

A Review of Macroeconomic Environment and Economic Implications of 2016/17 Budget

BENSON KIRIGA – KIPPRA

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Introduction

- Budget theme
 - Consolidating gains for a prosperous Kenya
- Economic Transformation Agenda
 - strengthen our economy
 - deliver prosperity to Kenyans
 - propel Kenya to the middle income status level
 - in line with the aspirations of the Vision 2030.
- Within sustainable fiscal framework.
- How best to accelerate inclusive economic growth

Priority Areas

- Improve the business environment in order to lower the cost of doing business, improve competitiveness, and attract more investment for growth, employment generation, and poverty reduction;
- Safeguard macroeconomic stability;
- invest in security;
- Improve infrastructure (roads, railway, ports, energy and water) to encourage growth of competitive industries;
- Undertake various measures to drive agricultural and industrial transformation so as to ensure food security and lower food prices, increase quality and diversification of exports, accelerate inclusive growth, create jobs and reduce poverty;
- Prioritise investment in quality and accessible health care services as well as quality and relevant education;
- Ensure adequate support for the most vulnerable in our societies;
- Support devolution through funding and working closely with the county governments to build appropriate public financial management capacity to help them to better deliver services to Wananchi; and
- Implement economic, financial and other reforms to boost our productivity and competitiveness.

Recent Economic Developments

- Stable macroeconomic environment
- Heavy infrastructural investment
- including SGR
- Agricultural investment in tea coffee & sugar sectors
- Trade facilitation through regional integration
- Tourism boosting through promotion & marketing
- Transport sector boost thro fair oil prices
- enhancement of Security infrastructure

Economic Indicators

	2013	2014	2015
GDP growth	5.8	5.3	5.6
Inflation	5.7	6.9	6.6
Private Consumption	6.3	5.8	3.3
Government Consumption	5.5	6.0	8.4
Private Investments	-5.3	11.8	2.5
Government Investments	18.2	10.3	4.2
Export goods & services	0.5	5.3	-0.9
Import goods & services	-0.8	10.6	-1.2
current account balance	-8.9	-9.8	-6.8
Fiscal Deficit	-7.1	-6.4	-6.0
Public Expenditure (%gdp)	27.0	27.2	26.6
Interest Rate	8.9	8.9	10.8

Prices & growth

- Inflation being low and efforts on lowering the interest rates - through MPC
- Inflation target is 5% and expected to stabilise in medium term
- Exchange rate stability though shilling is weak
- Economic growth to be steady at around 6% in the medium term
- Highest growth in SSA

Fiscal Performance

- 2015/16
 - Revenues – Kshs 1,295.4 bn (19.7%gdp)
 - Expenditures -Kshs 1,842.7 bn (28.1%gdp)
 - Fiscal deficit – Kshs 398.1 bn (6.1%gdp)
- Revenue shortfalls
- Increased expenditure requirements
- Cater for security
- Infrastructure requirements
- Huge recurrent budget

FP

- Measures instituted to:
 - Align expenditures with resources
 - Curb non priority expenditures
 - Free resources for productive purposes
 - Expenditure cuts
 - On slow and delayed projects
 - Rationalized thro a supplementary budget
 - Borrowing to be maintained within fiscal framework

Economic policy outlook - risks

- High demand on fiscal space
- Risk of tax burden increasing
- Diversion of FDI to neighboring countries
- Trade diversion also
- Security issues and increasing expenditures
- Reaction from neighboring countries
- Internal instabilities
- Political environment may not be favourable

Global Vs Kenya

- Global moderate recovery affect Kenya's trade.
- Export growth will be affected
- Imports sticky upwards due heavy infrastructural investment in Kenya
- Remittances likely to go down due to lowering economic power of the source countries
- Through exchange rate may have risk of inflation going up
- Eventually employment creation slows down

Budget Economic Implications

- Tax rate measures to boost revenue collection and therefore narrowing of the deficit
- Growth enhancing measure through tax waiver on coffee, tea and sugar sectors
- Increased consumption through easing cost of living
- Promotion of growth in the private sectors through fair taxes
- Investment boosted through infrastructural development and fairness in the tax systems

Implications

	2013	2014	2015	2016	2017	2018
GDP growth	5.8	5.3	5.6	5.9	6.2	6.5
Inflation	5.7	6.9	6.6	5.8	5.6	5.0
Private Consumption	6.3	5.8	3.3	4.5	6.2	6.3
Government Consumption	5.5	6.0	8.4	5.5	6.8	6.2
Private Investments	-5.3	11.8	2.5	5.3	5.3	6.5
Government Investments	18.2	10.3	4.2	6.5	4.0	7.2
Export goods & services	0.5	5.3	-0.9	3.8	7.4	6.8
Import goods & services	-0.8	10.6	-1.2	5.2	5.3	6.1
current account balance	-8.9	-9.8	-6.8	-7.6	-7.6	-7.3
Fiscal Deficit	-7.1	-6.4	-6.0	-5.6	-5.4	-5.1
Interest Rate	8.9	8.9	10.8	10.0	10.1	10.1

Risks

- National elections in August 2017
- Political climate changing
- Slow down in economic performance
- Inflation expectations
- Exchange rate becoming unfavorable
- Changes in oil prices - hikes
- External risks – neighbors instability

Conclusion

- Macroeconomic stability continue
- Supportive political climate
- Fiscal policy prudence
- Better prices to enhance growth
- Security enhancement
- Productive sectors prioritized
- Capital expenditures enhancement
- Uphold rule of law
- Devolution for socio-economic development