

Republic of Kenya

THE NATIONAL TREASURY

Quarterly Economic and Budgetary Review

**Fourth Quarter, Financial Year 2016/2017
Period ending 30th June, 2017**

August 2017 Edition

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LIST OF ABBREVIATIONS AND ACRONYMS

A-I-A	Appropriation in Aid
CBK	Central Bank of Kenya
FISM	Financial Services Indirectly Measured
FY	Fiscal Year
GDP	Gross Domestic Product
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
Ksh	Kenya Shillings
Mn	Million
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NSE	Nairobi Securities Exchange
RDL	Railway Development Levy

The Quarterly Economic and Budgetary Review Report is Published in accordance with Section 83 of the Public Finance Management Act, 2012. It states as follows:

83. (1) An accounting officer for a national government entity shall prepare a report for each quarter of the financial year in respect of the entity.

(2) In preparing a quarterly report for a national government entity, the accounting officer shall ensure that the report—

(a) Contains information on the financial and non-financial performance of the entity; and

(b) Is in a form that complies with the standards prescribed and published by the Accounting Standards Board from time to time.

(3) Not later than fifteen days after the end of each quarter, the accounting officer shall submit the quarterly report to the Cabinet Secretary responsible for the entity and the National Treasury.

(4) The Cabinet Secretary responsible for an entity shall forward a copy of the report to the Cabinet Secretary and Controller of Budget.

(5) Not later than forty five days after the end of each quarter, the National Treasury shall—

(a) consolidate the quarterly reports and submit them to the National Assembly and a copy of the reports to the Controller of Budget, Auditor-General and the Commission on Revenue Allocation; and

(b) Publish and publicize the reports.

(6) In the case of an entity that is a state corporation, the accounting officer for the corporation shall submit the quarterly report to the Cabinet Secretary responsible for the corporation who shall, upon approving it, forward a copy to the Cabinet Secretary.

HIGHLIGHTS OF THE QUARTERLY ECONOMIC AND BUDGETARY REVIEW: FOURTH QUARTER, 2016/2017

1. Recent Economic Developments

The Kenyan economy has remained robust despite global economic slowdown due to its diversified nature, registering strong economic growth of 5.8 percent in 2016, from a growth of 5.7 percent in 2015. This momentum continued in 2017 with a growth of 4.7 percent in the first quarter from a growth of 5.3 percent in the same quarter in 2016. This performance was supported by stable macroeconomic conditions despite poor performance of the agriculture sector due to adverse weather conditions.

2. Inflation

Overall month on month inflation declined to 9.2 percent in June 2017 from 11.7 percent in May 2017. The decline in June, 2017 was largely on account of significant decline in prices of key food items following improved weather conditions and Government interventions in recent months.

3. Balance of Payments

The overall balance of payments position recorded a deficit of US\$ 413.2 million (0.6 percent of GDP) in the year to June 2017 from a deficit of US\$ 1,109.0 million (1.7 percent of GDP) in the year to June 2016. The current account balance was at a deficit of US\$ 4,638.5 million in the year to June 2017 from a deficit of US\$ 3,122.1 million in the year to June 2016.

4. Foreign Exchange Reserves

The banking system's foreign exchange holdings increased to US\$ 10,984 million in June 2017 from US\$ 10,499 million in June 2016. The official reserves held by the Central Bank stood at US\$ 8,580 million (5.7 months of import cover) in June 2017 from US\$ 8,267 million (5.4 months of import cover) in the same period 2016.

5. Money and Credit

Growth of broad money supply, M3, slowed to 6.0 percent in the year to June 2017 compared to a growth of 8.1 percent in the year to June 2016. The slowdown in growth in the year to June 2017 was largely on account of a decline in the uptake of domestic credit mainly by the private sector and a decline in the growth of net foreign assets (NFA) of the Central Bank.

6. Capital Markets

Activities at the stock market have been on the recovery path with the NSE 20 share index improving to 3,607 points in June 2017 from 3,441 points in May 2017, this was however lower than the 3,641 points realized in June 2016. Market capitalization improved to Ksh 2,226 billion in June 2017 from Ksh 1,995 billion in June 2016.

7. Total Revenue Collection

The National Government cumulative revenue collection including A-I-A for the period July 2016 to June 2017 amounted to Ksh 1,400.6 billion (equivalent to 18.2 per cent of GDP) against a target of Ksh 1,455.4 billion or 18.9 per cent of GDP.

This represented an underperformance of Ksh 54.8 billion mainly due to shortfalls in Excise Duty and A-I-A collection.

8. Government Expenditure and Net Lending

The total cumulative expenditure and net lending inclusive of transfers to county governments for the period ending 30th June, 2017 amounted to Ksh 2,142.7 billion. This was Ksh 184.2 billion below the target of Ksh 2,327.0 billion and was largely attributed to low absorption levels in operations and maintenance, and wages and salaries for the National Government. Expenditure on foreign financed development programmes/projects was below target.

9. Guaranteed Loans

Between July 2016 and June 2017, the National Government paid a total of Ksh 1,443.3 million on account of guaranteed loans against the projected debt service of Ksh 1,037.9 million.

10. Overall Fiscal Balance

The cumulative overall fiscal balance, on a commitment basis (excluding grants), amounted to a deficit of Ksh 742.1 billion (equivalent to 9.6 per cent of GDP), as at end-June 2017.

11. External Financing

Between July 2016 and June 2017, external financing amounted to a net borrowing of Ksh 385.7 billion.

12. Net Domestic Borrowing

Net domestic financing amounted to a net borrowing of Ksh 309.8 billion (equivalent to 4.0 per cent of GDP) in the period ending 30th June 2017.

13. Domestic Debt

Total gross domestic debt stock increased by 16.4 per cent from Ksh 1,815.1 billion as at end-June 2016 to Ksh 2,112.3 billion by the end-June 2017.

14. External Debt

The total external debt stock, including the International Sovereign Bond, stood at Ksh 2,294.7 billion for the period ending June 2017. The debt stock comprised of multilateral debt (36.7 per cent), bilateral debt (31.6 per cent), Suppliers Credit debt (0.7 per cent), and Commercial banks' debt (31.0 per cent- including International Sovereign Bond).

