



**REPUBLIC OF KENYA**

**THE NATIONAL TREASURY**

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**BUDGET REVIEW**  
**AND OUTLOOK PAPER**

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**SEPTEMBER 2014**

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## Foreword

This is the second Budget Review and Outlook Paper (BROP) prepared in accordance with the Public Finance Management (PFM) Act, 2012 under the Jubilee Administration. It presents the fiscal outcome for 2013/14 and how this affects the financial objectives set out in the PFM Act, 2012. The updated macro-economic and fiscal forecasts therein also provides the basis to revise the 2014/15 budget in the context of Supplementary Estimates, as well as set out the broad fiscal parameters for the 2015/16 budget and the medium term.

The macroeconomic environment in Kenya has remained stable. The revised estimates that were released in September 2014 demonstrate that the economic growth has remained resilient since 2010 growing to 5.7 percent in 2013 compared with the earlier estimate of 4.7 percent growth, underpinned by macroeconomic stability, strong fiscal performance and expanded activities in all the key sectors of the economy. The fiscal performance in FY 2013/14 was largely as programed, despite shortfalls in revenues particularly in Appropriation in Aid (AiA) and external grants and low absorption of both recurrent and development expenditures.

While the macroeconomic environment remains favourable, the lower than projected outcome of quarter real GDP growth, the performance of government securities market and revenue collection so far in fiscal year 2014/15 as well as the continued slowdown in tourism and emerging challenges facing agricultural sector in some parts of the country, together with continued slow recovery of global economy call for caution in fiscal projections for 2014/15 and the medium-term.

In this 2014 BROP we are re-emphasizing the Government's fiscal policy strategy, which focuses on maintaining a strong revenue effort and containing the growth of total expenditure, while shifting the composition of expenditure from recurrent to productive capital expenditures and optimally ensuring efficiency and effectiveness in the use of public resources. A strategy that recognizes the need to strike a balance between growth and fiscal and debt sustainability, with emphasis on higher investments in agriculture, human capital and infrastructure development today for a stronger and more durable growth tomorrow.

As outlined in the 2014 Budget Policy Statement, our development agenda will be implemented through the five thematic pillars. Sector Working Groups are called upon to adhere to the hard sector ceilings and rationalize all programs to ensure that only those programs within the five pillars with the least cost but highest impact on our core objective of growth, employment and poverty are given consideration in resource allocation.

**HENRY K. ROTICH**  
**CABINET SECRETARY, NATIONAL TREASURY**

# Acknowledgement

This 2014 Budget Review and Outlook Paper (BROP), is prepared in accordance with the Public Finance Management (PFM) Act, 2012 and is the second to be prepared under the New Administration. The document provides a review of the recent economic developments and actual fiscal performance of the FY 2013/2014 in comparisons to the budget appropriations for the same year. It further provides an overview of how the actual performance of the FY 2013/2014 affected our compliance with the Fiscal Responsibility Principles and the financial objectives spelt in the PFM Act as well as information showing changes from the projections outlined in the February 2014 Budget Policy Statement (BPS).

The preparation of the 2014 BROP was a collaborative effort as usual. The spending units, the Ministries and other Government Departments and Agencies, provided useful information through their budget execution for the FY 2013/14. We are grateful for this. We are also grateful for the comments from the Macro Working Group, whereby the Commission for Revenue Allocation participated for the first time. The fiscal transparency mission by the IMF also assisted in the identification of areas of improvement for our budget documents, including BROP, and we are grateful for their insightful recommendations.

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

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

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## **Abbreviations and Acronyms**

AiA	Appropriation in Aid
BOP	Balance of Payment
BPS	Budget Policy Statement
BROP	Budget Review and Outlook Paper
CBR	Central Bank Rate
CFS	Consolidated Fund Services
CG	County Government
CPI	Consumer Price Index
ECF	Extended Credit Facility
FY	Financial Year
GDP	Gross Domestic Product
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MDAs	Ministries, Departments and Agencies
NG	National Government
MPC	Monetary Policy Committee
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
NFA	Net Foreign Assets
NDA	Net Domestic Assets
PFM	Public Finance Management
SRC	Salaries and Remuneration Commission
SWGs	Sector Working Groups
TA	Transition Authority
WEO	World Economic Outlook
VAT	Value Added Tax
V 2030	Vision 2030
CBK	Central Bank of Kenya
NSE	Nairobi Securities Exchange
ICT	Information, Communication and Technology
SSA	Sub Saharan Africa
SMEs	Small and Medium Enterprises

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### **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 the Cabinet for approval, by 30<sup>th</sup> 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 BROOP 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

## **I. INTRODUCTION**

### **Objective of the Budget Review and Outlook Paper (BROP)**

1. The objective of the 2014 BROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in the 2014 Budget Policy Statement (BPS). This together with an updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and the medium term.
2. This BROP, therefore, continues implementation of the development agenda in the 5 thematic areas of creating conducive business environment; investing in agricultural transformation and food security; investing in key infrastructure; investing in quality and accessible healthcare and education; and further entrenching devolution. Details of these medium term policy priorities remain as outlined in the 2014 BPS.
3. The 2014 BROP provides sector ceilings for the 2015/16 budget and the medium term guided by the PFM Act 2012. The Ceilings set in motion the budget preparation for the Fiscal Year 2015/16.
4. The rest of the paper is organised as follows: Section II provides a review of the fiscal performance in FY 2013/14 and its implications on the financial objectives set out in the 2014 BPS submitted to the National Assembly in February 2014. This is followed in Section III by brief highlights of the recent economic developments and the updated macroeconomic outlook. The proposed sectoral resources allocation is detailed in Section IV while the conclusion is contained in Section V.



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## II. REVIEW OF FISCAL PERFORMANCE IN FY 2013/14

### A. Overview

5. The fiscal performance in FY 2013/14 was largely as programed, despite shortfall in revenues particularly in Appropriation in Aid (AiA) and external grants and loans and low absorption of both recurrent and development expenditures.

6. Against the revised total revenue estimates of Ksh 1,006.4 billion, the actual revenue collection in FY 2013/14, at Ksh 974.4 billion was below target by Ksh 32.0 billion. This was on account of shortfalls in reported AiA collections by spending agencies. Ordinary revenues were broadly on target with all the tax revenue categories recording slight positive variances except income tax.

7. On the expenditures side, the Government had to incur additional expenditure to address insecurity, shortfalls in the education sector and infrastructure related projects. In order to finance these additional expenditures in the face of financing constraints, the Government instituted austerity measures, taking into account absorption capacity of Ministries, Departments and Agencies (MDAs). These adjustments to the original budget resulted in supplementary estimates II, which was Ksh.11.6 billion above the original budget, but which would have been higher without the austerity measures.

8. As a result, the fiscal balance as at the end of June 2014 (on a commitment basis and excluding grants), amounted to Ksh 326.2 billion (equivalent to 6.5 percent of GDP) against a targeted deficit of Ksh 444.6 billion (equivalent to 8.9 percent of GDP). Including grants, the overall fiscal balance as at June 2014 (on a commitment basis) recorded a deficit of 6.0 percent of GDP against a targeted deficit of 7.5 percent of GDP.

### B. 2013/14 FY Fiscal Performance

#### *Performance of Revenues*

9. By the end of June 2014, total cumulative revenue including AiA collected amounted to Ksh 974.4 billion against a revised target of Ksh 1006.4 billion (**Table 1**). This represented a revenue shortfall of Ksh 32.0 billion (or 3.2 percent deviation from the revised target). Ordinary revenue collection amounted to Ksh 919.0 billion against the target of Ksh 918.0 billion.

10. Tax revenues were largely above the revised target in all the categories except income tax, which was below target by Ksh 1.3 billion largely on account of Pay as You Earn (PAYE). Investment revenue was similarly below the revised target by Ksh 3.6 billion while 'Other' revenues (land rent, fines and forfeiture, miscellaneous revenues and others) received higher revenues than target. Measured against the original budget estimates revenue underperformed by Ksh 52.8 billion with AiA and ordinary revenues accounting for Ksh 25.4 billion and Ksh 27.4 billion respectively.

11. The Railway Development Levy collection amounted to Ksh 19.7 billion against a target of Ksh 20.2 billion. Cumulative ministerial AiA recorded an under performance of Ksh 33.0 billion in the year due to the persistent problem of under reporting especially by the spending units

**Table 1: Government Revenue and External Grants, 2013/14 (Ksh Million)**

	2012/13	2013/14			Deviation as % of Target
	Actual	Prel.	Target	Deviation	
<b>Total Revenue (a+b)</b>	<b>845,115</b>	<b>974,418</b>	<b>1,006,404</b>	<b>(31,986)</b>	<b>(3.18)</b>
<b>(a) Ordinary Revenue</b>	<b>777,334</b>	<b>918,990</b>	<b>917,969</b>	<b>1,020</b>	<b>0.11</b>
Import Duty	57,650	67,555	67,349	205	0.30
Excise Taxes	85,502	102,029	101,153	876	0.87
PAYE	199,790	249,873	254,747	(4,874)	(1.91)
Other Income Tax	173,632	199,717	196,152	3,565	1.82
VAT Local	92,772	107,737	109,207	(1,469)	(1.35)
VAT Imports	91,808	124,893	121,756	3,137	2.58
Investment Revenue	15,264	10,181	13,741	(3,560)	(25.91)
Traffic Revenue	2,590	3,323	3,490	(167)	(4.80)
Other <sup>1</sup>	58,326	53,682	50,374	3,308	6.57
<b>(b) Appropriation in Aid<sup>2</sup></b>	<b>67,781</b>	<b>55,428</b>	<b>88,434</b>	<b>(33,006)</b>	<b>(37.32)</b>
o/w Railway Development Levy	-	19,721	20,245	(524)	(2.59)
<b>(c) External Grants</b>	<b>20,949</b>	<b>26,957</b>	<b>53,711</b>	<b>(26,754)</b>	<b>(49.81)</b>
<b>Total Revenue and Grants</b>	<b>866,064</b>	<b>1,001,375</b>	<b>1,060,115</b>	<b>(58,740)</b>	<b>(5.54)</b>
<b>Total Revenue and Grants as a percent of GDP</b>	<b>19.2</b>	<b>20.1</b>	<b>21.3</b>	<b>-</b>	<b>-</b>

1/ includes rent on land, fines and forfeitures, other taxes, IDF fees and miscellaneous revenue.

2/ includes receipts from Road Maintenance Levy Fund and A-I-A from MDAs

**Source: National Treasury**

12. Similarly, external grants amounted to Ksh 27.0 billion against a target of Ksh 53.7 billion, representing an under performance of Ksh 26.8 billion (or an absorption rate of 50.3 percent of the committed funds). Of these external grants, Programme grants (AMISOM reimbursements) amounted to Ksh 4.7 billion against a revised target of Ksh 4.8 billion.

13. As a proportion of GDP, the total cumulative revenue and grants in the FY 2013/14 amounted to 20.1 percent compared to 19.2 percent in the FY 2012/13. External grants amounted to 0.5 percent of GDP against a target of 1.1 percent of GDP.

### ***Expenditure Performance***

14. Total expenditure and net lending in FY 2013/14, amounted to Ksh 1,300.6 billion against a target of Ksh 1,451.0 billion, representing an under spending of Ksh 150.4 billion (or 10.4 percent deviation from the revised budget) (**Table 2**). This shortfall was attributed to lower absorption in both recurrent and development expenditures by the line ministries.

15. The National Government's recurrent expenditure amounted to Ksh 787.9 billion ( inclusive of Judiciary & Parliament) against a target of Ksh 839.7 billion, representing an under-spending of Ksh 51.8 billion (or 6.2 percent deviation from the approved recurrent expenditure). The under-

spending was in respect of operations and maintenance (Ksh 50.2 billion), wages and salaries (Ksh 7.3 billion) as well as pensions and CFS (Ksh 1.8 billion).

- i. Expenditure on domestic interest payments amounted to Ksh 9.1 billion above the target, while that of foreign interest payments was above target by Ksh 0.7 billion. Foreign interest payments amounted to Ksh 15.6 billion in FY 2013/14 compared to Ksh 11.1 billion in FY2012/13. The domestic interest payments amounted to Ksh 119.2 billion, which was higher than Ksh 110.2 billion paid in the previous Fiscal Year.
- ii. Ministerial appropriation-in-aid in recurrent expenditure recorded an under spending of Ksh 35.1 billion

**Table 2: Expenditure and Net Lending, Ksh Million**

	2012/13	2013/14			% Growth
	Actual	Prel	Targets	Deviation	
<b>1. RECURRENT</b>	<b>808,320</b>	<b>787,926</b>	<b>839,696</b>	<b>(51,770)</b>	<b>(2.5)</b>
Domestic Interest	110,184	119,193	110,065	9,128	8.2
Foreign Interest	11,051	15,628	14,934	694	41.4
Pensions	26,996	30,155	31,992	(1,837)	11.7
Wages & Salaries	274,407	281,197	288,471	(7,275)	2.5
O & M and Others	364,015	310,072	360,233	(50,161)	(14.8)
o/w Appropriation in Aid	65,178	28,205	63,258	(35,053)	(56.7)
Parliamentary Service	11,642	20,762	22,349	(1,587)	78.3
Judicial Service	10,025	10,919	11,651	(732)	8.9
<b>2. DEVELOPMENT</b>	<b>298,915</b>	<b>319,274</b>	<b>412,922</b>	<b>(93,648)</b>	<b>6.8</b>
Development Projects (Net)	224,272	222,628	264,717	(42,089)	(0.7)
Net Lending	2,400	2,185	2,286	(101)	(9.0)
Appropriation in Aid	68,529	91,239	140,518	(49,279)	33.1
Parliamentary Service	1,710	1,708	2,705	(997)	(0.1)
Judicial Service	2,004	1,514	2,696	(1,182)	(24.5)
County Transfer	9,783	193,390	193,419	(29)	1,876.8
<b>3. CCF</b>	<b>0</b>	<b>0</b>	<b>5000</b>	<b>(5,000)</b>	<b>-</b>
<b>TOTAL EXPENDITURE</b>	<b>1,117,018</b>	<b>1,300,589</b>	<b>1,451,037</b>	<b>(150,447)</b>	<b>16.4</b>

Source: National Treasury

16. Development expenditure incurred in FY 2013/14 amounted to Ksh 319.3 billion against a target of Ksh 412.9 billion. This amounted to 29.0 percent of the total programmed annual ministerial expenditure. AiA accounted for most of the under-spending in the development votes (by Ksh 49.3 billion). The underperformance in development expenditure reflects low absorption of domestically financed development by MDAs, delay in procurement and low absorption of external funds from development partners.

17. As at the end of period ending 30th June 2014, expenditures by the Ministry of Education, Science and Technology; Teachers Service Commission and Ministry of Health accounted for 42.6 percent of total recurrent expenditure. While the Ministry of Interior and Coordination of National Government, and Ministry of Defence accounted for 14.5 percent and 12.5 percent, respectively.

18. Analysis of development outlays (**Table 3**) indicates that the Ministry of Transport and Infrastructure accounted for the largest share of the total development expenditures, followed by the Ministry of Energy & Petroleum, Ministry of Devolution and Planning, and Ministry of Agriculture

Livestock and Fisheries, which accounted for, 25.3 percent, 16.5 percent, 15.8 percent and 8.8 percent, respectively. The development expenditures in large ministries were below the target because of delayed submission of expenditures from the sub counties and low uptake foreign financed programmes/projects.

