0.7)
2. GRANTS	**29,597**	**26,312**	**58,784**	**(32,471)**	**(11.1)**	**0.4**	**0.3**	**0.8**	**(0.4)**
AMISOM Receipts	4,293	6,787	6,440	347	58.1	0.1	0.1	0.1	0.0
Projects Grants(Revenue)	7,866	9,485	18,745	(9,260)	20.6	0.1	0.1	0.3	(0.1)
Projects Grants(AIA)	16,275	9,632	32,677	(23,045)	(40.8)	0.2	0.1	0.4	(0.3)
Italian Debt Swap	499	-	500	(500)	(100.0)	0.0	-	0.0	(0.0)
County Health Facilities - DANIDA	664	408	422	(14)	(38.5)	0.0	0.0	0.0	(0.0)
B. TOTAL EXPENDITURE AND NET LENDING	**1,781,945**	**2,109,976**	**2,326,916**	**(216,940)**	**18.4**	**26.6**	**27.4**	**31.3**	**(2.9)**
						-	-	-	-
1. Recurrent	**1,027,543**	**1,179,497**	**1,238,337**	**(58,840)**	**14.8**	**15.3**	**15.3**	**16.7**	**(0.8)**
Domestic Interest	172,857	212,865	181,789	31,076	23.1	2.6	2.8	2.4	0.4
Foreign Interest	42,471	58,368	62,387	(4,020)	37.4	0.6	0.8	0.8	(0.1)
Pensions & Other CFS	53,401	63,958	65,091	(1,133)	19.8	0.8	0.8	0.9	(0.0)
Wages & Salaries	307,421	336,636	341,155	(4,519)	9.5	4.6	4.4	4.6	(0.1)
Defense and NSIS	113,666	130,194	129,914	280	14.5	1.7	1.7	1.7	0.0
O&M/Others	337,726	377,477	458,000	(80,523)	11.8	5.0	4.9	6.2	(1.1)
2. Development and Net Lending	**478,964**	**639,771**	**797,857**	**(158,086)**	**33.6**	**7.1**	**8.3**	**10.7**	**(2.1)**
3. Equalization Fund	6,400	6,000	6,000	-	(6.3)	0.1	0.1	0.1	-
4. County Governments' Allocation	264,039	284,708	284,722	(14)	7.8	3.9	3.7	3.8	(0.0)
5. Contingencies Fund	5,000	-	-	-	(100.0)	0.1	-	-	-
C. DEFICIT EXCL. OF GRANTS (Commitment basis)	**(549,301)**	**(709,398)**	**(871,562)**	**162,163**	**29.1**	**(8.2)**	**(9.2)**	**(11.7)**	**2.2**
D. DEFICIT INCL. OF GRANTS (Commitment basis)	**(519,705)**	**(683,086)**	**(812,778)**	**129,692**	**31.4**	**(7.7)**	**(8.9)**	**(10.9)**	**1.7**
E. Adjustments to cash basis	22,387	0	0	-	**(100.0)**	**0.3**	-	-	-
F. DEFICIT INCL. OF GRANTS (Cash basis)	**(497,318)**	**(683,086)**	**(812,778)**	**129,692**	**37.4**	**(7.4)**	**(8.9)**	**(10.9)**	**1.7**
G. TOTAL FINANCING	**474,570**	**697,255**	**812,778**	**(115,523)**	**46.9**	**7.1**	**9.0**	**10.9**	**(1.6)**
Net Foreign Financing	269,924	385,745	463,850	(78,106)	42.9	4.0	5.0	6.2	(1.1)
Disbusements	304,986	421,667	507,472	(85,805)	38.3	4.5	5.5	6.8	(1.2)
Commercial Financing	145,031	186,303	186,303	-	28.5	2.2	2.4	2.5	-
Project Loans AIA	55,369	86,322	146,832	(60,510)	55.9	0.8	1.1	2.0	(0.8)
Project Loans Revenue	43,654	30,908	42,340	(11,432)	(29.2)	0.7	0.4	0.6	(0.2)
Project Loans SGR _ AIA	52,357	111,367	124,643	(13,275)	112.7	0.8	1.4	1.7	(0.2)
Programme Loans	8,574	6,767	7,355	(588)	(21.1)	0.1	0.1	0.1	(0.0)
Debt repayment - Principal	(35,062)	(35,922)	(43,622)	7,699	2.5	(0.5)	(0.5)	(0.6)	0.1
Other Domestic Financing	2,389	1,751	2,114	(363)	(26.7)	0.0	0.0	0.0	(0.0)
NET DOMESTIC FINANCING	**202,257**	**309,760**	**346,814**	**(37,054)**	**53.2**	**3.0**	**4.0**	**4.7**	**(0.5)**
Nominal GDP (Fiscal Year)	**6,709,671**	**7,710,947**	**7,435,211**	**7,435,211**	**14.9**	**100.0**	**100.0**	**100.0**	**100.0**

Source: National Treasury

/1Equalization Fund expenditures represent actual disbursements to the Fund

Actual for 2016/17 higher that the reported figures in the Q4 2017 QEBR by Ksh 1 billion due to the figure for Pensions

27. The deficit incurred at the end of June 2017 was financed through net external financing equivalent to Ksh 385.7 billion against a target of Ksh 463.9 billion, net domestic financing of Ksh 309.8 billion against a target of Ksh 346.8 billion and domestic loan redemption receipts of Ksh 1.8 billion.

28. Total disbursements (inflows) including Appropriations-in-Aid amounted to Ksh 421.7 billion in the FY 2016/17 against a target of Ksh 507.5 billion. This amount included: Ksh 30.9 billion project loans revenues; Ksh 86.3 billion project loans (A.I.A); Ksh 6.8 billion programme loans; Ksh 111.4 billion project loans for SGR; and Ksh 186.3 billion commercial financing.

C. Fiscal Performance for the FY 2016/17 in Relation to Financial Objectives

29. The fiscal performance in the FY 2016/17 has affected the financial objectives set out in the 2017 BPS and the Budget for FY 2017/18 in the following ways:

i. The base for ordinary revenue projections is higher than the actual outcome by about Ksh. 5.5 billion; as such there will be a downward base effect adjustment in ordinary revenues for FY 2017/18 and the medium term. This adjustment in revenues is expected to translate to a mix of downward adjustment in expenditure projections and upward adjustment in financing for the FY 2017/18. 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 2017/18;

ii. The baseline ceilings for spending agencies will be adjusted in line with the revised resource envelope under the updated macroeconomic framework in the 2018 Budget Policy Statement. In addition the revisions will take into account the performance in project execution in the FY 2017/18 budget by MDAs and any identified one-off expenditures; and,

iii. The under-spending in both recurrent and development budget for the FY 2016/17 additionally has implications on the base used to project expenditures in the FY 2017/18 and the medium term. Appropriate revisions have been undertaken in the context of this BROP, taking into account the budget outturn for the FY 2016/17.

30. 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 2016/17.

31. 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 2017 BPS. Further, the National Treasury has issued guidelines on how capital projects should be planned, appraised and evaluated before funds are committed in the budget. Resources will be allocated to the capital projects which will have been fully processed to avoid delay in implementation. Further, this projects will have been evaluated in the context of their importance in line with the medium and long term development agenda; their impact on poverty; promotion of growth and job creation; and the viability and sustainability of the project.

D. Fiscal Responsibility Principles

32. 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:

33. The National Government's development expenditure as a percent of total budget was 35.4 percent in FY 2016/17 and is set to remain above the 30 percent minimum threshold set out in the PFM law over the medium term **(Table 5).**

Table 5: Revenues and Expenditures (Ksh Billion)

	FY 2015/16	FY 2016/17		FY 2017/18		FY 2018/19		FY 2019/20		FY 2020/21
Ksh. billions	Actual	Revised Budget	Prel. Actual	Budget	BROP'17	BROP'17	BPS'17	BROP'17	BPS'17	BROP'17
1.0 Total Expenditure & Net Lending	1,781.9	2,326.9	2,110.0	2,298.8	2,384.9	2,499.3	2,428.5	2,717.8	2,642.3	3,082.1
1.1 Total National Govt Expenses	1,512.9	2,042.2	1,825.3	1,987.6	2,073.7	2,165.8	2,095.0	2,357.9	2,282.5	2,694.4
Total Recurrent	1,027.5	1,238.3	1,179.5	1,347.3	1,442.6	1,486.5	1,385.9	1,630.6	1,504.5	1,820.9
CFS (Interest & Pensions)	268.7	309.3	335.2	356.9	398.1	431.5	382.0	493.4	423.4	555.8
Total Ministerial Recurrent	758.8	929.1	844.3	990.4	1,044.4	1,055.0	1,004.0	1,137.2	1,081.0	1,265.1
o/w Wages & Salaries	307.4	341.2	336.6	383.0	395.7	421.4	457.5	441.7	480.4	464.1
Wages as % National Government Revenues/1	***31.7%***	***29.1%***	***30.2%***	***27.4%***	***29.8%***	***27.6%***	***29.1%***	***25.2%***	***26.7%***	***23.2%***
Development	485.4	803.9	645.8	640.3	631.2	679.2	709.0	727.4	778.0	873.4
Development as % NG expenditures	***32.1%***	***39.4%***	***35.4%***	***32.2%***	***30.4%***	***31.4%***	***33.8%***	***30.8%***	***34.1%***	***32.4%***
Domestic	309.8	438.6	398.1	383.5	352.0	402.9	423.2	424.6	445.5	477.5
External	175.5	365.2	247.7	256.8	279.2	276.3	285.8	302.8	332.5	396.0
Contingencies	5.0	-	-	5.0	5.0	5.0	5.0	5.0	5.0	5.0
1.2 County Allocation	264.0	284.7	284.7	306.2	306.2	328.5	328.5	354.9	354.9	382.7
2.0 Total Revenues	1,232.6	1,455.4	1,400.6	1,704.5	1,634.1	1,855.9	1,903.1	2,110.1	2,157.5	2,385.9
3.0 Total National Government Revenues (Incl. A-I-A)	968.6	1,170.6	1,115.9	1,398.3	1,327.9	1,527.4	1,574.6	1,755.2	1,802.6	2,003.2
4.0 National Government Domestic Borrowing (net)	202.3	346.8	309.8	275.7	410.2	383.0	340.1	336.9	209.0	356.5
of which Sovereign Bond Proceeds	-	-	-	-	-	-	-	-	-	-
Others	202.3	346.8	309.8	275.7	410.2	383.0	340.1	336.9	209.0	356.5

Source: National Treasury

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

34. 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 30.2 percent in the FY 2016/17, and is projected at 28.9 percent in the FY 2017/18, declining to 23.2 percent by FY 2020/21.

35. The fiscal principle of ensuring the national government's borrowing is used only for financing development expenditures continues to be adhered to. The Medium Term Debt Strategy and other policy documents spells out the purposes of external and domestic financing.

The resources mobilized through borrowing during the fiscal year 2016/17 were strictly used to finance infrastructure projects as defined in the development estimates of the budget.

36. The Government is required to maintain public debt at a sustainable level as approved by Parliament (for National Government) and County Assemblies (for County Governments) in the PFM Act regulations 2015. The debt ratios remained within sustainable levels for a country rated as a strong performer and in comparison to internationally recognized thresholds**, (Table 6)**. The baseline public debt path remains consistent with the EAC convergence criteria (deficit and debt) and below the relevant public debt benchmark. The public debt sustainability indicators illustrates that Kenya continues to face a low risk of debt distress as it remains below the threshold of 74 percent of GDP in net present terms. This is attributed to the high level of concessionality of current external debt and a positive outlook in macroeconomic indicators.

Table 6: Kenya's Public Debt Sustainability Indicators (in per cent)

Indicator	Threshold	2016	2017	2019	2021	2026
PV of public sector debt to GDP ratio	74	48.7	49.0	48.6	43.2	35.6
PV of public sector debt-to-revenue ratio	300	247.2	235.7	226.6	201.4	161.4
Debt service-to-revenue and grants ratio	30	32.0	34.8	29.6	26.5	23.7

Source: National Treasury and IMF Staff Report for Kenya, February 2017

37. 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 cushion the economy from unforeseeable shocks.

38. 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 modernizing and simplifying tax laws. In order to lock in predictability and enhance compliance with tax system, the government through the Finance Act, 2016, amended the income Tax Act, Excise Duty Act, VAT Act and the Tax Procedure Act. In addition, the Miscellaneous Fees and Levies Act, 2016 was also passed.

39. The National Government fiscal projections **(Table 7)** provide comparisons between the updated projections in the BROP 2017 and the 2017 BPS for the financial year 2018/19 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 2018 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 2017/18-2020/21

	FY 2014/1	FY 2015/1	FY 2016/17		FY 2017/18		FY 2018/19		FY 2019/20		FY 2020/21
	Actual	*Actual*	*Prel Actual*	*Rev. Budget*	*Budget*	*BROP' 17*	*BROP 17*	*BPS 17*	*BROP 17*	*BPS 17*	*BROP 17*
TOTAL REVENUE	1,107.8	1,232.6	1,400.6	1,455.4	1,704.5	1,634.1	1,855.9	1,903.1	2,110.1	2,157.5	2,385.9
Total Revenue as a % of GDP	***19.1***	***18.4***	***18.2***	***19.6***	***19.6***	***18.6***	***18.6***	***20.6***	***18.6***	***21.5***	***18.8***
Ordinary revenue	1,031.82	1,152.97	1,305.79	1,311.32	1,549.37	1,477.13	1,690.48	1,767.03	1,933.06	2,013.48	2,198.77
Ordinary Revenue as a % of GDP	***17.8***	***17.2***	***16.9***	***17.6***	***17.8***	***16.8***	***16.9***	***19.1***	***17.1***	***20.1***	***17.4***
Tax Revenue	958.19	1,068.70	1,219.50	1,220.92	1,448.90	1,393.88	1,598.04	1,651.22	1,829.96	1,885.23	2,084.72
Non-Tax Revenue	73.6	84.3	86.3	90.4	100.5	83.2	92.4	115.8	103.1	128.2	114.1
AIA	76.0	79.7	94.8	144.0	155.1	156.9	165.5	136.1	177.0	144.0	187.2
Expenditure	1,640.02	1,781.95	2,109.98	2,326.92	2,298.78	2,384.93	2,499.27	2,428.46	2,717.82	2,642.34	3,082.11
Expenditure as a % of GDP	***28.2***	***26.6***	***27.4***	***31.3***	***26.5***	***27.1***	***25.0***	***26.2***	***24.0***	***26.4***	***24.3***
Recurrent	895.2	1,027.5	1,179.5	1,238.3	1,347.3	1,442.6	1,486.5	1,385.9	1,630.6	1,504.5	1,820.9
Development	510.5	485.4	645.8	803.9	640.3	631.2	679.2	709.0	727.4	778.0	873.4
Equalization Fund	0.4	6.4	6.0	6.0	7.7	7.7	8.5	8.8	9.7	10.1	11.0
County Transfer	229.3	264.0	284.7	284.7	306.2	306.2	328.5	328.5	354.9	354.9	382.7
Contingencies	5.0	5.0	0.0	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Budget Balance (Deficit (-) excl Grants	-532.3	-549.3	-709.4	-871.6	-594.3	-750.9	-643.3	-525.3	-607.8	-484.9	-696.2
Deficit as % of GDP	***-9.2***	***-8.2***	***-9.2***	***-11.7***	***-6.8***	***-8.5***	***-6.4***	***-5.7***	***-5.4***	***-4.8***	***-5.5***
Grants	28.1	29.6	26.3	58.8	58.8	59.6	50.5	60.5	51.6	81.4	51.4
Balance Incl.Grants	-504.1	-519.7	-683.1	-812.8	-535.5	-691.2	-592.8	-464.8	-556.1	-403.5	-644.7
Deficit as % of GDP	***-8.7***	***-7.7***	***-8.9***	***-10.9***	***-6.2***	***-7.9***	***-5.9***	***-5.0***	***-4.9***	***-4.0***	***-5.1***
Net Foreign Financing	217.5	269.9	385.7	463.9	256.0	277.3	205.6	130.5	224.9	200.2	289.3
Domestic Loan Repayments (receipts)	2.9	2.4	1.8	2.1	3.8	3.8	4.2	4.2	4.3	4.3	4.5
Sovereign Bond Proceeds	140.5	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic Borrowing	251.1	202.3	309.8	346.8	275.7	410.2	383.0	340.1	336.9	209.0	356.5
Domestic Borrowing % of GDP	***4.3***	***3.0***	***4.0***	***4.7***	***3.2***	***4.7***	***3.8***	***3.7***	***3.0***	***2.1***	***2.8***
Public Debt (net Deposits)	2,601.4	3,210.8	3,972.5	3,972.5	4,504.2	5,191.6	5,780.2	6,250.8	6,812.7	7,221.8	7,867.7
Public Debt to GDP (net Deposits)	***44.8***	***47.9***	***51.5***	***53.4***	***51.8***	***59.0***	***57.8***	***67.5***	***60.2***	***72.1***	***62.1***
Nominal GDP (Ksh. billion)	5,811.2	6,709.7	7,710.9	7,435.2	8,689.9	8,804.9	9,997.7	9,258.8	11,314.0	10,021.8	12,670.7

40. The broad development policies of the Government provide a clear and progressive approach to stimulate inclusive growth. We shall focus on the following priorities so as to help strengthen resilience and support sustained growth that opens economic opportunities and provides a better future for all Kenyans:

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. Create 1.3 million jobs every year and work with county governments to establish at least one industry in every county.
iii. On education; establish a government sponsored apprenticeship programme for all university and TVET graduates and expand the free primary school programme to include free day public secondary schools in Kenya.
iv. Double the numbers of vulnerable citizens supported through the cash transfer programme and expand free maternity care to include government funded NHIF cover for every expectant mother for one year.
v. Facilitate mass housing production of at least 500,000 affordable homes in 5 years across the country.
vi. Ensure every citizen is connected to reliable and affordable electricity (on or off-grid) by 2020.
vii. Expand food and agricultural production, and increase the fertilizer subsidy initiative to reduce cost to farmers and complete the 57-large-scale dam construction programme, support small-holder agricultural irrigation
viii. Make government more transparent and accountable through the digitisation of all government procurement.

