REPUBLIC OF KENYA

THE NATIONAL TREASURY

BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2013

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Foreword

This Budget Review and Outlook Paper (BROP), prepared in accordance with the Public Financial Management Act, 2012 is the first to be prepared under the New Administration. It presents the recent economic developments and actual fiscal performance of the FY 2012/2013 and makes comparisons to the budget appropriations for the same year. It further provides updated macro-economic and financial forecasts with sufficient information to show changes from the projections outlined in the latest Budget Policy Statement (BPS), released in April 2013.

In this Paper, we will also provide an overview of how the actual performance of the FY 2012/2013 affected our compliance with the fiscal responsibility principles and the financial objectives as detailed in the 2013 BPS.

Kenya has implemented sound economic management and reforms which have delivered huge pay-offs. Arising from the implementation of broad based reforms, our economic growth rate has recovered steadily from as low as 1.6 percent in 2008 to 4.6 percent in 2012. Real GDP growth is projected at 5.6 percent in 2013 and expected to rise to 7.0 percent in the Medium Term.

Kenya has continued to be rated favorably by various International Rating Agencies based on the strong reforms that we have adopted. The World Bank in their annual Country Policy and Institution Assessment Programme (June 2013) rated Kenya the best country in Sub Saharan Africa in terms of institutional quality and policy making reforms for poverty - reducing growth. Similarly, in the recently-released Global Competitiveness Report 2013/14, Kenya was rated among the top 100 most competitive countries in the world, having made the most improvement in Africa.

We are committed to maintain the trend of stable macroeconomic performance and ensure transparency by relaying our performance indicators to the public through this, and other publications, as required by the Constitution and the PFM Law.

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CABINET SECRETARY, NATIONAL TREASURY

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Abbreviations and Acronyms

AiA	Appropriation in Aid
BOPA	Budget Outlook Paper
BPS	Budget Policy Statement
BROP	Budget Review and Outlook Paper
CBR	Central Bank Rate
CFS	Consolidated Fund Services
CG	County Government
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 Financial 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

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 Financial Management Act, 2012. The law states that:

1) The National Treasury shall prepare and submit to Cabinet for approval, by 30th 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 BROP 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 publicise the paper not later than fifteen days after laying the Paper before Parliament.

Fiscal Responsibility Principles in the Public Financial Management Law

In line with the Constitution, the new Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudency and transparency in the 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 BROP

1. The objective of the 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 last Budget Policy Statement (BPS). This together with 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. Details of the fiscal framework and the medium term policy priorities will be firmed up in the next BPS.

2. The BROP is a key document in linking policy, planning and budgeting. The Government embarked on preparing the Second Medium Term Plan (MTP II) (covering 2013-2017)—the successor document of the first MTP (that covered 2008-2012) —that will guide budgetary preparation and programming from 2013 onwards. In the interim, this year's BROP is embedded on the priorities of the new Administration and the draft MTP II, in addition to taking into account emerging challenges and transition to a devolved system of government. The Sector Working Groups (SWGs)-to update and develop new programmes for the MTEF 2014/15-2016/17- were launched in August 2013. The SWGs began their work by reviewing programmes under the last MTEF.

3. The PFM Act 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings for the Second Year of the MTEF provided in the previous BPS will form the indicative baseline sector ceilings for the next budget of 2014/15. However, following the fiscal outcome of 2012/13 and the updated macroeconomic framework these sector ceilings have been modified as indicated in the annex of this BROP.

4. The rest of the paper is organised as follows: the next section provides a review of the fiscal performance in FY 2012/13 and its implications on the financial objectives set out in the last BPS submitted to the National Assembly in April 2013. This is followed by brief highlights of the recent economic developments and updated macroeconomic outlook in Section III. Section IV provides the resources allocation framework, while Section V concludes.

II. REVIEW OF FISCAL PERFORMANCE IN 2012/13

A. Overview

5. The fiscal performance in 2012/13 was generally satisfactory, despite the challenges with shortfall in revenues and mounting expenditure pressures. As a result, the fiscal deficit on commitment basis (including grants) was 6.9 percent of GDP compared with 8.6 percent of GDP in the revised budget estimates for 2012/13.

6. Due to economic challenges experienced in the first half of the financial year 2012/13 and non-passage of VAT last year as planned, tax collection fell short of the budget estimates target by Ksh 44.2 billion.

7. On the expenditure side, the Government had to incur higher expenditure on salary awards and implementation of the Constitution (County Governments). In order to finance these additional expenditure pressures in the face of financing constraints, the Government instituted austerity measures, taking into account absorption capacity of Ministries, Departments and Agencies (MDAs). Adjustments to the original budget were approved by Parliament in June 2013 in the context of the Supplementary Estimates.

B. 2012/13 Fiscal Performance

8. The table below presents the fiscal performance for the FY 2012/13 and the deviations from the Original and Revised budget estimates.

	2011/2012 Actual	2012/2013		Deviation	% growth	2012/2013 as a % of GDP		2011/2012 Actual as a % of GDP
		Actual	Targets			Actual	Targets	
A. TOTAL REVENUE AND GRANTS	**763,453**	**868,165**	**989,464**	**(121,299)**	**13.72**	**23.70**	**27.02**	**23.53**
1. Revenue	**748,167**	**847,216**	**915,281**	**(68,065)**	**13.24**	**23.13**	**24.99**	**23.06**
Ordinary Revenue	690,733	779,436	823,654	(44,218)	12.84	21.28	22.49	21.29
Import Duty	51,712	57,650	61,484	(3,835)	11.48	1.57	1.68	1.59
Excise Duty	78,884	85,502	91,810	(6,308)	8.39	2.33	2.51	2.43
Income tax	312,463	373,422	370,600	2,822	19.51	10.20	10.12	9.63
VAT	183,386	184,581	216,000	(31,419)	0.65	5.04	5.90	5.65
Investment Revenue	14,132	15,264	19,120	(3,856)	8.01	0.42	0.52	0.44
Others	50,156	63,017	64,640	(1,622)	25.64	1.72	1.76	1.55
Appropriation-in-Aid	57,434	67,781	91,628	(23,847)	18.01	1.85	2.50	1.77
2. Grants	**15,286**	**20,949**	**74,183**	**(53,234)**	**37.05**	**0.57**	**2.03**	**0.47**
Programme Grants		5,826	18,913	(13,087)	-	0.00	0.52	0.00
Cash	7,765	5,188	13,886	(8,698)	(33.19)	0.14	0.38	0.24
Appropriation-in-Aid	7,521	9,936	41,384	(31,449)	32.11	0.27	1.13	0.23
B. EXPENDITURE and NET LENDING	**947,776**	**1,117,017**	**1,303,233**	**(186,216)**	**17.86**	**30.50**	**35.58**	**29.21**
1. Recurrent	**647,118**	**808,320**	**872,589**	**(64,270)**	**24.91**	**22.07**	**23.82**	**19.95**
Domestic Interest	82,339	110,184	108,132	2,052	33.82	3.01	2.95	2.54
Foreign Interest Due	8,880	11,051	11,620	(569)	24.46	0.30	0.32	0.27
Pension	26,052	26,996	31,625	(4,629)	3.62	0.74	0.86	0.80
Wages and Salaries	224,568	274,407	292,239	(17,832)	22.19	7.49	7.98	6.92
O & M/Others	305,281	385,682	428,974	(43,293)	26.34	10.53	11.71	9.41
Transitional Transfer to County Governments		9,783	9,783	0	0	0.27	0.27	0.00
2. Development and Net Lending	**300,657**	**298,915**	**420,360**	**(121,446)**	**(0.58)**	**8.16**	**11.48**	**9.27**
3. CCF	**0**	**0**	**500**	**(500)**	**-**	**0.00**	**0.01**	**0.00**
C. DEFICIT EXCL.GRANT (Commitment basis)	**(199,609)**	**(269,801)**	**(387,951)**	**118,150**	**35.16**	**(7.37)**	**(10.59)**	**(6.15)**
D. DEFICIT INCL.GRANTS (Commitment basis)	**(184,323)**	**(248,852)**	**(313,768)**	**64,916**	**35.01**	**(6.79)**	**(8.57)**	**(5.68)**
E. ADJUSTMENT TO CASH BASIS	**12,582**	**16,814**	**13,861**	**2,953**	**33.64**	**0.46**	**0.38**	**0.39**
F. DEFICIT INCL.GRANTS (Cash basis)	**(171,741)**	**(232,458)**	**(299,907)**	**67,449**	**35.35**	**(6.35)**	**(8.19)**	**(5.29)**
G. FINANCING	**171,741**	**232,458**	**299,907**	**(67,449)**	**35.35**	**6.35**	**8.19**	**5.29**
1. Net Foreign financing	**98,524**	**62,682**	**134,907**	**(72,225)**	**(36.38)**	**1.71**	**3.68**	**3.04**
Disbursements	70,736	86,192	161,354	(75,162)	21.85	2.35	4.41	2.18
Project Cash Loans	19,343	23,569	43,405	(19,835)	21.85	0.64	1.19	0.60
Loans AIA	51,393	55,990	111,318	(55,328)	8.94	1.53	3.04	1.58
Repayment due (current)	(25,375)	(23,994)	(26,931)	2,937	(5.44)	(0.66)	(0.74)	(0.78)
Rescheduling/Debt Swap	484	484	484	0	-	0.01	0.01	0.01
Of which principal	0	0	0	0	-	0.00	0.00	0.00
Of which interest	0	0	0	0	-	0.00	-	0.00
Change in arrears (current)	1,422	0	0	0	(100.00)	0.00	-	0.04
Repayment (arrears)	0	0	0	0	-	0.00	-	0.00
Commercial Financing	51,258	6,632	6,632	0	-	0.00	-	1.58
2. Domestic financing	73,217	169,776	165,000	4,776	132..0	4.64	**4.51**	**2.26**
MEMO ITEM								
GDP ESTIMATE	3,244,491.00	3,662,557.58	3,662,557.58					

Source: National Treasury

Revenue

9. Total cumulative revenue collection including AiA amounted to Ksh 847.2 billion compared to the target in the revised budget of Ksh 915.3 billion and in the original budget of Ksh 955.0 billion. This represents a revenue shortfall of Ksh 68.1 billion (or 5.7% deviation from the revised target). Ordinary revenue collection totalled Ksh 779.4 billion against the target of Ksh 823.7 billion, reflecting an under

collection of Ksh 44.2 billion. Ministerial Appropriations-in-Aid underperformed by Ksh 23.8 billion for the period under review. Similarly, external project grants amounted to Ksh 15.1 billion against a target of Ksh 55.3 billion, representing an absorption rate of 27.3 percent of the committed amount. Programme grants (AMISOM reimbursements) amounted to KSh 5.8 billion against a revised target of 18.9 billion, recording a shortfall of Ksh 13.1 billion.

10. The underperformance in tax revenue was largely on account of VAT local (by Ksh 12.3 billion), VAT Imports (by Ksh 19.1 billion), import duty (by Ksh 3.8 billion), excise duty (by Ksh 6.3 billion), Essential Supplies Revenue (by Ksh 6.2 billion), investment revenue (by Ksh 3.9 billion) and traffic revenue (by Ksh 768 million). Other revenues (land, mining, rent, fines and forfeiture, miscellaneous revenues and others) and income tax (PAYE and other income tax), performed above the projected target as shown in Table 2 below.

