



HALF YEAR ECONOMIC AND FISCAL UPDATE AUGUST 2017

This brief is a supplement to the monthly bulletin which details key economic and budget developments in a given month. The half year update gives a more detailed analysis of economic performance in the course of the financial year. It is intended to keep stakeholders especially the legislators updated on the latest trends in the economy.

The Resilient Economy in 2017

The first half of 2017 has been a period of ups and downs for the country with various economic shocks perpetually putting the economy to the test. The year began with both anticipation and uncertainty as the country geared itself for August general elections. The election fever that was witnessed across the country dampened private sector activity as most investors shied away. Subsequently, the heightened campaign activities rocked the entire country and resulted in excess liquidity in the market. In addition, the unfavorable weather exerted more pressure on the economy with a significant increase in the cost of living, on account of food prices and high energy prices.

Kenya's retail sector has also weathered significant turbulence in the first half of the year, mostly attributed to financial and management challenges. Established local retail chains such as Nakumatt got deep into debts to the extent of being unable to pay dues to the employees and having to close some outlets. It is expected that underperformance of the retail sector could have negative impact on the economy in terms of employee layoffs and reduced corporate tax income, inability to pay other businesses in their supply chain and affect mall revenue as some are anchor tenants.

The first half of 2017 also experienced significant labor unrest particularly from both health and education sectors. Unfortunately labor relations in Kenya usually result in increase in wage bill without corresponding increase in productivity or service delivery given the fact that increase in salaries tend to be political incentives issued prior to elections or as a result pressure from labor unions. This is likely to sustain cost of service provision in the country as wages are sticky downwards given that they are underpinned by law. In addition, this is likely to sustain create challenges in government planning and inflationary pressures in the short-term. Therefore the efforts being put in place by the SRC to ensure continuous existence of a fair wage system should be facilitated and in addition to ensuring that stabilization mechanism/procedures are developed to ensure normalcy of wage hikes that were not forecasted at the beginning of the fiscal year.

Kenya's economy kicked off 2017 with a rocky start. Its resilience shall be determined by how effective its policies will influence growth in the remainder of the year.

Labour unrest on the rise