E. County Governments' Fiscal Performance

41. In FY 2016/17, County Governments received Ksh 304.2 billion in form of funds transfer from the National Government **(Table 8).** Of these transfers, Ksh 280.3 billion comprised of the Counties' equitable share of revenue raised nationally. The rest of the transfers were:

i. Conditional allocations that are part of shareable revenue (Ksh 13.7 billion);
ii. Additional conditional allocations that are not part of shareable revenue (Ksh 5.3 billion);
iii. County medical personnel allowances that were part of a negotiated settlement to trade disputes (Ksh 4.8 billion); and,
iv. Coffee cess collected by the Kenya Roads Board and disbursed to Counties from which it was generated (Ksh 107 million).

42. These transfers bring cumulative disbursements to County Governments since their establishment to more than Ksh 1 trillion, of which Ksh 957 billion or 95 percent is the equitable share of revenue.

Table 8: Transfers to County Governments in 2016/17 (Ksh millions)

County	Equitable Share Transfer	Conditional Allocations									Total
		Level Five Hospital	Free Maternal Healthcare	Foregone User Fees Compensation	Managed Equipment Services Project	Emergency Medical Service Grant	Road Maintenance Levy Fund	HSPS III (Danida)	KHSSP-HSSF (World Bank)	Other Conditional Transfers*	
Baringo	4,791.4	-	61.8	13.4	95.7	-	73.6	13.0	77.8	107.3	**5,234.0**
Bomet	5,078.8	-	84.7	14.2	95.7	-	78.0	8.8	-	48.1	**5,408.3**
Bungoma	8,282.2	-	186.9	33.3	95.7	-	127.3	7.4	-	143.6	**8,876.4**
Busia	5,870.1	-	82.7	17.3	95.7	-	90.2	6.5	-	94.0	**6,256.6**
E/Marakwet	3,528.8	-	45.9	9.0	95.7	-	54.2	10.4	-	79.8	**3,823.9**
Embu	4,141.2	286.7	48.9	10.8	95.7	-	63.6	6.9	-	118.1	**4,771.9**
Garissa	6,227.7	328.3	56.2	13.1	95.7	-	95.7	9.0	-	85.4	**6,911.2**
Homa Bay	6,080.2	-	121.3	22.6	95.7	-	93.4	12.4	-	90.9	**6,516.6**
Isiolo	3,298.1	-	20.2	3.5	95.7	-	50.7	4.0	22.2	43.4	**3,537.8**
Kajiado	4,761.3	-	56.3	16.3	95.7	-	73.2	8.9	95.4	108.1	**5,215.3**
Kakamega	9,612.1	406.9	205.6	38.6	95.7	-	147.7	11.8	-	185.2	**10,703.6**
Kericho	4,861.0	-	94.1	18.3	95.7	-	74.7	10.0	-	99.0	**5,252.8**
Kiambu	8,053.3	393.1	270.8	35.8	95.7	-	123.7	9.6	-	282.2	**9,264.2**
Kilifi	8,029.2	-	147.3	26.4	95.7	-	123.4	7.8	-	134.2	**8,564.0**
Kirinyaga	3,817.8	-	45.6	11.6	95.7	-	58.7	6.4	-	124.0	**4,159.8**
Kisii	7,654.1	397.7	178.8	26.9	95.7	-	117.6	11.5	-	181.7	**8,664.1**
Kisumu	6,130.2	351.4	123.9	21.9	95.7	-	94.2	8.3	-	169.0	**6,994.5**
Kitui	7,841.5	-	70.1	23.1	95.7	-	120.5	18.5	131.5	89.0	**8,389.9**
Kwale	5,530.7	-	87.8	15.4	95.7	-	85.0	6.8	82.2	82.9	**5,986.5**
Laikipia	3,722.1	-	61.4	9.9	95.7	-	57.2	5.8	60.0	92.6	**4,104.7**
Lamu	2,214.0	-	16.3	2.5	95.7	100.0	34.0	3.8	14.5	28.7	**2,509.5**
Machakos	7,303.5	365.3	88.7	24.8	95.7	-	112.2	13.4	-	163.2	**8,166.8**
Makueni	6,441.4	-	85.9	19.4	95.7	-	99.0	12.1	-	104.2	**6,857.6**
Mandera	9,663.3	-	56.9	15.5	95.7	-	148.5	7.3	42.5	54.9	**10,084.6**
Marsabit	5,599.5	-	21.6	6.9	95.7	-	86.0	7.7	-	43.9	**5,861.3**
Meru	7,006.7	356.1	115.4	32.1	95.7	-	107.7	10.3	-	179.8	**7,903.7**
Migori	6,298.0	-	132.9	21.9	95.7	-	96.8	10.2	-	87.0	**6,742.5**
Mombasa	5,608.6	369.9	127.0	23.5	95.7	-	86.2	3.2	-	146.4	**6,460.5**
Murang'a	5,779.2	-	79.6	20.7	95.7	-	88.8	12.4	-	147.6	**6,224.1**
Nairobi	14,023.5	-	281.6	79.9	95.7	-	215.5	-	-	250.6	**14,946.8**
Nakuru	8,757.6	356.1	217.9	39.2	95.7	-	134.6	12.6	-	227.5	**9,841.2**
Nandi	5,130.8	-	79.4	18.1	95.7	-	78.8	9.2	-	57.0	**5,469.0**
Narok	5,705.7	-	63.8	20.1	95.7	-	87.7	8.9	-	82.1	**6,064.1**
Nyamira	4,482.8	-	77.0	11.6	95.7	-	68.9	12.0	-	83.6	**4,831.6**
Nyandarua	4,647.4	-	37.7	13.1	95.7	-	71.4	9.4	-	61.5	**4,936.2**
Nyeri	4,800.8	388.4	60.5	14.3	95.7	-	73.8	11.5	-	155.3	**5,600.3**
Samburu	3,833.0	-	15.7	5.3	95.7	-	58.9	5.5	29.8	36.5	**4,080.4**
Siaya	5,390.0	-	118.1	19.1	95.7	-	82.8	13.8	-	78.0	**5,797.5**
Taita Taveta	3,571.1	-	37.5	6.6	95.7	-	54.9	7.4	-	69.6	**3,842.7**
Tana River	4,299.4	-	21.1	5.7	95.7	100.0	66.1	4.6	-	35.2	**4,627.8**
Tharaka Nithi	3,385.5	-	27.1	8.4	95.7	-	52.0	6.2	-	77.5	**3,652.5**
Trans Nzoia	5,502.5	-	67.7	20.2	95.7	-	84.5	5.7	-	80.2	**5,856.6**
Turkana	11,307.0	-	34.2	26.1	95.7	-	173.7	6.0	-	67.0	**11,709.8**
Uasin Gishu	5,601.0	-	36.9	22.2	95.7	-	86.1	8.7	-	97.0	**5,947.6**
Vihiga	4,177.3	-	53.0	13.0	95.7	-	64.2	7.1	-	60.3	**4,470.6**
Wajir	7,804.2	-	50.6	16.0	95.7	-	119.9	10.0	-	63.5	**8,160.0**
West Pokot	4,654.5	-	50.3	12.3	95.7	-	71.5	6.1	-	52.3	**4,942.9**
Total	**280,300.0**	**4,000.0**	**4,104.7**	**900.0**	**4,500.0**	**200.0**	**4,306.8**	**408.5**	**556.0**	**4,948.7**	**304,224.7**

Note: *"Other conditional transfers" comprise of: i) County medical personnel allowances that were part of a negotiated settlement to trade disputes (Ksh 4.8 billion); and, ii) coffee cess collected by the Kenya Roads Board and disbursed to Counties from which it was generated (Ksh 107 million).*

43. During the first nine months of FY 2016/17, the Counties collected Ksh 24.7 billion in own-source revenue (OSR), representing 41.4 percent of the annual target of Ksh 59.7 billion. **(Table 9).** Collections over a similar period in FY 2015/16 generated Ksh 25.9 billion, equivalent to 46.9 percent of the annual target. Thus, OSR in FY 2016/17 contracted by Ksh 1.1 billion. Collections so far have also declined as a proportion of the annual target.

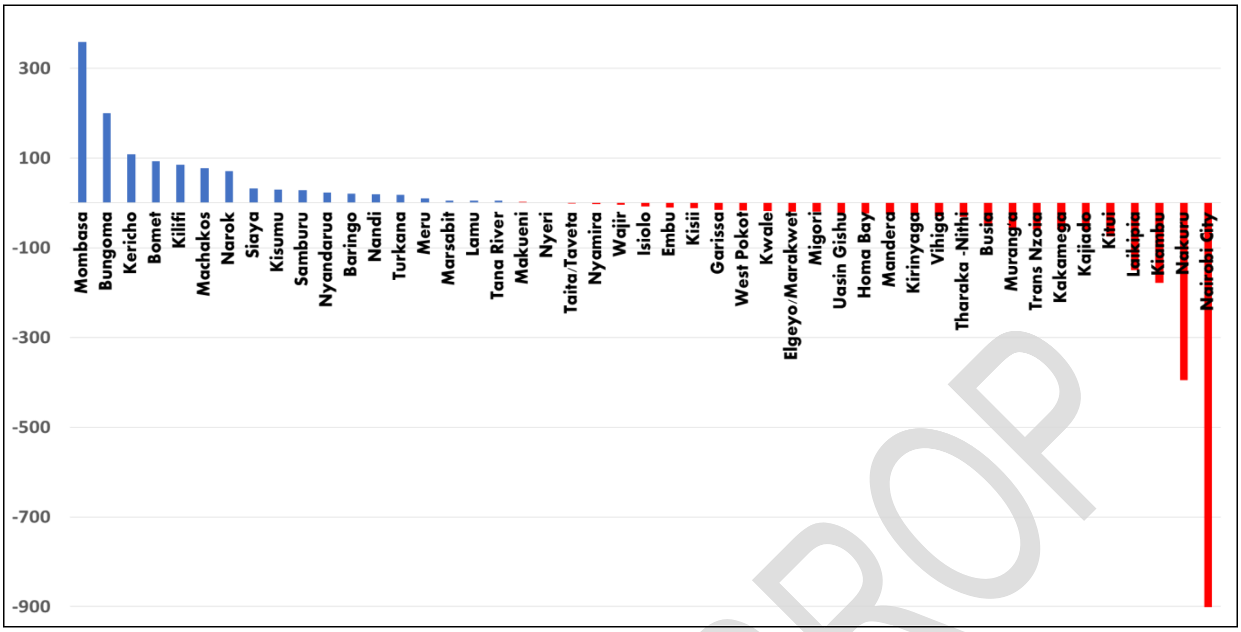
Table 9: County Governments' Fiscal Performance (July 2016–March 2017)

County	Local Revenue (Kshs m)			Budget Estimates (Kshs m)			Expenditure (Kshs m)			Absorption Rate (%)		
	Target	Actual	%	Rec't	Dev't	TOTAL	Rec't	Dev't	TOTAL	Rec't	Dev't	OVERALL
Baringo	472.0	222.7	47.2%	3,921.2	2,600.1	6,521.34	2,557.0	800.2	3,357.2	65.2%	30.8%	51.5%
Bomet	207.7	197.1	94.9%	3,963.0	1,682.0	5,644.99	2,581.2	1,101.8	3,683.0	65.1%	65.5%	65.2%
Bungoma	731.9	526.7	72.0%	6,401.3	3,732.5	10,133.77	4,302.6	994.8	5,297.4	67.2%	26.7%	52.3%
Busia	587.5	205.0	34.9%	4,634.4	3,831.6	8,466.00	2,852.1	1,246.4	4,098.5	61.5%	32.5%	48.4%
E/Marakwet	160.0	75.6	47.2%	2,886.8	1,852.4	4,739.17	1,906.2	607.3	2,513.4	66.0%	32.8%	53.0%
Embu	803.8	295.9	36.8%	4,157.4	2,567.8	6,725.17	2,607.5	931.9	3,539.4	62.7%	36.3%	52.6%
Garissa	350.0	62.4	17.8%	4,764.6	2,806.0	7,570.52	2,901.6	1,292.1	4,193.6	60.9%	46.0%	55.4%
Homa Bay	233.5	114.6	49.1%	4,342.8	2,353.9	6,696.64	2,758.4	933.4	3,691.8	63.5%	39.7%	55.1%
Isiolo	250.0	76.7	30.7%	2,264.1	1,482.3	3,746.42	1,655.5	907.0	2,562.5	73.1%	61.2%	68.4%
Kajiado	1248.4	400.2	32.1%	4,354.5	2,655.9	7,010.38	2,472.2	596.5	3,068.7	56.8%	22.5%	43.8%
Kakamega	894.1	300.9	33.7%	6,080.5	6,225.1	12,305.61	3,797.0	2,473.7	6,270.7	62.4%	39.7%	51.0%
Kericho	603.3	356.9	59.1%	3,786.9	2,498.2	6,285.08	2,396.8	1,447.0	3,843.8	63.3%	57.9%	61.2%
Kiambu	3768.0	1,637.0	43.4%	8,769.9	3,990.1	12,759.97	5,997.3	1,903.9	7,901.2	68.4%	47.7%	61.9%
Kilifi	1585.9	496.3	31.3%	6,271.5	6,759.9	13,031.43	4,038.0	2,356.4	6,394.4	64.4%	34.9%	49.1%
Kirinyaga	743.2	253.8	34.1%	3,369.0	1,875.8	5,244.86	1,767.7	440.0	2,207.6	52.5%	23.5%	42.1%
Kisii	750.0	202.5	27.0%	6,104.0	3,952.0	10,056.01	3,866.0	1,484.4	5,350.4	63.3%	37.6%	53.2%
Kisumu	1585.0	776.3	49.0%	6,087.6	3,094.8	9,182.33	3,481.5	1,130.5	4,612.0	57.2%	36.5%	50.2%
Kitui	668.8	235.5	35.2%	5,553.1	5,293.5	10,846.61	2,612.4	1,997.6	4,610.0	47.0%	37.7%	42.5%
Kwale	330.0	159.0	48.2%	3,031.6	5,105.2	8,136.77	1,913.3	1,457.5	3,370.8	63.1%	28.6%	41.4%
Laikipia	670.0	241.1	36.0%	3,409.2	2,534.0	5,943.14	2,286.4	722.1	3,008.5	67.1%	28.5%	50.6%
Lamu	84.0	51.0	60.7%	1,991.5	1,219.7	3,211.26	770.5	101.4	872.0	38.7%	8.3%	27.2%
Machakos	2855.7	872.3	30.5%	7,539.6	3,336.4	10,876.00	4,645.9	1,558.9	6,204.7	61.6%	46.7%	57.0%
Makueni	500.0	153.5	30.7%	4,921.7	5,601.7	10,523.40	3,493.9	2,657.9	6,151.8	71.0%	47.4%	58.5%
Mandera	265.6	44.5	16.8%	4,326.3	7,694.4	12,020.69	2,799.3	3,869.4	6,668.7	64.7%	50.3%	55.5%
Marsabit	120.0	89.8	74.8%	3,609.2	3,210.0	6,819.18	2,058.3	1,126.0	3,184.3	57.0%	35.1%	46.7%
Meru	773.2	364.4	47.1%	6,553.9	3,212.5	9,766.45	3,908.0	1,344.0	5,252.0	59.6%	41.8%	53.8%
Migori	420.0	218.9	52.1%	4,749.1	2,981.6	7,730.69	2,929.5	1,421.5	4,351.0	61.7%	47.7%	56.3%
Mombasa	5554.0	1,941.7	35.0%	7,876.0	4,035.9	11,911.87	4,084.6	1,494.3	5,578.9	51.9%	37.0%	46.8%
Murang'a	993.6	391.7	39.4%	4,707.5	3,505.3	8,212.82	3,204.1	1,532.8	4,736.9	68.1%	43.7%	57.7%
Nairobi	19565.7	8,716.5	44.5%	23,161.5	11,393.0	34,554.53	13,647.6	1,475.1	15,122.8	58.9%	12.9%	43.8%
Nakuru	2597.3	1,127.3	43.4%	8,963.2	5,779.1	14,742.33	5,772.5	1,510.8	7,283.4	64.4%	26.1%	49.4%
Nandi	362.3	176.5	48.7%	4,377.2	2,526.1	6,903.32	2,599.0	1,118.3	3,717.3	59.4%	44.3%	53.8%
Narok	3623.5	1,473.3	40.7%	5,537.7	4,273.6	9,811.31	3,714.7	1,681.9	5,396.6	67.1%	39.4%	55.0%
Nyamira	198.2	76.3	38.5%	3,938.2	1,670.9	5,609.06	2,157.0	492.3	2,649.3	54.8%	29.5%	47.2%
Nyandarua	390.0	212.3	54.4%	3,615.1	1,991.5	5,606.67	2,441.6	761.3	3,202.9	67.5%	38.2%	57.1%
Nyeri	1095.1	495.1	45.2%	4,872.6	2,304.9	7,177.53	2,798.1	586.4	3,384.4	57.4%	25.4%	47.2%
Samburu	341.9	150.0	43.9%	2,960.8	1,612.5	4,573.31	2,007.8	858.3	2,866.2	67.8%	53.2%	62.7%
Siaya	270.0	126.7	46.9%	3,836.8	3,492.7	7,329.49	2,109.3	1,108.8	3,218.0	55.0%	31.7%	43.9%
Taita Taveta	355.6	114.9	32.3%	3,119.5	1,565.3	4,684.72	2,239.6	310.0	2,549.6	71.8%	19.8%	54.4%
Tana River	60.0	22.3	37.1%	2,227.6	2,357.7	4,585.21	1,317.5	1,699.0	3,016.5	59.1%	72.1%	65.8%
Tharaka Nithi	200.0	59.2	29.6%	2,686.7	1,273.2	3,959.90	1,557.2	384.0	1,941.2	58.0%	30.2%	49.0%
Trans Nzoia	500.0	176.5	35.3%	4,224.5	2,650.5	6,875.00	2,942.4	1,160.0	4,102.4	69.7%	43.8%	59.7%
Turkana	180.0	102.4	56.9%	4,207.9	10,818.4	15,026.32	3,199.0	5,108.3	8,307.3	76.0%	47.2%	55.3%
Uasin Gishu	1192.0	524.4	44.0%	5,042.9	2,676.1	7,719.09	2,676.6	769.4	3,446.0	53.1%	28.8%	44.6%
Vihiga	220.0	64.7	29.4%	3,529.6	1,511.0	5,040.64	2,221.1	585.2	2,806.3	62.9%	38.7%	55.7%
Wajir	230.1	58.8	25.5%	4,588.4	4,093.5	8,681.95	2,966.1	2,364.9	5,331.0	64.6%	57.8%	61.4%
West Pokot	122.2	58.5	47.8%	3,414.3	1,832.1	5,246.39	2,058.6	842.2	2,900.8	60.3%	46.0%	55.3%
Total	**59,713.0**	**24,700.0**	41.4%	**234,732.6**	**165,512.8**	**400,245.3**	**145,070.3**	**62,747.0**	**207,817.4**	**61.8%**	**37.9%**	**51.9%**