Table 2: Government Revenue and External Grants, Ksh millions

	2011/2012 Actual	2012/13		Deviation KShs.Mn	Deviation in percentage
		Actual	Target		
1. Total Revenue	**748,167**	**847,216**	**915,281**	**(68,065)**	(7.44)
(a) Ordinary Revenue	**690,733**	**779,436**	**823,654**	**(44,218)**	(5.37)
Import Duty	51,712	57,650	61,484	**(3,835)**	(6.24)
Excise Duty	78,884	85,502	91,810	**(6,308)**	(6.87)
PAYE	166,036	199,790	198,320	**1,470**	0.74
Other Income Tax	146,427	173,632	172,280	**1,352**	0.78
VAT Local	88,496	92,772	105,104	**(12,332)**	(11.73)
VAT Imports	94,891	91,808	110,896	**(19,088)**	(17.21)
Investment Revenue	14,132	15,264	19,120	**(3,856)**	(20.17)
Traffic Revenue	2,277	2,590	3,359	**(768)**	(22.88)
Essential Supplies Revenue	24,762	24,163	30,320	**(6,157)**	(20.31)
Others 1/	23,117	36,264	30,961	**5,304**	17.13
(b) Appropriation In Aid 2/	**57,434**	**67,781**	**91,628**	**(23,847)**	(26.03)
2. External Grants	**15,286**	**20,949**	**74,183**	**(53,234)**	(71.76)
3. Total Revenue and External Grants	**763,453**	**868,165**	**989,464**	**(121,299)**	(12.26)
as a percentange of GDP	**23.53**	**23.70**	**27.02**		-

1/ includes land, mining, rent of buildings, trade licenses, fines and forfeitures, other taxes, reimbursements and other fund contributions, and miscellaneous revenue.
2/ includes receipts from Road Maintenance Levy Fund and A-I-A from Universities
Source: National Treasury

11. As a proportion of GDP, total revenue and grants averaged 23.7 percent in the period under review, compared to 23.5 percent in the FY 2011/12. External grants amounted to 0.6 percent of GDP against a target of 2.0 percent of GDP.

12. Unfavourable macroeconomic conditions in the second half of 2012 combined with administrative challenges in VAT collections are the key factors behind the revenue shortfall. Meanwhile, the underperformance in A-i-A largely reflects the under reporting from the relevant ministries/departments. The Treasury will, however, continue to enforce the various Circulars issued, as provided for in the PFM Law, for government agencies and Ministries to report on their quarterly expenditure returns which will enable taking appropriate action to reverse this trend.

Expenditure

13. Total expenditure and net lending amounted to Ksh 1,117.0 billion against a target of Ksh 1,303.2 billion, representing an under spending of Ksh 186.2 billion (or 17.9 percent deviation from the revised budget). The shortfall was attributed to lower absorption in both recurrent and development expenditures by the line ministries partly attributed to shortfalls in ordinary revenues (Table 3).

Table 3: Expenditure and Net Lending, Ksh million

	2011/2012 Actual	2012/13			% Chane 2012/13 over 2011/12
		Actual	Targets	Deviation	
1. RECURRENT	**647,118**	**808,320**	**872,589**	**(64,270)**	**24.9**
Domestic Interest	82,339	110,184	108,132	2,052	**33.8**
Foreign Interest	8,880	11,051	11,620	(569)	**24.5**
Pensions	26,052	26,996	31,625	(4,629)	**3.6**
Wages and Salaries	224,568	274,407	292,239	(17,832)	**22.2**
Operation and Maintenance	305,281	385,682	428,974	(43,293)	**26.3**
o/w : Appropriation-in-Aid	53,207	65,178	87,032	(21,855)	**22.5**
2. **DEVELOPMENT**	**300,657**	**298,915**	**420,360**	**(121,446)**	**(0.6)**
Development Projects (Net)	234,700	227,985	258,502	(30,517)	**(2.9)**
Payment of Guaranteed Loans	2,817	2,400	2,568	(167)	**(14.8)**
Appropriation-in-Aid	63,140	68,529	159,291	(90,762)	**8.5**
Transitional Transfer to County Governments		9,783	9,783	-	
3. CCF	**-**	**-**	**500**	**(500)**	
TOTAL EXPENDITURE	**947,776**	**1,117,017**	**1,303,233**	**(186,216)**	**17.9**

Source: National Treasury

14. Recurrent expenditure amounted to Ksh 808.3 billion against a target of Ksh 872.6 billion, representing an under-spending of Ksh 64.3 billion (or 10.0 percent deviation from the approved recurrent expenditure). The under-spending was in respect of operations and maintenance (Ksh 43.3 billion), wages and salaries (Ksh 17.8 billion) as well as pensions and CFS (Ksh 4.6 billion).

- Ministerial appropriation-in-aid recorded an under spending of Ksh 21.9 billion.
- Expenditure on interest payments was Ksh 2.1 billion above the target for domestic interests, while that of foreign interest payments was below target by Ksh 569 million. Domestic interest payments were above target because of the high interest rates in the period under review, occasioned by the tightening of monetary policy by the Central Bank of Kenya (CBK).
- Pension expenditures and other Consolidated Fund Services (CFS) under performed as a result of lower numbers of officers opting to retire before the age 60, than had been projected. In addition, there were no payments made to retired MPs from the 10th Parliament as had been projected, owing to non receipt of claims in time for processing before the close of the FY 2012/13.

15. Development expenditure incurred amounted to Ksh 298.9 billion compared to a target of Ksh 420.4 billion. This represented an under-spending of Ksh 121.4 billion. Appropriation-in-Aid accounted for most of the under-spending in the development votes (by Ksh 90.8 billion). The underperformance in development expenditure reflects low absorption by MDAs, delay in procurement and under reporting of externally funded donor projects.

16. Overall, it should be noted that the expenditure outturn for FY 2012/13 is preliminary, firm data will be available by October 2013, when expenditure returns from the districts are fully captured and non-reported ministerial A-i-A is firmed up. Thus, the lag between spending at the district level and reporting to the headquarters accounts for a significant portion of the reported underperformance.

Overall balance and financing

17. Reflecting the above performance in revenue and expenditure, overall fiscal balance on a commitment basis (including grants) amounted Ksh 248.9 billion (6.8 percent of GDP) in FY 2012/13 against the revised budget target of Ksh 252.1 billion (or 8.6 percent of GDP) . Overall fiscal deficit (incl. grants) and after adjustment to cash basis totalled Ksh 232.5 billion (or 6.4 percent of GDP) compared to a target deficit of Ksh. 299.9 billion (or 8.2 percent of GDP).

18. The deficit was financed through external financing (including commercial financing) equivalent to Ksh 62.7 billion against a target of Ksh 144.1 billion and net domestic borrowing of Ksh 169.8 billion compared to the revised programme target of Ksh 165.0 billion.

C. Implication of 2012/13 fiscal performance on fiscal responsibility principles and financial objectives contained in the 2013 BPS

19. The performance in the FY 2012/13 has affected the financial objectives set out in the April 2013 BPS and the Budget for FY 2013/14 in the following ways: (i) the base for revenue and expenditure projections has changed implying the need for adjustment in the fiscal aggregates for the current budget and the medium-term; and (ii) To take into account the slow take off of execution of the FY 2013/14 budget by MDAs, the baseline ceilings for spending agencies will be adjusted and then firmed up in the next Budget Policy Statement in January/February 2014.

20. The outcome of the first quarter of 2013 indicates that our economic growth is still resilient; however continued volatility in the Euro zone and the weak recovery in global economy calls for caution. The IMF revised the global economic projections in July 2013, indicating a less optimistic outlook. While we expect the economy to remain resilient, our projections remain cautious. We expect real GDP growth to be 5.6 percent in 2013, in line with projections in the BPS 2013. This is expected to pick

gradually to 6.1 percent in 2014 and to about 6.7 percent in the outer years, reflecting continued normal weather and strong growth in the sub-region**.** In addition, inflation is expected to stabilize at the Medium term target of around 5 percent and thus the GDP deflator—a key macroeconomic assumption in budget forecasting—will also be stable.

21. Accordingly, our revenue projections will remain in line with the initial macroeconomic assumptions taking into account the revised revenue and expenditure base. Consequently, the MTEF ceilings provided in the BPS will reflect the macroeconomic forecast. However, taking into account that the key macro variables remain as projected in the BPS of April 2013, there will be slight adjustments to the ceilings.

22. The overall revenue underperformance in 2012/13 has implications in the base used to project the revenue for these tax items in the FY 2013/14 and the medium term as has been alluded to earlier in this report. Therefore, in updating the fiscal outlook the new base has been taken into account. In addition; effects, arising from the recently enacted VAT law is expected to boost revenue through improving efficiency in VAT administration as well as ease compliance by tax payers.

23. The under-spending in both recurrent and development budget for the FY 2012/13 additionally has implications on the base used to project expenditures in the FY 2013/14 and the medium term. Appropriate revisions have been undertaken in the context of this BROP, taking into account the budget outturn for 2012/13. The slow uptake of external resources remains a challenge. The National Treasury will work closely with the implementing agencies to improve resource absorption.

24. Table 4 provides comparison between the updated fiscal projections in the BROP 2013 and the BPS 2013 for the FY 2014/15 and in the medium term.

Table 4: Central Government Fiscal Projections, 2012/13-2016/17								
	2012/13	2013/14		2014/15		2015/16		2016/17
	Prov.	*BPS'13(R)*	*BROP'13*	*BPS'13(R)*	*BROP'13*	*BPS'13(R)*	*BROP'13*	*BROP'13*
Revenue and Grants	868.2	1,119.5	1,109.2	1,216.3	1,268.5	1,400.7	1,460.1	1,659.7
% of GDP	*23.7%*	*25.5%*	*26.6%*	*25.5%*	*26.6%*	*25.6%*	*26.6%*	*26.6%*
Revenue	847.2	1,071.2	1,031.5	1,145.8	1,192.8	1,321.5	1,375.0	1,564.2
% of GDP	*23.1%*	*24.4%*	*24.8%*	*24.0%*	*25.0%*	*24.1%*	*25.1%*	*25.1%*
Tax Revenue	779.4	895.9	863.0	969.5	998.4	1,120.5	1,153.3	1,317.7
Non-Tax Revenue	67.8	175.3	168.5	176.4	194.4	201.0	221.7	246.5
Grants	20.9	48.4	77.7	70.4	75.7	79.2	85.1	95.5
Expenditure	1,117.0	1,286.2	1,280.0	1,392.5	1,546.4	1,607.7	1,748.5	1,955.7
% of GDP	*30.5%*	*29.3%*	*30.7%*	*29.2%*	*32.4%*	*29.3%*	*31.9%*	*31.3%*
Recurrent	818.1	858.9	814.5	945.5	890.6	1,107.2	1,007.3	1,124.9
Development	298.9	427.3	465.4	447.0	443.9	500.5	498.0	554.0
County Transfer	-	-	193.5	-	211.8	-	243.1	276.9
Budget Balance (-Deficit, +surplus)	(248.9)	(166.6)	(170.8)	(176.2)	(277.9)	(207.0)	(288.4)	(296.0)
% of GDP	*-6.8%*	*-3.8%*	*-4.1%*	*-3.7%*	*-5.8%*	*-3.8%*	*-5.3%*	*-4.7%*
Net External Financing	62.7	52.6	246.7	100.7	100.7	122.7	122.7	118.5
Disbursements/loans	86.2	138.8	335.3	131.6	131.6	153.9	153.9	174.7
Repayment due	(23.5)	(86.2)	(88.6)	(31.0)	(31.0)	(31.2)	(31.2)	(56.3)
Domestic borrowing	169.8	114.1	106.7	75.6	177.2	84.3	155.7	147.5
% of GDP	*4.6%*	*2.6%*	*2.6%*	*1.6%*	*3.7%*	*1.5%*	*2.8%*	*2.4%*
Public Debt to GDP (net of deposits)	*47.5%*	*47.2%*	*49.1%*	*43.9%*	*49.0%*	*42.0%*	*47.6%*	*46.2%*
Nominal GDP (Ksh billion)	3,662.6	4,164.6	4,164.6	4,775.3	4,775.3	5,480.5	5,480.5	6,241.0

Source: National Treasury

25. Given the above deviations, the revision in revenues and expenditures will be based on the macroeconomic assumptions contained in this BROP and which will be firmed up in the context of the next 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.