**Table 3: Ministerial Expenditures, Period Ending 30<sup>th</sup> June 2014 (Ksh Million)**

	MINISTRY/DEPARTMENT/COMMISSIONS	Jun-14		Variance	Jun-14		Variance	Jun-14		Variance	% total expenditure to total
		Recurrent			Development			Total			
		Actual*	Target		Actual*	Target		Actual*	Target		
101	The Presidency	5,250	5,381	(131)	1,542	1,530	13	6,792	6,910	(118)	98.29
102	Ministry of Interior and Coordination of National Government	90,162	97,796	(7,634)	4,799	6,415	(1,617)	94,960	104,211	(9,251)	91.12
103	Ministry of Devolution and Planning	16,371	18,561	(2,189)	50,609	56,782	(6,174)	66,980	75,343	(8,363)	88.90
104	Ministry of Defence	78,088	78,118	(31)	-	-	-	78,088	78,118	(31)	99.96
105	Ministry of Foreign Affairs and International Affairs	10,582	12,268	(1,685)	120	342	(221)	10,703	12,609	(1,906)	84.88
106	Ministry of Education, Science and Technology	82,332	101,609	(19,277)	16,451	21,815	(5,364)	98,784	123,425	(24,641)	80.04
107	The National Treasury	21,630	23,329	(1,698)	12,462	18,667	(6,205)	34,092	41,996	(7,903)	81.18
108	Ministry of Health	17,176	23,706	(6,530)	13,135	23,397	(10,262)	30,311	47,104	(16,793)	64.35
109	Ministry of Transport and Infrastructure	26,111	32,027	(5,916)	81,100	102,476	(21,376)	107,211	134,503	(27,292)	79.71
110	Ministry of Environment Water and Natural Resources	8,670	13,464	(4,794)	28,157	32,942	(4,785)	36,827	46,405	(9,578)	79.36
111	Ministry of Land Housing and Urban Development	4,158	4,639	(480)	10,706	17,296	(6,590)	14,864	21,935	(7,071)	67.77
112	Ministry of Information and Communications and Technology	2,295	2,253	42	5,983	8,335	(2,352)	8,278	10,588	(2,310)	78.18
113	Ministry of Sports Culture and Arts	3,475	3,520	(45)	850	921	(71)	4,325	4,442	(116)	97.38
114	Ministry of Labour Social Security and Services	6,704	8,372	(1,668)	5,826	7,520	(1,695)	12,530	15,893	(3,363)	78.84
115	Ministry of Energy & Petroleum	1,891	2,355	(463)	52,673	71,309	(18,636)	54,564	73,663	(19,099)	74.07
116	Ministry of Agriculture Livestock and Fisheries	10,437	12,670	(2,232)	26,047	33,316	(7,269)	36,485	45,986	(9,501)	79.34
117	Ministry of Industrialization and Enterprise Development	2,607	3,235	(628)	3,081	3,363	(282)	5,688	6,599	(910)	86.21
118	Ministry of East African Affairs,Commerce and Tourism	4,625	4,772	(147)	1,288	1,400	(112)	5,913	6,172	(259)	95.80
119	Ministry of Mining	589	702	(113)	611	713	(102)	1,200	1,415	(215)	84.80
120	Office of The Attorney General and Department of Justice	2,488	2,713	(225)	416	669	(253)	2,904	3,381	(478)	85.87
121	The Judiciary	10,680	11,215	(536)	1,514	2,696	(1,183)	12,193	13,912	(1,718)	87.65
122	Ethics and Anti-Corruption Commission	1,177	1,245	(68)	-	-	-	1,177	1,245	(68)	94.55
123	National Intelligence Service	15,687	15,706	(19)	-	-	-	15,687	15,706	(19)	99.88
124	Directorate of Public Prosecutions	946	1,214	(268)	11	87	(76)	957	1,301	(344)	73.55
125	Commission for the Implementation of the Constitution	422	423	(1)	-	-	-	422	423	(1)	99.82
126	Registrar of Political Parties	311	325	(13)	-	-	-	311	325	(13)	95.90
127	Witness Protection Agency	198	203	(5)	-	-	-	198	203	(5)	97.46
201	Kenya National Commission on Human Rights	264	264	-	-	-	-	264	264	-	100.00
202	National Land Commission	583	606	(23)	-	-	-	583	606	(23)	96.19
203	Independent Electoral and Boundaries Commission	4,960	4,965	(4)	166	207	(40)	5,127	5,172	(45)	99.13
204	Parliamentary Service Commission	20,762	22,349	(1,587)	1,708	2,705	(997)	22,470	25,054	(2,584)	89.69
205	Judicial Service Commission	239	436	(196)	0	-	0	239	436	(196)	54.93
206	The Commission on Revenue Allocation	266	268	(1)	-	-	-	266	268	(1)	99.53
207	Public Service Commission	665	676	(11)	206	207	(1)	871	883	(12)	98.69
208	Salaries and Remuneration Commission	464	507	(42)	-	-	-	464	507	(42)	91.64
209	Teachers Service Commission	165,619	166,539	(920)	-	-	-	165,619	166,539	(920)	99.45
210	National Police Service Commission	330	333	(4)	-	-	-	330	333	(4)	98.94
211	Auditor-General	2,699	2,761	(62)	525	525	-	3,224	3,286	(62)	98.12
212	Controller of Budget	307	371	(65)	-	-	-	307	371	(65)	82.58
213	The Commission on Administrative Justice	284	297	(13)	-	-	-	284	297	(13)	95.58
214	National Gender and Equality Commission	224	234	(10)	-	-	-	224	234	(10)	95.72
215	Independent Police Oversight Authority	221	280	(59)	-	-	-	221	280	(59)	78.89
		622,950	682,705	(59,755)	319,986	415,636	(95,650)	942,936	1,098,341	(155,405)	85.85

**Overall balance and financing**

19. Reflecting the performance in revenue and expenditure, fiscal balance (on a commitment basis and excluding grants), amounted to Ksh 326.2 billion (equivalent to 6.5 percent of GDP against the revised budget target of Ksh 444.6 billion (or 8.9 percent of GDP) (**Table 4**). Over the same period ending 30th June 2013, the fiscal deficit stood at Ksh 271.9 billion (equivalent to 6.0 percent

of GDP). Including grants, the overall fiscal balance (on a commitment basis) recorded a deficit of 6.0 percent of GDP against a targeted deficit of 7.8 percent of GDP.

**Table 4: Budget Outturn for the FY 2013/14**

	2012/ 13	2013/ 14						2013/ 14 as % of GDP			2012/ 13 as % of GDP
	Actual	Preliminary Actual	Original Estimates	Revised Estimates	Deviation I	Deviation II	Growth	Preliminary Actual	Original Estimates	Revised Estimates	Actual
	1	2	3	4	5 = 2-3	6 = 2-4	7	8	9	10	11
<b>A. TOTAL REVENUE AND GRANTS</b>	<b>866,548</b>	<b>1,001,375</b>	<b>1,105,403</b>	<b>1,060,115</b>	<b>(104,028)</b>	<b>(58,740)</b>	<b>15.6</b>	<b>20.1</b>	<b>22.2</b>	<b>21.3</b>	<b>19.2</b>
1. Revenue	845,115	974,418	1,027,177	1,006,404	(52,760)	(31,986)	15.3	19.5	20.6	20.2	18.8
Ordinary Revenue	777,334	918,990	946,366	917,969	(27,376)	1,020	18.2	18.4	19.0	18.4	17.3
Import Duty	57,650	67,555	69,046	67,349	(1,491)	205	17.2	1.4	1.4	1.4	1.3
Excise Taxes	85,502	102,029	113,107	101,153	(11,078)	876	19.3	2.0	2.3	2.0	1.9
Income Tax	373,422	449,590	459,000	450,899	(9,410)	(1,309)	20.4	9.0	9.2	9.0	8.3
VAT	184,581	232,630	221,842	230,962	10,788	1,668	26.0	4.7	4.5	4.6	4.1
Investment Revenue	15,264	10,181	15,700	13,741	(5,519)	(3,560)	(33.3)	0.2	0.3	0.3	0.3
Other Revenue	60,916	57,004	67,671	53,864	(10,667)	3,140	(6.4)	1.1	1.4	1.1	1.4
Appropriation in Aid	67,781	55,428	80,812	88,434	(25,383)	(33,006)	(18.2)	1.1	1.6	1.8	1.5
2. Grants	21,433	26,957	78,226	53,711	(51,268)	(26,754)	25.8	0.5	1.6	1.1	0.5
AMISOM Receipts	5,826	4,695	10,308	4,761	(5,613)	(67)	(19.4)	0.1	0.2	0.1	0.1
Projects Grants(Revenue)	5,188	6,431	11,533	9,845	(5,102)	(3,413)	24.0	0.1	0.2	0.2	0.1
Projects Grants(AiA)	9,936	15,317	55,900	38,591	(40,583)	(23,274)	54.2	0.3	1.1	0.8	0.2
Italian Debt Swap	484	514	484	514	30	-	6.2	0.0	0.0	0.0	0.0
<b>B. TOTAL EXPENDITURE AND NET LENDING</b>	<b>1,117,018</b>	<b>1,300,589</b>	<b>1,439,697</b>	<b>1,451,037</b>	<b>(139,107)</b>	<b>(150,447)</b>	<b>16.4</b>	<b>26.1</b>	<b>28.9</b>	<b>29.1</b>	<b>24.8</b>
1. Recurrent Expenditure	808,320	787,926	780,642	839,696	7,284	(51,770)	(2.5)	15.8	15.7	16.8	17.9
Domestic Interest	110,184	119,193	110,215	110,065	8,978	9,128	8.2	2.4	2.2	2.2	2.4
Foreign Interest	11,051	15,628	11,247	14,934	4,381	694	41.4	0.3	0.2	0.3	0.2
Pensions etc	26,996	30,155	41,694	31,992	(11,540)	(1,837)	11.7	0.6	0.8	0.6	0.6
Wages & Salaries	274,407	281,197	269,930	288,471	11,266	(7,275)	2.5	5.6	5.4	5.8	6.1
O & M/ Others	364,015	310,072	310,250	360,233	(178)	(50,161)	(14.8)	6.2	6.2	7.2	8.1
Parliamentary Service	11,642	20,762	19,004	22,349	1,758	(1,587)	78.3	0.4	0.4	0.4	0.3
Judicial Service	10,025	10,919	18,301	11,651	(7,382)	(732)	8.9	0.2	0.4	0.2	0.2
County Governments	9,783	193,390	210,000	193,419	(16,610)	(29)	1,876.8	3.9	4.2	3.9	0.2
2. Development & Net Lending	298,915	319,274	444,055	412,922	(124,781)	(93,648)	6.8	6.4	8.9	8.3	6.6
Domestically Financed (Incl. of Net Lending)	197,599	200,673	203,457	218,680	(2,784)	(18,007)	1.6	4.0	4.1	4.4	4.4
Foreign Financed	101,316	118,601	240,598	194,242	(121,997)	(75,641)	17.1	2.4	4.8	3.9	2.2
3. CF	-	-	5,000	5,000	(5,000)	(5,000)	-	-	0.1	0.1	-
<b>C. BALANCE EXCLUSIVE OF GRANTS (Commitment Basis)</b>	<b>(271,903)</b>	<b>(326,172)</b>	<b>(412,520)</b>	<b>(444,633)</b>	<b>86,348</b>	<b>118,461</b>	<b>20.0</b>	<b>(6.5)</b>	<b>(8.3)</b>	<b>(8.9)</b>	<b>(6.0)</b>
<b>D. BALANCE INCLUSIVE OF GRANTS (Commitment Basis)</b>	<b>(250,470)</b>	<b>(299,215)</b>	<b>(334,294)</b>	<b>(390,922)</b>	<b>35,079</b>	<b>91,707</b>	<b>19.5</b>	<b>(6.0)</b>	<b>(6.7)</b>	<b>(7.8)</b>	<b>(5.6)</b>
<b>E. Adjustments to cash basis</b>	<b>19,348</b>	<b>(8,505)</b>	<b>-</b>	<b>-</b>	<b>(8,505)</b>	<b>(8,505)</b>	<b>(144.0)</b>	<b>(0.2)</b>	<b>-</b>	<b>-</b>	<b>0.4</b>
<b>BALANCE INCLUSIVE OF GRANTS (Cash Basis)</b>	<b>(231,122)</b>	<b>(307,720)</b>	<b>(334,294)</b>	<b>(390,922)</b>	<b>26,574</b>	<b>83,202</b>	<b>33.1</b>	<b>(6.2)</b>	<b>(6.7)</b>	<b>(7.8)</b>	<b>(5.1)</b>
<b>G. TOTAL FINANCING</b>	<b>231,122</b>	<b>307,720</b>	<b>334,294</b>	<b>390,922</b>	<b>(26,574)</b>	<b>(83,202)</b>	<b>33.1</b>	<b>6.2</b>	<b>6.7</b>	<b>7.8</b>	<b>5.1</b>
1. Net Foreign Financing	62,198	104,726	226,241	291,850	(121,515)	(187,125)	68.4	2.1	4.5	5.9	1.4
Disbursements	86,192	132,204	314,817	321,806	(182,613)	(189,602)	53.4	2.7	6.3	6.5	1.9
Commercial Financing	6,633	35,352	125,071	176,000	(89,720)	(140,648)	433.0	0.7	2.5	3.5	0.1
Project Loans AiA	55,990	68,420	140,682	90,437	(72,261)	(22,017)	22.2	1.4	2.8	1.8	1.2
Project Loans Revenue	23,569	28,432	49,065	55,369	(20,632)	(26,937)	20.6	0.6	1.0	1.1	0.5
Repayment - current	(23,994)	(27,479)	(88,577)	(29,956)	61,098	2,477	14.5	(0.6)	(1.8)	(0.6)	(0.5)
2. DOMESTIC FINANCING	168,924	202,994	108,053	99,072	94,941	103,923	(19)	4.1	2.2	2.0	3.7
Domestic Loan Repayments (Receipts)	2,102	1,267	1,400	1,400	(133)	(133)	(39.7)	0.0	0.0	0.0	0.0
Net Domestic Borrowing	166,822	201,727	106,653	97,672	95,074	104,056	20.9	4.0	2.1	2.0	3.7
<b>Nominal GDP (Fiscal Year)</b>	<b>4,506,200</b>	<b>4,985,100</b>	<b>4,985,100</b>	<b>4,985,100</b>	<b>-</b>	<b>-</b>	<b>10.6</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

**Source: National Treasury**

20. The deficit was financed through net external financing (including commercial financing) equivalent to Ksh 104.7 billion against a target of Ksh 291.9 billion and domestic financing of Ksh 203.0 billion (inclusive of net domestic borrowing of 201.7 billion) compared to the revised programme target of Ksh 99.1 billion.

21. In the FY 2013/2014, the Government of Kenya received Ksh 240.7 billion commitments from Development Partners, this was revised downwards to Ksh 194.2 billion in the supplementary Budget II. The cumulative disbursements by the end of FY 2013/14 were 57.5 percent, with loan revenues achieving 53.2 percent, grant revenues 65.3 percent, loan AiA 75.7 percent and grants AiA 39.7 percent of the revised estimates.