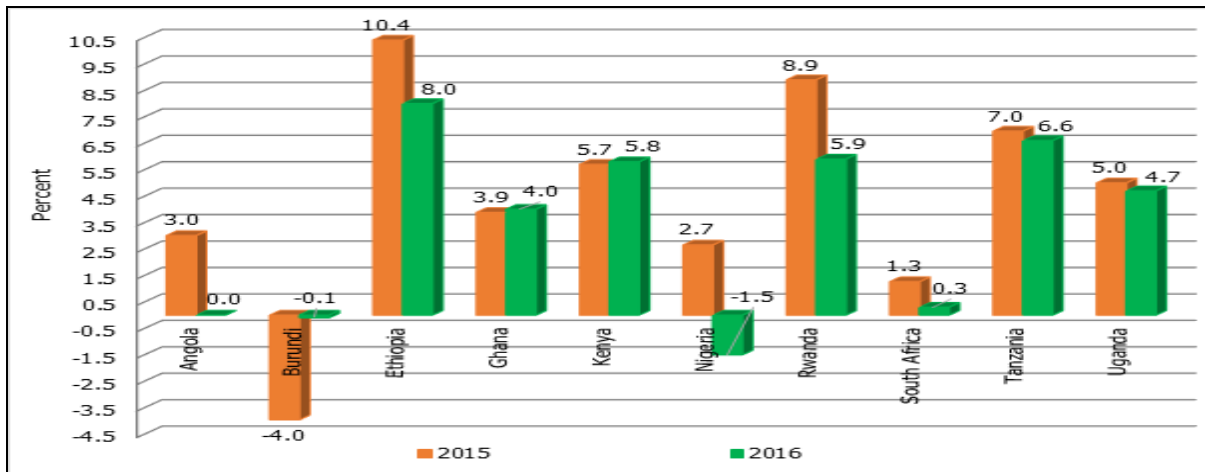
RECENT ECONOMIC DEVELOPMENTS

1.0 RECENT ECONOMIC DEVELOPMENTS

1.1 Economic Growth

1. The Kenyan economy has remained robust despite global economic slowdown due to its diversified nature, registering strong economic growth of 5.8 percent in 2016, from a growth of 5.7 percent in 2015. This is above the 1.4 percent growth for sub-Saharan Africa, which has mainly been suppressed by low commodity prices that have affected its three largest economies (Angola, Nigeria and South Africa) (**Chart 1a**)

Chart 1a: GDP Annual Growth rates for 2015 and 2016



Source of data: International Monetary Fund

2. In the first quarter of 2017, the economy grew by 4.7 percent from a growth of 5.3 percent in the same quarter in 2016. The growth in the first quarter of 2017 was supported by stable macroeconomic conditions and improved performance in key sectors including: accommodation and restaurant (15.8 percent), information and communication (11.4 percent), transport and storage (9.9 percent), mining (9.7 percent), real estate (9.6 percent), wholesale and retail trade (6.1 percent) and manufacturing (2.9 percent). The quarter witnessed contraction in the activities of agriculture as well as a deceleration in growth of financial intermediation and electricity supply (**Chart 1b**).

Chart 1b: Economic Growth Rates for Quarter one

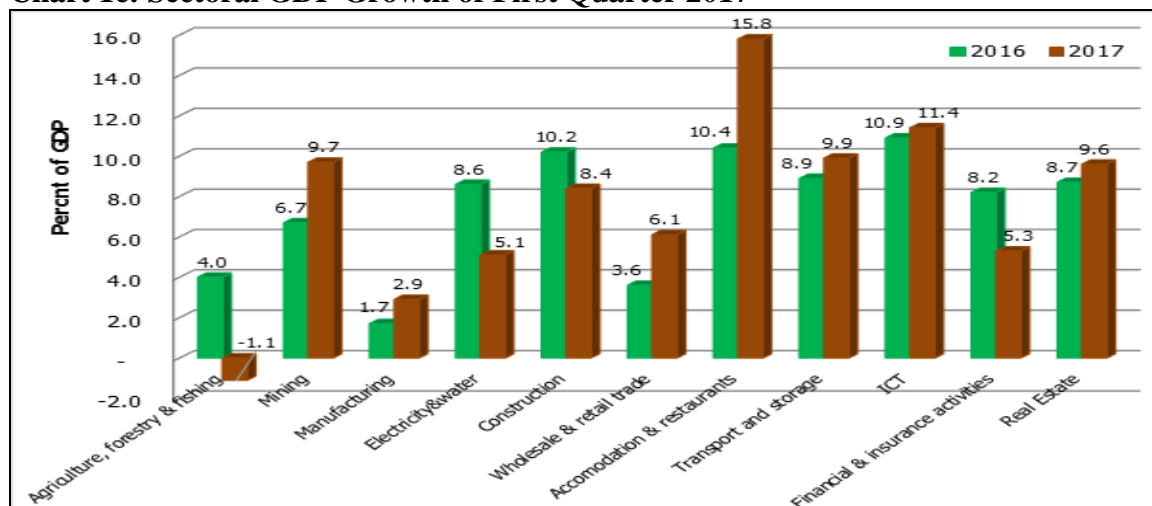


Source of data: Kenya National Bureau of Statistics

RECENT ECONOMIC DEVELOPMENTS

3. The accommodation and restaurant sector improved by 15.8 percent in the first quarter of 2017, up from a growth of 10.4 percent in the same quarter in 2016, largely on account of a considerable boost from conference tourism as well as improved security situation. The recovery has also been enhanced by downgrading of travel advisories and rigorous marketing initiatives that have been implemented over time (**Chart 1c**).

Chart 1c: Sectoral GDP Growth of First Quarter 2017



Source of data: Kenya National Bureau of Statistics

4. The information and communication sector recorded a growth of 11.4 percent in the first quarter of 2017 compared to 10.9 percent growth in the same quarter of 2016. The sustained growth in this sector has been on account of strong performance in mobile telephony sub-sector.

5. The transport and storage sector grew by 9.9 percent in the first quarter of 2017 from a growth of 8.9 percent in the same quarter 2016, attributed to the robust performance in the passenger and freight road transport despite rising international oil prices that resulted to higher retail prices of light diesel that is a major input in the sector.

6. The Real Estate sector recorded a growth of 9.6 percent in the first quarter of 2017 from a growth of 8.7 percent in the same quarter in 2016. The sector is supported by increased demand in housing both for private and commercial purposes.

7. The manufacturing sector improved by 2.9 percent in the first quarter of 2017 from a growth of 1.7 percent in a similar period in 2016. The growth in the sector was supported by improved performance in the manufacture of soft drinks, barley products, edible oils, wheat flour, steel bar and galvanized iron sheets and increased cement production. Depressed performance in the agriculture sector negatively affected agro-processing activities and curtailed the growth momentum in the sector.

8. The construction sector recorded a growth of 8.4 percent in the first quarter of 2017, a slowdown from a growth of 10.2 percent in the first quarter of 2016. The slower growth is partly on account of reduced activities in the construction of the Standard Gauge Railway (SGR). On the other hand, the strong performance in the sector was mirrored in the increased credit to the sector, increased cement consumption and increased imports of cement and steel products.

RECENT ECONOMIC DEVELOPMENTS

9. Financial and insurance sector recorded a growth of 5.3 percent in the same period of 2017 a slowdown from a growth of 8.2 percent registered in a similar period of 2016. This slowdown in 2017 may partly be explained by the decline in domestic credit to the private sector.