26. Measures to revamp agriculture through irrigation are expected to support our favourable growth prospects. In addition, we also expect our exports to benefit from favourable growth in the sub region, which is projected to be well above the global growth. Meanwhile, stability in interest rates and exchange rates is expected to promote access to credit for private sector and boost investments and consumption to stimulate growth.

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

27. The macroeconomic environment has continued to improve. Going forward, the macroeconomic outlook remains favourable although risks remain.

A. Recent Economic Developments

28. Recent developments in the key macroeconomic variables are encouraging. Growth in real GDP remains resilient but downside risks remain. In the first quarter of 2013, the economy is estimated to have expanded by 5.2 percent compared to 4.0 percent over a similar quarter of 2012. During the second quarter of 2013, Kenya's economy is estimated to have expanded by 4.3 per cent compared to the growth of 4.4 per cent experienced during the same quarter of 2012.

29. Overall inflation increased to 8.29 percent in September 2013 up from 6.67 percent in August 2013 and 5.32 percent in September 2012 on account of upwards revisions in local pump prices and food items as well as the CPI base effects. However, the shilling exchange has firmed up against major international currencies and the official foreign exchange reserves are at a comfortable level.

30. Short term interest rates declined consistent with the easing of monetary policy stance. In particular, the interbank rate has remained within the CBR corridor prescribed in the monetary policy operating framework. The uptake of bank credit by the private sector increased by 13.5 per cent in the twelve months to July 2013 compared to 16.7 per cent target growth and 12.7 per cent growth in year to June 2013. The credit to the private sector was channelled to the productive sectors of the economy.

Growth in Real GDP remains resilient but downside risks remain

31. Real GDP grew by 4.3 percent in the second quarter of 2013, compared to 4.4 percent during a similar period in 2012. The growth was mainly supported by strong expansions of activities of Electricity and Water, Financial intermediation, Agriculture and Forestry and Manufacturing. However, Hotels and restaurants and Wholesale and Retail trade sectors registered contraction in growth in the second quarter of 2013 due to suppressed investments during the electioneering period.

32. Agriculture and forestry is estimated to have expanded by 5.0 percent in the second quarter of 2013 compared to 2.0 percent growth during a similar quarter in 2012.most of the agricultural crops recorded improved production.

33. Manufacturing sector grew by 4.3 percent in the second quarter of 2013, compared to 2.1 percent in 2012. The growth was mainly driven by manufacture of non-food products which recorded significant growth of 7.2 percent. Production of motor vehicle tyres, toilet soap, cement, soft drinks, wheat flour and milk expanded significantly. However, processing of sugar, coffee and beer declined during the second quarter compared to a similar period in 2012.

34. Hotels and Restaurant sector's economic slowdown experienced during the first quarter of 2013 spilled over into the second quarter mainly through low booking by international visitors as a result of uncertainties over the country's general elections held in March. Consequently, the sector contracted by 11.4 percent compared to a growth of 2.9 per cent realized in the same quarter in 2012.

35. Overall, following the outcome of the first and second quarters, it is expected that the growth projection of 5.6 percent for 2013 will be achieved. Favourable weather and implementation of the development programmes as

outlined in FY2013/14 would safeguard our positive growth projections. Similarly, with world and sub-Saharan Africa growth projected respectively at 3.3 percent and 5.4 percent in 2013 and 4.0 percent and 5.7 percent in 2014, we expect our exports to benefit from this favourable growth, while declining interest rates and stable exchange rate are expected to boost investor confidence.

Gradual ease of monetary policy……

36. A gradual easing of the monetary policy stance was adopted by the MPC in July 2012 following the decline in inflation and stability in the exchange rate. The MPC remained vigilant to developments in the domestic and international markets and took appropriate measures to sustain price stability. In addition, sustained Open Market Operations was undertaken to ensure stability in the interbank market and that of short-term interest rates.

37. Overall inflation increased to 8.29 percent in September 2013 up from 6.67 percent in August 2013 and 5.32 percent in September 2012 on account of upwards revisions in local pump prices and food items as well as the CPI base effects. However, the shilling exchange has firmed up against major international currencies and the official foreign exchange reserves are at a comfortable level. Between July and August 2013, food prices increased marginally by 0.10 percent, while cost of fresh packet milk went up by 2.71 percent. Prices of food and non-alcoholic beverages recorded the highest increase (9.74 percent, from 8.44 percent in the previous month).

38. Despite the increase in inflation in the last four months, inflation is expected to revert back to target of 5 percent with a 2.5 percent band in the medium term especially with the prudent monetary and fiscal policies that are in place and containment of recurrent expenditures by the government. Nevertheless, there are

risks with fuel prices remaining high as world oil prices remain persistently high due to political instabilities in oil rich countries.

39. The fall in inflation from a peak of 19.7 percent in November 2011 to the current 6.67 percent in August 2013 has allowed room for easing of the monetary policy to support growth. The Central Bank has since reduced the CBR gradually from a high of 18 percent in December 2011 to the current 8.5 percent in September 2013. This as expected led to reduction in interest rates and enhanced access to credit by the private sector. The private sector credit uptake has picked up and is channelled to productive sector.

The shilling exchange rate has firmed up against major international Currencies

40. The Kenya Shilling exchange rate has stabilised against major world currencies following increased short term capital inflows and remittances, disbursements under the Extended Credit Facility programme and Central Bank activity in the foreign exchange market. In June/July, the shilling depreciated against the US dollar to exchange at KSh 85.5 and Ksh 86.9 following increased demand by importers, and payments of dividends to external shareholders of business companies. The shilling has stabilized against the US dollar in August/September at around Ksh 87.5.

Interest rates have stabilised

41. Short term interest rates declined consistent with the easing of monetary policy stance. Average interbank interest rate increased from 7.14 percent in June 2013 to 7.93 percent in July/August 2013 on account of build-up of Government deposits and skewed distribution of liquidity in the interbank market.

42. Commercial bank lending interest rates have gradually declined through August 2013 (to 16.95 percent from 19.7 percent in September 2012) as signalled by the CBR largely to support credit uptake by the private sector for sustained recovery of the economy. The average deposit declined to 6.36 percent in August 2013 from 7.40 percent in September 2012. Interest rate spread between the average lending and deposit rates decreased to 10.60 percent from 12.33 percent in September 2012.

43. In the medium term, interest rates are expected to remain relatively stable, consistent with expected stability in most of the macroeconomic fundamentals.

Stock market remains vibrant

44. Activity in the stock market has been vibrant in the year to August 2013. The NSE share index improved from 3,866 points in August 2012 to 4,698 points in August 2013, representing an increase of 22 percent. Market capitalization, a measure shareholders' wealth, improved by 45.88 percent in the year to August 2013 to close at KSh. 1,682 billion from KSh. 1,153.0 billion in August 2012.

Surplus in Balance of Payments but Current Account deteriorates

45. The overall Balance of Payments surplus narrowed to US$ 625 million in the year to July 2013 from US$ 873 million in the year to July 2012. This reflects less than proportionate improvement of the capital and financial account (3.1 percent) as compared to the deterioration in the current account deficit (10.0 percent).

46. The current account deficit widened to US$ 4,571 million in the year to July 2013 from US$ 4,168 million in the year to July 2012. The decline of the current account balance was as a result of faster growth in the merchandise import bill; importation of machinery and transport equipments that increased to US$ 4,913 Million in July 2013 from US$ 4,196Million in July 2012. The services account

registered a decline of 2.8 percent in the period, from US$ 6,174 million in July 2012 to US$ 5,957 million in July 2013.

47. As a result, with a surplus in the overall balance of payments, official foreign exchange reserves held by the Central Bank of Kenya rose by 15.8 percent to US$ 6,096 million (or 4.2 Months of import cover) in July 2013 from US$ 5,262 million (or 4.2 months of import cover) in July 2012. The improvements in reserves reflected build up of foreign exchange by CBK and receipt of disbursements under the ECF.

Implementation of 2013/14 budget is progressing well

48. Implementation of 2013/14 budget is progressing well despite initial challenges encountered at the start of the financial year mainly occasioned by the restructuring of Government departments from the initial 44 ministries to 18. In addition, the set up of payment system platform to support the restructured government resulted in delayed budget execution/payments in July 2013.

49. The Exchequer return of end August 2013 shows that ordinary revenue amounted to Ksh 123.5 billion and was below target by Ksh 9.3 billion while the Ministerial AiA was below target by Ksh 4.5 billion. Thus, the total revenue collection was below target by Ksh 13.8 billion in the first two months of the year. The implementation of the VAT Act is expected to reverse the trend as well as other administrative measures being undertaken. The shortfall in revenues was in all revenue categories except import duty which surpassed target.

50. Total expenditure by August 2013 was Ksh 150.5 billion compared to a target of Ksh 229.4 billion with the bulk of this amount in the development, both domestically and foreign financed, which is as a result of procurement procedures that have to be followed for implementation of projects. We therefore expect higher

absorption rate in the coming months. The transfers to the counties was below target as all the Counties put in place their structures and were taking up functions as gazetted by the Transition Authority to implement with the allocated resources.

51. Meanwhile, domestic borrowing remains on track as interest rates stabilize in the domestic money market.

B. Macroeconomic outlook and policies

Growth prospects

52. The global growth is projected to remain subdued at slightly above 3 percent in 2013, the same as in 2012. According to the IMF's latest World Economic Outlook (WEO) update released in July 2013, downside risks to global growth prospects still dominate. While earlier risks remain, new risks have emerged, including the possibility of a longer growth slowdown in emerging market economies, especially given risks of lower potential growth, slowing credit, and possibly tighter financial conditions if the anticipated unwinding of monetary policy stimulus in the United States leads to sustained capital flow reversals.

53. Many emerging market and developing economies face a trade-off between macroeconomic policies to support weak activity and those to contain capital outflows. Global growth is expected at about 3.1 percent in 2013 similar to growth in 2012 compared to a growth of 3.9 percent and 5.3 percent registered in 2011 and 2010, respectively.

54. The economic performance in sub-Saharan Africa has been strong in recent years, despite the adverse global environment. The region has proved remarkably resilient to the global crisis in 2008-09 and many countries have experienced sustained increase in per-capita income, lifting living standards and reducing poverty.