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### **C. Fiscal Performance for FY 2013/14 in relation to Fiscal Responsibility Principles and Financial Objectives**

22. The fiscal performance in the FY 2013/14 has affected the financial objectives set out in the February 2014 BPS and the Budget for FY 2014/15 in the following ways:

- (i) The base for revenue and expenditure projections is broadly in line with the outcomes in FY 2013/14, as such there will be no significant base effect adjustments in the fiscal aggregates for the current budget. However, adjustments will be made to fiscal aggregates to reflect revisions in the macroeconomic projections; and,
- (ii) The outcome of the first quarter of 2014 indicates that our economic growth is still strong, but below expectation, this outcome could have a dampening effect on our resource mobilization prospects in FY 2014/15. The National Treasury will therefore attempt to keep expenditure for FY 2014/15 at the levels approved by Parliament. MDAs are advised to desist from the observed tendency of requesting for additional expenditures.
- (iii) The baseline ceilings for spending agencies will be adjusted in line with the revised resource envelop following the updated macro environment which will be firmed up in the next Budget Policy Statement in February 2015. In addition the revisions will take into account the underperformance in project execution in the FY 2014/15 budget by MDAs and any identified one-off expenditures in the FY 2013/14.

23. The outcome of the first quarter of 2014 indicates that our economic growth is still strong. However increased geopolitical risks could lead to higher international oil prices and the weak recovery in global economy may slow our growth prospects. While we expect the economy to remain resilient, our projections remain cautious. We expect real GDP to grow by 5.8 percent in FY 2014/15. This is expected to pick up to 6.3 percent in FY 2015/16 and to about 6.7 percent in the outer years, reflecting continued investments and strong growth in the sub-region. In addition, inflation is expected to stabilize at the medium term target of around 5 percent.

24. The overall revenue performance in FY 2013/14 was broadly in line with assumptions in the base used to project the revenue for tax items in the FY 2014/15 and the medium term. Therefore, the fiscal outlook will remain broadly as indicated in the 2014 BPS with slight adjustments to take care of the preliminary first quarter growth outcome.

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

26. The under-spending in both recurrent and development budget for the FY 2013/14 additionally has implications on the base used to project expenditures in the FY 2014/15 and the medium term. Appropriate revisions have been undertaken in the context of this BRP, taking into account the budget outturn for the FY 2013/14.

27. The slow uptake of external resources remains a challenge. The National Treasury will work closely with the implementing agencies to improve resource absorption into at least 80 percent of externally financed projects. To improve on this absorption of external resources Accounting

Officers are expected to realistically prepare budgets and work plans for projects, monitor closely the implementation of these projects and observe high standard of accounting, auditing and procurement procedures in order to scale up absorption to at least 80 percent.

28. Other remedial measures the Government is putting in place is to ensure that Aid Effectiveness Group is strengthened by having quarterly meetings to engage Ministries and Development Partners to come up with solutions to the challenges that hamper project implementation and encourage Development Partners to utilize County Systems.

### **Fiscal Responsibility Principles**

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

- a. *Over the medium term, a minimum of 30% of the national budget shall be allocated to development expenditure*

The National Government development budget allocation over the medium term is above 30 percent, the minimum set out in law. In FY 2013/14 the National Government allocated 36.0 percent to development, however as shown in **Table 5**, the preliminary outcome indicates that development expenditure stood at 28.8 percent of total National Government expenditure due to the low uptake of external resources by MDAs. Over the medium term development expenditure is budgeted to expand to 35.7 percent in FY 2014/15 to more than 35.0 percent in FY 2017/18.

**Table 5: Revenues and Expenditures**

	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
<b>1.0 Total Expenditures &amp; Net Lending</b>	<b>1,300.6</b>	<b>1,780.3</b>	<b>1,798.3</b>	<b>1,985.4</b>	<b>2,221.9</b>
1.1 Total National Govt Expenses	1,107.2	1,551.0	1,552.8	1,722.5	1,940.4
Total Recurrent	787.9	871.5	916.7	990.0	1,136.7
CFS (Interest & Pensions)	165.0	184.0	198.3	226.9	250.0
Total ministerial Recurrent	622.9	687.5	718.4	763.1	886.7
wages	281.2	303.3	317.1	356.7	400.9
As % of NG Revenues	36.0%	31.8%	28.6%	27.5%	27.2%
Development	319.3	671.1	627.4	722.9	793.2
As % of NG Expenditures	28.8%	43.3%	40.4%	42.0%	40.9%
Domestic	200.7	300.8	349.5	401.0	461.7
External	118.6	370.3	277.9	321.9	331.5
CF	-	5.0	5.0	5.0	5.0
1.2 County Allocation	193.4	229.3	245.5	262.9	281.5
<b>2.0 Total Recurrent Revenues</b>	<b>974.4</b>	<b>1,183.3</b>	<b>1,354.3</b>	<b>1,558.9</b>	<b>1,752.9</b>
<b>3.0 Total National Govt - Revenues (Incl. A-I-A)</b>	<b>781.0</b>	<b>954.1</b>	<b>1,108.8</b>	<b>1,296.0</b>	<b>1,471.4</b>
<b>4.0 National Govt Domestic Borrowing</b>	<b>201.7</b>	<b>101.7</b>	<b>141.2</b>	<b>162.1</b>	<b>178.5</b>



- b. 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.*

On wages and benefits, the share to National Government revenues was 36.0 percent in FY 2013/14, and is projected at 31.8 percent in FY 2014/15, declining to less than 24.0 percent by FY 2017/18. Once the share is prescribed in the regulations, the National Government will ensure that this principle is strictly adhered to.

- c. 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*

It is the Government's policy to procure external financing only for development projects a practice which are in line with this principle. In addition, domestic borrowing is consistently less than the allocation to domestically financed development projects in line with the stated principle.

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

The Government borrowing level is set in the Medium Term Debt Strategy approved by the National Assembly. The strategy aims at ensuring public debt sustainability and envisages continued borrowing from domestic and external sources. External financing will be largely on concessional terms. The Government continues to ensure that the level of domestic borrowing does not crowd out the private sector given the need to increase private investment to accelerate economic expansion.

Similarly, a cautious approach is adopted in the issuance of external Government loan guarantees to minimize the level of contingent liabilities. With the increased appetite for funding of heavy capital projects, the levels of debt accumulation will be maintained at a sustainable level. The Government is committed to satisfying this principle throughout. Our debt ratios compared with internationally recognized threshold continues to show that our debt level remains sustainable (Table 6).

**Table 6: Kenya's Debt Sustainability Indicators**

Indicator	Indicator (Threshold)	Kenya's Position				
		FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Debt to GDP ratio	74	44.7	44.4	44.4	44.3	44.2
External Debt to exports ratio	300	209.4	201.6	196.3	193.1	192.0
Debt Service to revenue ratio	30	16.5	19.3	14.0	15.4	15.2
External debt service to exports ratio	25	7.6	15.3	6.3	8.5	8.3

- e. Fiscal risks shall be managed prudently*

The Government has improved its macroeconomic forecasts and regularly review the impact of macroeconomic projections and its implications for the budget. A detailed annex on the Specific Fiscal Risks is prepared as part of the Budget Policy Statement. The Government also takes into account the fiscal risks arising from contingent liabilities, impact of the Public Private

Partnership and Financial Sector Stability. Further, every year a Contingency provision of Ksh 5.0 billion is factored in the budget to cater for urgent and unforeseen expenditure.

- f. *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*

On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, the Government has simplified and modernized the VAT and Tax Appeals Tribunal legislations. Going forward, a modern and simplified Excise Duty Bill and tax Procedure Bill will be enacted shortly. At the same time, a review of the Income Tax Act will commence shortly. These reforms are intended to lock in predictability and enhance compliance with the tax system.

30. The Central Government and fiscal projections shown in Table 7 provide comparisons between the updated projections in the BROP 2014 and the 2014 BPS for the financial year 2015/16 and in the medium term. The deviations, in the revision in revenues and expenditures are due to the macroeconomic assumptions contained in this BROP, which will be firmed up in the context of the 2015 BPS. The Government will not deviate from the fiscal responsibility principles, but will make appropriate modifications to the financial objectives contained in the latest BPS to reflect the changed circumstances.

**Table 7: Central Government Fiscal Projections, FY 2012/13-2017/18**

	2012/13	2013/14			2014/15		2015/16			2016/17		2017/18	
	Act.	BPS'14	Rev. Budget	Prel.	BPS'14	Rev Budget	BPS'13	BPS'14	BROP'14	BPS'14	BROP'14	BPS'14	BROP'14
Revenue and Grants	868.2	1,098.3	1,059.6	1,000.9	1,238.0	1,238.7	1,398.8	1,473.8	1,415.6	1,680.3	1,629.2	1,901.3	1,830.8
% of GDP	19.3%	26.4%	21.3%	20.1%	22.0%	22.3%	25.5%	23.4%	22.5%	23.7%	22.9%	23.7%	22.8%
Revenue	847.2	1,019.9	1,006.4	974.4	1,180.5	1,181.2	1,313.7	1,382.6	1,352.2	1,578.3	1,558.9	1,786.3	1,752.9
% of GDP	18.8%	24.5%	20.2%	19.5%	21.0%	21.2%	24.0%	22.0%	21.5%	22.2%	21.9%	22.3%	21.8%
Tax Revenue	701.2	854.5	850.4	851.8	1,006.5	1,006.5	1,120.5	1,174.5	1,161.7	1,355.3	1,350.6	1,540.3	1,522.8
Non-Tax Revenue	146.1	165.4	156.1	122.6	174.0	174.7	193.2	208.1	190.4	223.0	208.3	246.1	230.1
Grants	20.9	78.4	53.2	26.4	57.5	57.5	85.1	91.1	63.5	102.0	70.3	115.0	77.9
Expenditure	1,117.0	1,470.6	1,467.6	1,302.1	1,600.6	1,780.7	1,603.9	1,795.6	1,809.5	2,010.6	1,994.5	2,112.6	2,224.1
% of GDP	24.8%	29.2%	29.4%	26.1%	28.4%	32.0%	29.3%	28.5%	28.8%	28.3%	28.0%	26.4%	27.7%
Recurrent	808.3	826.9	840.9	787.9	876.5	871.5	1,057.6	925.0	921.7	990.2	995.0	933.2	1,141.7
Development	298.9	428.7	415.2	319.3	492.0	674.5	538.9	622.3	633.4	742.5	729.8	868.8	793.2
Constitution Reform	9.8	1.5	1.5	1.5	2.0	2.0	3.0	3.0	3.0	-	-	-	-
County Transfer	-	210.0	210.0	193.4	226.7	229.3	-	239.3	245.5	271.0	262.9	305.2	281.5
Equalization Fund	-	3.5	-	-	3.4	3.4	4.5	6.0	6.0	6.9	6.9	5.4	7.7
Budget Balance (Deficit (-), Surplus(+))	(248.9)	(372.3)	(408.0)	(301.2)	(362.6)	(542.0)	(205.1)	(321.8)	(393.9)	(330.3)	(365.3)	(211.3)	(393.3)
% of GDP	-5.5%	-8.9%	-8.2%	-6.0%	-6.4%	-9.7%	-3.7%	-5.1%	-6.3%	-4.6%	-5.1%	-2.6%	-4.9%
Net External Financing	62.7	238.8	291.9	106.4	163.9	295.4	122.7	117.0	241.0	113.1	193.6	127.8	212.1
Domestic borrowing	169.8	133.5	99.1	201.7	190.8	101.7	82.5	193.9	141.2	208.4	162.1	88.4	178.5
% of GDP	3.8%	3.2%	2.0%	4.0%	3.4%	1.8%	1.5%	3.1%	2.2%	2.9%	2.3%	1.1%	2.2%
Public Debt to GDP (Gross)			48.3%	48.6%		45.8%			47.5%		47.1%		46.6%
Public Debt to GDP (net of deposits)	38.5%	54.2%	44.7%	44.7%	49.0%	43.8%	47.6%	43.4%	44.4%	51.6%	44.3%	40.4%	44.2%
Nominal GDP (Ksh billion)	4,506.2	5,042.4	4,985.1	4,985.1	5,633.2	5,559.3	5,480.5	6,294.2	6,290.4	7,103.8	7,113.1	8,010.5	8,029.7

Source: National Treasury

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

- Maintaining a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities. In that regard, wage bill control at both national and county level and improving the quality and efficiency of public spending remain priorities to create fiscal space for well-targeted social programs and increasing infrastructure investment.
- Investing in irrigation, energy, and transport infrastructure remains a priority to improve competitiveness, contain supply side inflationary pressures and unlock the country's growth potential. Efforts to mobilize domestic revenue will be enhanced to fund these priorities.
- Strengthening capacity-building in public financial management to ensure that the high expectations linked to devolution are met.
- Enhancing the government's cash management system to avoid undue pressure on payment flows and interest rates, and reduce borrowing costs for the government and the private sector.
- Effective natural resource management of recent oil and gas discoveries. A sound fiscal framework, including transparent management rules and the full integration of these resources into the budget will be done in order to fully realize this potential.

### **III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

32. The Kenya National Bureau of Statistics (KNBS) initiated the process of rebasing and revision of the National Accounts Statistics (NAS) in 2010 and completed the exercise in September 2014. The detailed comparison of trends and growth paths of Gross Domestic Product (GDP) and other national accounts aggregates was provided in the new estimates.

33. Kenya's rebased GDP per capita for 2013 is estimated at US\$ 1,269 compared to the previous estimates of US\$ 994 for the same year which represents 27.7 percent increase. This implies that Kenya can now be categorized as a middle-income country as its GDP per capita is well above the World Bank's benchmark of US\$ 1,036. The new GDP estimates will improve international perception of the country and its credit ratings. Kenya's economy is now ranked as the 9<sup>th</sup> largest in Africa and 4<sup>th</sup> largest in SSA.

34. The macroeconomic environment in Kenya has remained stable. The revised estimates demonstrate that the economic growth has remained resilient since 2010 growing to 5.7 percent in 2013 compared to the 4.7 percent growth from the previous estimates, while in 2012 the economy grew by 4.5 percent which is slightly lower than the 4.6 percent growth from the previous estimates. The economy is projected to grow by between 5.0 percent and 5.5 percent in 2014 and over 7.0 percent by 2018.

35. Going forward, the macroeconomic outlook remains favourable although risks remain. Some of the challenges with the economy include: security, weather, export market and fiscal pressures on expenditures particularly recurrent expenditures.

#### **A. Recent Economic Developments**

36. Recent developments in the key macroeconomic variables are encouraging. The new GDP estimates demonstrate that economy grew by 5.7 percent in 2013 compared with 4.5 percent in 2012. This growth was broad-based and was driven by expansion in agriculture, forestry and fishing, manufacturing, wholesale and retail trade, financial and insurance activities and information and communication.