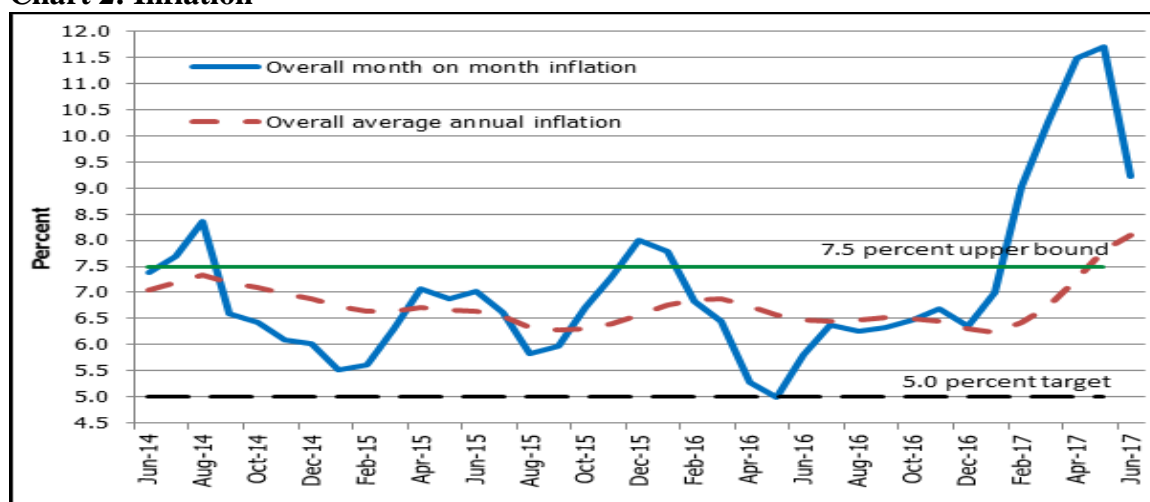
10. The electricity and water supply sector grew by 5.1 percent in the first quarter of 2017 compared to a growth of 8.6 percent in the same quarter of 2016. The slowed growth was largely attributable to increased use of thermal sources of electricity which are highly input intensive and therefore relatively expensive compared to hydro and geothermal. The substantial decline in generation of electricity using hydro was on account of insufficient rainfall that consequently reduced the capacity of the dams to produce electricity.

11. Agriculture, forestry and fishing sector recorded a contraction in growth of 1.1 percent in the first quarter of 2017 compared to a growth of 4.0 percent in the same period in 2016. The performance of the sector was dampened by severe drought due to failure of the 2016 short rains and delay in the onset of the 2017 long rains which affected the production of the main food crops. The production of tea and horticultural products also declined. However, exports of coffee registered improved performance during the first quarter of 2017.

1.2 Inflation

12. Overall month on month inflation declined to 9.2 percent in June 2017 from 11.7 percent in May 2017 (**Chart 2**). The decline in June, 2017 was largely on account of significant decline in prices of key food items following improved weather conditions and Government policy interventions on maize and milk. Fuel prices also decreased during the period on account of reductions in fuel pump prices. On average, the annual inflation rate increased to 8.1 percent in June 2017 compared to 6.5 percent in the same period in 2016.

Chart 2: Inflation



Source of data: Kenya National Bureau of Statistics

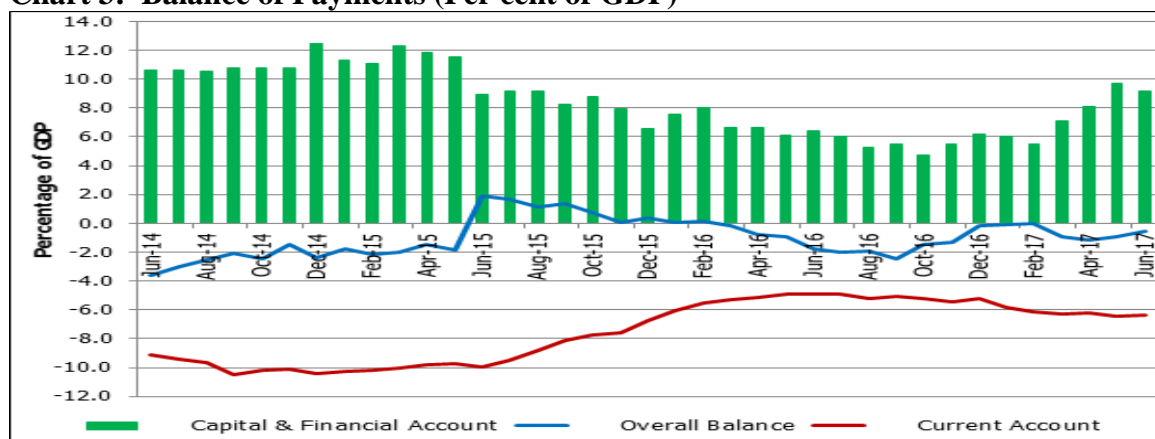
1.3 Balance of Payments

13. The overall balance of payments position recorded a deficit of US\$ 413.2 million (0.6 percent of GDP) in the year to June 2017 from a deficit of US\$ 1,109.0 million (1.7 percent of GDP) in the year to June 2016 (**Chart 3**). The current account balance was a

RECENT ECONOMIC DEVELOPMENTS

deficit of US\$ 4,638.5 million in the year to June 2017 from a deficit of US\$ 3,122.1 million in the year to June 2016. The widening of the current account deficit reflects a 5.7 percent drop in receipts from export of goods, 11.0 percent increase in imports of goods, and a 1.4 percent decrease in the service account despite an improvement in net payments primary and secondary income. As a share to GDP, the current account deficit was at 6.4 percent of GDP in June 2017 compared to 4.9 percent of GDP in June 2016.

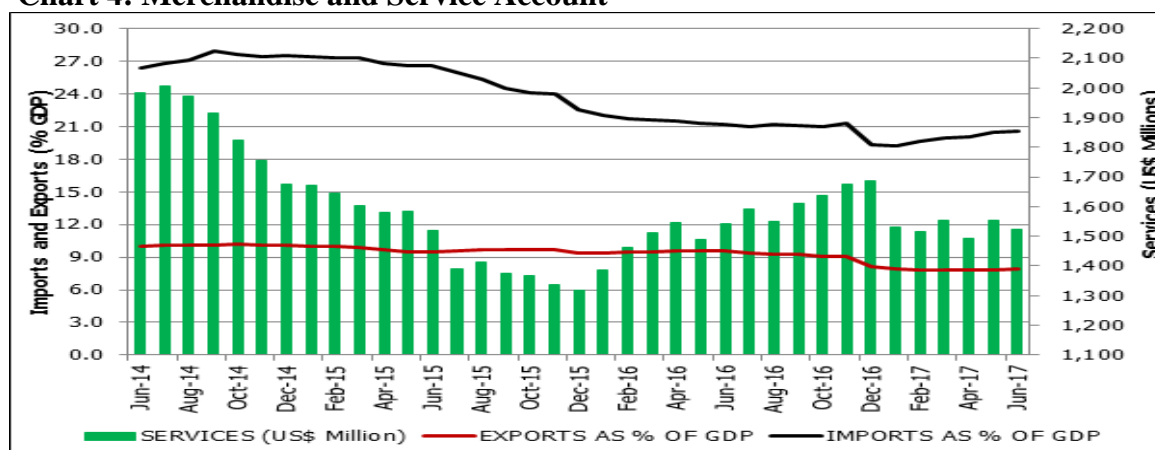
Chart 3: Balance of Payments (Per cent of GDP)



