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 May 2015

The 2014/2015 financial year is coming to an end. It was a difficult year for the economy, occasioned by challenges; notably insecurity which has dampened the country's tourism and investment outlook. This negatively affected foreign exchange inflow. Indeed, these downside risks have partly contributed to the deterioration of the shilling. The close of May, the shilling touched an all time high of Kshs.98 to the dollar. The currency nearly edged to the psychological mark of Kshs.100 to the dollar. Unless decisive mitigation measures are taken, the aforementioned risks, more importantly security related, will continue hurting the economy through 2015 to 2016.

For the 2015/16 financial year, the National Assembly has approved a budget amounting to Ksh. 2 trillion of which Kshs.287 billion has been earmarked for County Governments. To finance this budget, the Government is targeting to collect Ksh. 1.358 trillion in 2015/16 (approximately 20 percent of GDP). The deficit of Kshs. 570.2 billion or translating to 8.7 percent of GDP will be funded by borrowing domestically and externally.

Some of the key projects in the 2015/16 budget which are poised to propel the economy include the Standard Gauge Railway, road construction, geothermal development and investment in social and economic sectors.

Economic Growth

The National Treasury projects that the economy will grow at 7 percent in 2015; on account of a stable macroeconomic environment and ongoing major infrastructure development. However, given the uncertainties that continue to linger on such as insecurity, likelihood of food shortage, perceived stock market bubble in China and a modest economic outlook of Kenya's key trading partners, the 7 percent economic growth may not be realised. Should this be the case, then the targeted revenue collection may also not be realized and this may eventually affect budget execution in 2015/16.

The economy grew by 5.3 percent in 2014 partly supported by increased private consumption and the escalating investments in capital. Over the same period, the National Treasury had projected that the economy would grow by 5.8 percent. Weighing in external and internal risks, we project that the economy will grow by 5.6 percent in 2015 rising to 6.0 percent in 2016 and 2017. It's important to note that over a last couple of years, the National Treasury economic growth projections have tended to be too optimistic leading under-performance of revenues mid year.

Inflation

Overall inflation eased from 7.08 per cent in April 2015 to 6.87 per cent in May 2015 but remains higher than the 5 per cent target by the National Treasury. The decline in the overall inflation in May 2015 is mainly attributed to lower food prices with increased food supply particularly for the lower income groups. Also, the transport index is reported to have declined by 1.34 per cent with decline in matatu/bus fares. During the same period, housing, water and electricity, gas and other fuels' index increased by 1.30 per cent mainly due to the