37. Overall inflation decreased to 6.6 percent in September 2014 from 8.4 and 7.7 percent in August and July 2014 respectively and 8.3 percent in September 2013 on account of a decline in fuel inflation that more than outweighed the increase in food prices. On average, the annual inflation rate was 7.2 percent in September 2014 compared with 4.7 percent in September 2013. However, the shilling exchange rate demonstrated mixed performance against major international currencies. The currency depreciated against the US dollar at Ksh 88.8 per US dollar in September 2014 from Ksh 88.1 per US dollar in August 2014. Against the Sterling pound and Euro it appreciated to Ksh 145.0 per Pound and Ksh 114.7 per Euro in September 2014 from Ksh 147.2 per Pound and Ksh 117.4 per Euro in August 2014.

38. The Central Bank Rate at 8.5 percent in September 2014 continued to coordinate movements in the short term interest rates. Commercial banks average lending declined to 16.3 percent in August 2014 compared with 17.0 percent in August 2013 while the deposit rate averaged 6.5 percent from 6.4 percent over the same period. This narrowed interest rate spread from 10.6 percent in August 2013 to 9.8 percent in August 2014 reflecting a larger decline in the lending rate. The decline in the short term interest rates is consistent with the easing of monetary policy stance.

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39. The uptake of bank credit by the private sector increased by 24.5 percent in August 2014 from 16.2 percent in August 2013. The credit to the private sector was channelled to the productive sectors of the economy.

***Growth in Real GDP remains resilient***

40. The economy is estimated to have expanded by 5.8 percent in the second quarter of 2014 compared to 7.2 percent recorded during a similar quarter of 2013. The growth in the second quarter was mainly supported by robust growths in; construction (18.9 percent), manufacturing (9.1 percent) financial & insurance (8.3 percent); information and communication (6.4 per cent); and wholesale and retail trade (6.8 per cent).

41. Agriculture grew by 5.5 percent in the second quarter of 2014 compared to a growth of 6.0 percent over a similar period in 2013. The slowed growth was largely attributed to erratic weather and suppressed external demand during the review period. Quantities of exports of cut flowers and vegetables declined, while that of fruits rose marginally.

42. Information and Communication sector expanded by 6.4 percent in the second quarter of 2014 compared to a growth of 13.0 percent in 2013, mainly on account of a slowdown in the telecommunication sector.

43. The Manufacturing sector recorded an overall growth of 9.1 percent during the second quarter of 2014 compared to a 5.4 percent growth during the second quarter of 2013. The expansion was mainly driven by growth in non-food manufacturing, notably the production of cement production and assembly of motor vehicles.

44. The Financial and insurance activities recorded a slowed growth of 8.3 percent in the second quarter of 2014 compared to 11.1 percent growth in the second quarter of 2013. This growth is mainly due to the improved accessibility to the financial services.

45. During the second quarter of 2014, Construction recorded an increased growth of 18.9 percent compared to a growth of 8.7 percent in a similar quarter in 2013. The growth in the sector was reflected in the increased cement consumption.

46. Electricity supply had a decreased growth of 5.6 percent during the second quarter of 2014 compared to a growth of 9.0 percent in 2013 same period. This was as a result of a substantial decrease in hydro generation of electricity which was matched by a significant increase in thermal generation and therefore impacted negatively on the growth of the sector.

47. Mining and Quarrying sector recorded an increased growth of 12.1 percent in the second quarter of 2014 compared to a contraction in growth of 23.4 percent in the same period in 2013.

48. The Hotels and Restaurants sector recorded a negative growth of 18.6 percent during the second quarter of 2014 compared to a negative growth of 8.6 percent in the same quarter in 2013. The poor performance in the sector was primarily due to the deceleration in growth of the hotel industry that was largely due to insecurity concerns coupled with negative travel advisories by some key tourist source countries.

**Table 8: Gross Domestic Product by Activity (growth, per cent)**

	2011	2012	2013	2013		2014	
				Q1	Q2	Q1	Q2
Agriculture, forestry and fishing	2.4	2.9	5.1	5.1	6.0	5.9	5.5
Mining and quarrying	19.0	19.0	-9.0	14.2	-23.4	0.2	12.1
Manufacturing	7.2	-0.5	5.9	10.2	5.4	7.9	9.1
Electricity supply	9.4	9.6	5.8	4.5	9.0	5.7	5.6
Construction	4.0	11.2	5.5	8.3	8.7	9.0	18.9
Wholesale and retail trade; repairs	8.3	7.0	9.2	15.1	11.8	14.0	6.8
Transport and storage	7.1	2.8	1.3	-9.5	1.4	-5.3	0.1
Hotels and restaurants	4.5	2.7	-4.6	-4.2	-8.6	-32.7	-18.6
Information and communication	22.4	2.2	13.5	16.0	13.0	10.3	6.4
Financial and insurance activities	4.7	6.0	9.3	11.6	11.1	8.6	8.3
Real estate	5.1	4.0	4.1	4.2	4.3	3.2	2.6
Public administration and defence	2.5	5.9	0.2	5.5	4.3	-12.0	5.2
Education	7.5	11.6	6.9	10.2	8.7	4.9	5.2
Human health and social work activities	-2.6	-3.2	6.8	-3.0	8.0	20.4	13.3
Other service activities	1.5	2.3	4.4	3.3	4.9	3.9	2.3
FISIM	9.1	10.1	5.7	10.3	6.9	14.2	15.1
All economic activities	5.4	4.2	5.3	6.0	6.2	4.4	5.8
Taxes on products	12.6	6.0	9.2	9.5	15.5	5.0	6.5
<b>GDP at market prices</b>	<b>6.1</b>	<b>4.5</b>	<b>5.7</b>	<b>6.4</b>	<b>7.2</b>	<b>4.4</b>	<b>5.8</b>

### ***Inflation Developments***

49. The central bank rate that signals the monetary policy stance has remained at 8.5 percent since May 2013. This was meant to lower the prices (interest rates and inflation). The commercial banks' interest rates and the inflation rate have responded well over time. Overall month on month inflation slowed to 6.6 percent in September 2014 from 8.4 percent and 7.7 percent in August and July 2014, respectively. On average, the annual inflation rate stood at 7.3 percent in August 2014 compared with 4.5 percent in August 2013.

50. The decrease in the overall inflation in September 2014 is largely attributed to the decrease in fuel inflation that more than outweighed the increase in food prices. The food prices increased by 0.58 percent as a result of prices of several food commodities outweigh the price falls in other food items.

### ***The Kenya Shilling Exchange Rate Exhibit Mixed Performance***

51. The Kenya Shilling exchange rate demonstrated mixed performance against major international currencies. The currency stabilized against the US dollar at Ksh 88.9 per US dollar as of 25<sup>th</sup> September 2014 from Ksh 88.2 per US dollar in August 2014 and Ksh 87.8 per US dollar in July 2014. The stability of the US dollar followed increased short term capital inflows and remittances.

52. Against the sterling pound, the shilling strengthened to Ksh 145.3 as of 25<sup>th</sup> September 2014 from Ksh 147.1 in August 2014 and Ksh.150.2 in July 2014 and against the Euro it appreciated to Ksh 114.9 as of 25<sup>th</sup> September 2014 from Ksh 117.1 in August 2014 and Ksh 119.1 in July 2014.

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### ***Interest Rates Stabilised***

53. Interest rates have generally eased in line with the monetary policy. The drop in short-term interest rate reflects subdued inflationary expectation and ample liquidity in the financial system. The 91-day Treasury bill rate averaged 8.6 percent as of 24th September 2014 from 8.2 percent in August 2014 and 9.8 percent in July 2014

54. The Central Bank Rate at 8.5 percent in September 2014 continued to coordinate movements in the short term interest rates. The average interbank rate declined to 7.6 percent as of 24th September 2014 from 11.9 per cent in August 2014 and 8.0 per cent in July 2014. The increase in the interbank rate was as a result of liquidity tightness in the money market in July 2014.

55. The Central Bank of Kenya new guidelines will enhance supply of private sector credit and mortgage finance by facilitating a transparent credit pricing framework. The framework, known as the Kenya Bank's Reference Rate (KBRR), is computed as an average of the Central Bank Rate and the average 91-Day Treasury bill rate. The review and announcement of the KBRR will be done every six months. The first KBRR, in July 2014 was set at 9.13 percent and this has seen commercial banks lower their lending interest rates.

56. Commercial banks average lending rates declined to 16.3 percent in August 2014 compared with 17.0 percent in August 2013 while the deposit rate averaged 6.5 percent from 6.4 percent over the same period. The interest rate spread narrowed from 10.6 percent in August 2013 to 9.8 percent in August 2014 reflecting a larger decline in the lending rate.

57. In the medium term, therefore, interest rates are expected to come down and remain relatively stable, consistent with expected stability in most of the macroeconomic fundamentals.

### ***Growth in Broad Money Supply, M3***

58. M3 grew by 21.8 percent in August 2014 up from 12.9 percent in August 2013 supported by growth in net domestic assets (NDA) and net foreign assets (NFA). NDA growth is due to increased net domestic credit and the NFA growth is due to improvement in foreign exchange reserves accumulation by the banking system, particularly that of the CBK.

### ***Improvement in Private Sector Credit***

59. Bank credit to the private sector increased by 24.5 percent in July 2014 from 16.2 percent in the same period in 2013. The private sector credit flow was mainly to productive sectors though a pick up is noted in sectors with consumption bias such as private households that might affect the CPI.

### ***Surplus in Balance of Payments as Current Account Improves***

60. The overall Balance of Payments recorded a surplus of US\$ 1,963 million in the year to July 2014 from a surplus of US\$ 655 million in the year to July 2013. The improved surplus reflects an increase in the capital and financial account (20.3 percent), the improvement in the value of services (16.3 percent) and the reduced deficit in the current account (5.0 percent).

61. The current account deficit narrowed by 5.0 percent from US\$ 4,662 million in the year to July 2013 to US\$ 4,430 million in the year to July 2014. This was largely attributed to the improvement of the value of the service account by 16.3 percent that offset the widening of the merchandise account by US\$ 760 to US\$ 11,521 million in the year to July 2014.

### ***Strong Foreign Exchange Reserves***

62. As a result, with a surplus in the overall balance of payments, official foreign exchange reserves held by the Central Bank of Kenya increased due to reserves build up and receipt of disbursements under the Extended Credit Facility (ECF), CBK Purchases from interbank market and receipt of Sovereign Bond Proceeds to US\$ 8,128 million (5.4 months of import cover) in July 2014, an improvement from US\$ 6,096 million (4.3 months of import cover) in July 2013.

### ***Stock Market Vibrant***

63. Activity in the stock market has been vibrant in the year to August 2014. The NSE share index improved to 5,139 points in August 2014 from 4,698 points in August 2013, representing an increase of 9.4 percent. Market capitalization, a measure of shareholders' wealth, improved by 31.8 percent in the year to August 2014 to close at Ksh 2,217 billion in August 2014 from Ksh 1,682 billion in August 2013.

### ***Implementation of the FY 2014/15 Budget***

64. Ministries/Departments/Agencies (MDAs) have commenced the implementation of the FY 2014/15 Budget. The National Treasury prepared and dispatched guidelines to guide MDAs on budget implementation. So far, the implementation of the 2014/15 budget is progressing well despite initial challenges encountered at the start of the financial year. Adequate measures have been taken to ensure priority programmes are fully implemented. This include directing MDAs to prepare and submit their annual work plans, cash flow plans, and procurement plans to The National Treasury to facilitate in line with the PFM Act requirements. Implementation of priority programmes will be tracked and feedback given periodically.

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

66. Regarding revenue, the collection for the FY 2014/15 is broadly on course and therefore we expect that the outturn will be within the target. The Exchequer return of end September 2014 shows that ordinary revenue amounted to Ksh 230.9 billion against a target of Ksh 242.0 billion while the Ministerial AiA was below target by Ksh 10.7 billion. Thus, the total revenue collection was below target by Ksh 21.8 billion in the first three months of the year.

67. Preliminary outturn indicates that the total expenditure (Net Issues) by September 2014 was Ksh 237.1 billion compared to a target of Ksh 380.4 billion. The bulk of this underperformance being in capital spending on both domestically and foreign financed expenditures. We therefore expect higher absorption rate in the coming months as spending on capital projects picks up.



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## B. Macroeconomic Outlook and Policies

### *Growth Prospects*

68. The global activity has broadly strengthened and is expected to improve further in 2014–15, with much of the impetus for growth coming from advanced economies. Although downside risks have diminished overall, lower-than-expected inflation poses risks for advanced economies, there is increased financial volatility in emerging market economies, and increases in the cost of capital will likely dampen investment and weigh on growth.

69. Stronger growth in advanced economies implies increased demand for emerging market and developing economies exports. The normalization of monetary policy, which is on the Agenda of the advanced economies, however, implies tighter financial conditions and a tougher financial environment. Investors will be less forgiving, and macroeconomic weaknesses will become more costly.

70. There is a slight moderation in global growth in the first half of 2014. Overall, global growth is projected to strengthen to 3.6 percent in 2014 and then to increase further to 3.9 percent in 2015. In sub-Saharan Africa, growth is expected to increase from 4.9 percent in 2013 to 5.0 percent in 2014–15. Commodity related projects elsewhere in the region are expected to support higher growth.

71. Downside risks for emerging market economies have increased. More recently, developments in Ukraine have increased geopolitical risks. In particular, greater spill overs could emerge from major disruptions in production or the transportation of natural gas or crude oil, or, to a lesser extent, corn and wheat. Lower growth in China is expected with the unwinding of policy stimulus, which will also have a spill over effect to other economies especially in the emerging market and developing economies.

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

73. Real GDP is therefore projected to expand by between 5.0 and 5.5 percent in 2014 from an earlier forecast of 5.8 percent in the 2014 BPS, 6.3 percent in 2015 and 6.4 percent in 2016 and 6.9 percent in 2018. The economic growth outlook is underpinned by continued good performance across all sectors of the economy. The projected growth assumes normal weather pattern in 2015 and the medium term. Inflation is expected to be maintained at a single digit level and near the 5 percent target reflecting implementation of a prudent monetary policy and easing of both food and oil prices, and stability of the shilling exchange rate to the major international currencies

74. The revision of economic growth forecast of 5.8 percent for 2014 to between 5.0 percent and 5.5 percent was informed by lower than projected performance of the economy in first half and the impact on tourism following security concerns in the first half of 2014.

75. Over the medium-term, growth will pick up gradually as global conditions improve and macroeconomic stability is sustained. The growth estimates for the medium term, therefore, in terms of fiscal years, are therefore 5.8 percent in FY 2014/15, 6.3 percent in FY 2015/16 and 6.7 percent in 2017/18 (**Table 9 and Annex Table 1**).