Source: Controller of Budget

44. Nevertheless, in the first three quarters of FY 2016/17, twenty Counties collected more OSR than during the same period in the previous year. The other 27 Counties generated less. ***(Figure 1).*** To support enhancement of County Governments' OSR, the Government has developed a draft national policy and a legislative framework which are currently being subjected to public consultations. If approved by the Cabinet and Parliament respectively, it is expected that the policy and legislation will help to unlock Counties' revenue potential.

Figure 1: Variations in County Governments' Own-Source Revenue Collection: First Nine Months of FY 2016/17 vs. 2015/16 (Kshs. millions)



Source of data: Controller of Budget

45. County budgets for FY 2016/17 amounted to Ksh 400.2 billion, of which 58.6 percent was for recurrent spending and 41.4 percent for development. Expenditure in the first nine months amounted to Ksh 207.8 billion, or 51.9 percent of approved estimates. Respectively, absorption of recurrent and development budgets was 61.8 percent and 37.9 percent. The latter improved slightly compared with the same period in FY 2015/16.

46. County Governments' annual budget absorption has been improving, from 63 percent in FY 2013/14 to 76 percent in FY 2014/15 and 80 percent in FY 2015/16. Data for the fourth quarter of FY 2016/17 is pending release by the Controller of Budget, and so it is not clear whether the upward trend in absorption will continue. It is clear however, that absorption improvements in the years following establishment of the Counties were partly due to more realistic expenditure estimates. Expansion in aggregate expenditure estimates declined from 65 billion in FY 2014/15, to 41 billion in FY 2015/16 and 33 billion in FY 2016/17.

F. County Governments' Compliance with the PFM Act

47. All Counties adhered to the requirement in section 107(2) (a) of the PFM Act, that recurrent expenditure shall not exceed total revenue. Spending by County Governments during the first nine months of FY 2016/17 equaled 64.1 percent of their combined resources i.e. transfers from the National Government and OSR. Over the previous three years, the average was 88.2 percent, although some Counties exceeded their total revenue as well as Exchequer releases from County Revenue Fund (CRF) to operational accounts. Such violations suggest that OSR is being spent at source, contrary to Article 109(2) of the Constitution. The Controller of Budget has analyzed Counties' bank statements and expenditure returns, and identified those where not all OSR is 'swept' into respective CRF accounts. The National Treasury is investigating these violations, and legal and intergovernmental mechanisms will be pursued to help resolve challenges in specific Counties.

48. PFM (County Government) Regulations 25 (1) (g) requires that County Governments' actual expenditure on development shall be at least thirty percent in conformity with section

107(2)(b) of the Act. In the FY 2015/16, fourteen Counties reported development spending below 30 percent of total spending. By the end of the first three quarters of FY 2016/17, spending in 26 Counties was below one-third of total spending; Nairobi County managed only 9.8 percent. While it is expected that development spending grew during the last quarter of the FY 2016/17, the number of Counties that will achieve the 30 percent threshold in their overall spending is unpredictable.

49. An increasing number of County Governments are unable to stay within the wage bill threshold of 35 percent of total revenue as defined in section 25(1) (a,b) of the PFM (County Governments) Regulations. In the FY 2013/14, 19 Counties were unable to stay within this limit. Noncompliant Counties grew to 29 in FY 2014/15 and 30 in FY 2015/16. Data for the first nine months of FY 2016/17 shows that 26 Counties were noncompliant, although this number could change depending on OSR performance and personnel emoluments during the last quarter. Based on the National Treasury's analyses, Counties' non-compliance with the wage bill limit set in the PFM Act is primarily due to the following factors:

a) Violation of Salaries and Remuneration Commission (SRC) guidelines on job grading, salary structures and compensation of employees including payment of sitting allowances as well as regulations on use of approved staff establishments, and payment of staff through the Integrated Payroll and Personnel Database (IPPD).
b) High fixed costs inherited by some Counties relative to their equitable share transfer. The costs -- predominantly salaries of national civil servants performing devolved functions and former Local Authority staff -- are not factored in the criteria for horizontal distribution of revenue. To assist these fiscally-constrained Counties, the National Government will pursue implementation of recommendations contained in the Capacity Assessment and Rationalization of the Public Service (CARPS) report.
c) Challenges encountered in OSR collection leading to less than optimal revenue yield vis-à-vis potential.

50. Analyses by the National Treasury of the Auditor-General's audits of County Governments' accounts have identified additional noncompliance issues relating to the PFM Act. Below is a summary of some issues:

i. ***Weak internal controls and absence of audit committees***: Some Counties have not established internal audit committees as required in section 155 of the PFM Act. Where the committees exist, they lack necessary autonomy. Internal audit committees are expected to review governance mechanisms and undertake audits with the objective of strengthening internal controls.

ii. ***Procurement irregularities***: The Auditor-General has cited numerous violations of the Public Procurement and Asset Disposal Act, 2003. The violations include: variation of contract sums and inflation of contract prices; unsupported and unexplained payments, or full payment for incomplete, abandoned and stalled projects; unconfirmed asset purchases due to poor maintenance of fixed asset registers; and unjustified single sourcing of supplies, service providers and contractors. In their approved budgets, the Counties are failing to disclose costs of projects rolled over from previous financial years. In addition, funds are reallocated to different projects without approval procedures contained in section 154 of the PFM Act.

iii. ***Accumulation of pending bills and arrears***: All the Counties have accumulated pending bills attributed to nonpayment of contractors and suppliers of goods and services, and of salaries. Some Counties have also failed to remit statutory deductions (including employee pension contributions) to respective institutions.

iv. ***Financial statements unreconciled with balances in the Integrated Financial Management Information System (IFMIS):*** A number of Counties do not post all their transactions -- receipts from the Exchequer and OSR as well as payments -- on IFMIS. As a result, budget execution as captured in annual financial statements differs from balances in the system.

v. ***Poor management of County mortgage and car loan funds:*** In many Counties, funds were directly transferred to beneficiaries, who did not deposit securities with the fund managers. Loan and mortgage repayment was pegged on beneficiaries' allowances rather than their salaries. A number of funds are uninsured, exposing them to contingent liabilities in the event of defaults or upon expiry of beneficiaries' employment contracts. Section 116 of the PFM Act requires the CEC Member for Finance to appoint an administrator for each fund. The administrator is required to ensure that loans are recovered via the IPPD system, keep custody of all collateral and submit quarterly financial statements to the County Treasury with a copy to the Controller of Budget in line with section 168(3) of the PFM Act.

vi. ***Failure to establish County Budget and Economic Forums:*** Section 137 of the PFM Act requires Counties to establish, operationalize Budget and Economic Forums as a means of consultation during preparation of budgets as well as plans, Fiscal Strategy Papers and Budget Review and Outlook Papers. A number of Counties have not yet established these forums.

51. FY 2016/17 signaled the end of the initial four years of fiscal decentralization, overlapping with preparations for the August 2017 elections, which marked transition from the first County administrations. Therefore, the foregoing summary of fiscal performance and compliance with the PFM Act provide important lessons towards improving preparation of Counties' future plans, Fiscal Strategy Papers and budgets as well as their implementation. To ensure fiscal discipline among County Governments and enforce compliance with the various constitutional and legal requirements, the National Treasury will continue strengthening the capacity of County Governments and also pursuing available legal mechanisms and intergovernmental structures.

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Overview

53. Kenya's economy continues to perform well although severe drought in 2016 weighed on growth hence the first quarter of 2017 registered a slightly lower growth than in the same period in 2016 and pushed up inflation. Real GDP growth reached 5.8 percent in 2016, up from 5.7 percent in 2015. The growth was supported by public investment spending, lower global oil prices, and a strong recovery in tourism. Though inflation increased significantly in recent months, reflecting mainly the onset of the drought and the increase in global fuel prices, the measures taken by the government progressively reduced pressures on food prices. Consequently, inflation converged to the Government target band in July 2017.

54. The foreign exchange market has remained stable supported by a generally lower current account deficit. The current account deficit narrowed to 6.0 percent of GDP in July 2017 from 6.4 percent in May and June 2017. This reflects lower international oil prices, improved tea and horticulture exports, strong remittance inflows and a recovery of tourism. The narrowing of the current account deficit together with strong capital inflows, has led to the stabilization of the shilling in the foreign exchange market. The CBK's international reserves increased to US$ 8.5 billion (5.7 months of import cover) as at June 2017, compared to US$ 7.4 billion (5.3 months of import cover) at end of January 2017. The increase was largely attributed to planned external borrowings by the Government.

55. The economy is on track and is expected to expand by 5.5 percent in 2017. This growth is lower than the 6.0 percent growth projected in the 2017 Budget Policy Statement (BPS) as a result of poor performance of the agricultural sector due to adverse weather conditions and a slowdown in the uptake of credit to the private sector. The growth in 2017 will be supported by ongoing infrastructural investments, resilient domestic demand, continued recovery in the tourism sector and growth of exports in the sub region. In addition, strong consumer demand and private sector investment as well as stable macroeconomic environment will help reinforce this growth.

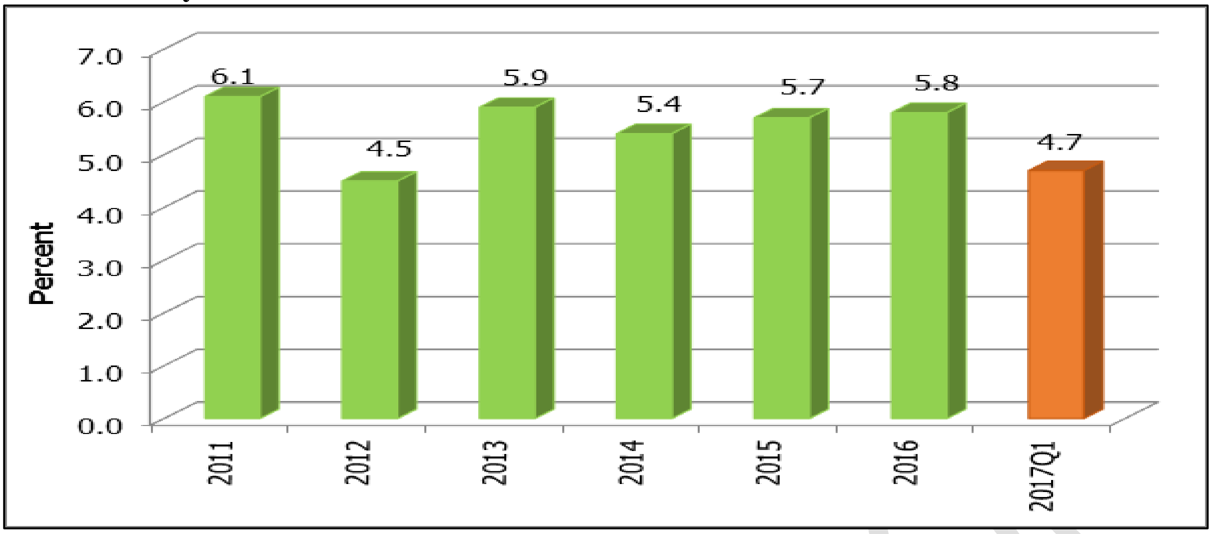
B. Recent Developments

Real Sector Developments

56. The economy grew by 5.8 percent in 2016 compared to 5.7 percent growth in 2015. Growth remained fairly resilient in the first quarter of 2017, recording 4.7 percent despite prolonged drought and subdued credit to the private sector during the quarter. This strong growth was supported by improved performance in; accommodation and restaurant (15.8 percent), information and communication (11.4 percent), transport and storage (9.9 percent), mining (9.7 percent), real estate (9.6 percent), wholesale and retail trade (6.1 percent) and manufacturing (2.9 percent). The quarter witnessed contraction in agricultural activities as well as deceleration in growth of construction, financial and insurance and electricity and water supply sectors **(Chart 1 and Table 10).**

57. The accommodation and restaurant sector improved by 15.8 percent in the first quarter of 2017, up from a growth of 10.4 percent in the same quarter in 2016, largely on account of a considerable boost from conference tourism due to improved security situation. The robust performance in the passenger and freight road transport favoured the transport and storage sector hence recording an improved growth of 9.9 percent in the first quarter of 2017 compared to 8.9 percent during the same quarter of 2016. The information and communication sector improved by 11.4 percent up from 10.9 percent in the same quarter in 2016 on account of strong performance in the mobile telephony sub-sector.

Chart 1: Kenya's Economic Growth Rates



Source of data: Kenya National Bureau of Statistics

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

Sectors/Activities	**2012**	**2013**	**2014**	**2015**	**2016**	**2016 Q1**	**2017 Q1**
Agriculture, forestry and fishing	2.8	5.4	4.3	5.5	4.0	4.0	-1.1
Mining and quarrying	19.0	-4.2	14.9	12.4	9.5	6.7	9.7
Manufacturing	-0.6	5.6	2.5	3.6	3.5	1.7	2.9
Electricity and water supply	9.6	6.6	6.1	8.5	7.1	8.6	5.1
Construction	11.3	6.1	13.1	13.9	9.2	10.2	8.4
Wholesale and retail trade; repairs	7.0	8.4	6.9	5.9	3.8	3.6	6.1
Accomodation and restaurants	3.1	-4.6	-16.7	-1.3	13.3	10.4	15.8
Transport and storage	2.6	1.3	5.5	8.0	8.4	8.9	9.9
Information and communication	2.6	12.5	14.5	7.4	9.7	10.9	11.4
Financial and insurance activities	6.0	8.2	8.3	9.4	6.9	8.2	5.3
Public administration	4.0	2.8	5.6	5.5	5.3	5.7	5.4
Professional, admin and support services	4.0	3.6	3.2	2.5	4.3	3.3	4.9
Real estate	4.0	4.1	5.6	7.2	8.8	8.7	9.6
Education	11.1	6.3	7.8	4.5	6.3	6.2	5.9
Human health and social work activities	-2.8	7.7	8.1	6.1	5.8	5.1	4.5
Other service activities	2.3	4.6	4.2	3.9	4.2	5.0	3.5
FISIM	10.1	5.2	11.3	13.5	3.0	8.4	3.3
All economic activities	**4.1**	**5.4**	**5.6**	**6.1**	**6.0**	**5.6**	**4.6**
Taxes on products	7.7	9.5	3.4	2.8	4.5	2.5	6.0
GDP at market prices	**4.5**	**5.9**	**5.4**	**5.7**	**5.8**	**5.3**	**4.7**

Source of data: Kenya National Bureau of Statistics

58. The first quarter of 2017 faced challenges that led to contraction and lower growth in some sectors while compared to the same period in 2016. The challenges included: unfavourable weather conditions as short rains failed in 2016 and the onset of the 2017 long rains delayed; reduced credit among others. This resulted to contraction of the Agriculture sector by 1.1 percent; scale down of hydro generation and hence lower growth in the electricity and water supply sector; and reduced the financial sector growth, to 5.3 percent compared to a growth of 8.2 percent in the first quarter of 2016.