55. Against this backdrop, we remain cautious in macroeconomic forecasts considering the mixed performance of global growth and SSA growth. Nonetheless, with the improved weather conditions, ease of inflation, lower interest rates and stable exchange rates, we expect growth of 5.6 percent in 2013 up from 4.6 percent in 2012. Over the medium-term, growth is expected to pick gradually and cross the 7 percent mark by 2017, as global conditions improve and macroeconomic stability is sustained. In terms of fiscal years, the projections translate to 5.9 percent in 2013/14, 6.3 percent in 2014/15, 6.6 percent in 2015/16 and 6.9 percent in 2016/17 (Table 5).

Table 5: Macroeconomic indicators underlying the Medium Term Fiscal Framework, 2011/12-2015/16

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Prov.	Proj.		*Projection*		
	Annual percentage change					
National account and prices						
Real GDP	4.5	5.1	5.9	6.3	6.6	6.9
GDP deflator	11.1	7.4	7.4	7.9	7.7	6.6
CPI Index (eop)	10.1	6.3	6.4	6.0	5.5	5.1
CPI Index (avg)	16.1	5.9	6.7	6.2	5.8	5.3
Terms of trade (-deterioration)	3.0	5.7	1.0	4.3	5.4	3.7
	In percentage of GDP					
Investment and saving						
Investment	20.2	21.9	23.9	24.9	25.4	26.4
Gross National Saving	8.8	10.9	13.5	15.6	17.7	19.7
Central government budget						
Total revenue	23.1	23.7	24.7	24.8	24.9	24.9
Total expenditure and net lending	29.2	32.6	35.4	30.5	30.4	29.8
Overall balance (commitment basis) excl. grants	-6.2	-8.9	-10.8	-5.6	-5.4	-4.9
Overall balance (commitment basis) incl. grants	-5.5	-6.8	-8.9	-4.0	-3.9	-3.4
Nominal public debt, net	45.7	47.9	49.1	47.2	44.8	42.8
External sector						
Current external balance, including official transfers	-11.4	-11.0	-10.5	-9.2	-7.7	-6.6
Gross international reserve coverage in months of imports	3.7	3.7	3.8	3.9	4.1	4.4

Source: National Treasury

56. Growth will be augmented by production in agriculture following receipt of adequate rain, value addition in agriculture, completion of key infrastructure projects (such as roads and energy), and other initiatives geared towards exports promotion including expansion of regional markets; Special Export Zones, Commodity exchanges among others. Finally, domestic demand is expected to be robust following increased investor confidence with the successful general elections.

Inflation outlook

57. Despite the increase in inflation in the recent past, inflation is expected to revert back to target of 5 percent with a 2.5 percent band in the medium term.

58. The monetary policy framework has delivered price stability, benefiting from the financial innovation and development that has been unprecedented in Kenya. However, the supply side shocks remain a threat to price stability. The creation of buffers to support the supply side of the economy – reserves for food, oil and foreign exchange-will provide an intervention mechanism for moderating overall inflation. In addition, commodity exchanges/warehousing receipt will also encourage surpluses to be generated in the sector to enhance productivity and the food buffers.

59. 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 forecasts.

Current Account

60. The continued fiscal consolidation and appropriate monetary policy coupled with easing oil prices are expected to ease pressure on the current account. We project a gradual decline in the current account deficit from 11.0 percent of GDP in 2012/13 to 10.5 percent of GDP in 2013/14, and thereafter below 7.0 percent of GDP in the medium term.

61. 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.

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

C. Medium Term Fiscal Framework

63. We will continue to pursue prudent fiscal policy aimed at macroeconomic stability. In addition, our fiscal policy objective will provide an avenue to support economic activity while allowing for the full implementation of the devolved system of government, by supporting devolution through capacity building to effectively deliver public services and ensuring county governments receive adequate resources to fund their functions. All this, will be managed within sustainable public finances.

64. The Government is committed to a gradual reduction in the overall fiscal deficit (including grants) to 3.5 percent of GDP in the medium term. This will help to bring down the debt-to-GDP ratio to well below 45 percent and contribute to reducing pressure in the current account, in addition to providing adequate room for future countercyclical fiscal policy in the event of a shock.

65. With respect to revenues, the Government continues to maintain a strong revenue effort of between 24-25 percent of GDP over the medium term. Measures to achieve this effort include simplification of the tax code in line with international best practices and improved tax compliance with enhanced administrative measures. In addition, the Government will rationalize existing tax incentives, expand the income tax base and remove tax exemptions as envisaged in the Constitution.

66. The VAT Act recently passed, is being implemented. The main objective of this Act is to simplify, modernise and reduce cost of compliance. It also provides clarity to various issues and definitions that previously caused confusion as used in

the old Act; as well as provide for raising of additional resources through expansion of the tax base, increased efficiency in tax collection and the sealing of leakages in our revenue collection system. The Government is also reviewing all other tax legislations in order to simplify and modernize them.

67. On the expenditure side, the Government will continue with rationalization of expenditures to improve efficiency and reduce wastage. Expenditure management will be strengthened within the Integrated Financial Management Information System (IFMIS) platform which has been rolled across Ministries and Departments as well as Counties following decentralization. Above all, the PFM Act, 2012 and its attendant Regulations to be issued soon, is expected to accelerate reforms in expenditure management system.

68. 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 will ensure that the level of domestic borrowing does not crowd out the private sector to allow the expected increase in private investment to pick up.

69. The Government remains committed to accessing international capital markets with caution, including floating a Sovereign Bond. In the FY2013/14 the Government aims to raise about USD 1.5 billion through the issuance of a sovereign Bond that will support infrastructural development in the country.

D. Risks to the outlook

70. The risk to the outlook for 2014 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.

71. Public expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures and implementation of the new Constitution and the devolved government may limit continued funding for development expenditure.

72. The high current account deficit will continue to pose a risk and vulnerability to Kenya's macroeconomic stability. Kenya's large and persistent current account deficit of over 10 percent of GDP in the last three years raises a major concern for sustained economic growth. The short term flows which Kenya relies on to finance the deficit could become volatile, triggering a disorderly adjustment. Moreover, the current account deficit is bound to stay high, driven by high capital imports and high investment demand. In addition, the weak and subdued demand for Kenya's exports in its traditional European markets will remain a dragon Kenya's current account, as the euro zone battles recession

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

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2013/14 Budget

74. Given the performance in 2012/13 and the updated macroeconomic outlook, the risks to the FY 2013/14 budget include weak growth in advanced economies that will impact negatively on our exports and tourism activities and geopolitical uncertainty on the international oil market. Expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures and implementation of the new Constitution and the devolved government may limit continued funding for development expenditure. In addition, implementation pace in the spending units continues to be a source of concern especially with regard to the development expenditures and uptake of external resources. These risks will be monitored closely and the Government would take appropriate measures in the context of the next Supplementary Budget.

75. Adjustments to the 2013/14 budget will take into account actual performance of expenditure so far and absorption capacity in the remainder of the financial year. In the face of expenditure pressures, the Government will rationalize expenditures by cutting those that are non-priority. However, the resources earmarked for development purposes will be utilized in the said projects and none, whatsoever, can be expended as recurrent. Utilization of the contingency fund will be within the criteria specified in the PFM law.

76. The Salary and Remuneration Commission (SRC) is now fully operational. The SRC will continue to set remuneration structure of State Officers. The work towards adopting a new wage policy aimed at limiting the public wage bill as well as job evaluation and harmonization of wage structure for public servants is underway. This will improve on planning of salaries and wages reviews because it will be predictable and based on some policy measures unlike the current practice.

77. On the revenues side, the Kenya Revenue Authority (KRA) is expected to properly rollout the VAT Act 2013. This will need careful interpretation to the players to avoid eroding the expected gains through a few rogue business persons and individuals who would want to take advantage of the new Act for their own benefit at the expense of citizens as well as government revenues. Enhanced compliance audit of large VAT payers, expansion of income tax base and rationalization of existing tax incentives are some measures required to boost revenue collection

78. Similarly, tax collection from rentals should be pursued and collection of property taxes should be enhanced to strengthen the revenue base of Counties.

B. Medium-Term Expenditure Framework

79. Going forward, and in view of the macroeconomic outlook, MTEF budgeting will entail adjusting non-priority expenditures to cater for the priority sectors. The Second MTP (2013-2018), to be launched in early October 2013, together with the new Administration priorities will guide resource allocation, going forward.

- The priority social sectors, education and health, will continue to receive adequate resources. Both sectors (education and health) are already receiving a significant share of resources in the budget and require them to utilize the allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors.

- The Energy, Infrastructure and ICT sector receive the second largest share of resources after education sector. This 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 will also help the sector provide reliable and affordable energy.

- Other priority sectors including internal security, rule of law, youth and development of arid regions, which will continue to receive adequate resources.

80. Specifically, the Government has prioritized key strategic interventions across major sectors as a way of accelerating Kenya's economic and social transformation so as to improve quality of services to the population. The main areas of interventions 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. In the FY 2014/15, Ksh 126.4 billion has been earmarked for these interventions up from Ksh 90.9 billion in FY 2013/14. Thereafter, resource allocation increases to Ksh 174.0 billion in FY2015/16 as indicated in the Annex Table 7.

81. Reflecting the above medium-term expenditure framework, the table below provides the tentative projected baseline ceilings for the 2014 MTEF, classified by sector. The sector ceilings include devolved funds.

Table 6: Total Sector Ceilings for the MTEF Period 2014/15 - 2016/17 (KSh. Million)

		Total Expenditure, Kshs. Mn				% Share of Total Expenditure		
SECTOR		ESTIMATES	CEILING	PROJECTIONS		Estimates	Ceiling	PROJECTIONS
		2013/14	FY2014/15	2015/16	2016/17	2013/14	2014/15	2015/16
AGRICULTURE, RURAL & URBAN DEVELOPMENT	SUB-TOTAL	53,343.4	55,674.9	64,974.5	66,966.1	5.0%	5.0%	5.4%
ENERGY, INFRASTRUCTURE AND ICT	SUB-TOTAL	216,531.9	241,908.1	290,198.6	279,286.6	20.5%	21.7%	24.1%
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	SUB-TOTAL	12,930.2	14,243.4	14,610.8	14,868.7	1.2%	1.3%	1.2%
HEALTH	SUB-TOTAL	36,218.1	37,900.6	40,522.6	43,430.0	3.4%	3.4%	3.4%
EDUCATION	SUB-TOTAL	276,242.5	303,150.7	316,799.0	327,787.4	26.1%	27.1%	26.3%
GOVERNANCE, JUSTICE, LAW AND ORDER	SUB-TOTAL	126,151.8	135,065.8	140,967.3	149,203.9	11.9%	12.1%	11.7%
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	SUB-TOTAL	173,454.5	172,643.6	177,641.9	182,789.7	16.4%	15.5%	14.7%
NATIONAL SECURITY	SUB-TOTAL	84,723.2	80,301.0	81,104.1	81,915.9	8.0%	7.2%	6.7%
SOCIAL PROTECTION, CULTURE AND RECREATION	SUB-TOTAL	20,542.8	21,001.5	21,792.9	22,596.9	1.9%	1.9%	1.8%
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	SUB-TOTAL	57,133.5	55,278.9	57,795.2	58,979.1	5.4%	4.9%	4.8%
TOTAL	TOTAL	**1,057,271.9**	**1,117,168.5**	**1,206,406.9**	**1,227,824.3**	100.0%	100.0%	100.0%

C. County Budgets and the Transfer of Functions

82. The Transition Authority (TA) that is mandated to facilitate and coordinate the transition to the devolved system of government gazetted 13 functions for transfer to County Governments (CGs) before the first general election under the new Constitution. However, after analysis of the functions, the TA recalled some of the functions and it is now the CGs responsibility to apply to take up the functions when they build enough capacity. In addition, some specific functions, meant for CGs will require amendment of existing laws for smooth transfer from National Government (NG) to CGs.