Source of data: Central Bank of Kenya

14. The deficit in the merchandise account widened by US\$ 1,832.2 million to US\$ 9,285.6 million in the year to June 2017 reflecting increase in payments for import of oil on account of the rebound in international oil prices and the increase in imports of machinery and transport equipment mostly on account of imports of wagons, locomotives and associated equipment related to the ongoing Standard Gauge Railway (SGR) project. In addition, net export of goods and services declined by 5.7 percent in the year to June 2017 on account of lower exports of goods (mainly horticulture, oil products, manufactured goods, chemicals and related products) (**Chart 4**).

Chart 4: Merchandise and Service Account



Source of data: Central Bank of Kenya

15. In the period June 2016 to June 2017, the inflows from the services account declined by 1.3 percent mainly due to lower receipts from transport and other services (financial services). On the upside, travel services improved in line with the recovery in tourist arrivals. Inflows (secondary income) improved by 6.1 percent in the year to June

RECENT ECONOMIC DEVELOPMENTS

2017 mainly on account of increased income receipts by Non-Governmental Organizations and an increase in remittance inflows under personal transfers.

16. Flows in the Financial Account increased to US\$ 6,486.5 million in June 2017 compared with US\$ 3,821.9 million in June 2016, with the surplus reflecting higher liabilities compared to assets. The financial inflows were mainly in the form of direct investment and other investment which stood at US\$ 136 million and US\$ 6,969 million, respectively in June 2017. Other investment inflows mainly include foreign financing for Government infrastructure projects.

1.4 Foreign Exchange Reserves

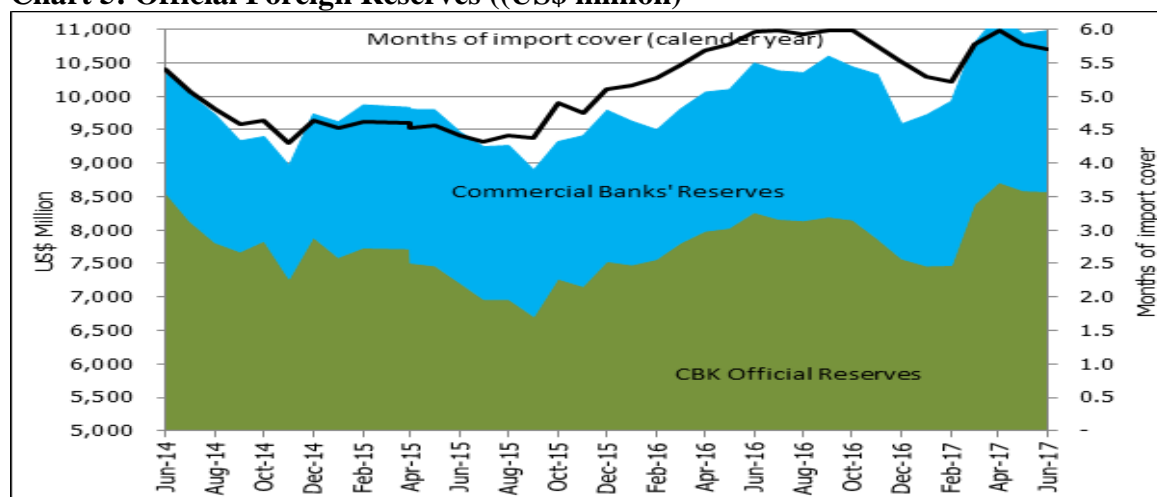
17. The banking system's foreign exchange holdings increased to US\$ 10,984 million in June 2017 from US\$ 10,499 million in June 2016 (**Table 1 and Chart 5**). The official foreign exchange reserves held by the Central Bank of Kenya stood at US\$ 8,580 million (5.7 months of import cover) in June 2017 from US\$ 8,267 million (5.4 months of import cover) in the same period 2016. In addition, reserves held by commercial banks increased to US\$ 2,405 million in 2017 from US\$ 2,232 million in 2016.

Table 1: Foreign Exchange Reserves (US\$ million)

	Jun-16	Sep-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Gross Foreign Exchange Reserves	10,499	10,602	9,587	9,724	9,929	10,786	11,233	10,934	10,984
Official	8,267	8,200	7,573	7,466	7,475	8,379	8,715	8,591	8,580
Commercial Banks	2,232	2,402	2,015	2,258	2,454	2,407	2,518	2,343	2,405
Import cover (36 mths imports)	5.45	5.61	5.52	4.94	4.95	5.53	5.78	5.71	5.68

Source of data: Central Bank of Kenya

Chart 5: Official Foreign Reserves ((US\$ million)



Source of data: Central Bank of Kenya

1.5 Exchange Rates

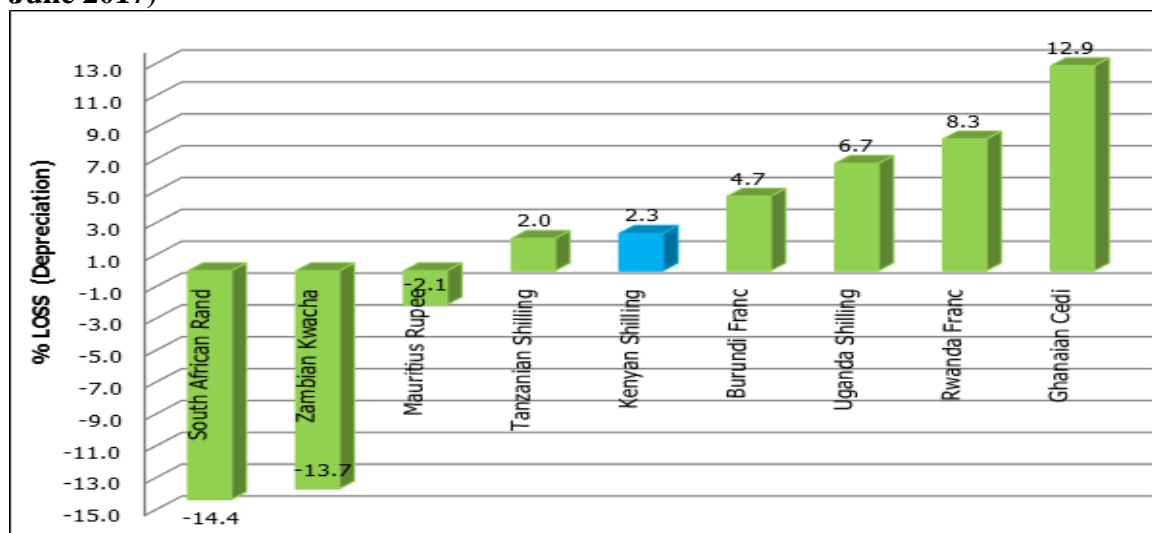
18. The Kenya shilling exchange rate has continued to display relatively less volatility compared with the East African currencies and depreciated by 2.3 percent for the period June 2016 to June 2017 (**Chart 6a and 6b**). The stability of the Kenya shilling exchange