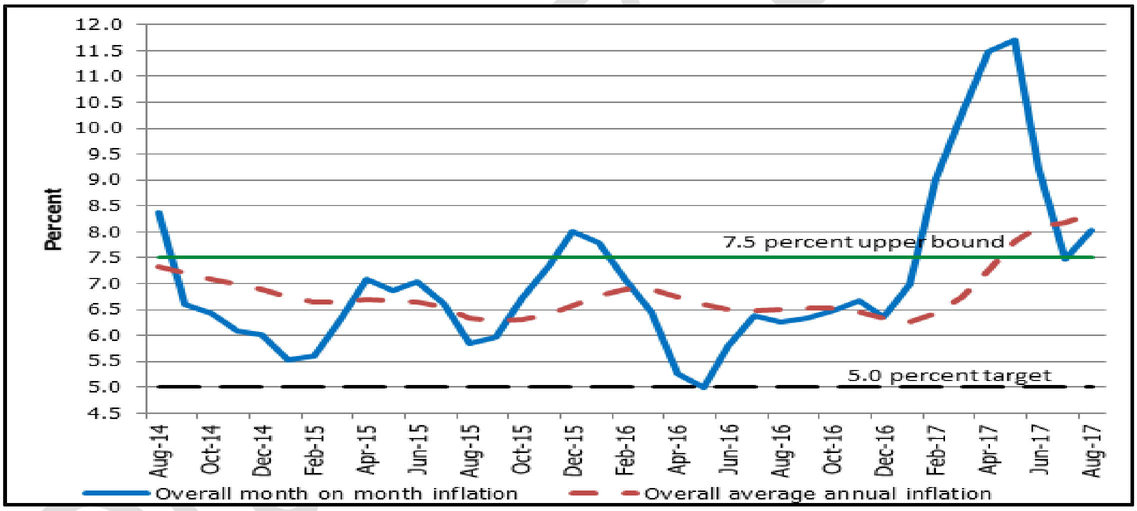
59. Increased demand in housing both for private and commercial purposes led to the improvement of the real estate sector which recorded a growth of 9.6 percent in the first quarter of 2017 from 8.7 percent during the same period in 2016. As the Standard Gauge Railway (SGR) construction activities reduced, the vibrancy that the construction sector had enjoyed for the last few years was slightly subdued hence recording a lower growth in the first quarter of 2017 of 8.4 percent from a growth of 10.2 percent in the first quarter of 2016.

Inflation Rate

60. Overall month on month inflation softened for two consecutive months (in June and July 2017), as a result of improved weather conditions and government policy interventions that resulted to significant decline in prices of key food items and converged to the government's target of 5 percent (+/- 2.5 percent). It declined to 9.2 percent in June 2017 and 7.5 percent in July 2017 from a high of 11.7 percent in May 2017 **(Chart 2a)**. However, in August 2017, the inflation rose slightly to 8.0 percent. This increase is attributed to rise in cost of food and non-alcoholic drinks and transport during the period due to depressed supply especially in the second week of the month; which can be related to the general elections conducted in the said week.

61. Though on average the annual inflation rate increased to 8.3 percent in August 2017 compared to 6.5 percent in the same period in 2016, it is expected to converge to government's target as the demand pressures have eased and supply has normalized.

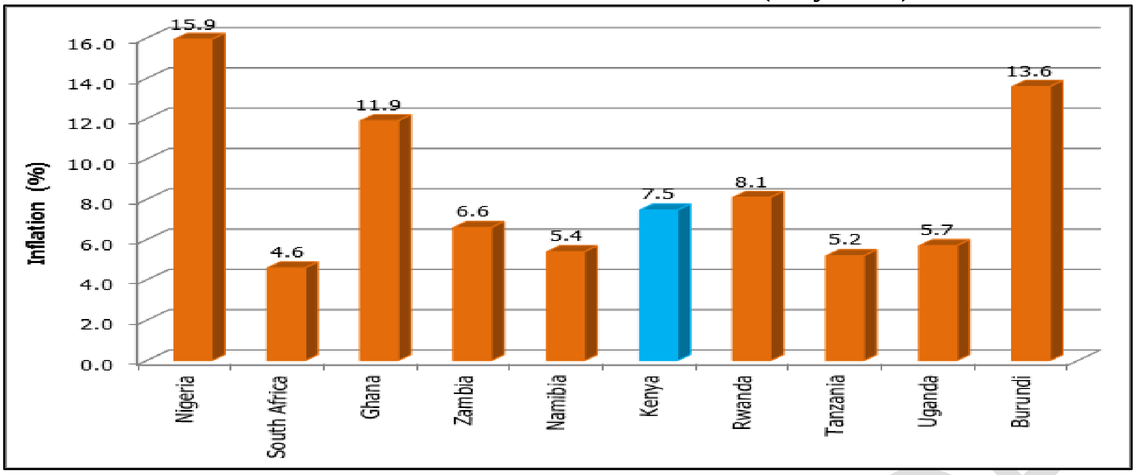
Chart 2a: Inflation Rate



Source of data: Kenya National Bureau of Statistics

62. In Sub Saharan Africa region, the high inflation rates in Ghana and Nigeria reflect difficult economic conditions as a result of foreign currency shortages resulting from lower commodity revenues and slow policy adjustment. The low inflation in South Africa reflects improved weather conditions that led to a bumper crop which resulted in lower food prices **(Chart 2b).** Closer home, the EAC region (except Burundi) continues to register low inflation rates due to prudent monetary and fiscal policy management. Burundi has been experiencing high inflation rates due to political instability and the 2016 drought and flooding worsening it. However, in April 2017 the Burundi government lifted some taxes and custom duties on imported food to help hold food prices which has eased the inflation.

Chart 2b: Inflation Rates in selected African Countries (July 2017)

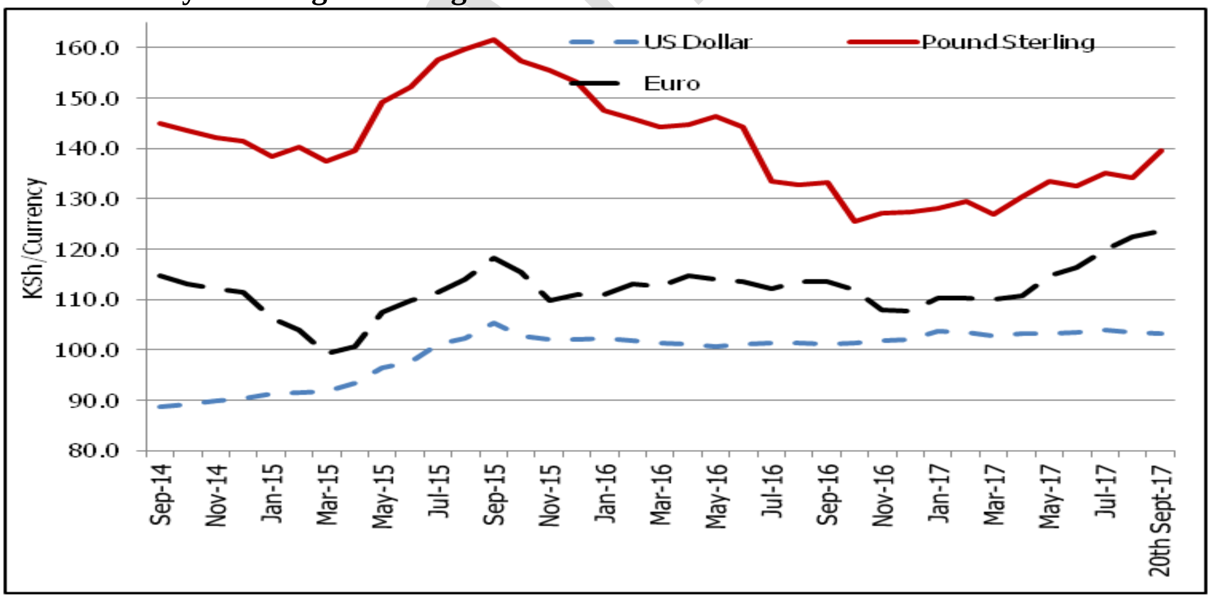


Source of data: National Central Banks

Kenya Shilling Exchange Rate

63. The Kenya Shilling exchange rate remained stable against major international currencies. As at 20th September 2017, the Kenya Shilling compared with the US dollar, had depreciated by around 2.0 percent in nominal terms since September 2016, the currency traded at Ksh 103.3 against the dollar from Ksh 101.3 in September 2016. Against the Euro and the Sterling pound, the currency weakened to Ksh 123.7 and Ksh 139.6 as at 20th September 2017 from Ksh 113.5 and Ksh 133.2 in September 2016, respectively reflecting increasing confidence in the Euro area recovery **(Chart 3).**

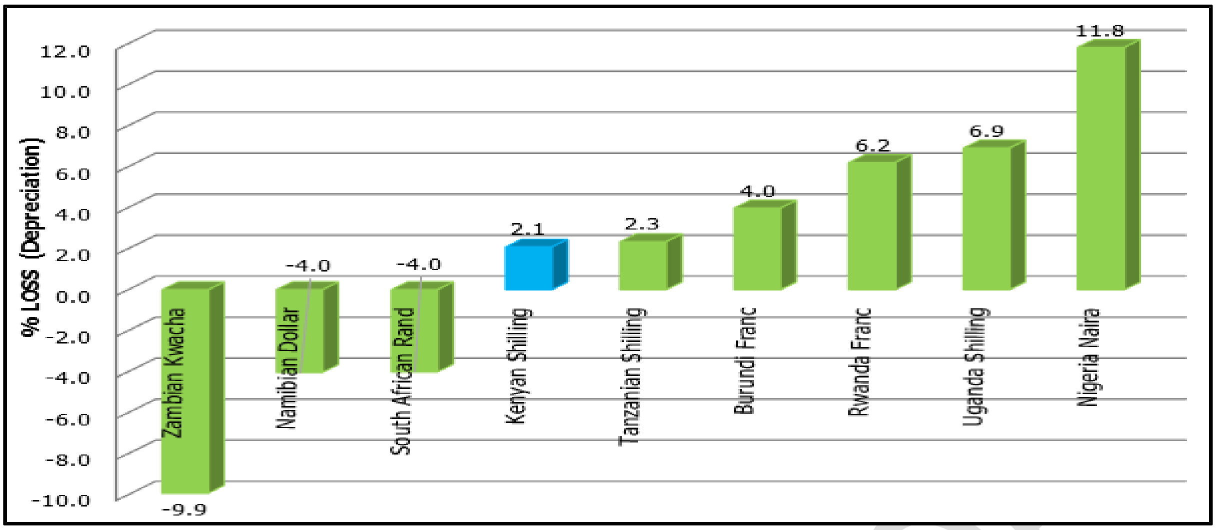
Chart 3: Kenya Shillings Exchange Rate



Source of data: Central Bank of Kenya

64. As compared to the regional currencies, the Kenya Shilling exchange rate has continued to display relatively less volatility **(Chart 3a).** The stability of the Kenya shilling exchange rate reflected resilient receipts from tea and horticulture despite lower export volumes due to adverse weather conditions in the first quarter of 2017. Additionally, receipts from tourism, coffee exports and Diaspora remittances remained strong.

Chart 3a: Selected Currencies Performance against the US Dollar (August 2016 - August 2017)

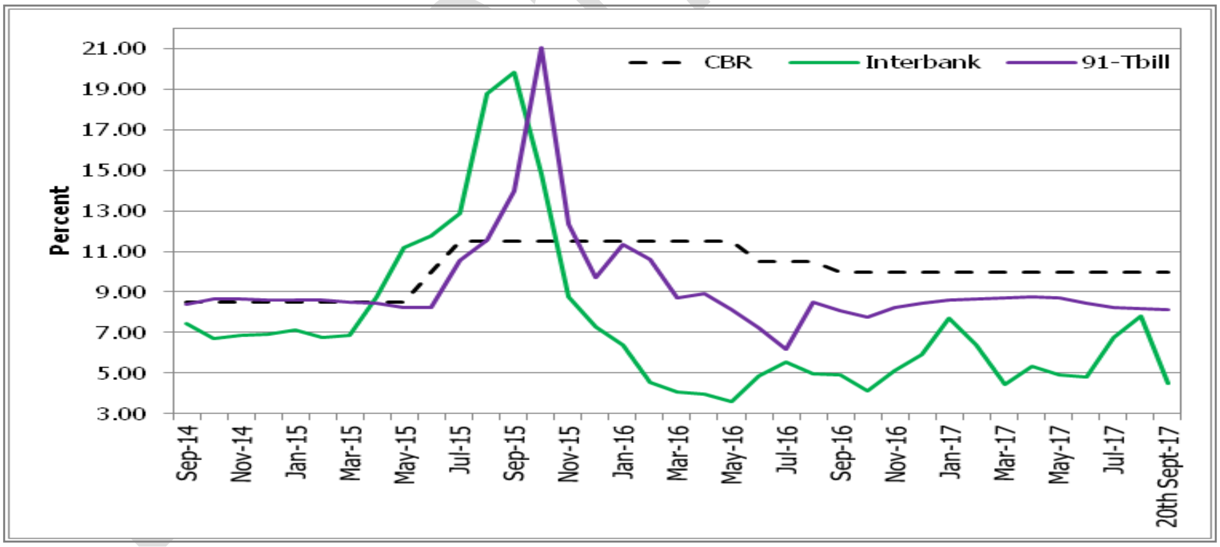


Source of data: Various National Central Banks

Interest Rates

65. The Central Bank Rate (CBR) that was retained at 10.0 percent to anchor inflationary expectations has resulted in stabilization of liquidity conditions in the market contributing to the decline in the interest rates. The interbank rate declined to 4.5 percent as of 20th September 2017 from a high of 7.7 percent in January 2017 **(Chart 4**), while the 91-day Treasury bill rate dropped to 8.1 percent from 8.6 percent over the same period. The 182 day and the 364 day Treasury bills averaged 10.3 percent and 10.9 percent, respectively in August 2017.

Chart 4: Short Term Interest Rates



Source of data: Central Bank of Kenya

66. Following the interest rates capping law which came into effect on September 14, 2016, interest rate spread has narrowed to 6.6 percent in June 2017 from 11.2 percent in August 2016 as a result of the developments in the lending and deposit rates. Commercial banks' average lending interest declined to 13.7 percent in the first half of 2017 compared to 18.0 percent in the first half of 2016. The stability was largely reflected in all loan categories. Meanwhile, the average commercial banks' deposit rate declined to 7.2 percent from 7.6 percent over the same period.

Money Supply

67. Growth of broad money supply, M3, improved to 8.3 percent in the year to July 2017 compared to a growth of 6.9 percent in the year to July 2016. The improved growth in the year to July 2017 was largely on account of an improvement in the uptake of domestic credit mainly by the private sector and growth of net foreign assets (NFA) of the Central Bank.

Private Sector Credit

68. Bank credit to the private sector has been on a gradual slowdown in the year to July 2017. The credit slowed to a growth of 1.4 percent (Ksh 30.0 billion) in the year to July 2017 from a 7.0 percent growth (Ksh 145.4 billion) in the same period in 2016. This slowdown was largely due to significant repayments in the manufacturing sector, delays in registration of land titles and building approvals, and availability of alternative external financing for key private sector projects.

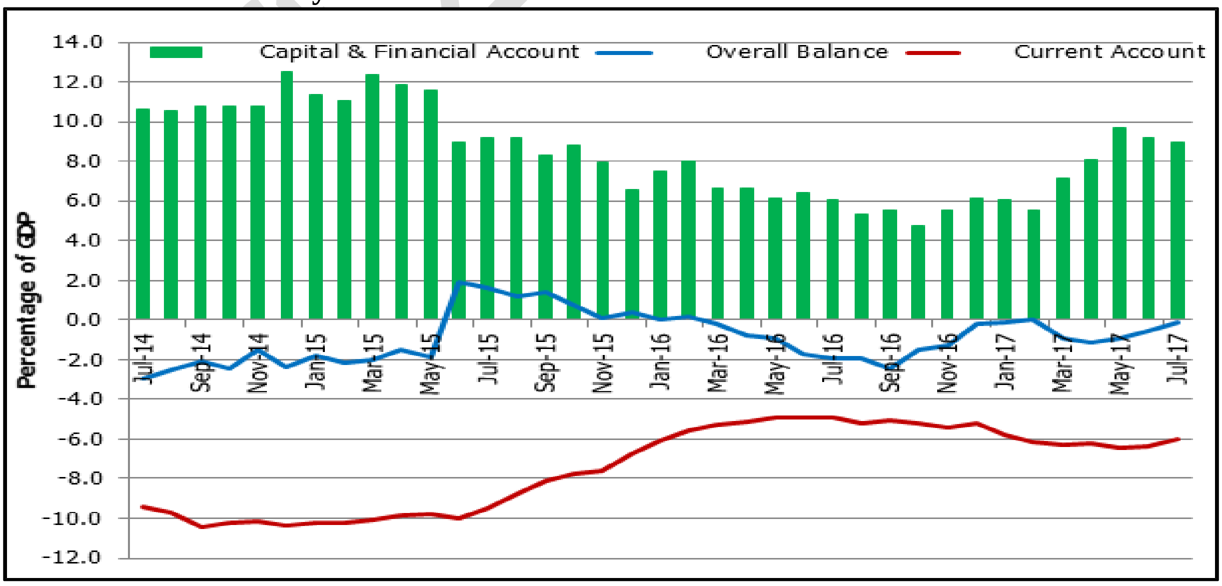
69. Private sector activities, other than real estate and private households, recorded reduced credit uptake in the year to July 2017. Business services, mining and quarrying, finance and insurance, manufacturing and agriculture sectors experienced a contraction of credit uptake in the year to June 2017.