83. Through the assistance of the TA, which provided interim officers, the CGs budgets for 2013/14 were prepared and approved by respective county assemblies. They are also in the process of preparing county integrated development plans as required by law.

84. Extensive work has gone into costing the devolved functions for purpose of determining expenditure patterns in the counties based on the assigned functions. The NG budget process require the preparation of the Division of Revenue Bill and

County Allocation of Revenue Bill on the amount of revenues to be shared between the national government and county government taking into account the recommendations of the commission on revenue allocation.

85. The CGs will therefore be required to make their MTEF budgets and have them approved by the county assemblies taking into account the revenue from the NG and their own generated revenues.

D. 2014/15 Budget framework

86. The 2014/15 budget framework is set against the background of the updated medium-term macro-fiscal framework set out above. Real GDP is expected to increase by 6.3 percent in FY 2014/15 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

87. The 2014/15 budget targets revenue collection including Appropriation-in-Aid (AiA) of 25.0 percent of GDP. As noted above, this performance will be underpinned by on-going reforms in tax policy and revenue administration. As such, total revenues including AiA are expected to be Ksh 1,192.8 billion.

Expenditure Forecasts

88. In 2014/15, overall expenditures are projected at 32.4 percent of GDP (or Ksh 1,546.4 billion), up from the estimated Ksh 1,439.7 billion in the FY 2013/14 budget.

- Recurrent expenditures are expected to decrease marginally from 18.7 percent of GDP in the FY 2013/14 to 18.4 percent of GDP in the FY 2014/15, on account of devoting more resources to development as required by the PFM Act.

  - Domestic interest payments are expected to reduce relative to GDP to 2.5 percent in 2014/15 from 2.6 percent in 2013/14, while pension expenditures stabilize at about 1 percent.
  - The contribution to civil service pension fund increases marginally from Kshs. 6.9 billion in the FY2013/14 (0.2 percent of GDP) to Kshs. 16.0 billion (0.3 percent of GDP) in the FY 2014/15. The allocation for FY2013/14 was for half year while the projection of FY 2014/15 provides for the entire year and also takes into account the general increase in prices.
  - The wage bill is expected to ease slightly from 7.1 percent of GDP in 2013/14 to 6.2 percent of GDP in the FY 2014/15.
  - Expenditure ceilings on goods and services for sectors/ministries are based on funding allocation in the FY 2013/14 budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in FY 2013/14 and then an adjustment factor is applied to take into account the general increase in prices.

- The ceiling for development expenditures including donor funded projects will increase in nominal terms to Ksh 443.9 billion (9.3 percent of GDP) in the FY 2014/15 from Ksh 385.2 billion (9.2 of GDP) in 2013/14. Most of the outlays are expected to support critical infrastructure.

89. A contingency provision of Ksh 5.0 billion and Ksh 2.0 billion for constitutional reform are provided in the budget for 2014/15. In addition, Ksh 5.5 billion is provided as conditional grants to marginal areas, up from Ksh 3.4 billion in 2013/14.

Overall Deficit and Financing

90. The overall budget deficit (including grants) in 2014/15 is projected to be Ksh 277.9 billion (equivalent to 5.8 percent of GDP). Net external financing amounting to Ksh 100.7 billion (2.1 percent of GDP) is expected to cover part of this budget deficit, while Ksh 177.2 billion (3.7 percent of GDP) will be financed through domestic borrowing.

V. CONCLUSION AND NEXT STEPS

91. The fiscal outcome for 2012/13 together with the updated macroeconomic forecast has had implication of the financial objectives elaborated in the last BPS submitted to Parliament in April 2013. Going forward, the set of policies outlined in this BROP reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM law. They are also consistent with the national strategic objectives pursued by the Government as a basis of allocation of public resources. These strategic objectives are provided in the plans developed to implement the Kenya's blue print –Vision 2030. The first MTP period ended and the successor MTP (MTP II) will be launched soon

92. The policies and sector ceilings annexed herewith will guide the line ministries in preparation of the 2014/15 budget.

93. The next Budget Policy Statement (BPS) will be finalised by the February 2014 deadline as per the new PFM law.

Annex Table 1: Main Macroeconomic Indicators, 2010/11-2015/16

	2012/13			2013/14			2014/15			2015/16		2016/17
	BPS'12	*BROP'12*	*BPS'13*	*BPS'12*	*BROP'12*	*BROP'13*	*BPS'12*	*BROP'12*	*BROP'13*	*BROP'12*	*BROP'13*	*BROP'13*
	Annual percentage change, unless otherwise indicated											
National account and prices												
Real GDP	5.5	5.4	5.1	5.9	5.8	5.9	6.3	6.1	6.3	6.4	6.6	6.9
GDP deflator	11.3	9.2	7.4	7.1	6.8	7.4	5.6	6.6	7.9	6.8	7.7	6.6
CPI Index (eop)	8.0	6.0	6.3	5.6	5.5	6.4	5.0	5.0	6.0	5.0	5.5	5.1
CPI Index (avg)	9.8	5.9	5.9	6.3	6.0	6.7	5.0	5.0	6.2	5.0	5.8	5.3
Terms of trade (-deterioration)	0.5	-1.2	5.7	1.8	0.9	1.0	1.2	4.5	4.3	5.6	5.4	3.7
Exchange Rate (Ksh/US$, average)	…	…	…	…	…	…	…	…	…	…	…	
Money and credit (end of period)												
Net domestic assets	18.2	15.4	15.3	15.2	13.1	11.2	13.4	13.0	11.1	14.5	10.3	8.3
Net domestic credit to the Government	16.5	16.4	26.1	15.1	11.6	13.0	8.6	10.8	10.0	9.4	8.7	8.3
Credit to the rest of the economy	19.7	16.9	14.6	16.9	16.5	14.7	17.7	16.7	15.0	17.0	15.0	14.8
Broad Money, M3 (percent change)	17.3	16.2	14.0	16.3	15.9	14.3	15.1	16.1	14.7	16.4	14.8	13.9
Reserve money (percent change)	17.3	15.9	13.8	16.3	15.9	14.3	15.1	16.1	14.7	16.4	14.8	13.9
	In percentage of GDP, unless otherwise indicated											
Investment and saving												
Investment	23.6	20.6	21.9	24.4	22.4	23.9	25.2	23.6	24.9	25.0	25.4	26.4
Central Government	9.8	9.6	8.5	9.6	9.3	11.1	9.8	9.2	9.2	9.4	9.0	8.8
Other	13.8	11.0	13.4	14.8	13.0	12.8	15.3	14.4	15.6	15.6	16.4	17.5
Gross National Saving	14.9	11.9	10.9	17.1	14.1	13.5	19.1	16.5	15.6	19.0	17.7	19.7
Central Government	3.9	2.1	0.3	5.2	4.7	5.8	5.8	4.9	6.8	5.2	7.1	7.4
Other	11.0	9.8	10.7	11.9	9.5	7.7	13.3	11.5	8.9	13.8	10.6	12.3
Central government budget												
Total revenue	24.7	24.1	23.7	24.9	24.3	24.9	25.1	24.4	25.0	24.4	25.1	25.0
Total expenditure and net lending	30.7	32.0	32.6	29.8	29.5	35.4	29.7	29.2	30.6	29.1	30.5	29.9
Overall balance (commitment basis) excl. grants	-6.0	-8.0	-8.9	-4.9	-5.3	-10.5	-4.6	-4.8	-5.6	-4.7	-5.4	-4.9
Overall balance (commitment basis) incl. grants	-4.5	-6.0	-6.8	-3.8	-4.1	-8.7	-3.5	-3.7	-4.0	-3.5	-3.8	-3.4
Primary budget balance	-1.8	-3.3	-3.6	-1.4	-1.7	-1.8	-1.3	-1.5	-2.8	-1.4	-2.4	-1.9
Net domestic borrowing	2.8	2.8	4.6	2.6	2.1	2.6	1.5	1.9	3.7	1.6	2.8	2.4
Total external support (grant & loans)	3.9	4.2	3.1	3.3	3.7	6.4	3.3	3.7	4.3	4.0	4.4	4.3
External sector												
Exports value, goods and services	24.9	25.2	27.0	24.7	24.9	27.1	24.5	24.9	27.8	25.4	28.7	29.5
Imports value, goods and services	37.8	40.8	43.9	35.9	39.4	43.1	34.1	37.8	42.0	36.4	41.0	40.4
Current external balance, including official transfers	-8.7	-8.6	-11.0	-7.3	-8.3	-10.5	-6.1	-7.2	-9.2	-5.9	-7.7	-6.6
Current external balance, excluding official transfers	-8.6	-8.6	-11.0	-7.3	-8.2	-10.4	-6.1	-7.1	-9.2	-5.9	-7.7	-6.6
Gross international reserve coverage in months of next year imports (end of period)	3.7	3.6	3.4	3.9	3.8	3.5	4.0	4.0	3.5	4.0	3.7	3.9
Gross international reserve coverage in months of this year's imports (end of period)	3.7	3.9	3.7	3.9	4.1	3.8	4.0	4.3	3.9	4.4	4.1	4.4
Public debt												
Nominal central government debt (eop), gross	47.8	49.9	52.3	45.2	47.4	53.0	44.4	45.9	50.6	44.1	47.8	45.4
Nominal central government debt (eop), net of deposits	44.3	45.9	47.9	42.1	43.9	49.1	41.7	42.8	49.0	41.3	47.6	46.2
Domestic (gross)	24.1	25.6	28.7	23.9	24.7	27.8	22.8	23.7	26.2	22.5	24.4	22.9
Domestic (net)	20.7	21.6	24.3	20.8	21.1	23.9	20.1	20.6	24.6	19.7	24.2	23.7
External	23.7	24.3	23.6	21.3	22.7	25.2	21.6	22.2	24.4	21.6	23.3	22.5
Memorandum items:												
Nominal GDP (in Ksh billions)	3,866	3,775	3,663	4,383	4,266	4,165	4,916	4,826	4,775	5,479	5,480	6,241
Nominal GDP (in US$ millions)	44,735	43,783	42,728	49,642	48,542	47,379	55,159	54,402	53,227	61,175	60,078	67,604

