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 month of October 2014

After rebasing of the country's GDP, Kenya joined the rank of the top ten African economies, jumping to lower middle income status and reaffirming Kenya's status as the economic powerhouse in East and Central Africa. However, whether Kenya will be able to sustain a higher growth trajectory depends to a large extent on the direction that the counties will take in relation to economic growth and policy.

Moreover, the rebasing of the country's GDP, does not mean that the lives of ordinary Kenyans have improved. The economic conditions on the ground are still the same even after the rebasing was done. Indeed there is no significant impact on the prosperity that Kenyans will experience once economic growth resulting from rebasing. **The question one has to ask is that have our lives improved?**

WHAT IS REBASING

A farmer has sacks of 10 maize sacks in a granary in 2014.

The price of maize 10sacks in 2014 using 2001 price of Kshs 100 = Kshs. 1000

The Price of the maize 10sacks in 2014 using 2009 price of Kshs. 200= Kshs 2000

*This means that there is no increase of maize sacks in 2014.**It is only the 2014 value of individual sacks but the quantity has not increased***

There is a lot that Kenya needs to do to achieve its targets set in Vision 2030 blueprint. Indeed, many policies aimed at promoting economic growth are targeted at sectors that are currently classified as county functions. For instance, the agricultural sector which remains a significant contributor to GDP is one of the five pillars under the government's broad development strategy. However, it is a county government function with the National Government's role restricted to agricultural and veterinary policies. The National Government can, however, support the agricultural sector through a conditional grant so the country realizes its targeted economic growth.

In the 2014/15 national budget, Kshs.494.9 billion (30.9% of total budget) was allocated for development expenditure. According to the exchequer releases, from July to October 2014, the Ministries, Departments and Agencies (MDAs) received Kshs. 53.60 billion for development expenditure (17 percent of the net estimates of Kshs. 320.9 billion); compared to Kshs. 48.46 billion (19 percent of net estimates) released in the same period last financial year. This indicates that absorption of development funds at the end of this financial year is likely to be low. This will eventually lead to a decline in GDP growth.

In financial year 2013/14, the initial development budget for counties was targeted at Kshs. 100.4 billion but only Kshs. 36.6 billion was actually spent. It is estimated that failure to spend the total budget as initially planned may have resulted in GDP loss by as much as 1.7% in 2013/14[1]. This translates to Kshs. 80.87 billion in economic activity that was lost due to failure of counties to absorb all funds.

[1]Simulations from Parliamentary Budget Office Macroeconomic Model