RECENT ECONOMIC DEVELOPMENTS

rate reflected resilient receipts from tea and horticulture despite lower export volumes due to adverse weather conditions in the first quarter of 2017. Additionally, receipts from tourism, coffee exports and Diaspora remittances remained strong.

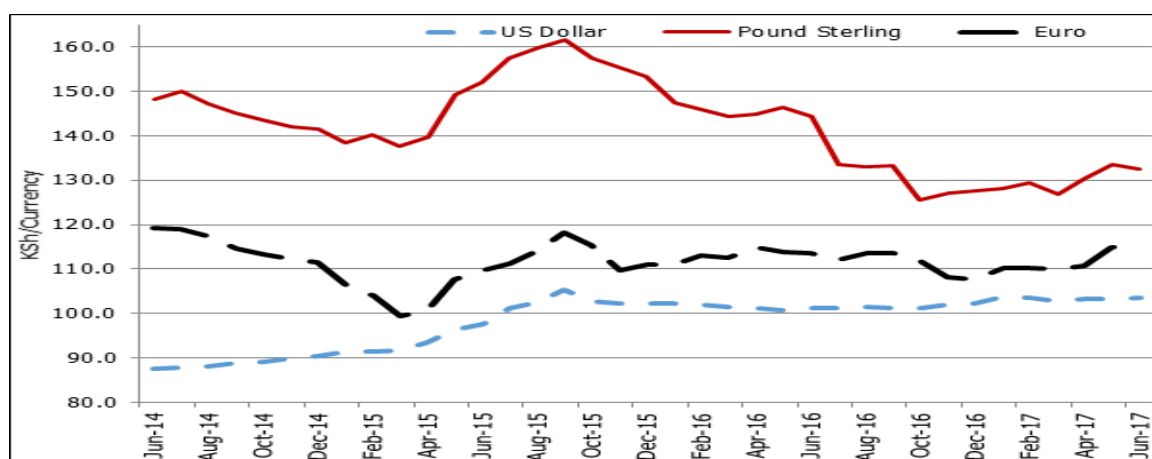
19. The Kenya shilling exchange was Ksh 103.5 against the dollar in June 2017 from Ksh 103.3 against the dollar in May 2016. Against the Sterling Pound and the Euro, the exchange rate averaged to Ksh 132.5 and Ksh 116.2 in June 2017 from Ksh 133.5 and Ksh 114.9 in May 2017, respectively.

Chart 6a: Performance of selected Currencies against the US Dollar (June 2016 to June 2017)



Source: Data from Various National Central Banks

Chart 6b: Kenya Shilling Exchange Rate



Source of data: Central Bank of Kenya

1.6 Money and Credit

20. Growth of broad money supply, M3, slowed to 6.0 percent in the year to June 2017 compared to a growth of 8.1 percent in the year to June 2016 (**Table 2**). The slowdown in growth in the year to June 2017 was largely on account of a decline in the uptake of domestic credit mainly by the private sector and a decline in the growth of net foreign assets (NFA) of the Central Bank.

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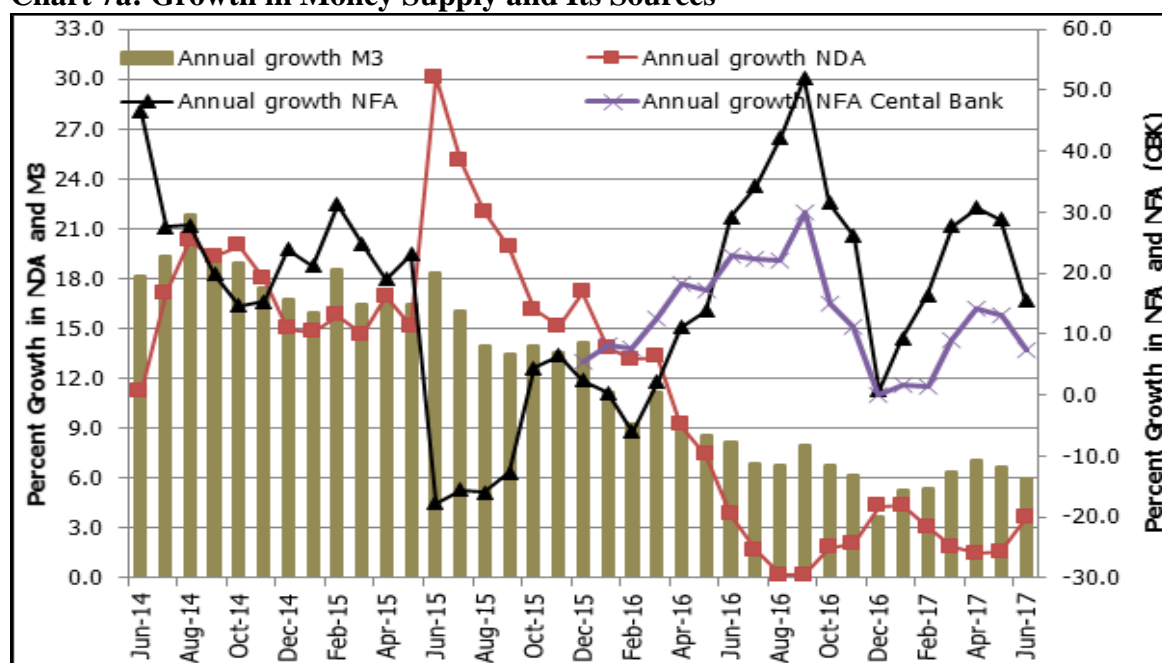
Table 2: Money and Credit Developments, Ksh billion