**Table 9: Macroeconomic Indicators Underlying the Medium Term Fiscal Framework, FY 2011/12-2017/18**

	2011/12	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18
	Act.	Act.	Prel.	Budget	Rev. Budget	Projections		
Annual percentage change								
National Account and Prices								
Real GDP	5.3	5.1	5.5	6.1	5.8	6.3	6.5	6.7
GDP Deflator	10.1	7.5	4.9	7.2	5.4	6.4	6.2	5.8
CPI Index (eop)	10.1	6.0	5.8	5.3	5.3	5.0	5.0	5.0
CPI Index (avg)	16.1	5.9	6.0	5.7	5.7	5.0	5.0	5.0
Terms of Trade (-deterioration)	-2.1	-0.1	0.2	5.1	5.0	6.5	3.4	0.9
In percentage of GDP								
Investment and saving								
Investment	20.8	20.8	23.3	22.4	27.5	26.5	27.1	27.5
Gross National Saving	11.4	12.3	14.4	15.3	18.4	18.4	19.5	20.0
Central government budget								
Total revenue	18.7	18.8	19.5	21.0	21.2	21.5	21.9	21.8
Total expenditure and net lending	23.8	24.8	26.1	28.4	32.0	28.6	27.9	27.7
Overall balance (commitment basis) excl. grants	-5.0	-6.0	-6.5	-7.4	-10.8	-7.1	-6.0	-5.9
Overall balance (commitment basis) incl. grants	-4.5	-5.5	-6.0	-6.4	-9.7	-6.1	-5.0	-4.9
Nominal public debt, net	36.9	38.5	44.7	43.8	44.4	44.4	44.3	44.2
External sector								
Current external balance, including official transfers	-9.4	-8.5	-8.9	-7.1	-9.1	-8.1	-7.6	-7.6
Gross international reserve coverage in months of imports	3.7	3.8	4.1	4.8	4.6	4.8	5.1	5.3

Source: National Treasury

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

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

### ***Inflation Outlook***

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

79. Despite the increase in inflation in the last four months, inflation is expected to revert back to the 5 percent target due to prudent monetary and fiscal policies currently in place and containment of recurrent expenditures by the government in the medium term. Nevertheless, there are risks of volatile international oil prices due to the continued instability in the Middle East and North Africa (MENA) region that may keep fuel prices. In addition erratic weather could affect agricultural production affecting exports.

80. The Government is committed to pursuing a managed float exchange rate regime with interventions limited to smooth out erratic factors in the interbank market for foreign exchange. Stability in the movement of the exchange rate will support the low inflation projections.

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## ***Capital and Financial Account***

81. Stability in interest rates and improved investor confidence should enable the capital and financial account to be in surplus, offsetting the current account deficit. This will allow the Central Bank of Kenya to continue building up foreign exchange reserves, from the interbank market.

82. The gradual decline will be further supported by initiatives geared towards fiscal consolidation, exports promotion mainly commodity exchange, value addition in agriculture exports and expansion of regional markets.

### **C. Medium Term Fiscal Framework**

83. The purpose of this section is to present the underlying macroeconomic and fiscal assumptions, policies, and strategies for the development of the medium term expenditure framework and annual budget plans. Consequently, we focus on the fiscal policy objectives for FY 2015/16 and a set of integrated medium-term macroeconomic targets and projections.

84. With regard to the economic policy management, the Government will continue to pursue prudent fiscal policies aimed at sustaining macroeconomic stability.

85. The fiscal policy objective aims at supporting rapid economic growth and ensuring the debt position remains sustainable while at the same time supporting the devolved system of government for effective delivery of public goods and services in a sustainable manner. Specifically, the Fiscal Policy underpinning the FY 2015/16 Budget and MTEF aims at revenues of more than 21.8 percent of GDP over the medium term and containing growth of total expenditure. Further, the policy aims at shifting more public resources from recurrent to capital investment so as to promote sustainable and inclusive growth.

The fiscal policy will undertake reforms on the following areas, namely:

- (i) Enhancing resource mobilization, including broadening revenue base; Revenue collection efforts will be enhanced to ensure all potential taxpayers make their contribution towards Kenya's development agenda. Revenue administration capacity will be strengthened through organizational and modernization reforms, broadening of the tax base in order to grow revenue to finance priority development. Automation of KRA remains a priority in order to enhance revenue collection.
- (ii) Expenditure rationalization will continue being a priority focusing on rationalizing expenditures in the non-productive areas. Additionally, with the ongoing public service rationalization, redundancies and duplications will be eliminated in the public service.
- (iii) Expenditure efficiency and effective implementation of budget programs through enforcement of cost benchmarks for all projects and consumables. There will further be enforcement of a project implementation performance benchmark of at least 80 percent, expenditure tracking and value for money audits to ensure efficiency and effectiveness in use of resources at both levels of Governments. Project planning and management as well as engagement with development partners will be strengthened.
- (iv) With the above and on-going leasing of assets in Government, the integrated financial management system (IFMIS) as an end-to-end transaction platform and full implementation of a Government Payment Gateway revenue and expenditure efficiency and economy will be realized.

86. The Government is reviewing all tax legislations in order to simplify and modernize them. The VAT Act, 2013 is being implemented despite the initial challenges which were experienced at the beginning of FY 2013/14. The main objective of this Act is to simplify, modernize and reduce cost of compliance. Revenue collection efforts will be enhanced to ensure all potential taxpayers make their contribution towards Kenya's development agenda.

87. More specifically, the revenue targets for the FY 2015/16 and the medium term will be achieved through:

- i). Measures to simplify the tax code in line with best practices, in order to help improve tax compliance, minimize delays, and raise revenue. This will involve reviewing in order to modernize of our tax laws, institute a high level of automation in tax and revenue collection.
- ii). The National Treasury is working on a robust, simpler and modern Excise Management Bill, Extractive Industry Tax regime (Income Tax Amendments), and formulation of a Tax Procedure Bill to be submitted to Parliament in 2014.
- iii). The Kenya Revenue Authority (KRA) is expected to institute measures to reform the tax administration to eliminate leakages and to expand revenue base.
- iv). In addition, in modernizing the tax laws the Government will rationalize existing distortionary tax incentives, expand the income tax base and remove tax exemptions as envisaged in the Constitution.

88. Regarding expenditures, the Government will continue with the policy of rationalization of expenditures to improve efficiency and reduce wastage. Currently, procurement of goods and services constitute about 50 per cent of the annual budget. With the recent launch of e-procurement, the absorption capacity in capital projects is expected to improve and save substantial financial resources and help to instil confidence among taxpayers that they are getting value for their money. The new system will ensure that public financial resources are used prudently and for the intended purposes. The roll-out of electronic procurement system through the IFMIS "Procure to Pay" module introduces a new era to Government procurement by bringing to an end manual procurement challenges that the country has experienced in the past.

89. The fiscal stance envisages continued borrowing from domestic and external sources, with the latter being largely on concessional terms. Non-concessional external borrowing will be undertaken in a cautious manner and limited to bankable projects and the stated ceiling in the Medium-Term Debt Strategy paper. The Government also remains committed to accessing international capital markets. In the FY 2013/14 the Government raised US dollar 2.0 billion through the issuance of a first debut sovereign bond. The bond was at lower than expected yields - the largest transaction by a first-time African issuer and was oversubscribed - a strong indicator of international investors confidence on Kenya.

90. The Government's borrowing plans remain anchored in the medium term debt management strategy which aims at ensuring public debt sustainability. The strategy envisages continued borrowing from domestic and external sources. While external financing will be largely on concessional terms we shall continue to diversify our financing sources by continuing to access to commercial sources of financing. The Government will ensure that the level of domestic borrowing does not crowd out the private sector given the need to increase private investment to accelerate economic expansion.

91. On the external financing front, the Government will minimize the degree of foreign exchange rate risk exposure associated with the external debt portfolio by leaning towards borrowing

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more on concessional terms. A cautious approach will be adopted in the issuance of external Government loan guarantees to minimize the level of contingent liabilities. With the increased appetite for funding of heavy capital projects, the levels of debt accumulation will be maintained at a sustainable level.

92. Over the medium term, driven by continued reforms, revenue collection is expected to rise to about 21.8 percent of GDP as shown in **Annex Tables 1 & 2**, while overall expenditures decline from 32.0 percent of GDP in FY 2014/15 to 28.6 percent of GDP in 2015/16 and 27.7 percent of GDP in FY 2017/18. As a result, the fiscal deficit including grants will ease from 9.7 percent of GDP in FY 2014/15 to 6.1 percent of GDP in FY 2015/16 and 4.9 percent of GDP in FY 2017/18. Overall recurrent expenditures are expected to decline from 15.7 percent of GDP in FY 2014/15 to 14.6 percent of GDP in FY 2015/16 and 14.2 percent of GDP in FY 2017/18.

#### **D. Risks to the Economic Outlook**

93. The risk to the outlook for 2015 and medium-term include continued weak growth in advanced economies that will impact negatively on our exports and tourism activities. Further, geopolitical uncertainty on the international oil market will slow down the manufacturing sector.

94. Public expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures and the inefficiencies in devolved services may limit continued funding for development expenditure.

95. The impact of insecurity on tourism and depressed rainfall which could affect exports and agricultural production respectively remains a risk to the growth outlook

96. The government will undertake appropriate measures to safeguard macroeconomic stability should these risks materialize.

## **IV. RESOURCE ALLOCATION FRAMEWORK**

### **A. Adjustment to 2014/15 Budget**

97. The fiscal framework underpinning the FY 2014/15 assumed a stable macroeconomic environment and continuation of the Government's policy of containing non-priority and unproductive expenditures. Considering the tight fiscal position and the assumptions underpinning the medium term fiscal framework for FY 2014/15, we must contain expenditures by adhering to the fiscal responsibilities outlined in the Public Finance Management Act, 2012. Ministries/Departments/Agencies (MDAs) have just commenced in the implementation of the FY 2014/15 Budget.

98. As we consider making adjustments to the FY 2014/15 Budget, we need to contain additional/ supplementary funding to areas of emergency in nature. Frequent changes in the budget during implementation stage are not in line with best practice. Such changes may be interpreted to mean that budgets are not being implemented as planned or there are cases of policy reversal by the Government. Frequent revisions of the budget also erode the credibility of the budget and the process used to prepare it.

99. Given the fiscal performance in FY 2013/14 and the updated macroeconomic outlook for 2014/15, there are some inherent risks to the FY 2014/15 budget framework. Expenditure pressures and in particular those of recurrent nature, pose a serious challenge. Wage pressures and implementation of the new Constitution and the devolved government may further constrain funding for development projects. In addition, the slow implementation pace in the MDAs continues to be a source of concern and especially with regard to externally funded projects. These risks will be monitored closely and appropriate measures taken in the context of the Supplementary Budget.

100. In addition, there are risks associated with the huge wage bill in the public sector. The rising wage bill is crowding out resources for essential services and economic development. The Government has already taken measures to contain the rising wage bill in the public sector. These include freezing of new recruitment except for essential services, down and right sizing of the work force, suspending re-classification and creation of new parastatals.

101. The Government has also launched the biometric registration of civil servants across the country. This exercise taking place across the national and county governments and all Government agencies will put to rest the issue of ghost workers in the public service and ensure efficient management of the wage bill. It will entrench efficiency and effectiveness in public service and ensure that all public servants are accounted for

### **B. Medium-Term Expenditure Framework**

102. The medium term budget framework for FY 2015/16 – 2017/18 ensures continuity in resource allocation based on prioritized programmes aligned to the Second MTP (2013-2017) of Vision 2030 and strategic policy initiatives of the Jubilee Administration to accelerate growth, employment creation and poverty reduction.

103. The resource allocation therefore, continues to be aligned to development programmes in the identified thematic areas of creating conducive business environment, agricultural transformation, infrastructure development, quality and accessible healthcare services and education;

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and devolution for better service delivery. Consequently, the FY 2015/16 MTEF budget focuses on the following:

**(i) Quality and accessible Education and Healthcare Services**

Education and Health sectors currently receive significant amount of resources with a combined allocation of over 30.1 percent of total discretionary expenditures. Going forward, these sectors will continue to be allocated additional resources as well as entrenching quality control to ensure utilization of existing funds efficiently to generate fiscal space to accommodate other strategic interventions within the two sectors.

**(ii) Infrastructure Development :Energy, Infrastructure and ICT**

This sector receives the second largest share of resources (about 22 per cent of total expenditure) after the education sector. The sector is the driver of the economy and reflects Government's commitment in improving infrastructure countrywide, such as roads, energy and rail. The allocation to the sector will continue to rise over the medium term. This is in line with the government policy of developing infrastructure for accelerating sustainable growth.

**(iii) Funding programs to Create Conducive Business Environment**

This BROF continues to fund governance reforms programmes to reduce the cost of doing business and also improving security in order to encourage innovation, investment, growth and expansion of economic and employment opportunities.

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

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

104. Reflecting the above medium-term expenditure framework, **Table 10 and Annex Tables 4 & 5** provides the tentative projected baseline ceilings for the FY 2015/16 – 2017/18 MTEF period classified by sector.