External Sector Developments

70. The overall balance of payments position recorded a deficit of US$ 65.9 million (0.1 percent of GDP) in the year to July 2017 from a deficit of US$ 1,252.9 million (2.0 percent of GDP) in the year to June 2016 **(Chart 5).** The current account balance was at a deficit of US$ 4,384.8 million (6.0 percent of GDP) in the year to July 2017 from a deficit of US$ 3,141.6 million (4.9 percent of GDP) in the year to July 2016.

71. This reflects a decline in the value of the merchandise account as payments for import of oil increased on account of the rebound in international oil prices and the increase in imports of machinery and transport equipment mostly on account of imports of wagons, locomotives and associated equipment related to the ongoing second phase of the Standard Gauge Railway (SGR) project.

Chart 5: Balance of Payments

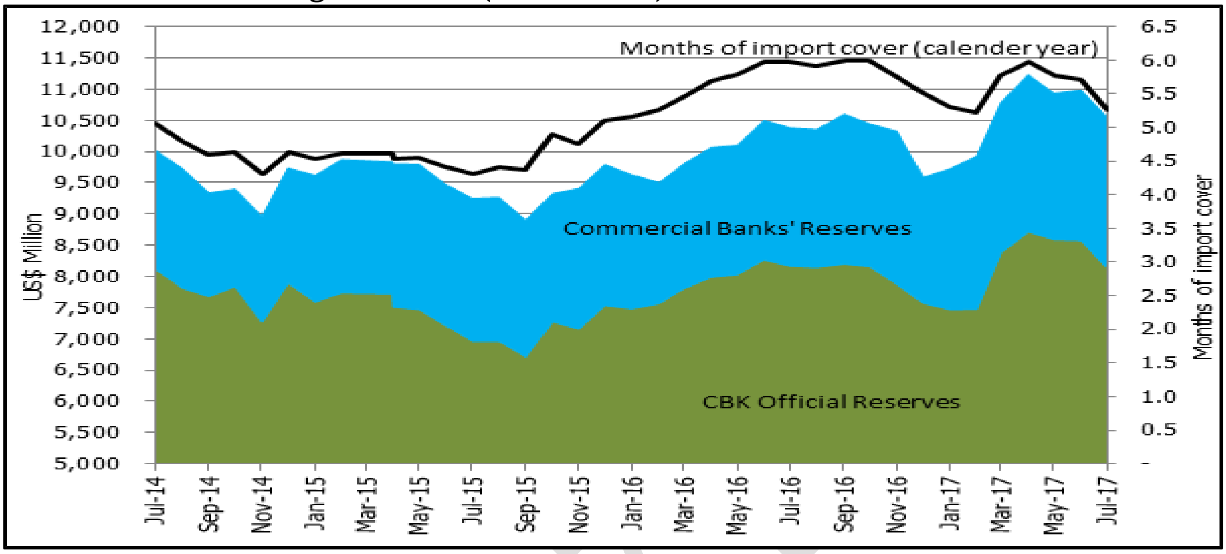


Source of data: Central Bank of Kenya

Foreign Exchange Reserves

72. The CBK's foreign exchange reserves increased in the year to July 2017 due in part to planned external borrowings by the Government. The banking system's foreign exchange holdings increased to US$ 10,550 million in July 2017 from US$ 10,381 million in July 2016 **(Chart 6).** This was due to the increase in reserves held by commercial banks to US$ 2,415 million in 2017 from US$ 2,217 million in 2016, despite the decrease in the official reserves held by the Central Bank to US$ 8,135 million (5.4 months of import cover) in July 2017 from US$ 8,165 million (5.3 months of import cover) in the same period in 2016.

Chart 6: Official Foreign Reserves (US$ Million)



Source of data: Central Bank of Kenya

Capital Markets

73. The capital market recorded a gradual recovery from the fall attributed to uncertainties in the global economy and initial effects of the capping of interest rates on the prices of banking sector listed stocks. The NSE index stabilised in January, and rose gradually thereafter to 4,027 points in August 2017 from 3,179 points in August 2016 while market capitalization also improved to Ksh 2,479 billion in August 2017 from Ksh 1,937 billion in August 2016. This reflects favourable investor sentiments in the international market and good performance of the economy

C. Medium Term Economic Outlook

Global Growth Outlook

74. Though the Global growth slowed down to 3.2 percent in 2016 from 3.4 percent in 2015, it is expected to rise to 3.5 percent in 2017 and 3.6 percent in 2018. This pick up of the global activities is projected from upside developments including stronger activity, expectations of more robust global demand, reduced deflationary pressures, and optimistic financial markets.

75. With potentially persistent structural changes in the global economy, Emerging and Developing economies may face a less supportive external environment going forward. The growth in these economies therefore will be supported by internal factors including strengthening institutional frameworks, protecting trade integration, permitting exchange rate flexibility, and containing vulnerabilities arising from high current account deficits and external borrowing as well as large public debt. Growth is projected to rise from 4.3 percent in 2016 to 4.6 percent in 2017 and 4.8 percent in 2018. This growth is primarily driven by stronger domestic demand, higher public spending, strong credit growth, reliance on public investment,

implementation of key reforms, loosening of supply-side bottlenecks, and appropriate fiscal and monetary policies.

76. Sub-Saharan African (SSA) growth declined to 1.3 percent in 2016 from 3.4 percent in 2015 driven largely by challenging macroeconomic conditions that faced the largest economies including disruptions in the oil sector coupled with foreign exchange, power, and fuel shortages, output in Nigeria; drop in commodity prices and drought in South Africa among others. However, this growth is expected to improve to 2.6 percent in 2017 and 3.5 percent in 2018, largely driven by improved macroeconomic conditions in the large economies including recovery in oil production, commodity prices recovery, continued growth in agriculture as drought conditions ease, better terms of trade and higher public investment.

77. Growth in the East African Community (EAC) region (Kenya, Uganda, Tanzania, Rwanda and Burundi) is projected to pick up in 2017, supported by ongoing infrastructure investment efforts, strong private consumption and the lower global oil prices. The decline in other commodity prices and currency depreciations will partly offset the gains in some of them.

Domestic Growth Outlook

78. The economic outlook takes into account the poor performance in the Agriculture and Electricity and Water Supply sectors following the unfavorable weather conditions experienced in the first quarter of 2017, subdued credit to the private sector and effects of lengthy electioneering period on economic activity. As a result, the economy is projected to expand by 5.5 percent in 2017 from a growth of 5.8 percent in 2016.

79. This growth momentum is expected to rise over the medium term supported by improved global conditions, improved production in agriculture, ongoing recovery of tourism and completion of key public projects in roads, rail and energy generation, resilient exports and benefits from ongoing regional integration efforts. In addition, the strong consumer demand and private sector investment as well as a stable macroeconomic environment in the country will help reinforce this growth.

80. The growth estimates for the medium term in fiscal years are; 5.7 percent in FY 2016/17, 5.9 percent in FY 2017/18, 6.3 percent in FY 2018/19 and 6.7 percent in FY 2020/21. **(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		2020/21
	Act.	Rev. Budget	Act	Printed Estimates	Rev. Budget	Prel. Act	Budget	BROP'17	BPS'17	BROP'17	BPS'17	BROP'17	BROP'17
	Annual percentage change												
National Account and Prices													
Real GDP	5.5	5.8	5.8	6.1	6.0	5.7	6.2	5.9	6.5	6.3	6.6	6.6	6.7
GDP Deflator	8.8	6.8	8.8	6.2	6.1	8.4	5.5	7.9	5.4	6.8	5.6	6.2	5.7
CPI Index (eop)	6.5	5.3	6.7	5.0	5.3	6.7	5.0	5.9	5.0	5.2	5.0	5.0	5.0
CPI Index (avg)	6.6	5.6	6.4	5.0	5.6	6.9	5.0	6.6	5.0	5.3	5.0	5.0	5.0
Terms of Trade (-deterioration)	0.7	0.3	-0.1	-0.9	2.1	4.9	1.5	3.2	1.0	1.9	-0.5	-0.4	-5.7
	percentage of GDP												
Investment and saving													
Investment	22.5	23.5	19.5	22.8	23.9	18.6	24.4	20.7	25.9	22.0	26.5	21.5	23.8
Gross National Savings	16.5	16.4	15.9	17.4	17.8	13.0	18.3	14.7	19.9	16.0	20.9	15.7	18.5
Central Government Budget													
Total revenue	19.0	20.2	18.4	20.7	19.6	18.2	20.6	18.6	20.6	18.6	21.5	18.6	18.8
Total expenditure and net lending	28.1	31.5	26.6	31.3	31.3	27.4	27.7	27.1	26.2	25.0	26.4	24.1	24.3
Overall balance (commitment basis) excl. grants	-9.1	-11.4	-8.2	-10.7	-11.7	-9.2	-7.2	-8.5	-5.7	-6.4	-4.8	-5.4	-5.5
Overall balance (commitment basis) incl. grants	-8.4	-10.3	-7.4	-9.7	-10.9	-8.9	-6.5	-7.9	-5.0	-5.9	-4.0	-4.9	-5.1
Nominal public debt, net	44.6	48.8	47.9	49.1	45.3	51.5	47.4	50.3	48.7	52.2	49.1	51.2	50.5
External sector													
Current external balance, incl. official transfers	-6.0	-7.2	-3.6	-5.4	-5.4	-5.6	-6.1	-6.0	-6.0	-6.0	-5.6	-5.8	-5.3
Gross international reserve in months of imports	6.0	4.8	6.2	5.1	5.1	6.5	5.3	6.7	5.4	6.8	5.5	6.9	7.0

Source: National Treasury

Monetary Policy Outlook

81. Inflation, in July 2017 converged back to the set target of 5.0 percent with an allowable margin of 2.5 percent on either side of the target to cater for shocks and is expected to remain so in the medium term underpinned by prudent monetary policy. The monetary policy measures adopted are expected to moderate demand-driven inflationary pressures, while stability of the exchange rate moderates any possible effects of imported inflation on the price level.

82. The inflation rate of 8.0 percent in August 2017 resulted from depressed supply which may be attributed to elections in the month. It is projected to decline gradually to the government's target supported by the prevailing monetary policy stance, favourable weather conditions that will lower food prices and the increasing output of geothermal generated power which will continue to moderate electricity prices and support lower consumer prices. The main risks to inflation relate to adverse weather that affects food production and hence food prices, and potential volatility in international oil prices following the decision by the major oil producers to reduce production.

83. The Central Bank of Kenya will continue to implement measures aimed at promoting the efficient working of the interbank market, sustainably reducing the cost of credit and improve liquidity management. In addition, the impact of interest rate capping on lending and

the overall economy, as well as the implications of other developments in the domestic and global economy will continue to be monitored to ensure price stability.

External Sector Outlook

84. Kenya's international trade is estimated to grow in volume terms as weather conditions have improved and thus improve earnings from tea, coffee and horticulture exports. Further, we expect low petroleum products import bill due to lower oil prices, resilient diaspora remittances, and continued recovery of tourism. These fundamental conditions will narrow the current account deficit thus strengthen the Kenya's external position. This will be further expedited by the stable foreign exchange market and diversification of export products and external markets, which are precipitates of resilience against adverse effects of external shocks on exports.

85. 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

86. Risks to the economic growth outlook emanate from both external and domestic factors.

87. The external risks to the economic growth projected include, any unfavourable structural changes by advanced economies, 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.

88. 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. The repeat of the presidential elections also poses risk to the growth as the resources have to be availed for the exercise and may mean foregoing some programmes. The country may also experience the possibility of slowed economic activity as investors hold-back awaiting the conclusion of the elections.

89. In the event, the above risks materialize; the Macro Framework and the Medium Term Sector Ceilings shall be revised in the 2018 Budget Policy Statement.

90. 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 2017/18 Budget

91. The Medium-Term Fiscal Framework (MTFF) for the FY 2017/18 aims at supporting rapid and inclusive economic growth, ensuring a sustainable debt position by narrowing the budget deficit and at the same time supporting the devolved system of Government for effective delivery of services.

92. Since the commencement of the financial year, approvals for additional funds have been granted to cater for salary shortfalls, emergencies, unforeseen expenditures and emerging priorities. To ensure that these are accommodated within a sustainable MTFF, and given that the economy has not generated new resources to finance them, the FY2017/18 Budget will be revised to ensure that only priority programmes are funded through tradeoffs and reallocations of the existing budgetary provisions.

93. It is also worth noting that even as we commence the preparation of the medium-term budget, the implementation of the FY 2017/18 is facing challenges. The spillover adverse effects of the prolonged drought, a repeat of Presidential Election scheduled for October 2017, labour industrial unrest and under performance of the main revenue tax heads, are some of the challenges we must address. In this regard, austerity measures will be instituted on less productive areas of spending across Government in the context of the FY2017/18 Supplementary Budget.

B. Medium Term Fiscal Projections

94. Over the medium term, driven by continued reforms, revenue collection is expected to rise to about 18.8 percent of GDP by 2020/21**(Annex Tables 2 and 3)**. Overall expenditures will decline gradually from 27.1 percent of GDP in FY 2017/18 to 24.3 percent of GDP in 2020/21. Overall recurrent expenditures are expected to decline from 16.4 percent of GDP in 2017/18 to 14.4 percent in the medium term while development and net lending expenditures is projected to decline from 7.2 percent of GDP in the FY 2017/18 to 6.9 percent over the medium term. The Government remains committed to reorienting expenditures from recurrent to development and improving the productivity of our resources.

95. The overall budget deficit is projected to decline to 5.1 percent of GDP in the medium term, as major infrastructural projects currently being implemented by the Government are completed. This will reinforce policy of consistency and predictability of government spending and will be achieved through the following strategies:

(i) Directing more resources coming from enhanced revenue collection to development related activities as we curtail recurrent spending;

(ii) Ensuring efficient and effective public spending; and

(iii) Ensuring that capital expenditure proposals have been thoroughly scrutinized and prioritized so that only high impact projects are accommodated using scarce resources.

C. 2018/19 FY Budget Framework

96. **Revenue Projections:** The FY 2018/19 budget targets revenue collection including Appropriation-in-Aid (AiA) of Ksh 1,855.9 billion (18.5 percent of GDP) up from Ksh 1,634.1 billion (18.6 percent of GDP) in the FY 2017/18. This revenue performance will be underpinned by on-going reforms in tax policy and revenue administration. Ordinary revenues will amount to Ksh 1,690.5 billion (16.9 percent of GDP) in FY 2018/19 up from Ksh 1,477.1 billion (16.9 percent of GDP) in FY 2017/18.

97. **Expenditure Projections:** In the FY 2018/19, overall expenditure and net lending are projected at Ksh 2,499.3 billion (25.0 percent of GDP) up from the estimated Ksh 2,384.1 billion (27.1 percent of GDP) in the FY 2017/18 revised budget. These expenditures comprises among others, recurrent of Ksh 1,486.5 billion (14.9 percent of GDP), development of Ksh 679.2 billion (6.8 percent of GDP) and other expenditures of Ksh 333.6 billion (3.3 percent of GDP).

98. In terms of percentage of GDP, the wages and salaries bill for teachers and civil servants including the police is expected to reduce to 4.0 percent of GDP in the FY 2018/19 from 4.3 percent in the FY 2017/18. Domestic interest payments are expected to remain at 2.4 percent relative to GDP in the FY 2018/19.

99. A contingency of Ksh 5.0 billion is provided for in the FY 2018/19 budget. In addition, Ksh 8.5 billion is provided for as conditional grants to marginal areas, an increase from the 7.7 billion provided in the FY 2017/18 budget.

100. **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 643.3 billion (equivalent to 6.4 percent of GDP) in the FY 2018/19. Including grants, the overall fiscal balance is projected at Ksh 592.8 billion (5.9 percent of GDP) in FY 2018/19 against the estimated overall fiscal balance of Ksh 691.2 billion (7.9 percent of GDP) in FY 2017/18. The deficit including grants and excluding expenditures related to the SGR in the FY 2018/19 is projected at 5.4 percent of GDP lower than the 7.2 percent of GDP in FY 2017/18.