	2015 JUNE	2016 JUNE	2017 JUNE	Absolute Change		percent change	
				2015-2016 JUNE	2016-2017 JUNE	12 months to Jun-16	12 months to Jun-17
Money supply, M3 (1+2)	2,560.4	2,769.0	2,935.3	208.6	166.3	8.1	6.0
1. Net foreign assets (1.1+1.2)	435.5	563.0	649.9	127.5	86.9	29.3	15.4
1.1 Central Bank	565.2	694.6	745.0	129.4	50.4	22.9	7.3
1.2 Banking Institutions	-129.6	-131.6	-95.1	-2.0	36.5	1.5	-27.7
2. Net domestic assets (2.1+2.2)	2,124.9	2,206.0	2,285.3	81.1	79.3	3.8	3.6
2.1 Domestic credit (2.1.1+2.1.2+2.1.3)	2,638.8	2,854.7	3,005.3	215.8	150.6	8.2	5.3
2.1.1 Government (net)	522.0	559.3	647.9	37.3	88.5	7.1	15.8
2.1.2 Other public sector	62.0	55.9	83.3	-6.1	27.4	-9.9	49.0
2.1.3 Private sector	2,054.8	2,239.4	2,274.2	184.7	34.7	9.0	1.6
2.2 Other assets net	-513.9	-648.6	-719.9	-134.7	-71.3	26.2	11.0

Source of data: Central Bank of Kenya

21. Net Foreign Assets (NFA) of the banking system in the year to June 2017 slowed to a growth of 15.4 percent from a growth of 29.3 percent over a similar period in 2016 (Chart 7a). The slowdown in the NFA of the central bank is attributed to government payments and debt servicing while a pickup in growth of the NFA by other banking institutions is on account of decreased deposit holdings by banks abroad and other accounts payable.

Chart 7a: Growth in Money Supply and Its Sources



Source of data: Central Bank of Kenya

22. Meanwhile, the NDA of the banking system slowed down to a growth of 3.6 percent in the year to June 2017 from the growth of 3.8 percent over a similar period in 2016. The slowdown in 2017 was due to a decline in the growth of net domestic credit and the contraction in the other assets net of the banking system.

23. Domestic credit slowed to an annual growth of Ksh 150.6 billion (5.3 percent) in the year to June 2017 compared to a growth of Ksh 215.8 billion (8.2 percent) in June 2016. The slowdown reflects a decline in lending to the private sector and other public

RECENT ECONOMIC DEVELOPMENTS

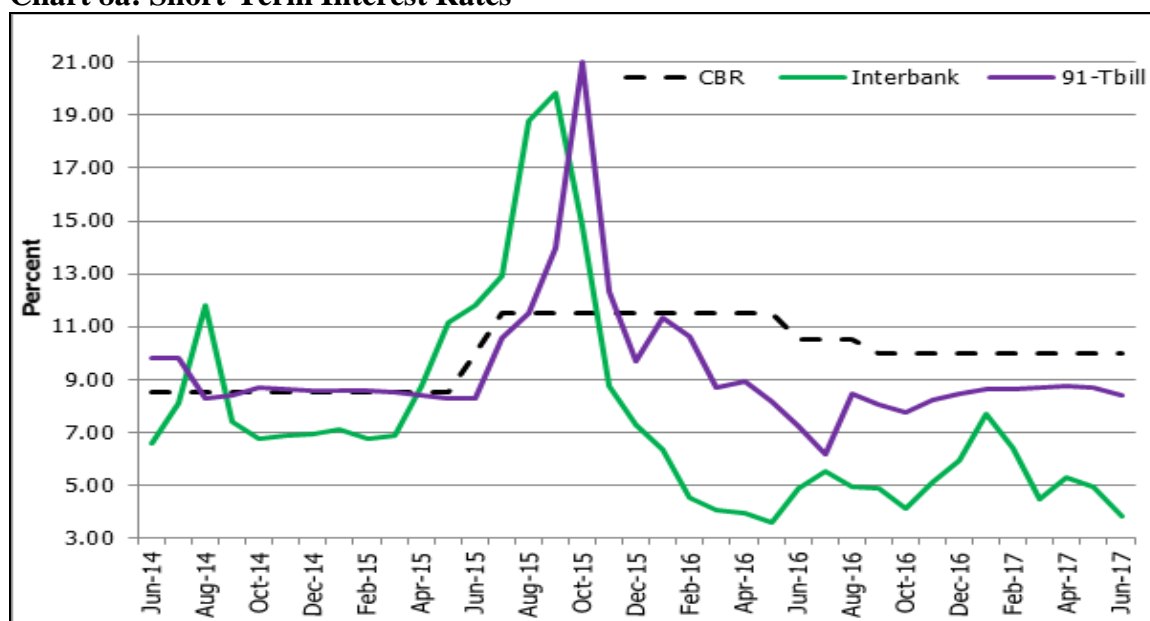
sectors despite an increase of government deposits, leading to an improvement in net bank credit to government. Bank credit to the private sector slowed to a growth of 1.6 percent in the year to June 2017 from a 9.0 percent growth in the same period in 2016. The slowdown in the other assets in the year to June 2017 is attributed to a decline in the other items at the Central Bank and other banking institutions.

24. Most sectors of the economy, except consumer durables and private households, experienced a slowdown in credit uptake compared to the same period in 2016 due to tight credit conditions. Business services, mining and quarrying, finance and insurance, building and construction, manufacturing and agriculture sectors experienced a contraction of credit uptake in the year to June 2017.

1.7 Interest Rates

25. The short term interest rates have remained fairly stable and oscillated around the 10 percent Central Bank Rate (CBR). The interbank rate declined to 4.8 percent in June 2017 from 4.9 percent in May 2017 reflecting ample liquidity in the interbank market (**Chart 8a**), while the 91-day Treasury bill rate also declined to 8.4 percent from 8.7 percent over the same period. The 182 day and the 364 day Treasury Bills averaged 10.3 percent and 10.9 percent, respectively in June and May, 2017.

