Parliamentary Budget Office
Enhancing the Legislative and Oversight Role of the Kenyan Parliament

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This brief provides a summary of key recent economic and budget developments and is intended to keep stakeholders especially the legislators updated on the latest trends in the economy.

The months of September/October 2015

The months of September/October marked a difficult period for the economy owing to high fiscal pressures as bonds matured at a time when there was low uptake of treasury bills and bonds as well as revenue shortfall. This occasioned a cash crunch in the entire government operations. This has adversely affected budget implementation due to low exchequer releases, especially for development expenditure. Indeed, the flow of resources to counties has also been affected. The completion of capital projects is critical for the envisaged economic growth target of 6.5 percent in 2015. It is therefore apparent that unless urgent measures are taken, the slow pace of budget execution may adversely affect the economy. One of the ways to unlock the current problem is to urgently undertake expenditure rationalisation and focus more energies towards weeding ouit non-core expenditure and implementing development projects that yield high returns. In addition, there is urgent need to comprehensively undertake a cost benefit analysis of all development projects with the view of prioritizing those that will yield high returns.

It is also worth noting that if the much talked about El-Niño rains become catastrophic, the government may be forced to reprioritize its budget to mitigate any associated risks. This may further exacerbate the situation leading to economic slowdown.

Economic Growth

Latest data from the Kenya National Bureau of Statistics (KNBS) indicates that the economy grew by 5.5 percent in the second quarter of 2015, an increase from the 4.9 percent growth experienced in the first quarter of 2015. On average, this implies that the economy grew by 5.2 percent in the first half of 2015. Therefore, for the envisaged target of 6.5 percent to be met in 2015, the economy should grow at an average of 7.8 percent for the second half of the year.

This is an unlikely to occur, hence the urgent need to re-adjust the forecast and as necessary institute monetary and fiscal measures that will mitigate further slow down of the economy.

The cost of repayment for external debt is set to rise by at Kshs 3.88 billion[1]on account of a weaker shilling thus depleting the country's revenue even further. Additionally, if not checked, the effects of a full blown El-Niño episode are likely to be felt in the agriculture and infrastructure sectors with adverse effects on the economy.

As illustrated in Figure 1, over the past five years, the Agriculture sector and the Transport sector have been among the highest contributors to GDP growth. Poor performance of these sectors will therefore affect growth negatively.

[1] Based on approx. 20% exchange rate depreciation; assuming interest payments of USD denominated external debt for FY 2015/16 will increase by a similar proportion