Source: National Treasury

BPS = Budget Policy Statement

BROP = Budget Review & Outlook Paper

Annex Table 2: Central Government Operations 2010/11 - 2015/16 (in billions of Kenya Shillings)									
	2013/14			2014/15		2015/16		2016/17	
	BPS'13 (R)	Budget	Proj	BPS'13 (R)	BROP'13	BPS'13	BRPO'13	BPS'13 (R)	BRPO'13
TOTAL REVENUE	**987.3**	**1,028.6**	**1,035.4**	***1,138.6***	**1,192.8**	**1,313.7**	**1,375.0**	**1,495.0**	**1,564.2**
Ordinary Revenue (excl. LATF)	920.4	947.8	951.7	*1,062.5*	1,095.9	1,227.6	1,265.4	1,368.3	1,445.6
Income tax	454.2	*459.0*	*459.0*	*522.2*	527.8	600.7	607.2	691.9	699.3
Import duty (net)	67.2	*69.0*	*69.0*	*77.9*	80.0	90.7	93.1	102.3	105.1
Excise duty	107.5	*113.1*	*113.1*	*122.7*	129.0	140.6	147.7	158.4	166.4
Value Added Tax	210.6	*221.8*	*221.8*	*246.7*	259.5	288.5	303.2	328.2	344.9
Investment income	17.7	*17.7*	*17.7*	*20.4*	20.4	23.4	23.4	26.7	26.7
Other	63.2	*67.1*	*67.1*	*72.7*	77.1	83.6	88.7	95.4	101.2
Revenue Measures	0.0	*0.0*	*3.9*	*0.0*	2.1	0.0	2.1	0.0	2.1
LATF	0.0	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0	0.0	0.0
Railway Development Levy	0.0	*13.5*	*16.4*	*0.0*	*20.5*	0.0	*23.1*	0.0	*26.0*
Ministerial and Departmental fees (AiA)	67.0	*67.3*	*67.3*	*76.1*	76.5	86.1	86.5	*92.2*	92.6
Refunds from AMISON	…	…	…	*26.8*	…	…	…	…	…
EXPENDITURE AND NET LENDING	**1,252.2**	**1,439.7**	**1,466.5**	***1,407.4***	**1,546.4**	**1,603.9**	**1,748.5**	**1,801.5**	**1,955.7**
Recurrent expenditure	854.6	780.6	797.7	*909.0*	878.2	1,050.1	993.0	1,191.2	1,112.7
Interest payments	120.5	121.5	121.5	*118.6*	146.4	115.6	158.9	135.7	177.2
Domestic interest	109.4	110.2	110.2	*107.8*	120.3	103.7	132.3	116.6	145.6
Foreign interest	11.1	11.2	11.2	*10.7*	26.0	11.9	26.6	19.1	31.6
Wages and benefits(civil service)	296.9	263.0	271.9	*325.0*	297.6	355.3	325.4	399.6	355.0
Contribution to civil service pension fund	6.9	6.9	0.0	*17.4*	16.0	19.1	17.5	21.4	19.0
Civil service Reform	0.0	0.0	0.0	*0.0*	3.0	0.0	3.0	0.0	3.0
Pensions etc	41.1	41.7	41.7	*45.2*	45.9	49.7	50.5	54.7	55.5
Other	314.8	262.8	275.5	*324.8*	288.7	427.6	352.3	491.4	411.7
Defense and NSIS	74.4	84.7	87.1	*78.1*	80.6	82.8	85.4	88.4	91.3
Development and Net lending	385.2	455.7	465.4	*482.0*	443.9	538.9	498.0	597.6	554.0
Domestically financed	249.7	196.1	205.8	*272.7*	234.6	297.7	256.8	324.6	280.9
RDL Allocation	0.0	13.5	16.4	*0.0*	20.5	0.0	23.1	0.0	26.0
Std gauge Railway MBSA - Malab	15.0	22.1	22.1	*15.0*	76.6	15.0	95.6	15.0	44.6
Other Interventions		81.082	81.1	15	103.7	15	110.2	16.0	119.8
Foreign financed	133.1	257.2	257.2	*206.8*	206.8	238.6	238.6	270.3	270.3
Net lending	2.4	2.4	2.4	*2.5*	2.5	2.7	2.6	2.8	2.8
Drought Expenditures	0.0	0.0	0.0	*0.0*	0.0	0.0	0.0	0.0	0.0
Contingencies	5.0	5.0	5.0	*7.5*	5.0	7.5	5.0	7.5	5.0
Constitution Reform/Transfer to Counties	4.0	1.5	1.5	*5.0*	2.0	3.0	3.0	0.0	0.0
County Transfer	0.0	193.5	193.5	*0.0*	211.8	0.0	243.1	0.0	276.9
Conditional grants to marginal areas ("Equalizati	3.4	3.5	3.5	*3.9*	5.5	4.5	6.3	5.2	7.2
Balance *(commitment basis excl. grants)*	**-264.9**	**-411.2**	**-431.2**	***-268.8***	**-353.6**	**-290.2**	**-373.5**	**-306.5**	**-391.5**
Adjustment to cash basis	0.0	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0	0.0	0.0
Project grants	67.4	67.4	67.4	*75.7*	75.7	85.1	85.1	95.5	95.5
Programmme grants*	10.3	10.3	10.3	*0.0*	0.0	0.0	0.0	0.0	0.0
Balance *(cash basis including grants)*	**-187.1**	**-333.4**	**-353.4**	***-193.1***	**-277.9**	**-205.1**	**-288.4**	**-210.9**	**-296.0**
Statistical discrepancy	0.0	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0	0.0	0.0
FINANCING	**197.5**	**333.4**	**353.4**	***193.1***	**277.9**	**205.1**	**288.4**	**210.9**	**276.0**
Net foreign financing	90.8	226.7	246.7	*100.7*	100.7	122.7	122.7	124.5	118.5
Project loans	65.7	189.7	189.7	*131.1*	131.1	153.5	153.5	174.7	174.7
IDA counterpart refinancing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Programme loans	0.0	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0	0.0	0.0
Commercial Financing	109.9	125.1	145.1	*0.0*	0.0	0.0	0.0	0.0	0.0
Repayments due	-85.3	-88.6	-88.6	*-31.0*	-31.0	-31.2	-31.2	-50.3	-56.3
Change in arears	0.0	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0	0.0	0.0
Rescheduling/Debt swap	0.5	0.5	0.5	*0.5*	0.5	0.5	0.5	0.0	0.0
Privatization proceeds	0.0	*0.0*	*0.0*	*0.0*	0.0	0.0	0.0	0.0	0.0
Net domestic borrowing	106.7	106.7	106.7	*92.5*	177.2	82.5	165.7	86.5	157.5
Financing gap**	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-20.0
Memo items									
External Debt	926.8	*1,050.0*	*1,253.1*	*1,041.6*	1,165.9	1,159.5	1,279.3	1,289.7	1,404.7
Domestic Debt (gross)	1,135.3	*1,130.5*	*1,157.3*	*1,222.9*	1,249.7	1,305.4	1,338.4	1,391.8	1,430.9
Domestic Debt (net)	983.4	*978.6*	*995.8*	*1,071.0*	1,173.1	1,153.5	1,328.8	1,239.9	1,476.3
Primary budget balance	*-77.0*	*-198.9*	*-232.0*	*-74.6*	*-131.5*	-89.5	-129.5	-75.3	-118.8
Nominal GDP	4,164.6	*4,164.6*	*4,164.6*	*4,775.3*	4,775.3	5,480.5	5,480.5	6,241.0	6,241.0

Source: The National Treasury

Annex Table 3: Central Government Financial Operations, 2010/11 - 2015/16 (in percent of GDP)									
	2013/14			2014/15		2015/16		2016/17	
	BPS'13 (R)	*Budget*	*Proj*	*BPS'13 (R)*	*BRPO'13*	*BPS'13*	*BRPO'13*	*BPS'13 (R)*	*BRPO'13*
TOTAL REVENUE	**23.7%**	**24.7%**	**24.9%**	**23.8%**	**25.0%**	**24.0%**	**25.1%**	**24.0%**	**25.1%**
Ordinary Revenue (excl. LATF)	22.1%	22.8%	22.9%	22.3%	22.9%	22.4%	23.1%	21.9%	23.2%
Income tax	10.9%	11.0%	11.0%	10.9%	11.1%	11.0%	11.1%	11.1%	11.2%
Import duty (net)	1.6%	1.7%	1.7%	1.6%	1.7%	1.7%	1.7%	1.6%	1.7%
Excise duty	2.6%	2.7%	2.7%	2.6%	2.7%	2.6%	2.7%	2.5%	2.7%
Value Added Tax	5.1%	5.3%	5.3%	5.2%	5.4%	5.3%	5.5%	5.3%	5.5%
Investment income	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Other	1.5%	1.6%	1.6%	1.5%	1.6%	1.5%	1.6%	1.5%	1.6%
LATF	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Railway Development Levy	0.0%	0.3%	0.4%	0.0%	0.4%	0.0%	0.4%	0.0%	0.4%
Ministerial and Departmental fees (AiA)	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.5%	1.5%
Refunds from AMISON	…	…	…	…	…	…	…	…	
Additional revenue measures/Surplus from SAC	…	…	…	…	…	…	…	…	
EXPENDITURE AND NET LENDING	**30.1%**	**34.6%**	**35.2%**	**29.5%**	**32.4%**	**29.3%**	**31.9%**	**28.9%**	**31.3%**
Recurrent expenditure	20.5%	18.7%	19.2%	19.0%	18.4%	19.2%	18.1%	19.1%	17.8%
Interest payments	2.9%	2.9%	2.9%	2.5%	3.1%	2.1%	2.9%	2.2%	2.8%
Domestic interest	2.6%	2.6%	2.6%	2.3%	2.5%	1.9%	2.4%	1.9%	2.3%
Foreign interest	0.3%	0.3%	0.3%	0.2%	0.5%	0.2%	0.5%	0.3%	0.5%
Wages and benefits (civil service)	7.1%	6.3%	6.5%	6.8%	6.2%	6.5%	5.9%	6.4%	5.7%
Contribution to civil service pension fund	0.2%	0.2%	0.0%	0.4%	0.3%	0.3%	0.3%	0.3%	0.3%
Civil service Reform	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%	0.1%	0.0%	0.0%
Pensions etc	1.0%	1.0%	1.0%	0.9%	1.0%	0.9%	0.9%	0.9%	0.9%
Other	7.6%	6.3%	6.6%	6.8%	6.0%	7.8%	6.4%	7.9%	6.6%
Defense and NSIS	1.8%	2.0%	2.1%	1.6%	1.7%	1.5%	1.6%	1.4%	1.5%
Development and Net lending	9.2%	10.9%	11.2%	10.1%	9.3%	9.8%	9.1%	9.6%	8.9%
Domestically financed	6.0%	4.7%	4.9%	5.7%	4.9%	5.4%	4.7%	5.2%	4.5%
Domestically financed Ministerial	6.0%	5.1%	5.3%	5.7%	4.5%	5.4%	4.3%	5.2%	4.1%
Domestically FinancedSpecial intervent	0.6%	1.1%	1.1%	0.5%	2.2%	0.5%	2.3%	0.4%	1.3%
Std gauge Railway MBSA - Malab	0.4%	0.5%	0.5%	0.3%	1.6%	0.3%	1.7%	0.2%	0.7%
Other Interventions	0.0%	1.9%	1.9%	0.3%	2.2%	0.3%	2.0%	0.3%	1.9%
Foreign financed	3.2%	6.2%	6.2%	4.3%	4.3%	4.4%	4.4%	4.3%	4.3%
Net lending	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
Drought Expenditures	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Contingencies	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%
Constitution Reform	0.1%	0.0%	0.0%	0.1%	0.0%	0.1%	0.1%	0.0%	0.0%
County Transfer	0.0%	4.6%	4.6%	0.0%	4.4%	0.0%	4.4%	0.0%	4.4%
Conditional grants to marginal areas ("Equalizatio	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Balance *(commitment basis excl. grants)*	**-6.4%**	**-9.9%**	**-10.4%**	**-5.6%**	**-7.4%**	**-5.3%**	**-6.8%**	**-4.9%**	**-6.3%**
Adjustment to cash basis	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Project grants	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.5%	1.5%
Programmme grants*	0.2%	0.2%	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Balance *(cash basis including grants)*	**-4.5%**	**-8.0%**	**-8.5%**	**-4.0%**	**-5.8%**	**-3.7%**	**-5.3%**	**-3.4%**	**-4.7%**
Statistical discrepancy	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FINANCING	**4.7%**	**8.0%**	**8.5%**	**4.0%**	**5.8%**	**3.7%**	**5.3%**	**3.4%**	**4.4%**
Net foreign financing	2.2%	5.4%	5.9%	2.1%	2.1%	2.2%	2.2%	2.0%	1.9%
Project loans	1.6%	4.6%	4.6%	2.7%	2.7%	2.8%	2.8%	2.8%	2.8%
IDA counterpart refinancing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Programme loans	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Commercial Fin./Sovereign bond	2.6%	3.0%	3.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Repayments due	-2.0%	-2.1%	-2.1%	-0.6%	-0.6%	-0.6%	-0.6%	-0.8%	-0.9%
Change in arears	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Rescheduling/Debt swap	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Privatization proceeds	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Refinancing - Telkom	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net domestic borrowing	2.6%	2.6%	2.6%	1.9%	3.7%	1.5%	3.0%	1.4%	2.5%
Financing gap**	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.3%
Memo items									
Total public debt (net)	45.9%	48.7%	54.0%	44.2%	49.0%	42.2%	47.6%	40.5%	46.2%
External Debt	22.3%	25.2%	30.1%	21.8%	24.4%	21.2%	23.3%	20.7%	22.5%
Domestic Debt (gross)	27.3%	27.1%	27.8%	25.6%	26.2%	23.8%	24.4%	22.3%	22.9%
Domestic Debt (net)	23.6%	23.5%	23.9%	22.4%	24.6%	21.0%	24.2%	19.9%	23.7%
Primary budget balance	-1.8%	-4.8%	-5.6%	-1.6%	-2.8%	-1.6%	-2.4%	-1.2%	-1.9%
Nominal GDP	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: The National Treasury