101. The fiscal deficit in FY 2018/19, will be financed by net external financing of Ksh 205.6 billion (2.1 percent of GDP), Ksh 383.0 billion (3.8 percent of GDP) net domestic borrowing and other net receipts of Ksh 4.2 billion

D. Medium-Term Expenditure Framework

102. Resource allocation will continue to be aligned to development programmes/projects under the economic transformation agenda highlighted in the 2016 BPS. The fiscal policy stance for the medium-term will be geared towards implementing growth-oriented policies anchored on moderation of public expenditure growth. The composition of expenditure will focus on productive capital projects and priority commitments, while protecting budgetary allocations to social sectors, namely; education, health and social protection. The FY 2018/19 MTEF Budget will therefore focus on the following:

(i) Employment creation and youth empowerment;
(ii) Improving food security through subsidized inputs and increasing the acreage under irrigation;
(iii) Improving infrastructure connectivity across the country;
(iv) Increasing connectivity to reliable and affordable energy; and

(v) Enhancing social welfare programmes in health, education and social protection.

103. Resources earmarked for strategic interventions in the areas of social welfare, youth empowerment and development of arid regions will be ring-fenced over the medium term.

104. Reflecting the above medium-term expenditure framework for FY 2018/19, **Table 12 and Annex Tables 4 and 5** provide the tentative projected baseline ceilings for the medium-term period covering FY2018/19 – 2020/21 classified by sector.

Table 12: Medium Term Sector Ceilings, FY 2018/19-2021 (Ksh Million)

SECTOR		ESTIMATES	CEILING	Projection		% Share of the Total Expenditure			
		2017/18	2018/19	2019/20	2020/21	Estimates 2017/18	Ceiling 2018/19	Projections 2019/20	2020/21
Agriculture, Rural & Urban Development	Sub_Total	**38,397.1**	**40,132.0**	**42,299.0**	**43,800.2**	**2.4%**	**2.3%**	**2.4%**	**2.5%**
	Rec. Gross	17,312.3	18,147.2	18,964.3	19,804.4	1.1%	1.1%	1.1%	1.1%
	Dev. Gross	21,084.8	21,984.8	23,334.8	23,995.8	1.3%	1.3%	1.3%	1.4%
Energy, Infrastructure & ICT	Sub_Total	**415,743.3**	**408,413.0**	**413,588.7**	**414,712.0**	**25.5%**	**23.8%**	**23.7%**	**23.4%**
	Rec. Gross	67,222.0	68,020.2	68,716.7	69,446.9	4.1%	4.0%	3.9%	3.9%
	Dev. Gross	348,521.3	340,392.8	344,872.0	345,265.0	21.3%	19.9%	19.7%	19.5%
General Economic & Commercial Affairs	Sub_Total	**19,794.3**	**19,072.0**	**19,850.0**	**20,445.0**	**1.2%**	**1.1%**	**1.1%**	**1.2%**
	Rec. Gross	9,609.7	9,806.9	9,959.9	10,120.0	0.6%	0.6%	0.6%	0.6%
	Dev. Gross	10,184.6	9,265.1	9,890.1	10,325.1	0.6%	0.5%	0.6%	0.6%
Health	Sub_Total	**61,700.5**	**64,530.6**	**65,063.8**	**65,400.0**	**3.8%**	**3.8%**	**3.7%**	**3.7%**
	Rec. Gross	30,721.8	32,652.0	32,960.1	33,279.4	1.9%	1.9%	1.9%	1.9%
	Dev. Gross	30,978.7	31,878.7	32,103.7	32,120.7	1.9%	1.9%	1.8%	1.8%
Education	Sub_Total	**374,986.8**	**429,006.7**	**442,445.1**	**455,785.5**	**23.0%**	**25.0%**	**25.3%**	**25.7%**
	Rec. Gross	350,148.0	400,998.4	413,855.8	427,111.7	21.4%	23.4%	23.7%	24.1%
	Dev. Gross	24,838.8	28,008.3	28,589.3	28,673.8	1.5%	1.6%	1.6%	1.6%
Governance, Justice, Law & Order	Sub_Total	**202,551.3**	**197,820.7**	**196,578.0**	**200,756.0**	**12.4%**	**11.5%**	**11.2%**	**11.3%**
	Rec. Gross	176,136.9	173,091.5	172,707.9	176,874.6	10.8%	10.1%	9.9%	10.0%
	Dev. Gross	26,414.4	24,729.2	23,870.1	23,881.3	1.6%	1.4%	1.4%	1.3%
Public Administration & International Relations	Sub_Total	**270,191.3**	**277,028.8**	**283,327.1**	**280,429.4**	**16.5%**	**16.2%**	**16.2%**	**15.8%**
	Rec. Gross	165,720.1	175,830.3	180,518.6	177,729.9	10.1%	10.3%	10.3%	10.0%
	Dev. Gross	104,471.2	101,198.5	102,808.5	102,699.5	6.4%	5.9%	5.9%	5.8%
National Security	Sub_Total	**130,223.4**	**143,413.1**	**147,440.3**	**151,588.6**	**8.0%**	**8.4%**	**8.4%**	**8.6%**
	Rec. Gross	130,178.4	143,368.1	147,395.3	151,543.6	8.0%	8.4%	8.4%	8.6%
	Dev. Gross	45.0	45.0	45.0	45.0	0.0%	0.0%	0.0%	0.0%
Social Protection, Culture & Recreation	Sub_Total	**46,180.2**	**54,945.0**	**56,416.5**	**56,949.0**	**2.8%**	**3.2%**	**3.2%**	**3.2%**
	Rec. Gross	20,649.9	26,593.2	27,017.4	27,403.1	1.3%	1.6%	1.5%	1.5%
	Dev. Gross	25,530.3	28,351.8	29,399.0	29,545.9	**1.6%**	**1.7%**	**1.7%**	**1.7%**
Environment Protection, Water & Natural Resources	Sub_Total	**73,586.5**	**79,158.2**	**80,366.9**	**81,206.6**	**4.5%**	**4.6%**	**4.6%**	**4.6%**
	Rec. Gross	22,788.2	22,234.9	22,388.5	22,548.2	1.4%	1.3%	1.3%	1.3%
	Dev. Gross	50,798.3	56,923.3	57,978.4	58,658.4	3.1%	3.3%	3.3%	3.3%
TOTAL	TOTAL	**1,633,354.7**	**1,713,520.0**	**1,747,375.4**	**1,771,072.3**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
	Rec. Gross	**990,487.3**	**1,070,742.5**	**1,094,484.5**	**1,115,861.9**	**60.6%**	**62.5%**	**62.6%**	**63.0%**
	Dev. Gross	**642,867.3**	**642,777.4**	**652,890.9**	**655,210.5**	**39.4%**	**37.5%**	**37.4%**	**37.0%**

Source: National Treasury

V. CONCLUSION AND NEXT STEPS

105. The FY 2018/19 and the Medium Term budget and fiscal framework projections presented in this BROP takes into account the expected recovery in the global economy and risks facing our economy such as public expenditure pressures which may reallocate resources from the productive sectors. It also takes into account the revenue measures undertaken for broadening the tax base and improving tax administration.

106. As such, there is moderate growth in the overall revenue collection and a decline in overall recurrent 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.

107. 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.

108. The policies and sector ceilings in this document will guide the Sector Working Groups and line ministries in the preparations of the FY 2018/19 budget and is embedded on the priorities of the third Medium Term Plan (MTP III) (covering 2018-2022), the successor document of the second MTP (that covered 2013-2017). The ceilings will form inputs into the next Budget Policy Statement (BPS) which will be finalized by February 2018.

Annex Table 1: Annex Table 1: Macroeconomic Indicators for the FY 2018/19-2020/21 Period

	2014/15	2015/16		2016/17			2017/18		2018/19		2019/20		2020/21
	Act.	Rev. Budget	Act	Printed Estimates	Rev. Budget	Prel. Act	Budget	BROP'17	BPS'17	BROP'17	BPS'17	BROP'17	BROP'17
annual percentage change, unless otherwise indicated													
National Account and Prices													
Real GDP	5.5	5.8	5.8	6.1	6.0	5.7	6.2	5.9	6.5	6.3	6.6	6.6	6.7
GDP deflator	8.8	6.8	8.8	6.2	6.1	8.4	5.5	7.9	5.4	6.8	5.6	6.2	5.7
CPI Index (eop)	6.5	5.3	6.7	5.0	5.3	6.7	5.0	5.9	5.0	5.2	5.0	5.0	5.0
CPI Index (avg)	6.6	5.6	6.4	5.0	5.6	6.9	5.0	6.6	5.0	5.3	5.0	5.0	5.0
Terms of trade (-deterioration)	0.7	0.3	-0.1	-0.9	2.1	4.9	1.5	3.2	1.0	1.9	-0.5	-0.4	-5.7
Money and Credit (end of period)													
Net domestic assets	30.1	12.3	3.8	7.3	-6.0	3.6	2.5	5.7	8.4	15.7	13.7	18.7	15.0
Net domestic credit to the Government	84.3	22.3	7.4	18.2	19.3	15.8	22.9	24.1	19.7	18.1	10.1	13.5	12.6
Credit to the rest of the economy	20.3	16.8	8.4	14.8	8.5	2.7	8.7	1.5	15.0	12.6	18.7	13.1	18.6
Broad Money, M3 (percent change)	18.4	13.0	8.1	12.6	12.9	6.0	11.4	14.2	11.8	13.5	15.0	19.5	12.0
Reserve money (percent change)	14.9		4.9	10.4	15.8	2.8	10.8	20.7	11.1	12.9	14.3	18.8	11.3
in percentage of GDP, unless otherwise indicated													
Investment and Saving													
Investment	22.5	23.5	19.5	22.8	23.9	18.6	24.4	20.7	25.9	22.0	26.5	21.5	23.8
Central Government	8.7	10.4	7.1	11.1	7.8	8.3	7.6	7.0	7.5	6.7	7.6	6.3	6.8
Other	13.8	13.1	12.4	11.7	16.1	10.3	16.9	13.7	18.4	15.3	18.8	15.2	17.0
Gross National Saving	16.5	16.4	15.9	17.4	17.8	13.0	18.3	14.7	19.9	16.0	20.9	15.7	18.5
Central Government	3.6	3.3	3.1	4.7	4.5	2.8	4.7	2.1	5.6	3.7	6.5	4.2	4.4
Other	12.9	13.0	12.8	12.7	13.3	10.2	13.6	12.6	14.4	12.3	14.4	11.5	14.1
Central Government Budget													
Total revenue	19.0	20.2	18.4	20.7	19.6	18.2	20.6	18.6	20.6	18.6	21.5	18.6	18.8
Total expenditure and net lending	28.1	31.5	26.6	31.3	31.3	27.4	27.7	27.1	26.2	25.0	26.4	24.1	24.3
Overall balance (commitment basis) excl. grants	-9.1	-11.4	-8.2	-10.7	-11.7	-9.2	-7.2	-8.5	-5.7	-6.4	-4.8	-5.4	-5.5
Overall balance (commitment basis) incl. grants	-8.4	-10.3	-7.4	-9.7	-10.9	-8.9	-6.5	-7.9	-5.0	-5.9	-4.0	-4.9	-5.1
Overall balance (commitment basis) incl. grants exl SGR	-6.2	-8.5	-6.6	-8.0	-9.3	-7.4	-5.8	-7.2	-4.5	-5.4	-3.6	-4.5	-4.5
Primary budget balance	-5.4	-7.0	-4.2	-6.2	-7.6	-5.3	-3.1	-4.3	-1.8	-2.5	-2.6	-1.5	-1.7
Net domestic borrowing	4.3	3.8	3.0	3.3	4.7	4.0	3.3	4.7	3.7	3.8	2.8	2.8	3.7
Total external support (grant & loans)	4.3	5.6	2.7	5.8	5.0	3.3	3.2	3.2	3.2	2.8	3.4	2.7	3.2
External Sector													
Exports value, goods and services	18.0	21.7	17.1	22.8	19.2	16.2	21.7	16.9	21.5	17.6	21.8	18.4	18.7
Imports value, goods and services	28.1	33.2	24.6	32.1	29.1	25.2	31.5	25.9	30.8	26.2	30.6	26.6	26.0
Current external balance, including official transfers	-6.0	-7.2	-3.6	-5.4	-6.1	-5.6	-6.1	-6.0	-6.0	-6.0	-5.6	-5.8	-5.3
Gross international reserve coverage in months of next year imports (end of period)	5.3	4.5	5.2	4.5	4.3	4.6	4.9	5.9	5.1	5.9	4.8	6.3	6.3
Gross international reserve coverage in months of this year's imports (end of period)	6.0	4.8	6.2	5.1	5.1	6.5	5.3	6.7	5.4	6.8	5.5	6.9	7.0
Public debt													
Nominal central government debt (eop), net of deposits	44.6	48.8	47.9	49.1	45.3	51.5	47.4	50.3	48.7	52.2	49.1	51.2	50.5
Domestic (gross)	24.4	25.1	27.1	24.9	26.7	27.4	27.8	28.6	28.6	29.1	28.5	28.7	28.4
Domestic (net)	20.2	21.4	21.1	21.5	21.2	21.8	22.9	23.7	24.2	24.7	24.4	24.8	25.0
External	24.4	27.4	26.8	27.6	24.1	29.8	24.5	26.6	24.5	27.4	24.7	26.4	25.6
Memorandum Items:													
Nominal GDP (in Ksh Billion)	5,832	6,444	6,710	7,259	7,435	7,711	8,284	8,805	9,259	9,998	10,022	11,314	12,671
Nominal GDP (in US$ Million)	63,823	64,843	66,367	72,348	73,655	75,403	81,284	84,537	89,981	94,806	96,468	106,266	117,875

Source: National Treasury

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

Annex Table 2: Government Operations for the FY 2018/19-2020/21 Period, Ksh Billion

