EASTERN BRANCH

BUDGET REVIEW AND EMERGING TAXES FY 2017/2018

Highlight on the Current Macro-Economic Environment for the FY 2017/18

By Elias Wakhisi– Public Policy & Governance - ICPAK

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OUTLINE

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INTRODUCTION

- The theme for this year's budget is,

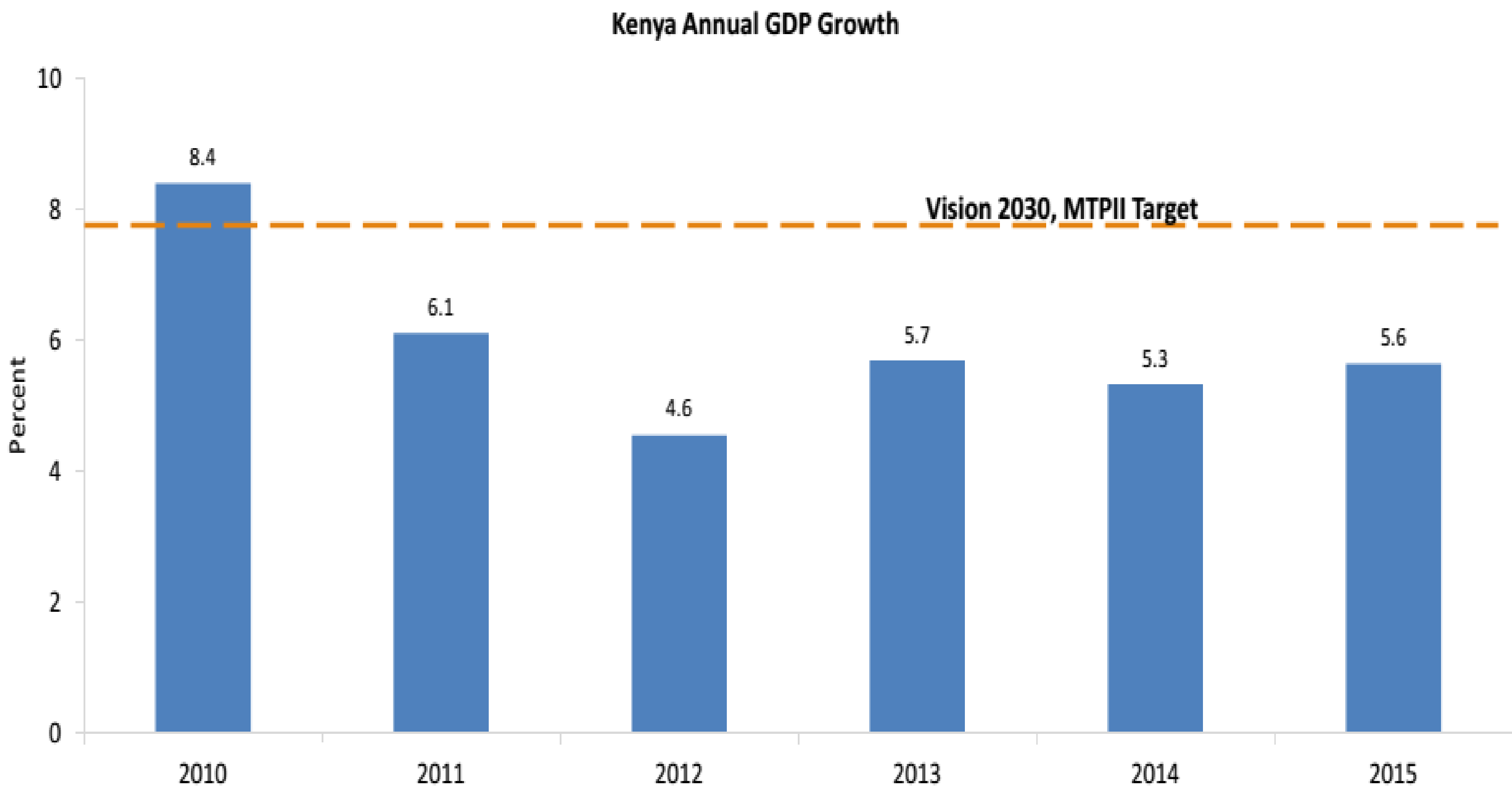
"Creating Jobs, Delivering a Better Life for All Kenyans"