Annex Table 4: Total Sector Ceilings for the MTEF Period 2014/15 - 2016/17 (KSh. Million)

SECTOR		ESTIMATES	CEILING	PROJECTIONS	
		2013/14	FY2014/15	2015/16	2016/17
AGRICULTURE, RURAL & URBAN DEVELOPMENT	SUB-TOTAL	53,343.4	55,674.9	64,974.5	66,966.1
	Rec. Gross	15,022.2	16,080.7	17,514.1	18,417.3
	Dev. Gross	38,321.2	39,594.2	47,460.4	48,548.8
ENERGY, INFRASTRUCTURE AND ICT	SUB-TOTAL	216,531.9	241,908.1	290,198.6	279,286.6
	Rec. Gross	27,533.6	41,606.7	44,212.1	46,422.8
	Dev. Gross	188,998.4	200,301.4	245,986.4	232,863.9
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	SUB-TOTAL	12,930.2	14,243.4	14,610.8	14,868.7
	Rec. Gross	7,941.4	8,810.2	8,895.2	9,016.4
	Dev. Gross	4,988.7	5,433.2	5,715.6	5,852.3
HEALTH	SUB-TOTAL	36,218.1	37,900.6	40,522.6	43,430.0
	Rec. Gross	20,324.7	23,432.0	25,946.1	28,743.4
	Dev. Gross	15,893.4	14,468.6	14,576.5	14,686.6
EDUCATION	SUB-TOTAL	276,242.5	303,150.7	316,799.0	327,787.4
	Rec. Gross	245,827.7	268,538.6	281,447.7	291,990.6
	Dev. Gross	30,414.7	34,612.2	35,351.3	35,796.7
GOVERNANCE, JUSTICE, LAW AND ORDER	SUB-TOTAL	126,151.8	135,065.8	140,967.3	149,203.9
	Rec. Gross	111,263.6	120,750.7	126,341.4	134,308.4
	Dev. Gross	14,888.2	14,315.1	14,625.9	14,895.5
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATI	SUB-TOTAL	173,454.5	172,643.6	177,641.9	182,789.7
	Rec. Gross	73,855.4	81,490.1	83,342.0	85,853.3
	Dev. Gross	99,599.1	91,153.5	94,299.8	96,936.3
NATIONAL SECURITY	SUB-TOTAL	84,723.2	80,301.0	81,104.1	81,915.9
	Rec. Gross	84,723.2	80,300.0	81,102.1	81,912.9
	Dev. Gross	-	1.0	2.0	3.0
SOCIAL PROTECTION, CULTURE AND RECREATION	SUB-TOTAL	20,542.8	21,001.5	21,792.9	22,596.9
	Rec. Gross	10,893.2	10,972.5	11,054.0	11,137.5
	Dev. Gross	9,649.7	10,028.9	10,738.9	11,459.4
ENVIRONMENT PROTECTION, WATER AND NATURAL RE	SUB-TOTAL	57,133.5	55,278.9	57,795.2	58,979.1
	Rec. Gross	13,200.2	14,936.6	14,888.0	15,769.0
	Dev. Gross	43,933.4	40,342.3	42,907.2	43,210.2
TOTAL	**TOTAL**	**1,057,271.9**	**1,117,168.5**	**1,206,406.9**	**1,227,824.3**
	Rec. Gross	**610,585.3**	**666,918.0**	**694,742.8**	**723,571.5**
	Dev. Gross	**446,686.7**	**450,250.5**	**511,664.0**	**504,252.9**

Annex Table 5: Recurrent Sector Ceilings for the MTEF Period 2014/15 - 2016/17 (KSh. Million)

SECTOR		ESTIMATES 2013/14	CEILING FY2014/15	PROJECTIONS	
				2015/16	2016/17
AGRICULTURE, RURAL & URBAN DEVELOPMENT	**Gross**	**15,022.2**	**16,080.7**	**17,514.1**	**18,417.3**
	A-I-A	1,109.2	1,164.6	1,222.9	1,284.0
	Net	13,913.1	14,916.0	16,291.2	17,133.3
	Salaries	4,152.0	4,276.5	4,404.8	4,537.0
	Grants & Other Transfers	6,163.1	6,655.5	6,902.3	7,103.4
	Other Recurrent	4,707.2	5,148.6	6,207.0	6,776.9
ENERGY, INFRASTRUCTURE AND ICT	**Gross**	**27,533.6**	**41,606.7**	**44,212.1**	**46,422.8**
	A-I-A	20,755.5	34,327.2	36,043.4	37,845.3
	Net	6,778.1	7,279.5	8,168.8	8,577.4
	Salaries	2,449.0	2,522.5	2,598.1	2,676.1
	Grants & Other Transfers	23,545.9	36,921.1	38,623.8	40,411.7
	Other Recurrent	1,538.7	2,163.1	2,990.2	3,335.0
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	**Gross**	**7,941.4**	**8,810.2**	**8,895.2**	**9,016.4**
	A-I-A	486.2	510.5	536.0	562.8
	Net	7,455.2	8,299.7	8,359.2	8,453.6
	Salaries	1,414.9	1,457.4	1,501.1	1,546.1
	Grants & Other Transfers	4,467.7	4,767.7	4,767.7	4,767.7
	Other Recurrent	2,058.8	2,585.1	2,626.4	2,702.6
HEALTH	**Gross**	**20,324.7**	**23,432.0**	**25,946.1**	**28,743.4**
	A-I-A	3,861.9	3,861.9	3,861.9	3,861.9
	Net	16,462.9	19,570.1	22,084.2	24,881.5
	Salaries	1,755.5	1,808.1	1,862.4	1,918.3
	Grants & Other Transfers	16,849.6	19,101.1	19,674.1	22,064.3
	Other Recurrent	1,019.7	1,622.8	3,309.6	3,460.8
	Strategic Interventions	***700.0***	***900.0***	***1,100.0***	***1,300.0***
EDUCATION	**Gross**	**245,827.7**	**268,538.6**	**281,447.7**	**291,990.6**
	A-I-A	19,935.2	20,322.4	20,761.1	27,056.6
	Net	225,892.5	248,216.1	260,686.6	264,934.0
	Salaries	151,590.5	166,645.0	171,644.4	176,793.7
	Grants & Other Transfers	64,688.7	68,088.7	72,191.4	74,357.1
	Other Recurrent	29,548.5	30,804.8	34,612.0	37,839.8
	Strategic Interventions	***-***	***3,000.0***	***3,000.0***	***3,000.0***
GOVERNANCE, JUSTICE, LAW AND ORDER	**Gross**	**111,263.6**	**120,750.7**	**126,341.4**	**134,308.4**
	A-I-A	505.6	529.8	555.3	582.0
	Net	110,758.0	120,220.9	125,786.2	133,726.4
	Salaries	71,006.2	78,113.0	82,321.5	86,791.1
	Grants & Other Transfers	3,484.9	4,082.4	4,272.2	4,358.3
	Other Recurrent	26,772.5	27,830.3	28,286.8	30,950.0
	Strategic Interventions	***10,000.0***	***10,725.0***	***11,461.0***	***12,209.0***
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**Gross**	**73,855.4**	**81,490.1**	**83,342.0**	**85,853.3**
	A-I-A	1,431.3	1,461.3	1,492.2	1,524.1
	Net	72,424.1	80,028.8	81,789.8	84,319.2
	Salaries	26,054.7	33,201.8	34,006.9	34,836.1
	Grants & Other Transfers	21,455.6	21,455.1	21,455.1	21,455.1
	Other Recurrent	23,369.0	23,857.2	24,904.1	26,586.2
	Strategic Interventions	***2,976.0***	***2,976.0***	***2,976.0***	***2,976.0***
NATIONAL SECURITY	**Gross**	**84,723.2**	**80,300.0**	**81,102.1**	**81,912.9**
	A-I-A	-	-	-	-
	Net	84,723.2	80,300.0	81,102.1	81,912.9
	Salaries	663.0	682.9	703.4	724.5
	Grants & Other Transfers	81,937.0	77,193.9	77,965.9	78,745.5
	Other Recurrent	123.2	323.2	332.9	342.9
	Strategic Interventions	***2,000.0***	***2,100.0***	***2,100.0***	***2,100.0***
SOCIAL PROTECTION, CULTURE AND RECREATION	**Gross**	**10,893.2**	**10,972.5**	**11,054.0**	**11,137.5**
	A-I-A	124.3	124.3	124.3	124.3
	Net	10,768.8	10,848.2	10,929.6	11,013.1
	Salaries	1,567.4	1,614.4	1,662.9	1,712.7
	Grants & Other Transfers	4,962.0	4,962.0	4,962.0	4,962.0
	Other Recurrent	1,616.7	1,649.1	1,682.0	1,715.7
	Strategic Interventions	***2,747.0***	***2,747.0***	***2,747.0***	***2,747.0***
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	**Gross**	**13,200.2**	**14,936.6**	**14,888.0**	**15,769.0**
	A-I-A	4,959.7	5,108.0	5,260.9	5,418.3
	Net	8,240.5	9,828.6	9,627.1	10,350.7
	Salaries	2,366.5	2,437.5	2,510.6	2,585.9
	Grants & Other Transfers	9,661.5	10,661.5	10,661.5	10,661.5
	Other Recurrent	1,172.2	1,837.6	1,715.9	2,521.5
TOTAL	**Gross**	**610,585.3**	**666,918.0**	**694,742.8**	**723,571.5**
	A-I-A	**53,168.8**	**67,410.1**	**69,857.9**	**78,259.4**
	Net	**557,416.5**	**599,507.9**	**624,824.9**	**645,302.0**
	Salaries	**263,019.7**	**292,759.1**	**303,216.0**	**314,121.5**
	Grants & Other Transfers	**237,216.1**	**253,889.1**	**261,475.9**	**268,886.6**
	Other Recurrent	**91,926.5**	**97,821.8**	**106,666.9**	**116,231.4**
	Strategic Interventions	***18,423.0***	***22,448.0***	***23,384.0***	***24,332.0***