**Table 10: Medium Term Sector Ceilings, FY 2015/16-2017/18, Ksh Million**

Table 10: Medium Term Sector Ceilings, FY 2015/16 to 2017/18, Ashdod														
SECTOR									% SHARE OF TOTAL EXPENDITURE					
		ESTIMATES	REVISED BASELINE	BPS CEILING	ESTIMATES	CEILING	PROJECTIONS		ESTIMATES	REVISED BASELINE	ESTIMATES	BROP CEILINGS	PROJECTIONS	
		2013/14	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18	2013/14	2013/14	2014/15	2015/16	2016/17	2017/18
AGRICULTURE, RURAL & URBAN DEVELOPMENT														
	SUB-TOTAL	53,343	64,638	55,559	60,224	61,237	62,424	61,608	5.0%	5.8%	5.1%	5.1%	5.0%	4.6%
	Rec. Gross	15,022	17,216	15,965	15,957	16,430	16,889	17,974	1.4%	1.5%	1.3%	1.4%	1.3%	1.3%
	Dev. Gross	38,321	47,421	39,594	44,266	44,807	45,535	43,634	3.6%	4.3%	3.7%	3.7%	3.6%	3.3%
ENERGY, INFRASTRUCTURE AND ICT	SUB-TOTAL	216,532	213,158	250,048	256,894	262,981	271,681	278,904	20.5%	19.1%	21.7%	22.0%	21.5%	20.9%
	Rec. Gross	27,534	36,700	41,440	35,593	36,216	36,333	36,492	2.6%	3.3%	3.0%	3.0%	2.9%	2.7%
	Dev. Gross	188,998	176,458	208,608	221,301	226,766	235,348	242,412	17.9%	15.8%	18.7%	19.0%	18.7%	18.1%
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS														
	SUB-TOTAL	12,930	12,338	13,815	16,248	14,795	15,216	15,546	1.2%	1.1%	1.4%	1.2%	1.2%	1.2%
	Rec. Gross	7,941	7,885	8,382	6,654	6,841	7,062	7,292	0.8%	0.7%	0.6%	0.6%	0.6%	0.5%
	Dev. Gross	4,989	4,453	5,433	9,594	7,954	8,154	8,254	0.5%	0.4%	0.8%	0.7%	0.6%	0.6%
HEALTH	SUB-TOTAL	36,218	46,755	37,923	47,362	48,407	49,841	51,627	3.4%	4.2%	4.0%	4.0%	4.0%	3.9%
	Rec. Gross	20,325	22,622	23,455	26,061	28,011	28,758	29,576	1.9%	2.0%	2.2%	2.3%	2.3%	2.2%
	Dev. Gross	15,893	24,132	14,469	21,301	20,396	21,083	22,051	1.5%	2.2%	1.8%	1.7%	1.7%	1.7%
EDUCATION	SUB-TOTAL	276,242	298,158	298,972	308,351	324,359	356,928	380,572	26.1%	26.8%	26.1%	27.1%	28.3%	28.5%
	Rec. Gross	245,828	266,928	264,360	273,380	288,373	319,047	339,457	23.3%	24.0%	23.1%	24.1%	25.3%	25.4%
	Dev. Gross	30,415	31,230	34,612	34,971	35,986	37,881	41,115	2.9%	2.8%	3.0%	3.0%	3.0%	3.1%
GOVERNANCE, JUSTICE, LAW AND ORDER														
	SUB-TOTAL	126,152	126,671	133,206	130,855	138,220	146,110	171,859	11.9%	11.4%	11.1%	11.6%	11.6%	12.9%
	Rec. Gross	111,264	117,075	118,890	119,157	125,663	132,386	156,495	10.5%	10.5%	10.1%	10.5%	10.5%	11.7%
	Dev. Gross	14,888	9,596	14,315	11,697	12,557	13,724	15,364	1.4%	0.9%	1.0%	1.0%	1.1%	1.2%
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS														
	SUB-TOTAL	173,455	183,495	168,030	196,918	180,399	189,240	200,715	16.4%	16.5%	16.7%	15.1%	15.0%	15.0%
	Rec. Gross	73,855	80,410	76,877	94,228	87,123	89,573	92,075	7.0%	7.2%	8.0%	7.3%	7.1%	6.9%
	Dev. Gross	99,599	103,085	91,153	102,690	93,276	99,667	108,640	9.4%	9.3%	8.7%	7.8%	7.9%	8.1%
NATIONAL SECURITY	SUB-TOTAL	84,723	89,029	80,071	90,721	90,072	91,124	93,856	8.0%	8.0%	7.7%	7.5%	7.2%	7.0%
	Rec. Gross	84,723	89,029	80,071	90,721	90,072	91,124	93,856	8.0%	8.0%	7.7%	7.5%	7.2%	7.0%
	Dev. Gross	-	-	-	-	-	-	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SOCIAL PROTECTION, CULTURE AND RECREATION														
	SUB-TOTAL	20,543	20,209	21,265	24,053	24,680	25,287	26,708	1.9%	1.8%	2.0%	2.1%	2.0%	2.0%
	Rec. Gross	10,893	11,189	11,236	11,085	11,234	11,479	11,750	1.0%	1.0%	0.9%	0.9%	0.9%	0.9%
	Dev. Gross	9,650	9,020	10,029	12,968	13,446	13,808	14,958	0.9%	0.8%	1.1%	1.1%	1.1%	1.1%
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES														
	SUB-TOTAL	57,134	59,483	54,991	50,807	50,977	53,073	54,381	5.4%	5.3%	4.3%	4.3%	4.2%	4.1%
	Rec. Gross	13,200	14,215	14,649	14,704	14,826	14,950	15,111	1.2%	1.3%	1.2%	1.2%	1.2%	1.1%
	Dev. Gross	43,933	45,268	40,342	36,103	36,152	38,123	39,271	4.2%	4.1%	3.1%	3.0%	3.0%	2.9%
TOTAL	TOTAL	1,057,272	1,113,935	1,113,879	1,182,433	1,196,129	1,260,923	1,335,776	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
	Rec. Gross	610,585	663,271	655,323	687,541	704,789	747,600	800,078	57.8%	59.5%	58.1%	58.9%	59.3%	59.9%
	Dev. Gross	446,687	450,664	458,556	494,892	491,339	513,323	535,698	42.2%	40.5%	41.9%	41.1%	40.7%	40.1%

### C. County Budgets

105. County governments completed their first year of operations in FY 2013/14. In this first year, budget execution by county governments was well below target. Counties managed to spend only 58.1per cent of their aggregate budget. This was the result of many teething problems associated with the setting up of new structures. These challenges included: (i) infrastructural challenges, particularly, in IFMIS, (ii) inadequate staff capacity (ii) budget execution gaps, (ii) budgetary constraints owing to delays in release of funds by the National Government and underperformance in local revenue collection, (iii) inadequate management controls including the lack of internal audit arrangements, and (iv) conflict between the County Executive and the County Assembly.



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106. The majority county government funds were also used for recurrent rather than development expenditure. Personnel emoluments (wages, salaries, and allowances) accounted for the largest share of county expenditures representing 45.6 per cent of total expenditure followed by operations and maintenance at 30.5 per cent. The total development expenditure by County Governments was 21.6 per cent of the total expenditure by the counties. This goes against the PFM act which stipulates that at least 30 percent of allocation be allocated to development activities. Fiscal discipline is thus required to ensure prudent use of public resources.

107. Economic growth in Kenya is dependent on budget execution. Therefore, going forward better execution of county government budget is expected to benefit growth. With the timely release of funds by the National Government to the County Government, enactment of regulations to limit spending on recurrent expenditure development expenditure will pick and benefit economic growth at the Counties.

#### **D. 2015/16 Budget Framework**

108. The medium term fiscal framework for FY 2015/16 is set based on macro-fiscal framework set out above. Real GDP is expected to increase by 6.3 percent in FY 2015/16 underpinned by continued good performance across all sectors of the economy. The projected growth assumes normal weather pattern during the year and improved investor confidence in the economy. Inflation is expected to remain low and stable, reflecting continued implementation of a prudent monetary policy and stable food and oil prices, as well as stable exchange rate.

#### **Revenue Projections**

109. The FY 2015/16 budget targets revenue collection including Appropriation-in-Aid (AiA) of Ksh 1,352.2 billion (21.5 percent of GDP) up from Ksh 1,181.2 billion (21.2 percent of GDP). As noted in this document, this performance will be underpinned by on-going reforms in tax policy and revenue administration. Ordinary Revenues will amount to Ksh 1,249.9 billion (19.9 percent of GDP) in FY 2015/16 up from Ksh 1,087.1 billion (19.6 percent of GDP) in FY 2014/15.

#### **Expenditure Forecasts**

110. In FY 2015/16, overall expenditure and net lending are projected at Ksh 1,800.5 billion or 28.6 per cent of GDP) from the estimated Ksh 1,780.3 billion (32.0 per cent of GDP) in the FY 2014/15 budget. Recurrent expenditures will amount to Ksh 916.7 billion (14.6 percent of GDP) compared with Ksh 871.5 billion (15.7 percent of GDP) in FY 2014/15. In the FY 2015/16, more resources will be earmarked for development as required by the PFM Act 2012. Development expenditure is therefore projected at Ksh 633.4 billion (10.1 percent of GDP). Domestic interest payments are expected to reduce relative to GDP to 2.1 percent in FY 2015/16 from 2.2 percent in FY 2014/15, while pension expenditures stabilize at about 0.6 percent in FY 2015/16.

111. The contribution to civil service pension fund amounts to Ksh 10.9 billion (0.2 percent of GDP) in the FY 2015/16.

112. In terms of percentage to GDP, the wage bill for the National Government (excluding MDAs whose budget is captured as current grants/transfer) in FY 2015/16 is expected to stabilize at 5.0 percent of GDP in FY 2015/16.

113. Expenditure ceilings on goods and services for sectors/ministries are based on funding allocation in the FY 2014/15 budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in FY 2014/15 and then an adjustment factor is applied to take into account the general increase in prices.

114. The ceiling for development expenditures including foreign financed projects (excluding net lending) in nominal terms amounts to Ksh 491.3 billion in the FY 2015/16. Most of the outlays are expected to support critical infrastructure. About 47 percent of development budget will be funded by project loans and grants from development partners, while the balance of 53 percent will be financed through domestic resources.

115. A contingency of Ksh 5.0 billion is provided for in FY 2015/16. In addition, Ksh 6.0 billion is provided for as conditional grants to marginal areas, up from Ksh 3.4 billion in 2013/14.

### **Overall Deficit and Financing**

116. Reflecting the projected expenditures and revenues, the overall fiscal balance (on a commitment basis and excluding grants), is projected at Ksh 448.4 billion (equivalent to 7.1 percent of GDP) in FY 2015/16 against the estimated overall fiscal balance of Ksh 599.1 billion (10.8 percent of GDP) in FY 2014/15. Including grants, the overall fiscal balance (on a commitment basis) is projected at Ksh 384.2 billion (6.1 percent of GDP) in FY 2015/16 against the estimated overall fiscal balance of Ksh 540.3 billion (9.7 percent of GDP) in FY 2014/15.

117. The fiscal deficit in FY 2015/16, will be financed by net external financing of Ksh 241.0 billion (3.8 percent of GDP) and Ksh 141.2 billion (2.2 percent of GDP) net domestic borrowing.

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## **V. CONCLUSION AND NEXT STEPS**

118. The FY2015/16-2017/18 MTEF presented in this BROP is developed taking into account the key policy challenges facing the economy. It is therefore marked by moderate growth in overall expenditure, taking into account the economic outlook and the need to maintain fiscal discipline in all levels of the government for maximum return from public resources. The policies, therefore, are broadly in line with the fiscal responsibility principles outlined in the PFM law.

119. Going forward, the set of policies outlined in this BROP ensures continuity in resource allocation based on prioritized programs aligned to the Second MTP (2013-2017) of Vision 2030 and strategic policy initiatives of the Jubilee Administration to accelerate growth, employment creation and poverty reduction.

120. The policies and sector ceilings annexed herewith will guide the line ministries in preparation of the FY 2015/16 budget.

121. The next Budget Policy Statement (BPS) will be finalized by the February 2015 deadline as per the PFM law.

**Annex Table 1: Main Macroeconomic Indicators, FY 2012/13-2017/18**

	2012/13	2013/14			2014/15		2015/16		2016/17		2017/18	
	Act	Budget	Rev Budget	Prel	Budget	Rev. Budget	BPS'14	BROP'14	BPS'14	BROP'14	BPS'14	BROP'14
<i>Annual percentage change, unless otherwise indicated</i>												
<b>National Account and Prices</b>												
Real GDP	5.1	5.9	5.0	5.5	6.1	5.8	6.3	6.3	6.5	6.5	6.7	6.7
GDP deflator	7.5	7.4	6.9	4.9	7.2	5.4	6.8	6.4	6.3	6.2	5.7	5.8
CPI Index (eop)	6.0	6.4	5.8	5.8	5.3	5.3	5.0	5.0	5.0	5.0	5.0	5.0
CPI Index (avg)	5.9	6.7	6.0	6.0	5.7	5.7	5.0	5.0	5.0	5.0	5.0	5.0
Terms of trade (-deterioration)	-0.1	1.0	0.2	0.2	5.1	5.0	6.6	6.5	3.5	3.4	0.9	0.9
Exchange Rate (Ksh/US\$, average)	...	...	...	...	...	...	...	...	...	...	...	...
<b>Money and Credit (end of period)</b>												
Net domestic assets	15.6	11.2	8.8	11.1	7.5	5.8	10.1	9.2	8.0	7.8	7.9	8.2
Net domestic credit to the Government	27.4	13.0	0.1	-25.4	19.4	17.3	0.1	20.5	0.1	19.5	0.0	18.0
Credit to the rest of the economy	12.9	14.7	16.3	25.8	9.1	13.5	16.7	11.8	16.0	12.2	15.2	12.3
Broad Money, M3 (percent change)	14.2	14.3	12.8	18.2	14.4	11.5	13.9	13.2	13.1	13.1	12.6	12.9
Reserve money (percent change)	11.7	14.3	15.9	12.6	14.4	11.5	13.9	10.4	13.1	10.4	11.5	11.8
<i>In percentage of GDP, unless otherwise indicated</i>												
<b>Investment and Saving</b>												
Investment	20.8	23.9	19.8	23.3	22.4	27.5	22.7	26.5	23.0	27.1	23.4	27.5
Central Government	6.9	11.1	7.8	6.4	10.3	12.0	11.7	9.9	12.3	10.1	12.9	9.8
Other	13.9	12.8	11.9	15.5	12.1	16.0	11.1	16.6	10.7	17.0	10.4	17.7
Gross National Saving	12.3	13.5	12.0	14.4	15.3	18.4	16.9	18.4	17.8	19.5	18.2	20.0
Central Government	0.2	5.8	4.8	3.8	7.0	5.8	9.0	7.1	10.2	8.2	13.7	6.1
Other	12.2	7.7	7.3	10.6	8.3	12.7	7.9	11.3	7.6	11.3	4.4	13.9
<b>Central Government Budget</b>												
Total revenue	18.8	24.7	20.2	19.5	21.0	21.2	22.0	21.5	22.2	21.9	22.3	21.8
Total expenditure and net lending	24.8	34.6	29.1	26.1	28.4	32.0	28.4	28.6	28.2	27.9	26.4	27.7
Overall balance (commitment basis) excl. grants	-6.0	-9.9	-8.9	-6.5	-7.4	-10.8	-6.4	-7.1	-6.0	-6.0	-4.1	-5.9
Overall balance (commitment basis) incl. grants	-5.5	-8.0	-7.8	-6.0	-6.4	-9.7	-5.0	-6.1	-4.6	-5.0	-2.6	-4.9
Primary budget balance	-2.5	-4.8	-4.6	-3.3	-3.7	-7.1	-2.5	-3.6	-2.1	-2.5	-0.2	-2.4
Net domestic borrowing	3.8	2.6	2.0	4.0	3.4	1.8	3.1	2.2	2.9	2.3	1.1	2.2
Total external support (grant & loans)	2.2	5.7	4.0	2.5	3.5	6.9	3.8	4.5	3.8	3.8	3.8	3.8
<b>External Sector</b>												
Exports value, goods and services	20.5	19.8	20.1	20.1	20.4	20.7	21.1	21.1	21.4	21.4	21.5	21.5
Imports value, goods and services	33.6	32.3	32.7	33.8	31.8	34.3	31.3	33.4	30.9	32.9	30.7	32.7
Current external balance, including official transfers	-8.5	-10.5	-7.8	-8.9	-7.1	-9.1	-5.8	-8.1	-5.3	-7.6	-5.2	-7.6
Current external balance, excluding official transfers	-8.5	-10.4	-7.7	-8.9	-7.0	-9.0	-5.8	-8.1	-5.3	-7.6	-5.2	-7.6
Gross international reserve coverage in months of next year imports (end of period)	3.5	3.5	4.0	3.6	4.4	4.2	4.5	4.3	4.8	4.6	4.8	4.8
Gross international reserve coverage in months of this year's imports (end of period)	3.8	3.8	4.3	4.1	4.8	4.6	5.0	4.8	5.3	5.1	5.5	5.3
<b>Public debt</b>												
Nominal central government debt (eop), gross	42.0	48.3	48.3	48.6	45.8	47.9	46.5	47.5	54.3	47.1	42.9	46.6
Nominal central government debt (eop), net of deposits	38.5	44.2	44.7	44.7	43.8	44.4	43.4	44.4	51.6	44.3	40.4	44.2
Domestic (gross)	23.3	25.8	25.5	25.8	24.6	24.9	24.1	24.3	22.8	23.7	21.5	23.3
Domestic (net)	19.7	21.6	21.9	21.9	21.2	21.5	21.1	21.2	20.0	21.0	19.0	20.9
External	18.7	22.6	22.8	22.8	22.6	22.9	22.4	23.2	21.9	23.3	21.4	23.3
<b>Memorandum Items:</b>												
Nominal GDP (in Ksh Billions)	4,506	5,042	4,985	4,985	5,633	5,559	6,294	6,290	7,104	7,113	8,010	8,030
Nominal GDP (in US\$ Millions)	52,830	57,908	57,251	57,251	63,687	62,852	70,483	70,440	78,791	78,895	88,001	88,213