- The budget for the FY 2017/18 is being prepared under a revised Budget Calendar that has taken into account the preparation for the 2017 General Election.
- The economic policy of the government in the FY 2017/18 budget and the medium term is to consolidate the economic gains of the Transformation Agenda that was started four years ago.
- The Agenda is poised to achieve **higher and sustainable growth**, **generate employment** and **reduce poverty and inequality** enabling Kenya realize faster the aspirations under Vision 2030

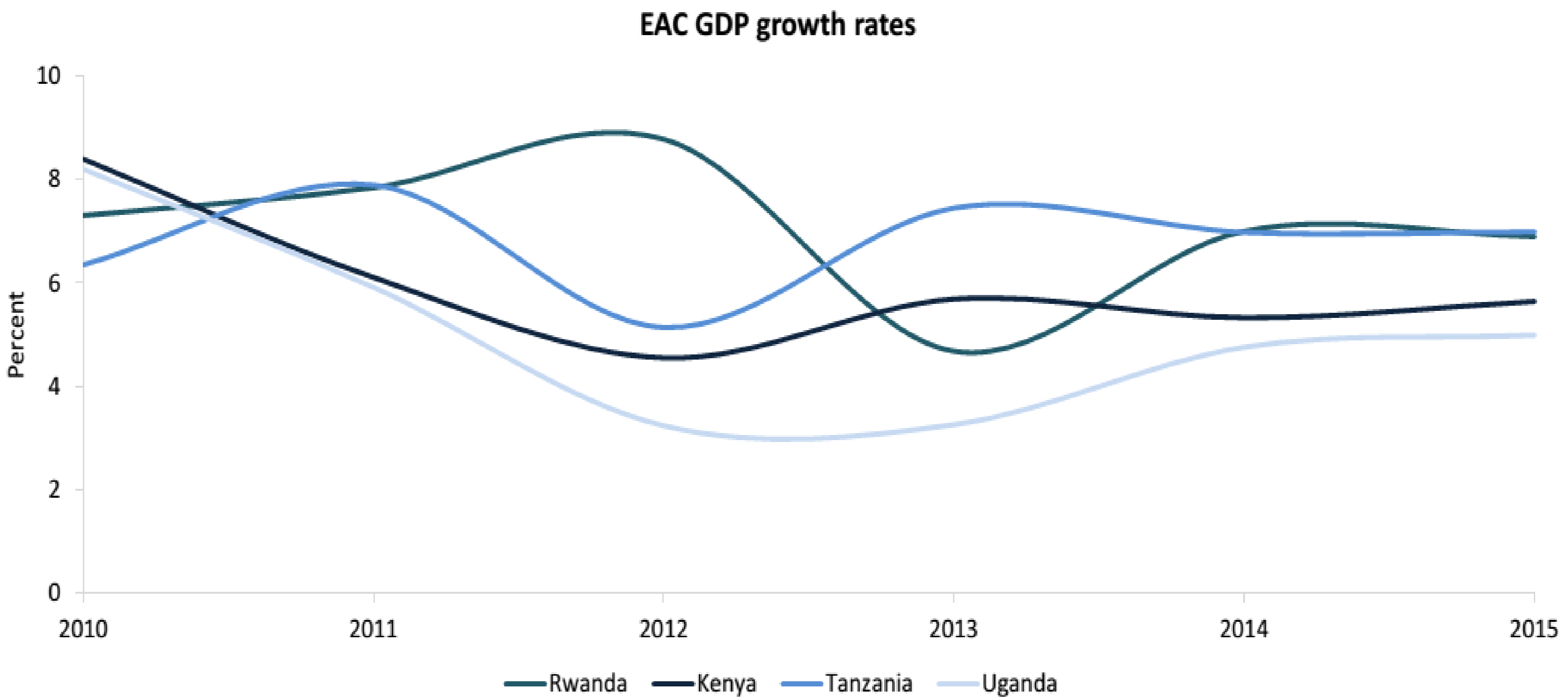
ECONOMIC GROWTH PROSPECTS

- According to CBK, the performance of the economy in the 2nd & 3rd quarters of 2016 remained relatively strong, growing by 6.2% and 5.7% respectively, compared to 5.9% and 6.0 % in a similar period of 2015
- The Budget Estimates FY 2017-18, the budget is anchored on economic growth rate of more than 5.9% in 2017.
- This is expected to be fueled by- output from agriculture, recovery of the tourism sector, strong private sector investment, completion of key public projects in road, rail and energy generation.
- The World Bank in its Kenya Economic Update(KEU) 2016, projected Kenya's economy to grow by 5.9% in 2016, rising to 6% in 2017- attributed to low oil prices, supportive monetary policy, and ongoing infrastructure developments;
- Most important is that Kenya has outperformed its regional peers in Sub-Saharan Africa by sustaining growth rates at above 5%
- The average growth forecast for Sub-Saharan Africa in 2016 is 1.7%