Annex Table 6: Development Sector Ceilings for the MTEF Period 2014/15 - 2016/17 (KSh. Million)

SECTOR/MINISTRY/DEPARTMENT/AGENCY		ESTIMATES	CEILING	PROJECTIONS	
		2013/14	FY2014/15	2015/16	2016/17
AGRICULTURE, RURAL & URBAN DEVELOPMENT	**Gross**	**38,321.2**	**39,594.2**	**47,460.4**	**48,548.8**
	GOK	11,804.2	12,225.9	12,344.0	12,464.4
	Loans	12,838.6	10,912.8	10,912.8	10,912.8
	Grants	2,692.4	2,323.6	2,323.6	2,323.6
	Strategic Interventions	***10,986.0***	***14,131.9***	***21,880.0***	***22,848.0***
ENERGY, INFRASTRUCTURE AND ICT	**Gross**	**188,998.4**	**200,301.4**	**245,986.4**	**232,863.9**
	GOK	27,917.6	29,359.7	37,685.7	43,018.1
	Loans	124,485.5	105,812.7	105,812.7	105,812.7
	Grants	9,078.8	7,716.9	7,716.9	7,716.9
	Local A-I-A	4,456.5	25,140.1	27,973.2	31,191.1
	Strategic Interventions	***23,060.0***	***32,272.0***	***66,798.0***	***45,125.0***
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	**Gross**	**4,988.7**	**5,433.2**	**5,715.6**	**5,852.3**
	GOK	4,725.4	5,170.0	5,452.3	5,589.0
	Loans	-	-	-	-
	Grants	263.3	263.3	263.3	263.3
HEALTH	**Gross**	**15,893.4**	**14,468.6**	**14,576.5**	**14,686.6**
	GOK	1,595.3	1,355.3	1,211.2	1,056.6
	Loans	2,266.5	1,926.5	1,926.5	1,926.5
	Grants	7,231.6	6,146.8	6,146.8	6,146.8
	Strategic Interventions	***4,800.0***	***5,040.0***	***5,292.0***	***5,556.6***
EDUCATION	**Gross**	**30,414.7**	**34,612.2**	**35,351.3**	**35,796.7**
	GOK	7,982.7	10,322.7	10,688.8	11,073.3
	Loans	5,369.6	4,564.1	4,564.1	4,564.1
	Grants	2,347.5	1,995.3	1,995.3	1,995.3
	Strategic Interventions	***14,715.0***	***17,730.0***	***18,103.0***	***18,164.0***
GOVERNANCE, JUSTICE, LAW AND ORDER	**Gross**	**14,888.2**	**14,315.1**	**14,625.9**	**14,895.5**
	GOK	9,519.8	9,719.9	10,076.3	10,384.9
	Loans	4,381.5	3,724.3	3,724.3	3,724.3
	Grants	986.9	870.9	825.2	786.4
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**Gross**	**99,599.1**	**91,153.5**	**94,299.8**	**96,936.3**
	GOK	24,006.9	22,682.8	23,500.8	22,915.8
	Loans	8,547.6	7,265.4	6,988.9	6,753.9
	Grants	28,894.1	24,570.5	22,786.2	21,269.6
	Local A-I-A	56.4	56.4	56.4	56.4
	Strategic Interventions	***14,400.0***	***9,303.0***	***9,473.0***	***9,961.0***
	CDF	***23,694.1***	***27,275.3***	***31,494.4***	***35,979.6***
SOCIAL PROTECTION, CULTURE AND RECREATION	**Gross**	**9,649.7**	**10,028.9**	**10,738.9**	**11,459.4**
	GOK	2,052.0	2,231.3	2,731.3	3,231.3
	Loans	1,516.7	1,516.7	1,516.7	1,516.7
	Grants	2,080.9	2,080.9	2,080.9	2,080.9
	Strategic Interventions	***4,000.0***	***4,200.0***	***4,410.0***	***4,630.5***
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	**Gross**	**43,933.4**	**40,342.3**	**42,907.2**	**43,210.2**
	GOK	15,413.0	15,721.7	17,536.6	17,339.6
	Loans	21,353.6	18,150.6	18,150.6	18,150.6
	Grants	6,311.7	5,365.0	5,365.0	5,365.0
	Local A-I-A	255.0	255.0	255.0	255.0
	Strategic Interventions	***600.0***	***850.0***	***1,600.0***	***2,100.0***
TOTAL	**Gross**	**446,686.7**	**450,249.5**	**511,662.0**	**504,249.9**
	GOK	**105,016.9**	**108,789.3**	**121,227.0**	**127,073.1**
	Loans	**180,759.6**	**153,873.2**	**153,596.7**	**153,361.7**
	Grants	**59,887.1**	**51,333.4**	**49,503.4**	**47,947.9**
	Local A-I-A	**4,768.0**	**25,451.6**	**28,284.6**	**31,502.6**
	Strategic Interventions	***72,561.0***	***83,526.9***	***127,556.0***	***108,385.1***
	CDF	**23,694.1**	**27,275.3**	**31,494.4**	**35,979.6**

Annex Table 7: Summary of Strategic Interventions for the MTEF Period 2014/15 - 2016/17 (KSh. Million)

SECTOR		ESTIMATES	CEILING	PROJECTIONS	
		2013/14	FY2014/15	2015/16	2016/17
AGRICULTURE, RURAL & URBAN DEVELOPMENT	**Total**	**10,986.0**	**14,131.9**	**21,880.0**	**22,848.0**
	Rec.	-	-	-	-
	Dev.	10,986.0	14,131.9	21,880.0	22,848.0
ENERGY, INFRASTRUCTURE AND ICT	**Total**	**23,060.0**	**52,732.8**	**89,857.8**	**71,157.1**
	Rec.	-	-	-	-
	Dev*.	23,060.0	52,732.8	89,857.8	71,157.1
GENERAL ECONOMIC AND COMMERCIAL AFFAIRS	**Total**	**-**	**-**	**-**	**-**
	Rec.	-	-	-	-
	Dev.	-	-	-	-
HEALTH	**Total**	**5,500.0**	**5,940.0**	**6,392.0**	**6,856.6**
	Rec.	700.0	900.0	1,100.0	1,300.0
	Dev.	4,800.0	5,040.0	5,292.0	5,556.6
EDUCATION	**Total**	**14,715.0**	**20,730.0**	**21,103.0**	**21,164.0**
	Rec.	-	3,000.0	3,000.0	3,000.0
	Dev.	14,715.0	17,730.0	18,103.0	18,164.0
GOVERNANCE, JUSTICE, LAW AND ORDER	**Total**	**10,000.0**	**10,725.0**	**11,461.0**	**12,209.0**
	Rec.	10,000.0	10,725.0	11,461.0	12,209.0
	Dev.	-	-	-	-
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**Total**	**17,376.0**	**12,279.0**	**12,449.0**	**12,937.0**
	Rec.	2,976.0	2,976.0	2,976.0	2,976.0
	Dev.	14,400.0	9,303.0	9,473.0	9,961.0
NATIONAL SECURITY	**Total**	**2,000.0**	**2,100.0**	**2,100.0**	**2,100.0**
	Rec.	2,000.0	2,100.0	2,100.0	2,100.0
	Dev.	-	-	-	-
SOCIAL PROTECTION, CULTURE AND RECREATION	**Total**	**6,747.0**	**6,947.0**	**7,157.0**	**7,377.5**
	Rec.	2,747.0	2,747.0	2,747.0	2,747.0
	Dev.	4,000.0	4,200.0	4,410.0	4,630.5
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	**Total**	**600.0**	**850.0**	**1,600.0**	**2,100.0**
	Rec.	-	-	-	-
	Dev.	600.0	850.0	1,600.0	2,100.0
GRAND TOTAL	**TOTAL**	**90,984.0**	**126,435.6**	**173,999.8**	**158,749.2**
	Rec.	**18,423.0**	**22,448.0**	**23,384.0**	**24,332.0**
	Dev.	**72,561.0**	**103,987.6**	**150,615.8**	**134,417.2**

* Includes Railway Development which is clustered under Local A-I-A

Annex Table8: BUDGET CALENDAR FOR THE FY 2014/15 MTEF BUDGET		
ACTIVITY	**RESPONSIBILITY**	**DEADLINE**
1. Develop and issue MTEF guidelines	**National Treasury**	**30-Aug-13**
2. Launch of Sector Working Groups	**National Treasury**	**15-Sep-13**
3. Performance Review and Strategic Planning	**MDAs**	**15-Sep-13**
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	"	"
4. Determination of Fiscal Framework	**Macro Working Group**	**30-Sep-13**
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	"	15-Oct-13
4.6 Submit Approved BROP to Parliament	"	30-Oct-13
5. Preparation of MTEF budget proposals	**MDAs**	**01-Oct-13**
5.1 Draft Sector Report	Sector Working Group	"
5.2 Convene Public Sector Hearing	National Treasury	15-Nov-13
5.3 Review of the Proposals	National Treasury	22-Nov-13
5.4 Submission of Sector Reports to Treasury	Sector Working Group	30-Nov-13
6. Draft Budget Policy Statement (BPS)	**Macro Working Group**	**01-Dec-13**
6.1 Draft BPS	Macro Working Group	01-Dec-13
6.2 Division of Revenue Bill (DORB)	National Treasury	15-Dec-13
6.3 County Allocation of Revenue Bill (CARB)	National Treasury	15-Dec-13
6.4 Submission of BPS, DORB and CARB to Cabinet for approval	National Treasury	15-Jan-14
6.5 Submission of BPS,DORB and CARB to Parliament for approval	National Treasury	15-Feb-14
7. Preparation and approval of Final MDAs Programme Budgets		
7.1 Develop and issue final guidelines on preparation of 2014/15	National Treasury	28-Feb-14
7.2 Submission of Budget Proposals to Treasury	MDAs	14-Mar-14
7.3 Review of Draft Budget Proposals	National Treasury	21-Mar-14
7.4 Consideration and approval of Draft Budget Estimates	Cabinet	27-Mar-14
7.5 Consolidation of the Draft Budget Estimates	National Treasury	01-Apr-14
7.6 Submission of Draft Budget Estimates to Parliament	National Treasury	30-Apr-14
7.7 Review of Draft Budget Estimates by Parliament	National Assembly	15-May-14
7.8 Report on Draft Budget Estimates from Parliament	National Assembly	30-May-14
7.9 Consolidation of the Final Budget Estimates	National Treasury	15-Jun-14
7.10 Submission of Appropriation Bill to Parliament	National Treasury	15-Jun-14
7.11 Submission of Vote on Account to Parliament	National Treasury	30-Jun-14
8. Budget Statement	**National Treasury**	**15-Jun-14**
9. Consideration and Passage of Appropriation Bill	**National Assembly**	**30-Jun-14**