	2014/15	2015/16		2016/17			2017/18		2018/19		2019/20		2020/21
	Act	Rev. Budget	Act	Printed Estimates	Rev. Budget	Prel. Act	Budget	BROP'17	BPS'17	BROP'17	BPS'17	BROP'17	BROP'17
TOTAL REVENUE	**1,107.8**	**1,299.9**	**1,232.6**	**1,500.5**	**1,455.4**	**1,400.6**	**1,704.5**	**1,634.1**	**1,903.1**	**1,855.9**	**2,157.5**	**2,110.1**	**2,385.9**
Ordinary Revenue	1,031.8	1,184.4	1,153.0	1,376.4	1,311.3	1,305.8	1,549.4	1,477.1	1,767.0	1,690.5	2,013.5	1,933.1	2,198.8
Income Tax	508.6	578.0	560.8	671.1	623.9	625.1	765.6	719.1	877.2	837.0	1,008.8	970.8	1,115.9
Import duty (net)	74.0	83.6	79.2	96.3	89.2	89.9	102.4	102.4	115.0	116.3	129.2	132.1	150.0
Excise duty	115.9	137.2	139.5	169.3	170.3	165.5	197.4	183.7	223.9	210.3	252.8	241.1	276.3
Value Added Tax	259.7	300.0	289.2	345.6	337.6	339.0	383.5	388.7	435.1	434.4	494.4	486.0	542.4
Investment income	14.0	21.6	19.3	19.7	28.3	28.5	18.2	18.2	18.7	18.7	19.8	19.8	20.8
Other	59.6	64.0	65.0	74.5	62.1	57.8	82.3	65.1	97.1	73.7	108.4	83.3	93.2
Railway Development Levy	19.2	18.0	17.3	20.2	18.5	18.9	21.2	21.7	23.9	*24.7*	*26.8*	*28.1*	*31.8*
Ministerial and Departmental fees (AiA)	56.7	97.6	62.4	103.9	125.5	75.9	134.0	135.3	112.2	140.7	117.2	148.9	155.4
EXPENDITURE AND NET LENDING	**1,640.0**	**2,032.5**	**1,781.9**	**2,275.6**	**2,326.9**	**2,110.0**	**2,298.8**	**2,384.1**	**2,428.5**	**2,499.3**	**2,642.3**	**2,717.8**	**3,082.1**
Recurrent expenditure	895.2	1,085.3	1,027.5	1,168.5	1,238.3	1,179.5	1,347.3	1,442.6	1,385.9	1,486.5	1,504.5	1,630.6	1,820.9
Interest payments	171.9	215.5	215.3	250.8	244.2	271.2	280.7	317.0	295.6	340.4	324.0	383.9	431.4
Domestic interest	139.6	174.1	172.9	197.3	181.8	212.9	210.1	229.9	226.0	236.3	257.6	271.8	312.6
Foreign Interest /1	32.3	41.4	42.5	53.5	62.4	58.4	70.6	87.1	69.6	104.1	66.4	112.1	118.8
Wages and Salaries/2	298.0	333.5	307.4	360.8	341.2	336.6	365.0	377.7	434.7	398.6	456.4	417.8	438.7
Contribution to civil service pension fund	0.0	0.0	0.0	0.0	0.0	0.0	17.9	17.9	22.8	22.8	24.0	24.0	25.4
Civil service Reform	1.0	1.0	0.0	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pensions etc	37.5	56.1	53.4	60.2	65.1	64.0	76.2	81.2	86.4	91.1	99.4	109.5	124.5
Other	293.1	366.6	337.7	371.2	458.0	377.5	477.2	518.6	416.6	499.0	466.3	561.1	658.2
Defense and NSIS	93.7	112.5	113.7	124.0	129.9	130.2	130.2	130.2	129.9	134.6	134.3	134.3	142.9
Development and Net lending	510.5	678.0	485.4	817.3	803.9	645.8	640.3	630.3	709.0	679.2	778.0	727.4	873.4
Domestically financed	266.8	316.5	301.3	395.5	430.3	389.6	373.4	341.9	412.0	392.1	433.8	413.3	464.0
o/w Domestically Financed (Net)/3	241.5	280.1	280.2	338.2	374.7	357.7	330.4	298.4	364.2	343.5	381.7	360.0	405.5
o/w Exchequer Issues/4	241.5	280.1	280.2	338.2	374.7	357.7	330.4	298.4	364.2	343.5	381.7	360.0	405.5
Ministerial Development AIA	25.4	36.4	21.1	57.4	55.6	31.9	43.0	43.4	47.7	48.5	52.1	53.3	58.5
Foreign financed/5	241.2	353.0	175.5	413.6	365.2	247.7	256.8	278.4	285.8	276.3	332.5	302.8	396.0
Net lending	2.1	2.1	2.2	2.1	2.3	2.4	2.4	2.4	2.4	2.4	1.6	1.6	2.5
Contingencies/4	5.0	5.0	5.0	5.0	0.0	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
County Allocation	229.3	264.2	264.0	284.8	284.7	284.7	306.2	306.2	328.5	328.5	354.9	354.9	382.7
Of which: sharable	228.6	259.8	259.8	280.4	280.3	280.3	302.0	302.0	324.0	324.0	350.0	350.0	378.0
Conditional Level Five Hospitals	0.0	3.6	3.6	4.0	4.0	4.0	4.2	4.2	4.5	4.5	4.9	4.9	4.8
County Health Facilities - DANIDA	0.7	0.8	0.7	0.4	0.4	0.41	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equalization Fund for Marginal areas /7	0.4	6.4	6.4	6.0	6.0	6.0	7.7	7.7	8.8	8.5	10.1	9.7	11.0
Fiscal Balance ***(commitment basis excl. grants)***	**-532.3**	**-732.6**	**-549.3**	**-775.0**	**-871.6**	**-709.4**	**-594.3**	**-750.0**	**-525.3**	**-643.3**	**-484.9**	**-607.8**	**-696.2**
Adjustment to cash basis	16.9	0.0	22.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	**28.1**	**66.0**	**29.6**	**72.7**	**58.8**	**26.3**	**58.8**	**58.8**	**60.5**	**50.5**	**81.4**	**51.6**	**51.4**
Of which: Project grants	23.0	58.2	24.1	65.4	51.4	19.1	52.7	52.7	53.9	44.4	76.4	46.6	48.9
Debt Swap	0.53	0.5	0.5	0.5	0.5	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.0
Programmme grants	3.84	6.4	4.3	6.4	6.4	6.8	6.1	6.1	6.1	6.1	5.0	5.0	2.5
County Health Facilities - DANIDA	0.7	0.8	0.7	0.4	0.4	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fiscal Balance ***(cash basis incl. grants)***	**-487.2**	**-666.6**	**-497.3**	**-702.3**	**-812.8**	**-683.1**	**-535.5**	**-691.2**	**-464.8**	**-592.8**	**-403.5**	**-556.1**	**-644.7**
Fiscal Balance ***(cash basis incl. grants) Exl. SGR***	**-363.7**	**-548.4**	**-445.0**	**-584.1**	**-688.1**	**-571.7**	**-481.4**	**-637.2**	**-414.8**	**-542.8**	**-357.8**	**-510.4**	**-576.5**
Statistical discrepancy	-15.7	0.0	-22.7	0.0	0.0	14.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FINANCING	**471.5**	**666.6**	**474.6**	**702.3**	**812.8**	**697.3**	**535.5**	**691.2**	**464.8**	**592.8**	**403.5**	**556.1**	**644.7**
Net Foreign Financing	217.5	419.0	269.9	462.3	463.9	385.7	256.0	277.3	130.5	205.6	200.2	224.9	289.3
Project loans	218.2	294.8	151.4	348.3	313.8	228.6	204.1	225.6	231.9	231.9	256.2	256.2	347.0
Programme loans	3.5	8.2	8.6	3.9	7.4	6.8	0.9	0.9	0.0	2.5	0.0	1.5	1.5
Commercial Financing/6	75.0	154.3	145.0	153.8	186.3	186.3	200.0	200.0	125.0	288.0	53.2	100.0	50.0
of which: Syndicated Loan	0.0	0.0	0.0										
Repayments due	-79.1	-38.4	-35.1	-43.6	-43.6	-35.9	-149.0	-149.3	-226.4	-316.8	-109.2	-132.8	-109.2
Other Domestic Financing	2.9	2.6	2.4	4.0	2.1	1.8	3.8	3.8	-5.8	4.2	-5.7	-5.7	-1.1
Net Domestic Financing	251.1	245.0	202.3	236.1	346.8	309.8	275.7	410.2	340.1	383.0	209.0	336.9	356.5
Of which: Sovereign Bond proceeds	140.5	-	-	-	-	-	-	-	-	-	-	-	-
Others	110.6	245.0	202.3	236.1	346.8	309.8	275.7	410.2	340.1	383.0	209.0	336.9	356.5
Financing gap	0.0	0.0	-22.7	0.0	0.0	14.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo items													
External Debt	1,423.3	1,796.2	1,796.2	1,926.5	2,294.7	2,294.7	2,462.5	2,338.9	2,272.3	2,743.6	2,471.1	2,983.7	3,238.9
Domestic Debt (gross)	1,420.4	1,815.1	1,815.1	1,995.4	2,112.3	2,112.3	2,388.0	2,522.4	2,646.9	2,905.4	2,855.9	3,242.3	3,598.9
Domestic Debt (net)	1,178.2	1,414.6	1,414.6	1,587.0	1,677.8	1,677.8	1,953.5	2,087.9	2,238.5	2,471.0	2,447.5	2,807.9	3,164.4
Primary budget balance	-315.3	-451.1	-282.0	-451.5	-568.6	-411.9	-254.7	-374.3	-169.3	-252.4	-79.5	-172.3	-213.4
Nominal GDP	5,831.5	6,444.0	6,709.7	7,259.0	7,435.2	7,710.9	8,284.3	8,804.9	9,258.8	9,997.7	10,021.8	11,314.0	12,670.7

Source: The National Treasury

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

/1 Interest payments for FY 2014/15 includes Ksh 401.3 million on syndicated loan; /2 Salaries and Wages reflect the wages for civil service inclusive of the police and prison officers and teachers

/3 Domestically financed development for FY 2014/15 is higher than Exchequer issued of Ksh 233.5 billion on account of commitments; /4 Comprises total excheque releases (Ksh 233.5 billion) excluding from grants and loans (Ksh 36.8 billion)

/5 Foreign Financed devt for FY 2014/15 incl. grants and loans through the exchequer of Ksh 36.8 billion; /6 Commercial Financing incl. all forms of external financing not related to projects including, first Eurobond receipts, Eurobond tap sales, syndicated loans

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

Annex Table 3: Government Operations for the FY 2018/19-2020/21 Period (% of GDP)

	2014/15	2015/16		2016/17			2017/18		2018/19		2019/20		2020/21
	Act	Rev. Budget	Act	Printed Estimates	*Rev. Budget*	Prel. Act	*Budget*	BROP'17	*BPS'17*	BROP'17	*BPS'17*	*BROP'17*	*BROP'17*
TOTAL REVENUE	**19.0**	**20.2**	**18.4**	**20.7**	**19.6**	**18.2**	**20.6**	**18.6**	**20.6**	**18.6**	**21.5**	**18.6**	**18.8**
Ordinary Revenue	17.7	18.4	17.2	19.0	17.6	16.9	18.7	16.8	19.1	16.9	20.1	17.1	17.4
Income tax	8.7	9.0	8.4	9.2	8.4	8.1	9.2	8.2	9.5	8.4	10.1	8.6	8.8
Import duty (net)	1.3	1.3	1.2	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.2	1.2
Excise duty	2.0	2.1	2.1	2.3	2.3	2.1	2.4	2.1	2.4	2.1	2.5	2.1	2.2
Value Added Tax	4.5	4.7	4.3	4.8	4.5	4.4	4.6	4.4	4.7	4.3	4.9	4.3	4.3
Investment income	0.2	0.3	0.3	0.3	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other	1.0	1.0	1.0	1.0	0.8	0.7	1.0	0.7	1.0	0.7	1.1	0.7	0.7
Railway Development Levy	0.3	0.3	0.3	0.3	0.2	0.2	0.3	0.2	0.3	0.2	0.3	0.2	0.3
Ministerial and Departmental fees (AiA)	1.0	1.5	0.9	1.4	1.7	1.0	1.6	1.5	1.2	1.4	1.2	1.3	1.2
EXPENDITURE AND NET LENDING	**28.1**	**31.5**	**26.6**	**31.3**	**31.3**	**27.4**	**27.7**	**27.1**	**26.2**	**25.0**	**26.4**	**24.0**	**24.3**
Recurrent expenditure	15.4	16.8	15.3	16.1	16.7	15.3	16.3	16.4	15.0	14.9	15.0	14.4	14.4
Interest payments	2.9	3.3	3.2	3.5	3.3	3.5	3.4	3.6	3.2	3.4	3.2	3.4	3.4
Domestic interest	2.4	2.7	2.6	2.7	2.4	2.8	2.5	2.6	2.4	2.4	2.6	2.4	2.5
Foreign Interest /1	0.6	0.6	0.6	0.7	0.8	0.8	0.9	1.0	0.8	1.0	0.7	1.0	0.9
Wages and Salaries/2	5.1	5.2	4.6	5.0	4.6	4.4	4.4	4.3	4.7	4.0	4.6	3.7	3.5
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	0.2	0.2
Civil service Reform	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pensions etc	0.6	0.9	0.8	0.8	0.9	0.8	0.9	0.9	0.9	0.9	1.0	1.0	1.0
Other	5.0	5.7	5.0	5.1	6.2	4.9	5.8	5.9	4.5	5.0	4.7	5.0	5.2
Defense and NSIS	1.6	1.7	1.7	1.7	1.7	1.7	1.6	1.5	1.4	1.3	1.3	1.2	1.1
Development and Net lending	8.8	10.5	7.2	11.3	10.8	8.4	7.7	7.2	7.7	6.8	7.8	6.4	6.9
Domestically financed	4.6	4.9	4.5	5.4	5.8	5.1	4.5	3.9	4.4	3.9	4.3	3.7	3.7
o/w Domestically Financed (Net)/3	4.1	4.3	4.2	4.7	5.0	4.6	4.0	3.4	3.9	3.4	3.8	3.2	3.2
o/w Exchequer Issues/4	4.1	4.3	4.2	4.7	5.0	4.6	4.0	3.4	3.9	3.4	3.8	3.2	3.2
Ministerial Development AIA	0.4	0.6	0.3	0.8	0.7	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Foreign financed/5	4.1	5.5	2.6	5.7	4.9	3.2	3.1	3.2	3.1	2.8	3.3	2.7	3.1
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingencies/4	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0
County Allocation	3.9	4.1	3.9	3.9	3.8	3.7	3.7	3.5	3.5	3.3	3.5	3.1	3.0
Of which: sharable	3.9	4.0	3.9	3.9	3.8	3.6	3.6	3.4	3.5	3.2	3.5	3.1	3.0
Equalization Fund for Marginal areas /7	0.0	0.1	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Fiscal Balance (commitment basis excl. grants)	**-9.1**	**-11.4**	**-8.2**	**-10.7**	**-11.7**	**-9.2**	**-7.2**	**-8.5**	**-5.7**	**-6.4**	**-4.8**	**-5.4**	-5.5
Adjustment to cash basis	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.5	1.0	0.4	1.0	0.7	0.3	0.6	0.7	0.6	0.5	0.8	0.4	0.4
Of which: Project grants	0.4	0.9	0.4	0.9	0.0	0.2	0.0	0.6	0.0	0.4	0.0	0.0	0.0
Debt Swap	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0	0.0
Programmme grants	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Fiscal Balance (cash basis incl. grants)	**-8.4**	**-10.3**	**-7.4**	**-9.7**	**-10.9**	**-8.9**	**-6.5**	**-7.9**	**-5.0**	**-5.9**	**-4.0**	**-4.9**	**-5.1**
Fiscal Balance (cash basis incl. grants) Exl. SGR	**-6.2**	**-8.5**	**-6.6**	**-8.0**	**-9.3**	**-7.4**	**-5.8**	**-7.2**	**-4.5**	**-5.4**	**-3.6**	**-4.5**	-4.5
FINANCING	**8.1**	**10.3**	**7.1**	**9.7**	**10.9**	**9.0**	**6.5**	**7.9**	**5.0**	**5.9**	**4.0**	**4.9**	**5.1**
Net Foreign Financing	3.7	6.5	4.0	6.4	6.2	5.0	3.1	3.1	1.4	2.1	2.0	2.0	2.3
Project loans	3.7	4.6	2.3	4.8	4.2	3.0	2.5	2.6	2.5	2.3	2.6	2.3	2.7
Programme loans	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial Financing/6	1.3	2.4	2.2	2.1	2.5	2.4	2.4	2.3	1.4	2.9	0.5	0.9	0.4
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	0.0	0.0
Repayments due	-1.4	-0.6	-0.5	-0.6	-0.6	-0.5	-1.8	-1.7	-2.4	-3.2	-1.1	-1.2	-0.9
O/W syndicated Loan repayments	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Domestic Financing	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1	-0.1	0.0
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	0.0	0.0
Domestic Loan Repayments (Receipts)	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Domestic Loan Repayments CBK	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	0.0	-0.1	-0.1	**0.0**
Net Domestic Financing	**4.3**	**3.8**	**3.0**	**3.3**	**4.7**	**4.0**	**3.3**	**4.7**	**3.7**	**3.8**	**2.1**	**3.0**	**2.8**
Of which: Sovereign Bond proceeds	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Others	1.9	3.8	3.0	3.3	4.7	4.0	3.3	4.7	3.7	3.8	2.1	3.0	**2.8**
	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Financing gap	0.0	0.0	-0.3	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**
Memo Items													
Total Public Debt (net)	44.6	48.8	47.9	49.1	45.3	51.5	47.4	50.3	48.7	52.2	49.1	51.2	50.5
External Debt	24.4	27.9	26.8	26.5	30.9	29.8	29.7	26.6	24.5	27.4	24.7	26.4	25.6
Domestic Debt (gross)	24.4	28.2	27.1	27.5	28.4	27.4	28.8	28.6	28.6	29.1	28.5	28.7	28.4
Domestic Debt (net)	20.2	22.0	21.1	21.9	22.6	21.8	23.6	23.7	24.2	24.7	24.4	24.8	25.0
Primary budget balance	-5.4	-7.0	-4.2	-6.2	-7.6	-5.3	-3.1	-4.3	-1.8	-2.5	-0.8	-1.5	-1.7
Nominal GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: The National Treasury

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

Annex Table 4: Development Sector Ceilings for the FY 2018/19-020/21 MTEF Period (Ksh M)

SECTOR		Budget Estimates	BROP Ceiling	Projections	
		2017/18	2018/19	2019/20	2020/21
Agriculture, Rural & Urban Development	**Gross**	**21,084.8**	**21,984.8**	**23,334.8**	**23,995.8**
	GOK	7,335.0	6,735.0	7,585.0	8,246.0
	Loans	3,100.2	3,100.2	3,100.2	3,100.2
	Grants	3,119.6	3,119.6	3,119.6	3,119.6
	Local A-I-A	-	-	-	-
	S.I	7,530.0	9,030.0	9,530.0	9,530.0
Energy, Infrastructure & ICT	**Gross**	**348,521.3**	**340,392.8**	**344,872.0**	**345,265.0**
	GOK	84,423.2	79,810.6	81,289.8	81,682.8
	Loans	153,216.0	153,216.0	153,216.0	153,216.0
	Grants	7,234.3	7,234.3	7,234.3	7,234.3
	Local A-I-A	42,961.0	42,924.0	42,924.0	42,924.0
	S.I	60,686.9	57,208.0	60,208.0	60,208.0
General Economic & Commercial Affairs	**Gross**	**10,184.6**	**9,265.1**	**9,890.1**	**10,325.1**
	GOK	9,311.0	8,391.5	9,016.5	9,451.5
	Loans	754.6	754.6	754.6	754.6
	Grants	119.0	119.0	119.0	119.0
	S.I	-	-	-	-
Health	**Gross**	**30,978.7**	**31,878.7**	**32,103.7**	**32,120.7**
	GOK	2,725.0	2,625.0	2,850.0	2,867.0
	Loans	7,726.7	7,726.7	7,726.7	7,726.7
	Grants	10,229.0	10,229.0	10,229.0	10,229.0
	S.I	10,298.0	11,298.0	11,298.0	11,298.0
Education	**Gross**	**24,838.8**	**28,008.3**	**28,589.3**	**28,673.8**
	GOK	18,131.0	18,931.0	19,512.0	19,966.0
	Loans	4,406.0	4,406.0	4,406.0	4,406.0
	Grants	2,301.8	2,301.8	2,301.8	2,301.8
	S.I	-	2,369.5	2,369.5	2,000.0
Governance, Justice, Law & Order	**Gross**	**26,414.4**	**24,729.2**	**23,870.1**	**23,881.3**
	GOK	10,889.9	11,207.3	10,348.2	10,359.4
	Loans	2,999.0	2,999.0	2,999.0	2,999.0
	Grants	1,525.5	1,522.9	1,522.9	1,522.9
	S.I	11,000.0	9,000.0	9,000.0	9,000.0
Public Administration & International Relations	**Gross**	**104,471.2**	**101,198.5**	**102,808.5**	**102,699.5**
	GOK	36,411.2	34,854.5	36,464.5	36,355.5
	Loans	4,464.1	4,464.1	4,464.1	4,464.1
	Grants	19,921.3	19,921.3	19,921.3	19,921.3
	S.I	-	-	-	-
	CF & EF	12,716.0	11,000.0	11,000.0	11,000.0
	CDF	30,958.6	30,958.6	30,958.6	30,958.6
National Security	**Gross**	**45.0**	**45.0**	**45.0**	**45.0**
	GOK	-	-	-	-
	Loans	-	-	-	-
	Grants	45.0	45.0	45.0	45.0
Social Protection, Culture & Recreation	**Gross**	**25,530.3**	**28,351.8**	**29,399.0**	**29,545.9**
	GOK	9,220.0	9,181.5	10,608.8	10,755.6
	Loans	1,144.0	1,144.0	1,144.0	1,144.0
	Grants	3,411.2	3,411.2	3,411.2	3,411.2
	S.I	11,755.1	14,615.1	14,235.1	14,235.1
Environment Protection, Water & Natural Resources	**Gross**	**50,798.3**	**56,923.3**	**57,978.4**	**58,658.4**
	GOK	19,694.6	19,819.6	20,874.7	21,554.7
	Loans	26,456.8	26,456.8	26,456.8	26,456.8
	Grants	4,646.9	4,646.9	4,646.9	4,646.9
	S.I	-	-	-	-
TOTAL	**Gross**	**642,867.3**	**642,777.4**	**652,890.9**	**655,210.5**
	GOK	**198,140.9**	**191,555.9**	**198,549.5**	**201,238.5**
	Loans	**204,267.3**	**204,267.3**	**204,267.3**	**204,267.3**
	Grants	**52,553.5**	**52,551.0**	**52,551.0**	**52,551.0**
	Local A-I-A	**42,961.0**	**42,924.0**	**42,924.0**	**42,924.0**
	S.I.	**101,269.9**	**103,520.6**	**106,640.6**	**106,271.1**
	CF & EF	**12,716.0**	**11,000.0**	**11,000.0**	**11,000.0**
	CDF	**30,958.6**	**30,958.6**	**30,958.6**	**30,958.6**