ECONOMIC GROWTH PROSPECTS

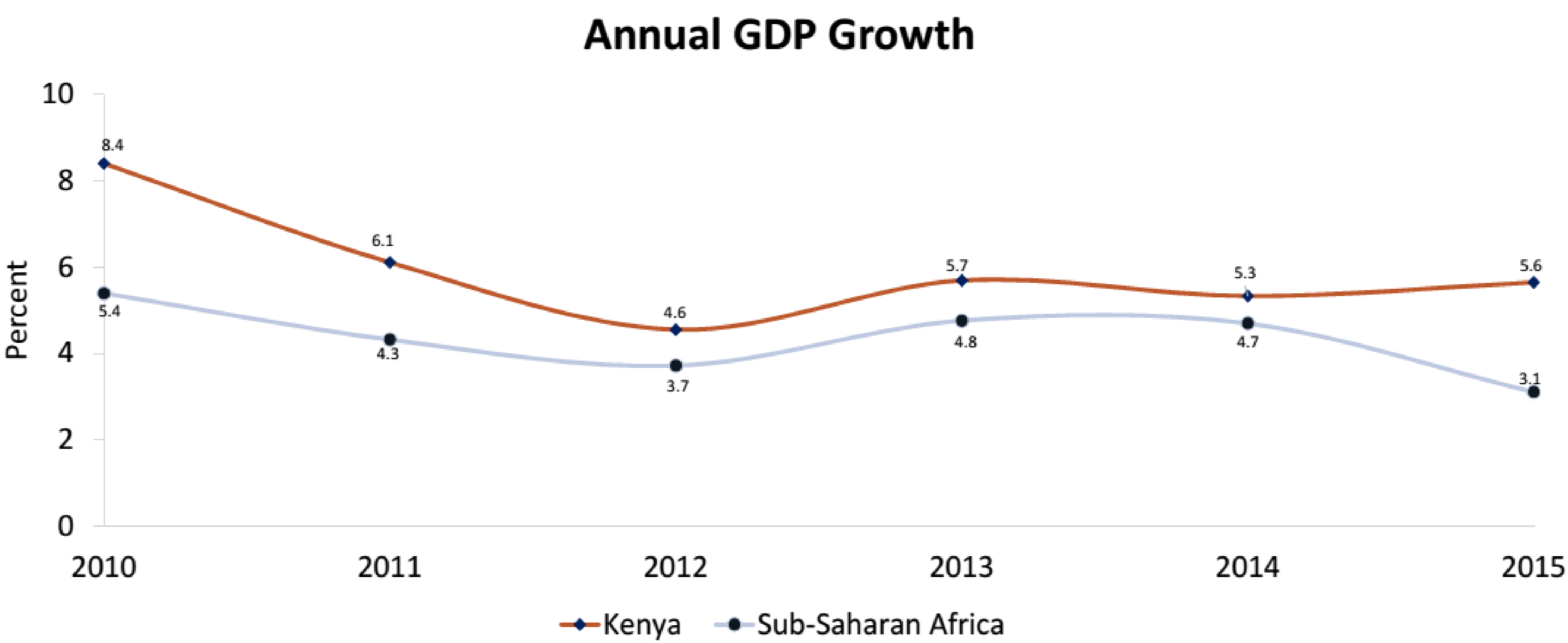


ECONOMIC GROWTH PROSPECTS



ECONOMIC GROWTH PROSPECTS

Kenya Continues to Outperform Sub-Sharan Region

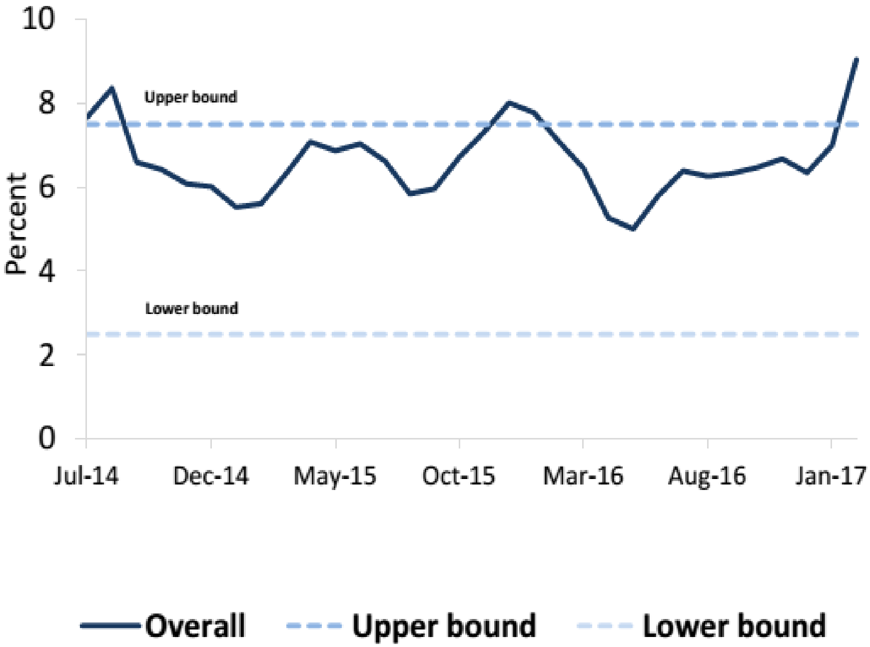


INFLATION

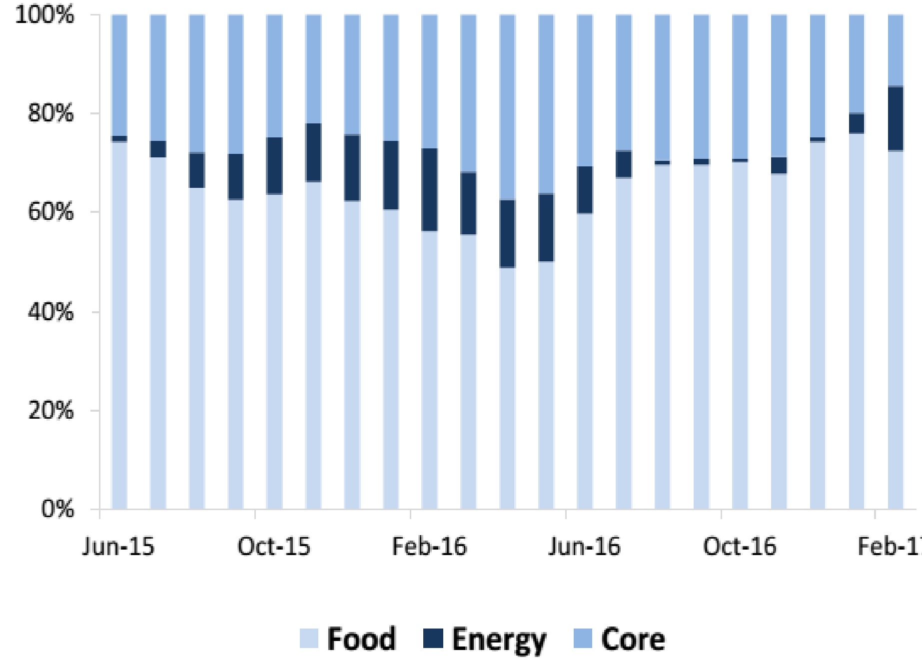
- Inflation is the rate of increase in prices over a given period. It is normally a broad measure of the overall increase in prices or the increase in the cost of living.
- Consumers' cost of living depends on the prices of goods and services and the share of each in the household's budget.
- According to the KNBS, the CPI increased from 176.93 in January to 182.98 in March 2017. The overall inflation rate stood at 10.28% in March 2017.
- Between February and March 2017, Food and Non-Alcoholic Drinks' Index increased by 3.18 per cent. This was mainly attributed to increases in prices of several food items including, spinach, maize flour, milk, potatoes and maize grain. This increase in food prices was partly contributed by prevailing drought conditions.
- The year on year food inflation stood at 18.56% in March 2017. Over the same review period, Housing, Water, Electricity, Gas and Other Fuels' Index, increased by 0.69 per cent. This was partly due to increases in cost of house rents, cooking fuels and water services. The Transport Index increased by 0.27 per cent in March compared to February 2017, mainly on account of increases in the pump prices of petrol and diesel.