Source: National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review &amp; Outlook Paper

**Annex Table 2: Government Operations FY 2012/13 - 2017/18 (in billions of Kenya Shillings)**

	2012/13	2013/14			2014/15		2015/16		2016/17		2017/18	
	Act.	BPS'13	Rev Budget	Prel.	Budget	Rev. Budget	BPS'14	BROP'14	BPS'14	BROP'14	BPS'14	BROP'14
<b>TOTAL REVENUE</b>	<b>847.2</b>	<b>987.3</b>	<b>1,006.4</b>	<b>974.4</b>	<b>1,180.5</b>	<b>1,181.2</b>	<b>1,382.6</b>	<b>1,352.2</b>	<b>1,578.3</b>	<b>1,558.9</b>	<b>1,786.3</b>	<b>1,752.9</b>
Ordinary Revenue (excl. LATF)	779.4	920.4	918.0	919.0	1,086.4	1,087.1	1,270.6	1,249.9	1,456.9	1,447.8	1,654.9	1,632.6
Income tax	373.4	454.2	450.9	449.6	541.9	541.9	632.2	626.5	735.9	738.5	838.7	833.7
Import duty (net)	57.6	67.2	67.3	67.6	77.7	77.7	89.1	90.6	101.1	102.6	114.1	115.7
Excise duty	85.5	107.5	101.2	102.0	119.8	119.8	135.0	125.0	153.2	141.3	172.4	159.0
Value Added Tax	184.6	210.6	231.0	232.6	267.1	267.1	318.2	319.5	365.1	368.2	415.0	414.4
Investment income	15.3	17.7	13.7	10.2	17.4	17.4	25.3	18.2	21.3	18.1	24.1	20.5
Other	63.0	63.2	53.9	57.0	62.5	63.2	70.9	69.9	80.2	79.1	90.6	89.3
Railway Development Levy	0.0	0.0	20.2	19.7	22.9	22.9	26.1	26.1	29.6	29.6	33.4	33.4
Ministerial and Departmental fees (AiA)	49.7	67.0	68.2	35.7	71.2	71.2	85.9	76.2	91.8	81.4	98.0	86.9
<b>EXPENDITURE AND NET LENDING</b>	<b>1,117.0</b>	<b>1,462.2</b>	<b>1,451.0</b>	<b>1,300.6</b>	<b>1,597.8</b>	<b>1,780.3</b>	<b>1,786.6</b>	<b>1,800.5</b>	<b>2,003.7</b>	<b>1,987.6</b>	<b>2,112.6</b>	<b>2,224.1</b>
Recurrent expenditure	808.3	854.6	835.9	787.9	871.5	871.5	920.0	916.7	985.2	990.0	928.2	1,136.7
Interest payments	121.2	120.5	125.0	134.8	147.4	147.4	154.8	158.1	176.4	182.6	192.0	201.3
Domestic interest	110.2	109.4	110.1	119.2	122.9	122.9	132.3	133.6	145.6	145.6	160.1	160.1
Foreign interest	11.1	11.1	14.9	15.6	24.5	24.5	22.4	24.4	30.9	37.1	31.8	41.2
Wages and benefits(civil service)	274.4	296.9	288.5	281.2	303.3	303.3	323.8	317.1	351.1	356.7	382.8	400.9
Contribution to civil service pension fund	0.0	6.9	0.0	0.0	9.5	9.5	17.4	10.9	18.8	13.8	20.5	19.3
Civil service Reform	0.0	0.0	0.0	0.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Pensions etc	27.0	41.1	32.0	30.2	36.6	36.6	50.5	40.2	55.6	44.2	61.1	48.7
Other	294.4	314.8	301.1	248.0	283.0	283.0	288.5	299.3	293.0	296.0	175.4	363.4
Defense and NSIS	91.2	74.4	89.4	93.8	90.7	90.7	84.1	90.1	89.3	95.7	95.4	102.1
Development and Net lending	298.9	385.2	415.2	319.3	492.0	674.5	622.3	633.4	742.5	729.8	868.8	793.2
Domestically financed	201.8	249.7	218.7	198.5	298.7	298.7	374.1	347.3	463.8	398.7	563.6	459.3
Foreign financed	94.7	133.1	194.2	118.6	187.8	370.3	239.6	277.9	269.1	321.9	302.4	331.5
Net lending	2.4	2.4	2.3	2.2	2.1	2.1	2.6	2.2	2.7	2.3	2.8	2.4
Contingencies	0.0	5.0	5.0	0.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
County Allocation	0.0	210.0	193.4	193.4	229.3	229.3	239.3	245.5	271.0	262.9	305.2	281.5
Conditional grants to marginal areas ("Equalization Fund")	0.0	3.4	0.0	0.0	3.4	3.4	6.0	6.0	6.9	6.9	5.4	7.7
<b>Balance (commitment basis excl. grants)</b>	<b>-269.8</b>	<b>-474.9</b>	<b>-444.6</b>	<b>-326.2</b>	<b>-417.3</b>	<b>-599.1</b>	<b>-404.0</b>	<b>-448.4</b>	<b>-425.4</b>	<b>-428.8</b>	<b>-326.3</b>	<b>-471.2</b>
Adjustment to cash basis	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project grants	15.1	21.7	48.4	21.7	51.4	51.4	91.1	57.4	102.0	64.2	115.0	71.8
Debt Swap		0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Programme grants	5.8	4.7	4.8	4.7	6.1	6.1	0.0	6.1	0.0	6.1	0.0	6.1
County Health Facilities - DANIDA					0.7	0.7		0.7		0.7		0.7
<b>Balance (cash basis including grants)</b>	<b>-249.1</b>	<b>-448.4</b>	<b>-390.9</b>	<b>-299.2</b>	<b>-358.6</b>	<b>-540.3</b>	<b>-312.8</b>	<b>-384.2</b>	<b>-323.4</b>	<b>-357.7</b>	<b>-211.3</b>	<b>-392.6</b>
Statistical discrepancy	-16.6	0.0	0.0	10.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>FINANCING</b>	<b>232.5</b>	<b>197.5</b>	<b>390.9</b>	<b>309.4</b>	<b>358.6</b>	<b>540.3</b>	<b>312.8</b>	<b>384.2</b>	<b>323.4</b>	<b>357.7</b>	<b>216.3</b>	<b>392.6</b>
Net foreign financing/1	62.7	90.8	291.9	106.4	165.8	295.4	117.0	241.0	113.1	193.6	127.8	212.1
Project loans	79.6	65.7	145.8	96.9	141.8	324.2	147.7	220.6	166.4	199.2	187.4	224.8
Commercial Financing	6.6	109.9	176.0	35.4	51.5	51.5	0.0	51.7	0.0	52.2	0.0	52.7
Repayments due	-24.0	-85.3	-30.0	-25.8	-27.5	-81.5	-31.2	-31.2	-53.3	-57.8	-59.5	-65.5
Sovereign Bond Proceeds					0.0	141.2						
Net domestic borrowing	169.8	106.7	99.1	201.7	190.8	101.7	193.9	141.2	208.4	162.1	88.4	178.5
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.0	0.0
<b>Memo items</b>												
External Debt	962.3	926.8	1,225.5	1,138.5	1,158.8	1,275.8	1,262.8	1,459.0	1,379.0	1,658.1	1,507.4	1,873.8
Domestic Debt (gross)	1,097.0	1,135.3	1,157.3	1,284.3	1,443.5	1,386.1	1,637.4	1,527.2	1,845.8	1,689.4	1,934.2	1,867.9
Domestic Debt (net)	945.1	983.4	995.8	1,090.8	1,282.1	1,192.6	1,475.9	1,333.7	1,684.3	1,495.9	1,772.7	1,674.4
Primary budget balance	-111.2	-77.0	-228.2	-164.4	-209.2	-392.9	-158.1	-226.1	-147.0	-175.1	-19.3	-191.2
Balance (including grants) less China						-357.8		-339.8		-299.2		-357.8
Nominal GDP	4,506.2	5,042.4	4,985.1	4,985.1	5,633.2	5,559.3	6,294.2	6,290.4	7,103.8	7,113.1	8,010.5	8,029.7

Source: The National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review &amp; Outlook Paper

**Annex Table 3: Government Operations, FY 2012/13 - 2017/18 (in percent of GDP)**

	2012/13	2013/14			2014/15		2015/16		2016/17		2017/18	
	Act.	BPS'13	Rev Budget	Prel.	Budget	Rev. Budget	BPS'14	BROP'14	BPS'14	BROP'14	BPS'14	BROP'14
<b>TOTAL REVENUE</b>	<b>18.8%</b>	<b>19.6%</b>	<b>20.2%</b>	<b>19.5%</b>	<b>21.0%</b>	<b>21.2%</b>	<b>22.0%</b>	<b>21.5%</b>	<b>22.2%</b>	<b>21.9%</b>	<b>22.3%</b>	<b>21.8%</b>
Ordinary Revenue (excl. LATF)	17.3%	18.3%	18.4%	18.4%	19.3%	19.6%	20.2%	19.9%	20.5%	20.4%	20.7%	20.3%
Income tax	8.3%	9.0%	9.0%	9.0%	9.6%	9.7%	10.0%	10.0%	10.4%	10.4%	10.5%	10.4%
Import duty (net)	1.3%	1.3%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Excise duty	1.9%	2.1%	2.0%	2.0%	2.1%	2.2%	2.1%	2.0%	2.2%	2.0%	2.2%	2.0%
Value Added Tax	4.1%	4.2%	4.6%	4.7%	4.7%	4.8%	5.1%	5.1%	5.1%	5.2%	5.2%	5.2%
Investment income	0.3%	0.4%	0.3%	0.2%	0.3%	0.3%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%
Other	1.4%	1.3%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Railway Development Levy	0.0%	0.0%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Ministerial and Departmental fees (AiA)	1.1%	1.3%	1.4%	0.7%	1.3%	1.3%	1.4%	1.2%	1.3%	1.1%	1.2%	1.1%
<b>EXPENDITURE AND NET LENDING</b>	<b>24.8%</b>	<b>29.0%</b>	<b>29.1%</b>	<b>26.1%</b>	<b>28.4%</b>	<b>32.0%</b>	<b>28.4%</b>	<b>28.6%</b>	<b>28.2%</b>	<b>27.9%</b>	<b>26.4%</b>	<b>27.7%</b>
Recurrent expenditure	17.9%	16.9%	16.8%	15.8%	15.5%	15.7%	14.6%	14.6%	13.9%	13.9%	11.6%	14.2%
Interest payments	2.7%	2.4%	2.5%	2.7%	2.6%	2.7%	2.5%	2.5%	2.5%	2.6%	2.4%	2.5%
Domestic interest	2.4%	2.2%	2.2%	2.4%	2.2%	2.2%	2.1%	2.1%	2.0%	2.0%	2.0%	2.0%
Foreign interest	0.2%	0.2%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.4%	0.5%
Wages and benefits (civil service)	6.1%	5.9%	5.8%	5.6%	5.4%	5.5%	5.1%	5.0%	4.9%	5.0%	4.8%	5.0%
Contribution to civil service pension fund	0.0%	0.1%	0.0%	0.0%	0.2%	0.2%	0.3%	0.2%	0.3%	0.2%	0.3%	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%
Pensions etc	0.6%	0.8%	0.6%	0.6%	0.6%	0.7%	0.8%	0.6%	0.8%	0.6%	0.8%	0.6%
Other	6.5%	6.2%	6.0%	5.0%	5.0%	5.1%	4.6%	4.8%	4.1%	4.2%	2.2%	4.5%
Defense and NSIS	2.0%	1.5%	1.8%	1.9%	1.6%	1.6%	1.3%	1.4%	1.3%	1.3%	1.2%	1.3%
Development and Net lending	6.6%	7.6%	8.3%	6.4%	8.7%	12.1%	9.9%	10.1%	10.5%	10.3%	10.8%	9.9%
Domestically financed	4.5%	5.0%	4.4%	4.0%	5.3%	5.4%	5.9%	5.5%	6.5%	5.6%	7.0%	5.7%
Foreign financed	2.1%	2.6%	3.9%	2.4%	3.3%	6.7%	3.8%	4.4%	3.8%	4.5%	3.8%	4.1%
Net lending	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Contingencies	0.0%	0.1%	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Constitution Reform	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
County Allocation		4.2%	3.9%	3.9%	4.1%	4.1%	3.8%	3.9%	3.8%	3.7%	3.8%	3.5%
Conditional grants to marginal areas ("Equalization Fund")	0.0%	0.1%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
<b>Balance (commitment basis excl. grants)</b>	<b>-6.0%</b>	<b>-9.4%</b>	<b>-8.9%</b>	<b>-6.5%</b>	<b>-7.4%</b>	<b>-10.8%</b>	<b>-6.4%</b>	<b>-7.1%</b>	<b>-6.0%</b>	<b>-6.0%</b>	<b>-4.1%</b>	<b>-5.9%</b>
Adjustment to cash basis	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Project grants	0.3%	0.4%	1.0%	0.4%	0.9%	0.9%	1.4%	0.9%	1.4%	0.9%	1.4%	0.9%
Programme grants*	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%	0.0%	0.1%	0.0%	0.1%
<b>Balance (cash basis including grants)</b>	<b>-5.5%</b>	<b>-8.9%</b>	<b>-7.8%</b>	<b>-6.0%</b>	<b>-6.4%</b>	<b>-9.7%</b>	<b>-5.0%</b>	<b>-6.1%</b>	<b>-4.6%</b>	<b>-5.0%</b>	<b>-2.6%</b>	<b>-4.9%</b>
Statistical discrepancy	-0.4%	0.0%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>FINANCING</b>	<b>5.2%</b>	<b>3.9%</b>	<b>7.8%</b>	<b>6.2%</b>	<b>6.4%</b>	<b>9.7%</b>	<b>5.0%</b>	<b>6.1%</b>	<b>4.6%</b>	<b>5.0%</b>	<b>2.7%</b>	<b>4.9%</b>
Net foreign financing	1.4%	1.8%	5.9%	2.1%	2.9%	5.3%	1.9%	3.8%	1.6%	2.7%	1.6%	2.6%
Project loans	1.8%	1.3%	2.9%	1.9%	2.5%	5.8%	2.3%	3.5%	2.3%	2.8%	2.3%	2.8%
Commercial Financing	0.1%	2.2%	3.5%	0.7%	0.9%	0.9%	0.0%	0.8%	0.0%	0.7%	0.0%	0.7%
Repayments due	-0.5%	-1.7%	-0.6%	-0.5%	-0.5%	-1.5%	-0.5%	-0.5%	-0.8%	-0.8%	-0.7%	-0.8%
Net domestic borrowing	3.8%	2.1%	2.0%	4.0%	3.4%	1.8%	3.1%	2.2%	2.9%	2.3%	1.1%	2.2%
Financing gap**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
<u>Memo items</u>												
Total public debt (net)	45.9%	37.9%	44.6%	44.7%	43.3%	44.4%	43.5%	44.4%	43.1%	44.3%	40.4%	44.2%
External Debt		18.4%	24.6%	22.8%	20.6%	22.9%	20.1%	23.2%	19.4%	23.3%	18.8%	23.3%
Domestic Debt (gross)	24.3%	22.5%	23.2%	25.8%	25.6%	24.9%	26.0%	24.3%	26.0%	23.7%	24.1%	23.3%
Domestic Debt (net)	21.0%	19.5%	20.0%	21.9%	22.8%	21.5%	23.4%	21.2%	23.7%	21.0%	22.1%	20.9%
Primary budget balance	-2.5%	-1.5%	-4.6%	-3.3%	-3.7%	-7.1%	-2.5%	-3.6%	-2.1%	-2.5%	-0.2%	-2.4%
Balance (including grants) less China						-6.4%		-5.4%		-4.2%		-4.5%
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%