Note (1) S.I=Strategic Intervention, (2) CF&EF=Contingency Fund & Equalization Fund, (3) CDF=Constituency Development Fund

Source: National Treasury

Annex Table 5: Recurrent Sector Ceilings for the 2018/19 - 2020/21 MTEF Period (Ksh Million)

				SECTOR ALLOCATION						
Sector Code	SECTOR	Classification	Budget Estimates	Sector Allocation	Projection		Budget Estimates	BROP Ceiling	Projections	
			2016/17	2017/18	2018/19	2019/20	2017/18	2018/19	2019/20	2020/21
010	Agriculture, Rural & Urban Development	**Gross**	**15,752.4**	**17,017.0**	**17,429.0**	**17,853.0**	**17,312.3**	**18,147.2**	**18,964.3**	**19,804.4**
		A-I-A	62.4	62.4	62.4	62.4	37.0	37.0	37.0	37.0
		Net	15,689.9	16,954.6	17,366.6	17,790.6	17,275.3	18,110.2	18,927.2	19,767.4
		Salaries	5,281.3	5,440.0	5,603.0	5,771.0	5,596.7	5,820.7	6,011.0	6,207.8
		Grants & Other Transfers	6,715.9	7,657.0	7,731.0	7,868.0	7,657.0	7,886.4	8,122.7	8,366.1
		Other Recurrent	3,755.2	3,920.0	4,095.0	4,214.0	4,058.6	4,440.0	4,830.5	5,230.6
020	Energy, Infrastructure & ICT	**Gross**	**41,945.7**	**66,465.6**	**70,077.3**	**70,555.6**	**67,222.0**	**68,020.2**	**68,716.7**	**69,446.9**
		A-I-A	32,015.5	55,807.5	59,191.5	59,432.5	55,807.5	56,037.2	56,278.5	56,531.8
		Net	9,930.2	10,658.1	10,885.9	11,123.1	11,414.5	11,983.0	12,438.2	12,915.2
		Salaries	3,240.0	3,336.2	3,438.2	3,541.7	3,519.1	3,732.8	3,844.8	3,960.1
		Grants & Other Transfers	35,758.1	60,021.3	63,433.6	63,701.6	60,414.3	60,767.9	61,142.8	61,540.3
		Other Recurrent	2,947.6	3,108.1	3,205.5	3,312.3	3,288.6	3,519.5	3,729.1	3,946.6
030	General Economic & Commercial Affairs	**Gross**	**12,604.4**	**9,617.0**	**9,800.0**	**9,948.0**	**9,609.7**	**9,806.9**	**9,959.9**	**10,120.0**
		A-I-A	1,029.4	1,029.4	1,029.4	1,029.4	1,027.9	1,027.9	1,027.9	1,027.9
		Net	11,575.0	8,587.6	8,770.6	8,918.6	8,581.8	8,779.0	8,932.1	9,092.1
		Salaries	1,115.3	1,150.0	1,183.0	1,219.0	1,184.0	1,266.0	1,298.2	1,331.3
		Grants & Other Transfers	6,968.6	6,264.0	6,264.0	6,264.0	6,122.7	6,122.7	6,122.7	6,122.7
		Other Recurrent	4,520.6	2,203.0	2,353.0	2,465.0	2,303.0	2,418.2	2,539.1	2,666.0
040	Health	**Gross**	**28,990.1**	**29,609.1**	**30,107.9**	**30,383.1**	**30,721.8**	**32,652.0**	**32,960.1**	**33,279.4**
		A-I-A	3,977.9	3,979.9	3,980.9	3,981.9	3,977.9	3,977.9	3,977.9	3,977.9
		Net	25,012.2	25,629.2	26,127.0	26,401.2	26,743.9	28,674.1	28,982.2	29,301.5
		Salaries	5,720.7	5,892.3	6,069.1	6,251.2	6,959.0	7,167.8	7,382.8	7,604.3
		Grants & Other Transfers	20,630.3	21,042.9	21,276.2	21,276.2	21,088.9	21,721.6	21,721.6	21,721.6
		Other Recurrent	1,739.1	1,773.8	1,862.5	1,955.7	1,773.8	1,862.5	1,955.7	2,053.4
		Strategic Interventions	*900.0*	*900.0*	*900.0*	*900.0*	900.0	1,900.0	1,900.0	1,900.0
050	Education	**Gross**	**315,749.1**	**350,251.5**	**363,937.1**	**373,033.1**	**350,148.0**	**400,998.4**	**413,855.8**	**427,111.7**
		A-I-A	18,335.2	40,258.7	40,258.7	40,258.7	40,513.7	40,513.7	40,513.7	40,513.7
		Net	297,413.9	309,992.8	323,678.4	332,774.4	309,634.3	360,484.7	373,342.1	386,598.0
		Salaries	189,983.5	204,182.4	215,054.1	221,101.0	196,179.9	206,517.6	216,413.1	226,605.5
		Grants & Other Transfers	73,174.5	95,597.2	97,098.0	98,597.3	97,391.8	99,649.9	101,975.8	104,371.5
		Other Recurrent	46,091.1	46,656.8	47,970.0	49,519.8	48,276.3	49,180.8	49,816.8	50,484.6
		Strategic Interventions	*-*	*3,815.0*	*3,815.0*	*3,815.0*	-	37,350.0	37,350.0	37,350.0
		Medical Insurance	*6,500.0*	*-*	*-*	*-*	8,300.0	8,300.0	8,300.0	8,300.0
060	Governance, Justice, Law & Order	**Gross**	**165,821.4**	**172,222.0**	**162,317.9**	**166,481.8**	**176,136.9**	**173,091.5**	**172,707.9**	**176,874.6**
		A-I-A	773.2	773.2	773.2	773.2	773.2	773.2	773.2	773.2
		Net	165,048.2	171,448.7	161,544.7	165,708.5	175,363.6	172,318.3	171,934.6	176,101.4
		Salaries	90,462.0	93,175.8	96,132.6	99,016.6	101,686.3	103,882.6	106,959.0	110,167.8
		Grants & Other Transfers	7,077.2	7,366.4	7,653.2	7,844.4	7,612.6	7,751.0	7,896.4	8,049.0
		Other Recurrent	35,448.7	35,746.2	36,729.0	37,817.6	49,780.1	41,426.7	39,515.6	40,321.0
		Strategic Interventions	*25,986.5*	*29,086.5*	*14,956.1*	*14,956.1*	10,208.8	12,908.8	11,208.8	11,208.8
		Medical Insurance	*6,847.1*	*6,847.1*	*6,847.1*	*6,847.1*	6,849.0	7,122.4	7,128.1	7,128.1
070	Public Administration & International Relations	**Gross**	**114,907.0**	**150,127.0**	**141,012.5**	**142,890.5**	**165,720.1**	**175,830.3**	**180,518.6**	**177,729.9**
		A-I-A	830.7	830.7	830.7	830.7	1,067.7	1,101.2	1,101.2	1,101.2
		Net	114,076.3	149,296.4	140,181.8	142,059.8	164,652.4	174,729.1	179,417.4	176,628.7
		Salaries	32,331.8	60,798.6	55,411.0	56,509.9	75,875.2	74,364.7	75,458.7	76,585.2
		Grants & Other Transfers	26,516.3	26,524.5	26,524.5	26,524.5	29,152.5	29,652.5	29,652.5	29,652.5
		Other Recurrent	44,735.2	50,480.2	47,253.3	48,232.5	48,668.7	50,665.4	52,665.8	54,750.6
		Strategic Interventions	*8,100.0*	*9,100.0*	*8,600.0*	*8,400.0*	8,400.0	17,524.0	19,118.0	13,118.0
		Medical Insurance	*3,223.7*	*3,223.7*	*3,223.7*	*3,223.7*	3,623.7	3,623.7	3,623.7	3,623.7
080	National Security	**Gross**	**124,000.2**	**130,160.1**	**134,456.0**	**138,909.0**	**130,178.4**	**143,368.1**	**147,395.3**	**151,543.6**
		A-I-A	-	-	-	-	-	-	-	-
		Net	124,000.2	130,160.1	134,456.0	138,909.0	130,178.4	143,368.1	147,395.3	151,543.6
		Salaries	773.9	797.1	821.0	846.0	815.4	839.9	865.1	891.0
		Grants & Other Transfers	123,015.0	129,145.0	133,411.0	137,832.0	129,145.0	133,019.4	137,009.9	141,120.2
		Other Recurrent	211.2	218.0	224.0	231.0	218.0	228.9	240.3	252.4
		Strategic Interventions					-	9,280.0	9,280.0	9,280.0
090	Social Protection, Culture & Recreation	**Gross**	**18,199.2**	**18,782.4**	**20,219.2**	**20,904.5**	**20,649.9**	**26,593.2**	**27,017.4**	**27,403.1**
		A-I-A	63.8	63.8	63.8	63.8	66.6	155.6	155.6	155.6
		Net	18,135.5	18,718.6	20,155.4	20,840.7	20,583.3	26,437.6	26,861.9	27,247.6
		Salaries	2,510.4	2,743.8	2,821.5	2,901.4	2,799.3	2,912.1	2,991.1	3,072.4
		Grants & Other Transfers	5,742.5	5,476.7	5,509.6	5,972.8	5,835.3	5,015.0	5,180.2	5,297.3
		Other Recurrent	4,739.5	4,274.0	4,862.2	5,004.4	4,650.3	4,845.1	5,025.2	5,212.5
		Strategic Interventions	*5,206.9*	*6,287.9*	*7,025.9*	*7,025.9*	7,365.0	13,821.0	13,821.0	13,821.0
0100	Environment Protection, Water & Natural Resourc	**Gross**	**19,556.4**	**21,239.2**	**21,331.2**	**21,508.2**	**22,788.2**	**22,234.9**	**22,388.5**	**22,548.2**
		A-I-A	9,610.7	9,610.9	9,610.9	9,610.9	8,903.7	8,903.7	8,903.7	8,903.7
		Net	9,945.7	11,628.2	11,720.2	11,897.2	13,884.5	13,331.2	13,484.8	13,644.5
		Salaries	2,336.1	2,407.0	2,494.0	2,625.0	2,666.9	2,588.4	2,666.0	2,746.0
		Grants & Other Transfers	15,749.4	17,329.0	17,289.0	17,289.0	17,515.4	17,515.4	17,515.4	17,515.4
		Other Recurrent	1,470.9	1,503.2	1,548.2	1,594.2	1,993.9	1,519.1	1,595.0	1,674.8
		Strategic Interventions		500.0	500.0	500.0	612.0	612.0	612.0	612.0
	TOTAL	**Gross**	**857,526.0**	**965,490.9**	**970,688.1**	**992,466.7**	**990,487.3**	**1,070,742.5**	**1,094,484.5**	**1,115,861.9**
		A-I-A	**66,698.8**	**112,416.5**	**115,801.5**	**116,043.5**	**112,175.1**	**112,527.4**	**112,768.6**	**113,021.9**
		Net	**790,827.2**	**853,074.4**	**854,886.6**	**876,423.2**	**878,312.2**	**958,215.2**	**981,715.9**	**1,002,840.0**
		Salaries	**333,754.9**	**379,923.4**	**389,027.5**	**399,782.8**	**397,281.9**	**409,092.7**	**423,889.8**	**439,171.4**
		Grants & Other Transfers	**321,347.7**	**376,424.1**	**386,190.1**	**393,169.8**	**381,935.5**	**389,101.8**	**396,340.0**	**403,756.6**
		Other Recurrent	**145,659.1**	**149,883.4**	**150,102.7**	**154,346.4**	**165,011.4**	**160,106.1**	**161,913.1**	**166,592.3**
		Strategic Intervention	***40,193.4***	***49,189.4***	***35,297.0***	***35,097.0***	***26,873.8***	***93,395.8***	***93,289.8***	***87,289.8***
		Medical Insurance	***16,570.7***	***10,570.7***	***10,570.7***	***10,570.7***	***19,384.7***	***19,046.1***	***19,663.8***	***19,663.8***

Source: National Treasury

Annex Table 6: Budget Calendar for the FY 2018/19 Medium-Term Budget

ACTIVITY	RESPONSIBILITY	FY 2018/19 DEADLINE
1. Develop and issue MTEF guidelines	**National Treasury**	**29-Aug-17**
2. Launch of Sector Working Groups	**National Treasury**	**07-Sep-17**
3. Programme Performance & Strategic Reviews	**MDAs**	**22-Sep-17**
3.1 Review and update of strategic plans	"	"
3.2 Review of programme outputs and outcomes	"	"
3.3 Expenditure Review	"	"
3.5 Progress report on MTP implementation	"	"
3.6 Preparation of annual plans	"	"
4. Determination of Fiscal Framework	**Macro Working Group**	**22-Sep-17**
4.1 Estimation of Resource Envelope	"	"
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	"	29-Sep-17
4.6 Submission of approved BROP to Parliament	"	16-Oct-17
5. Preparation of MTEF budget proposals	**Line Ministries**	**03-Oct-15**
5.1 Draft Sector Reports	Sector Working Group	"
5.2 Convene Public Sector Hearing	National Treasury	15-Nov-15
5.3 Review of the proposals	Sector Working Group	22-Nov-15
5.4 Submission of Sector Reports to Treasury	Sector Chairpersons	30-Nov-15
5.5 Consultative meeting with Cabinet Secretaries/Principal Secretaries	National Treasury	04-Dec-17
6. Draft Budget Policy Statement (BPS)	**Macro Working Group**	**05-Dec-17**
6.1 Draft BPS	Macro Working Group	05-Dec-17
6.2 Division of Revenue Bill (DORB)	National Treasury	13-Dec-17
6.3 County Allocation of Revenue Bill (CARB)	National Treasury	13-Dec-17
6.5 Submission of BPS, DORB and CARB to Cabinet for approval	National Treasury	15-Jan-18
6.6 Submission of BPS, DORB and CARB to Parliament for approval	National Treasury	15-Feb-18
7. Preparation and approval of Final MDAs Budgets		
7.1 Develop and issue final guidelines on preparation of 2018/19 MTEF Budget	National Treasury	06-Mar-18
7.2 Submission of Budget Proposals to Treasury	Line Ministries	19-Mar-18
7.3 Consolidation of the Draft Budget Estimates	National Treasury	02-Apr-18
7.4 Submission of Draft Budget Estimates to Parliament	National Treasury	30-Apr-18
7.5 Review of Draft Budget Estimates by Parliament	National Assembly	15-May-18
7.6 Report on Draft Budget Estimates from Parliament	National Assembly	30-May-18
7.7 Consolidation of the Final Budget Estimates	National Treasury	15-Jun-18
7.8 Submission of Appropriation Bill to Parliament	National Treasury	15-Jun-18
7.9 Submission of Vote on Account to Parliament	National Treasury	29-Jun-18
8. Budget Statement	**National Treasury**	**18-Jun-18**
9. Appropriation Bill Passed	**National Assembly**	**29-Jun-18**

Source: National Treasury

THE NATIONAL TREASURY