INFLATION

After remaining within the target band for 2016, headline inflation breached it in 2017



Core inflation remains subdued, while food and energy prices have driven the recent spike in Inflation



- Measures to cushion low income households who face the brunt of increase in prices of basic commodities
- Effect of continued adverse weather conditions(drought)
- Increased cost of production

UNEMPLOYMENT

- Unemployment is a major challenge that affects youth across Kenya. Approximately 800,000 young Kenyans enter the labour market every year and youth unemployment is estimated to be as high as 35%, compared to the overall national unemployment rate of 10%.
- 80% of unemployed Kenyans are below 35 years old.
- The challenge of youth unemployment is compounded by the fact that 90% of all unemployed young people lack vocational skills

PUBLIC DEBT

- In the FY 2016/17, Kshs.466.5 billion was allocated towards settlement of public debt(Controller of Budget Report, First Quarter, 2016/17)
- In his State of the Nation Address, delivered on 15th March 2017 to both houses, H.E Hon. Uhuru Kenyatta noted that Kenya's debt is about 50% to the GDP. Of this amount, less than half is in foreign currency.
- Borrowing has been mainly to support the development agenda- infrastructure, increased energy production, increased access to electricity and improved security.

PUBLIC DEBT

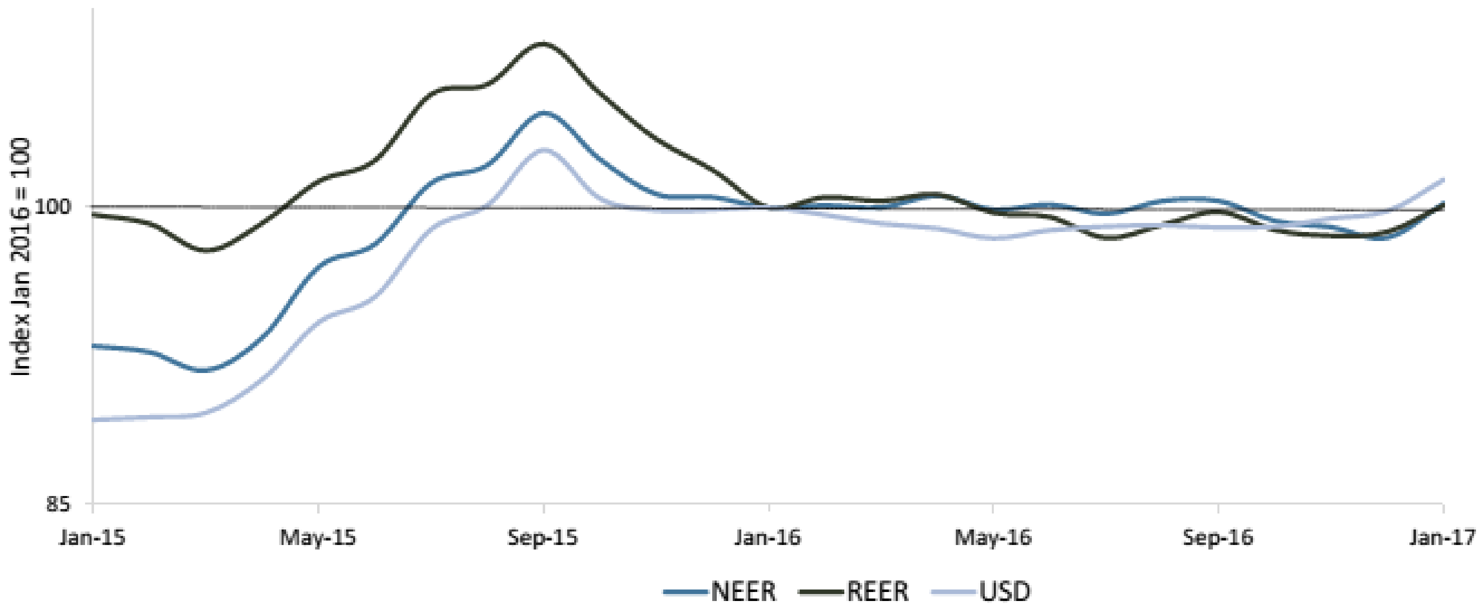
- Kenya’s public debt has been rapidly growing over the years attributed to supporting the national budget and investment in essential infrastructure projects among others
- Eurobond issuance will contribute to rising external debt levels in Sub Saharan Africa (Kenya included)
- Debt to China growing- In the recent past, China has emerged as Kenya’s top source of external financing. As of June 2015, China held the largest amount of debt at US $2.6 billion, 57 percent of Kenya’s total debt.
- All these factors point to the need for tightening our strategies to control the growing public debt. It is already noted that Public debt portfolio is large and may pose substantial risk to the government’s balance sheet and the country’s financial stability