Chart 8a: Short-Term Interest Rates

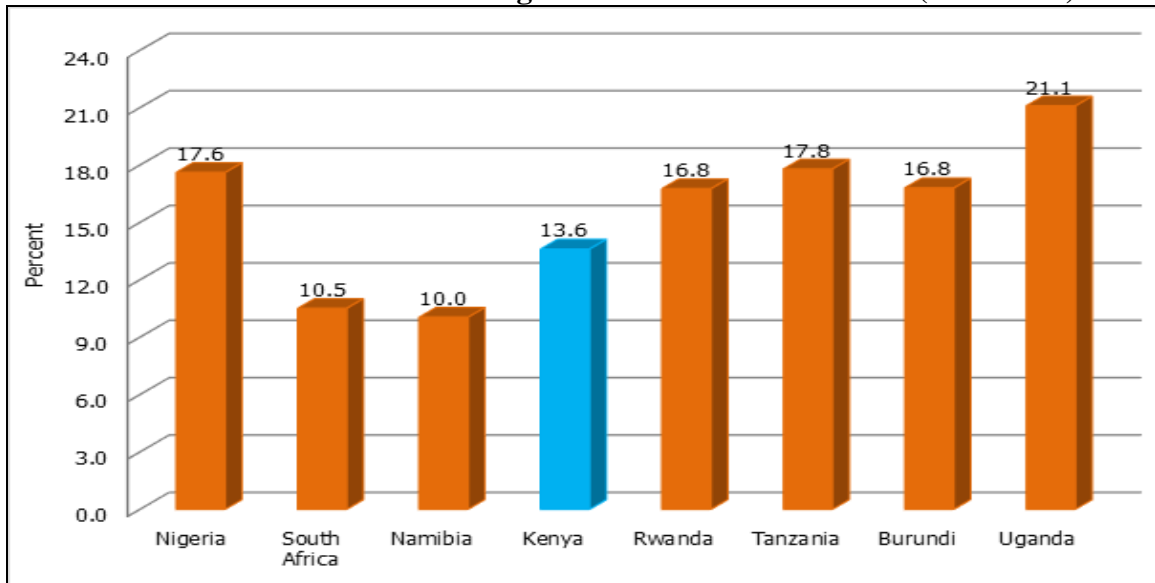


Source of data: Central Bank of Kenya

26. Lending rates in the banking industry declined to 13.6 percent in June 2017 which is below the maximum lending rate now at 14.0 percent as per the Banking (Amendment) Act, 2016 while the deposit rate averaged 7.0 percent over the same period. The developments in the lending and deposit rates have resulted to the narrowing of the interest rate spread which was at 6.6 percent in June 2017. In addition, as a result of the new Act, Kenya has the lowest lending rate among the East African countries (**Chart 8b**).

RECENT ECONOMIC DEVELOPMENTS

Chart 8b: Commercial Banks Lending Rates of selected Countries (June 2017)

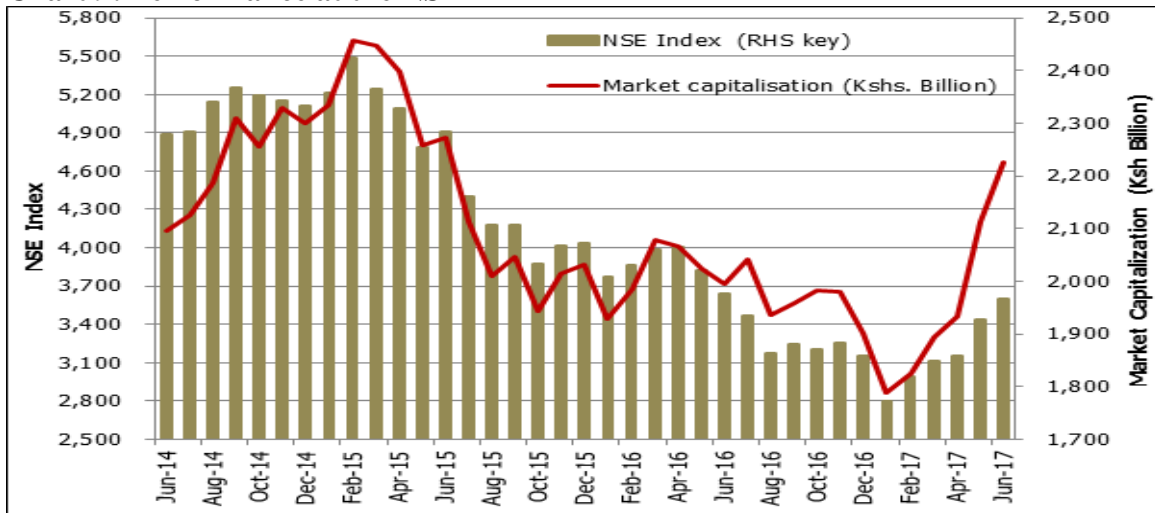


Source of data: National Central Banks

1.8 Capital Markets

27. Activities at the stock market have been on the recovery path with the NSE 20 share index improving to 3,607 points in June 2017 from 3,441 points in May 2017, this was however lower than the 3,641 points realized in June 2016. Market capitalization improved to Ksh 2,226 billion in June 2017 from Ksh 1,995 billion in June 2016 (**Chart 9**).

Chart 9: Performance at the NSE



Source of data: Central Bank of Kenya

FISCAL DEVELOPMENTS

2.0 FISCAL DEVELOPMENTS

2.1 Revenue

28. By the end of June 2017, total cumulative revenue including A-I-A collected amounted to Ksh 1,400.6 billion against a target of Ksh 1,455.4 (*Table 3 and Chart 10*). This performance was below the target by Ksh 54.8 billion. Ordinary revenue collection was Ksh 1,305.8 billion against a target of Ksh 1,311.3 billion, which was Ksh 5.5 billion below the target. The Railway Development Levy collection amounted to Ksh 18.9 billion against a target of Ksh 18.5 billion. Cumulative ministerial A-I-A recorded an under performance of Ksh 49.3 billion for the period under review. The A-I-A under performance reflects the problem of under reporting by the ministries' expenditure return for the period under review. However, compared to the last FY. The Revenue collection increased by 14.9 percentage.

Table 3: Government Revenue and External Grants, Period Ending 30th June, 2017 (Ksh Million)

	2015/2016 Actual	2016/17		Deviation KShs.	Deviation in percentage
		Actual	Target		
Total Revenue (a+b)	1,219,054	1,400,578	1,455,390	(54,812)	(3.77)
(a) Ordinary Revenue	1,152,875	1,305,794	1,311,323	(5,529)	(0.42)
Import Duty	79,188	89,943	89,220	723	0.81
Excise Duty	139,540	165,474	170,258	(4,784)	(2.81)
PAYE	280,830	305,164	318,047	(12,883)	(4.05)
Other Income Tax	279,834	319,886	305,825	14,061	4.60
VAT Local	160,389	194,234	194,185	48	0.02
VAT Imports	128,824	144,800	143,385	1,415	0.99
Investment Revenue	19,253	28,524	28,322	202	0.71
Traffic Revenue	3,652	2,755	2,873	(118)	(4.11)
Taxes on Intl. Trade & Trans.(IDF Fee)	25,245	22,947	24,669	(1,723)	(6.98)
Others ¹	36,119	32,067	34,538	(2,472)	(7.16)
(b) Appropriation In Aid ²	66,179	94,784	144,067	(49,283)	(34.21)
o/w Railway Development Levy	17,273	18,903	18,530	373	2.01
(c) External Grants	29,597	26,312	58,784	(32,471)	(55.24)
Total Revenue and External Grants	1,248,651	1,426,891	1,514,174	(87,283)	(5.76)
Total Revenue and External Grants as a percentage of GDP	19.19	18.50	19.64		-