Source: The National Treasury

Notes: BPS = Budget Policy Statement; BROP = Budget Review & Outlook Paper

**Annex Table 4: Development Sector Ceilings for the MTEF Period FY 2015/16 - 2017/18 (KSh. Million)**

SECTOR/MINISTRY/DEPARTMENT/AGENCY		ESTIMATES	REVISED BASELINE	BPS CEILING	DRAFT ESTIMATES	BROP CEILINGS	PROJECTIONS	
		2013/14	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18
AGRICULTURE, RURAL & URBAN DEVELOPMENT	Gross	38,321	47,421	39,594	44,266	44,807	45,535	43,634
	GOK	11,804	12,615	12,226	17,713	17,923	18,651	16,749
	Loans	12,839	19,358	10,913	10,273	10,676	10,676	10,676
	Grants	2,692	4,463	2,324	4,154	3,208	3,208	3,208
	Local A-I-A				500	500	500	500
	Strategic Interventions	10,986	10,986	14,132	11,626	12,500	12,500	12,500
ENERGY, INFRASTRUCTURE AND ICT	Gross	188,998	176,458	208,608	221,301	226,766	235,348	242,412
	GOK	27,918	50,573	43,890	83,367	83,878	92,155	96,478
	Loans	124,485	105,297	109,464	97,666	98,180	98,180	98,180
	Grants	9,079	16,132	12,241	8,870	10,132	9,132	9,132
	Local A-I-A	4,457	4,457	25,140	31,398	34,576	35,881	38,623
	Strategic Interventions	23,060	-	17,872	-	-	-	-
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	Gross	4,989	4,453	5,433	9,594	7,954	8,154	8,254
	GOK	4,725	4,214	5,170	8,987	7,412	7,612	7,712
	Loans	-	-	-	-	-	-	-
	Grants	263	239	263	607	542	542	542
HEALTH	Gross	15,893	24,132	14,469	21,301	20,396	21,083	22,051
	GOK	1,595	2,065	1,355	1,397	1,411	1,456	1,424
	Loans	2,267	5,498	1,927	1,704	1,927	1,927	1,927
	Grants	7,232	11,769	6,147	10,461	10,461	10,461	10,461
	Strategic Interventions	4,800	4,800	5,040	7,740	6,598	7,240	8,240
EDUCATION	Gross	30,415	31,230	34,612	34,971	35,986	37,881	41,115
	GOK	7,983	9,170	10,323	12,255	13,269	14,580	16,930
	Loans	5,370	4,919	4,564	2,468	2,468	2,468	2,468
	Grants	2,347	2,426	1,995	2,669	2,669	2,669	2,669
	Strategic Interventions	14,715	14,715	17,730	17,580	17,580	18,164	19,048
GOVERNANCE, JUSTICE, LAW AND ORDER	Gross	14,888	9,596	14,315	11,697	12,557	13,724	15,364
	GOK	9,520	8,336	9,720	8,068	8,717	9,880	11,517
	Loans	4,382	2,324	3,724	2,832	2,832	2,832	2,832
	Grants	987	870	871	597	1,008	1,012	1,015
	Local A-I-A				200			
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	Gross	99,599	103,085	91,153	102,690	93,276	99,667	108,640
	GOK	24,007	19,981	22,683	30,824	23,610	24,829	29,179
	Loans	8,548	12,331	7,265	4,836	4,836	4,836	4,836
	Grants	28,894	27,223	24,571	18,646	18,646	18,646	18,646
	Local A-I-A	56	56	56	56	56	56	56
	Strategic Interventions	14,400	14,400	9,303	13,055	12,855	13,055	13,055
	CDF	23,694	29,094	27,275	35,273	33,273	38,245	42,868
SOCIAL PROTECTION, CULTURE AND RECREATION	Gross	9,650	9,020	10,029	12,968	13,446	13,808	14,958
	GOK	2,052	2,310	2,231	2,297	2,775	3,137	3,287
	Loans	1,517	1,517	1,517	1,282	1,282	1,282	1,282
	Grants	2,081	1,533	2,081	1,223	1,223	1,223	1,223
	Strategic Interventions	4,000	3,660	4,200	8,166	8,166	8,166	9,166
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	Gross	43,933	45,268	40,342	36,103	36,152	38,123	39,271
	GOK	15,413	14,833	15,722	15,483	16,382	18,353	19,501
	Loans	21,354	24,811	18,151	15,324	15,324	15,324	15,324
	Grants	6,312	4,769	5,365	4,191	4,191	4,191	4,191
	Local A-I-A	255	255	255	255	255	255	255
	Strategic Interventions	600	600	850	850	-	-	-
TOTAL	Gross	446,687	450,664	458,556	494,892	491,339	513,323	535,698
	GOK	105,017	124,096	123,319	180,391	175,376	190,653	202,777
	Loans	180,760	176,055	157,525	136,385	137,525	137,525	137,525
	Grants	59,887	69,425	55,858	51,417	52,078	51,082	51,085
	Local A-I-A	4,768	4,768	25,452	32,409	35,387	36,692	39,434
	Strategic Interventions	72,561	49,161	69,127	59,017	57,699	59,125	62,009
	CDF	23,694	29,094	27,275	35,273	33,273	38,245	42,868

**Annex Table 5: Recurrent Sector Ceilings for the MTEF Period FY 2015/16 - 2017/18 (KSh. Million)**

SECTOR		ESTIMATES	REVISED BASELINE	BPS CEILING	DRAFT ESTIMATES	BROP CEILINGS	PROJECTIONS	
		2013/14	2013/14	2014/15	2014/15	2015/16	2016/17	2017/18
AGRICULTURE, RURAL & URBAN DEVELOPMENT	Gross	15,022	17,216	15,965	15,957	16,430	16,889	17,974
	A-I-A	1,109	1,109	1,165	498	499	500	513
	Net	13,913	16,107	14,800	15,460	15,931	16,389	17,461
	Salaries	4,152	4,500	4,635	5,684	5,854	6,030	6,930
	Grants & Other Transfers	6,163	6,182	6,182	5,043	5,243	5,451	5,485
	Other Recurrent	4,707	6,535	5,149	5,231	5,333	5,408	5,559
ENERGY, INFRASTRUCTURE AND ICT	Gross	27,534	36,700	41,440	35,593	36,216	36,333	36,492
	A-I-A	20,755	29,856	34,327	29,107	29,596	29,597	29,614
	Net	6,778	6,844	7,113	6,486	6,620	6,736	6,878
	Salaries	2,449	2,287	2,356	2,356	2,427	2,500	2,575
	Grants & Other Transfers	23,546	32,903	36,921	31,937	32,450	32,450	32,493
	Other Recurrent	1,539	1,511	2,163	1,300	1,339	1,383	1,425
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	Gross	7,941	7,885	8,382	6,654	6,841	7,062	7,292
	A-I-A	486	486	511	57	64	65	78
	Net	7,455	7,399	7,871	6,597	6,778	6,997	7,215
	Salaries	1,415	1,279	1,318	1,102	1,135	1,170	1,212
	Grants & Other Transfers	4,468	4,679	4,679	3,849	3,964	4,106	4,232
	Other Recurrent	2,059	1,927	2,385	1,702	1,741	1,786	1,849
HEALTH	Gross	20,325	22,622	23,455	26,061	28,011	28,758	29,576
	A-I-A	3,862	3,862	3,862	3,862	3,978	4,097	4,220
	Net	16,463	18,760	19,593	22,199	24,034	24,661	25,356
	Salaries	1,755	1,777	1,831	4,283	5,611	5,744	5,916
	Grants & Other Transfers	16,850	18,866	19,101	19,345	19,732	20,311	20,920
	Other Recurrent	1,020	1,279	1,623	1,733	1,768	1,803	1,839
EDUCATION	Strategic Interventions	700	700	900	700	900	900	900
	Gross	245,828	266,928	264,360	273,380	288,373	319,047	339,457
	A-I-A	19,935	20,936	20,936	20,936	21,437	21,952	22,306
	Net	225,893	245,992	243,424	252,444	266,936	297,094	312,130
	Salaries	151,591	168,556	161,253	168,373	173,424	178,622	188,986
	Grants & Other Transfers	64,689	67,354	69,089	67,151	70,763	78,270	85,231
GOVERNANCE, JUSTICE, LAW AND ORDER	Other Recurrent	29,549	28,018	34,018	37,856	44,186	62,149	65,241
	Strategic Interventions	-	3,000	-	-	-	-	-
	Gross	111,264	117,075	118,890	119,157	125,663	132,386	156,495
	A-I-A	506	508	530	718	721	721	734
	Net	110,758	116,568	118,361	118,439	124,942	131,664	155,761
	Salaries	71,006	74,942	77,191	77,524	83,444	85,947	88,525
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	Grants & Other Transfers	3,485	3,869	3,869	5,223	5,322	5,176	5,334
	Other Recurrent	26,772	28,263	27,830	26,410	26,897	29,054	49,666
	Strategic Interventions	10,000	10,000	10,000	10,000	10,000	12,209	12,970
	Gross	73,855	80,410	76,877	94,228	87,123	89,573	92,075
	A-I-A	1,431	1,496	1,496	1,403	1,408	1,414	1,492
	Net	72,424	78,914	75,380	92,825	85,715	88,159	90,583
NATIONAL SECURITY	Salaries	26,055	26,917	27,725	39,196	30,587	31,504	32,449
	Grants & Other Transfers	21,456	22,319	22,319	23,828	24,407	25,353	25,976
	Other Recurrent	23,369	28,198	23,857	24,804	25,363	25,936	26,531
	Strategic Interventions	2,976	2,976	2,976	6,400	6,767	6,780	7,119
	Gross	84,723	89,029	80,071	90,721	90,072	91,124	93,856
	A-I-A	-	17	17	-	-	-	-
SOCIAL PROTECTION, CULTURE AND RECREATION	Net	84,723	89,012	80,054	90,721	90,072	91,124	93,856
	Salaries	663	732	754	754	777	800	824
	Grants & Other Transfers	81,937	86,166	77,094	87,307	87,081	90,106	92,809
	Other Recurrent	123	131	223	210	214	218	223
	Strategic Interventions	2,000	2,000	2,000	2,450	2,000	-	-
	Gross	10,893	11,189	11,236	11,085	11,234	11,479	11,750
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	A-I-A	124	136	136	139	139	139	139
	Net	10,769	11,053	11,100	10,946	11,095	11,340	11,611
	Salaries	1,567	1,566	1,613	2,017	2,077	2,140	2,204
	Grants & Other Transfers	4,962	4,157	4,157	2,188	2,231	2,276	2,321
	Other Recurrent	1,617	2,719	2,719	2,216	2,260	2,305	2,371
	Strategic Interventions	2,747	2,747	2,747	4,665	4,665	4,758	4,853
TOTAL	Gross	610,585	663,271	655,323	687,541	704,789	747,188	799,653
	A-I-A	53,169	63,396	68,087	61,710	62,833	63,479	64,116
	Net	557,416	599,875	587,236	625,831	641,956	683,708	730,516
	Salaries	263,020	284,804	280,988	303,349	307,458	316,645	331,870
	Grants & Other Transfers	237,216	257,190	254,107	257,184	262,540	274,466	285,823
	Other Recurrent	91,926	99,854	101,605	102,793	110,460	131,429	156,118
	Strategic Interventions	18,423	21,423	18,623	24,215	24,332	24,647	25,842



<b>Annex Table 8: BUDGET CALENDAR FOR THE FY 2015/16 MTEF</b>		
<b>ACTIVITY</b>	<b>RESPONSIBILITY</b>	<b>DEADLINE</b>
<b>1. Develop and issue MTEF guidelines</b>	<b>National Treasury</b>	<b>30-Aug-14</b>
<b>2. Launch of Sector Working Groups</b>	<b>National Treasury</b>	<b>15-Sep-14</b>
<b>3. Performance Review and Strategic Planning</b>	<b>MDAs</b>	<b>15-Sep-14</b>
3.1 Review and update of strategic plans	"	"
3.2 Review of programme outputs and outcomes	"	"
3.3 Expenditure Review	"	"
3.4 Progress report on MTP implementation	"	"
3.5 Preparation of annual plans	"	"
<b>4. Determination of Fiscal Framework</b>	<b>Macro Working Group</b>	<b>30-Sep-14</b>
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	"	30-Sep-14
4.6 Submit Approved BROP to Parliament	"	-Oct-14
<b>5. Preparation of MTEF budget proposals</b>	<b>MDAs</b>	<b>01-Oct-14</b>
5.1 Draft Sector Report	Sector Working Group	"
5.2 Convene Public Sector Hearing	National Treasury	15-Nov-14
5.3 Review of the Proposals	National Treasury	22-Nov-14
5.4 Submission of Sector Reports to Treasury	Sector Working Group	30-Nov-14
<b>6. Draft Budget Policy Statement (BPS)</b>	<b>Macro Working Group</b>	<b>01-Dec-14</b>
6.1 Draft BPS	Macro Working Group	01-Dec-14
6.2 Division of Revenue Bill (DORB)	National Treasury	15-Dec-14
6.3 County Allocation of Revenue Bill (CARB)	National Treasury	15-Dec-14
6.4 Submission of BPS, DORB and CARB to Cabinet for approval	National Treasury	15-Jan-15
6.5 Submission of BPS, DORB and CARB to Parliament for approval	National Treasury	15-Feb-15
<b>7. Preparation and approval of Final MDAs Programme Budgets</b>		
7.1 Develop and issue final guidelines on preparation of 2014/15	National Treasury	28-Feb-15
7.2 Submission of Budget Proposals to Treasury	MDAs	14-Mar-15
7.3 Review of Draft Budget Proposals	National Treasury	21-Mar-15
7.4 Consideration and approval of Draft Budget Estimates	Cabinet	27-Mar-15
7.5 Consolidation of the Draft Budget Estimates	National Treasury	01-Apr-15
7.6 Submission of Draft Budget Estimates to Parliament	National Treasury	30-Apr-15
7.7 Review of Draft Budget Estimates by Parliament	National Assembly	15-May-15
7.8 Report on Draft Budget Estimates from Parliament	National Assembly	30-May-15
7.9 Consolidation of the Final Budget Estimates	National Treasury	15-Jun-15
7.10 Submission of Appropriation Bill to Parliament	National Treasury	15-Jun-15
7.11 Submission of Vote on Account to Parliament	National Treasury	30-Jun-15
<b>8. Budget Statement</b>	<b>National Treasury</b>	<b>15-Jun-15</b>
<b>9. Consideration and Passage of Appropriation Bill</b>	<b>National Assembly</b>	<b>30-Jun-15</b>