INTEREST RATES

- According to the Central Bank, MPC report dated October 2016, the foreign exchange market remained stable.
- Current Account Deficit was estimated at 5.3 percent of GDP in the 12-months to October 2016 down from 6.8 percent of GDP in the year to December 2015;
- 40% of Kenya's exports were to Africa in the year to October 2016. Thus, the spillover effects of global financial markets volatility on the foreign exchange market remained minimal to Kenya

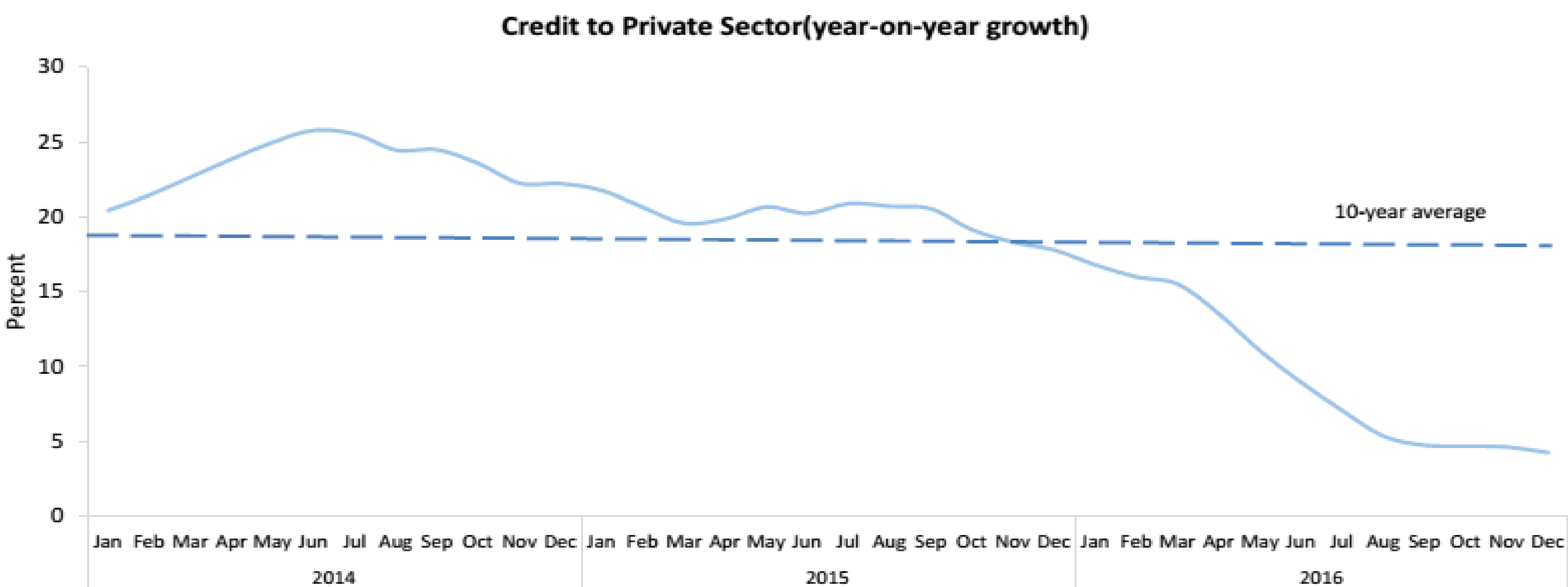
Cont…

The Exchange Rate has Remained Relatively Stable Since the Beginning of 2016



PRIVATE SECTOR CREDIT

Slowdown in Credit Growth



- Growth in credit to the private sector decelerated during the period largely from 13.5 percent in April 2016 to 4.7 percent by October 2016. *Source: CBK*

FAVOURABLE FACTORS

Growth in private consumption- this is supported by rising incomes and growing middle class with higher disposable income

Prevailing low oil prices and commercial oil prospects

Vibrant services sector – both formal and informal

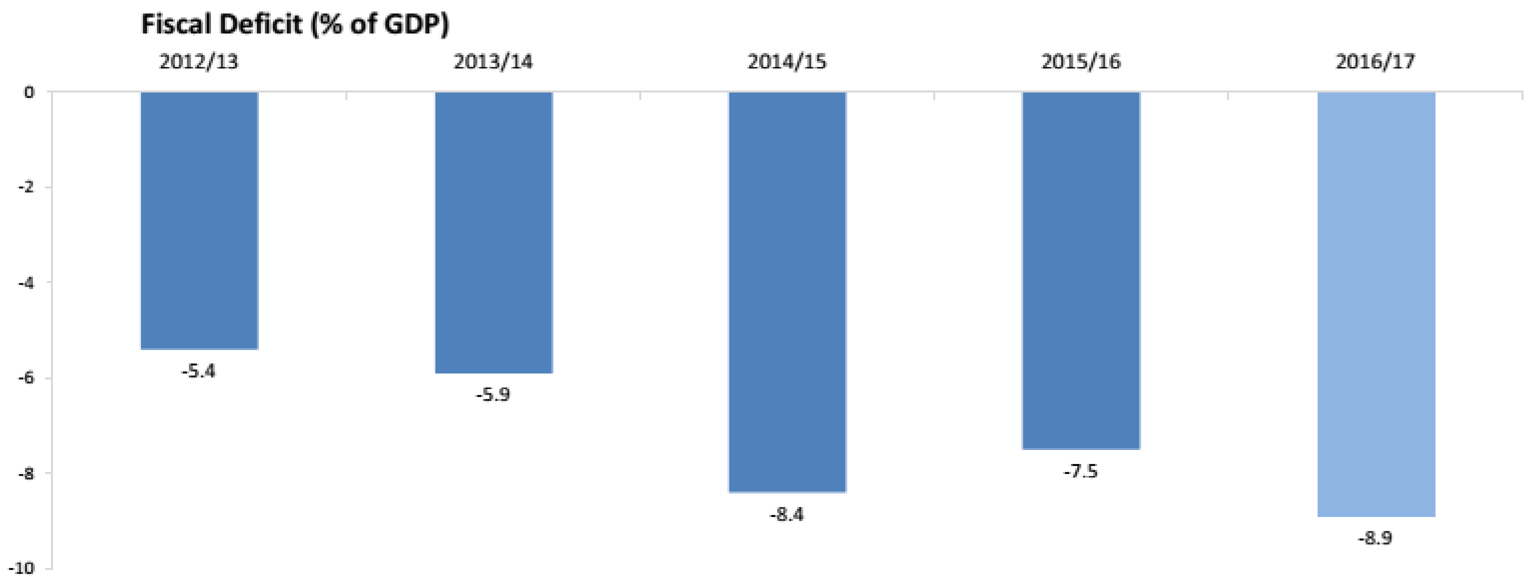
Fiscal expansion- driven by public investments/County Governments- spending by devolved units

Surge in remittances which counter the impact of the global down turn- leads to a contracting current account deficit

Stable macro-economic environment characterized by currency stability and low inflation

RISK FACTORS

While the Public Investment Drive is Easing Infrastructural Bottlenecks, Fiscal Consolidation Remains a Challenge



Economic growth in Kenya has remained robust. However, Near to Medium Term Growth Prospects will be Challenged by Changing Economic Head Winds.

□Kenya needs to Pursue Policies to Safeguard its Robust Performance and Accelerate Future Growth Potentiality Gaps

RISK FACTORS

Globally

Uncertainties in the global economy, increased following the U.K. vote to leave the European Union (Brexit), which sparked global financial market volatility and a sharp depreciation of the Sterling Pound; New US government Potential spike in oil prices

Effect of continued adverse weather conditions(drought) in many parts of the country on overall economic growth

Uncertainties associated with the run-up to 2017 elections- increased government spending (in an election year) may crowd out private sector investments; may result to high inflation

Delay in completion of some capital projects such as the SGR may imply that expected benefits will not be felt in the coming financial year.

Domestic

Thank You!