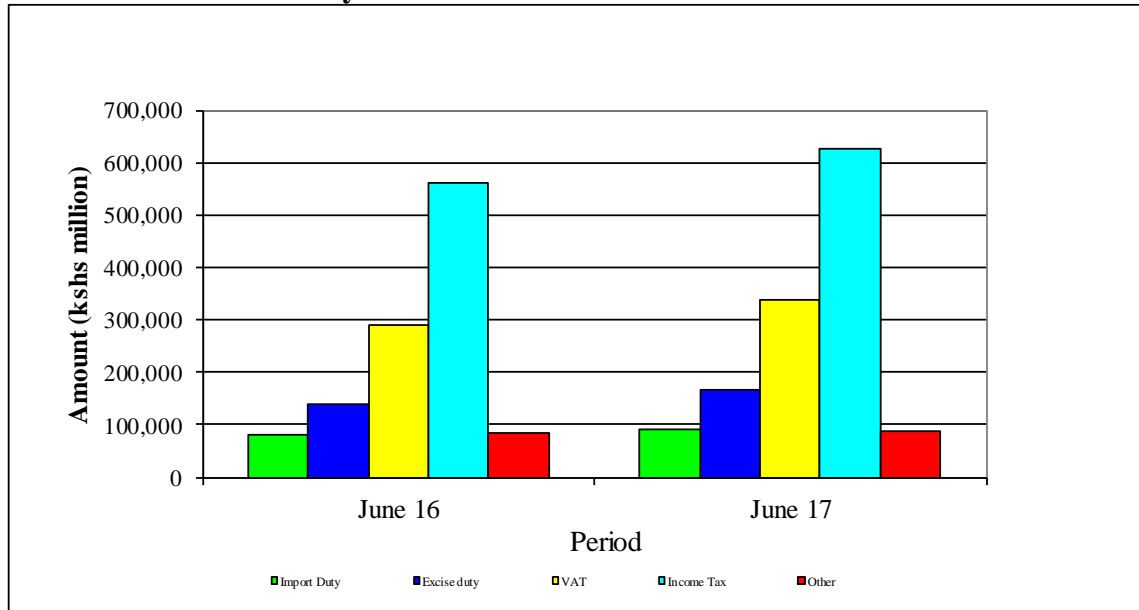
1/ includes rent of buildings, fines and forfeitures, other taxes, reimbursements and other fund contributions, and miscellaneous revenue.

2/ includes receipts from Road Maintenance Levy Fund and A-I-A from Universities

Source: National Treasury

29. As a proportion of GDP, the total cumulative revenue and grants in the period under review amounted to 18.5 per cent compared to 19.2 per cent in the corresponding period of the FY 2015/16. External grants amounted to Ksh 26.3 billion against a target of Ksh 58.8 billion, representing an under performance of Ksh 32.5 billion.

Chart 10: Total Ordinary Revenue



Source: National Treasury

2.2 Expenditure

30. The total expenditure and net lending for the period under review amounted to Ksh 2,109.0 billion, against a target of Ksh 2,327.0 billion. The shortfall of Ksh 218.0 billion was attributed to lower absorption recorded in both recurrent and development expenditures by the National Government. (Table 4 and Chart 11). Recurrent expenditure for National Government amounted to Ksh 1,142.4 billion (excl. Ksh36.1 billion for Parliament and Judiciary), against a target of Ksh1,197.5 billion, with underperformance mainly recorded in wages and salaries, and Operation and Maintenance (O&M) which accounted for Ksh 4.5 billion, and Ksh 75.5 billion, respectively.

31. Foreign interest payments amounted to Ksh 58.4 billion, compared to Ksh 42.5 billion in the same period of the 2015/16 FY. The domestic interest payments totalled Ksh 212.9 billion, which was higher than Ksh 172.9 billion paid in the corresponding period of the previous financial year.

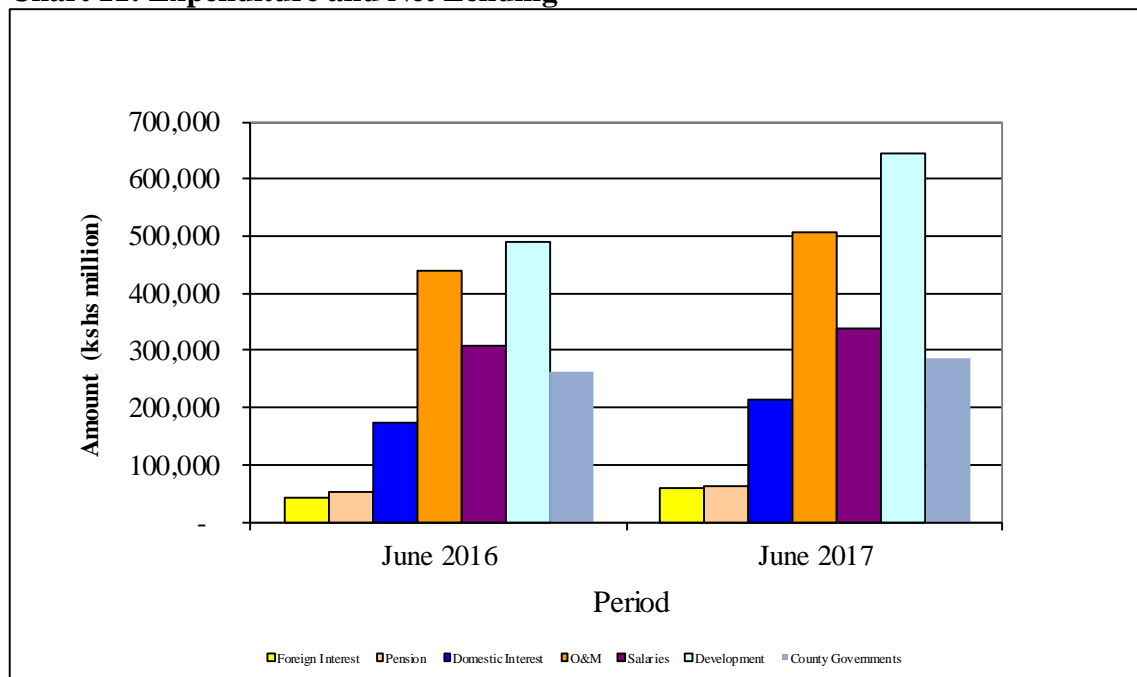
FISCAL DEVELOPMENTS

Table 4: Expenditure and Net Lending, Period Ending 30th June, 2017 (Ksh Million)

	2015/2016	2016/17		Deviation	% Growth
	Actual	Actual	Targets		
1. RECURRENT	982,611	1,142,412	1,197,532	(55,120)	16.3
Domestic Interest	172,857	212,865	181,789	31,076	23.1
Foreign Interest	42,471	58,368	62,387	(4,020)	37.4
Pensions	53,401	62,933	65,091	(2,158)	17.8
Wages and Salaries	307,421	336,636	341,155	(4,519)	9.5
Operation and Maintenance	406,460	471,611	547,109	(75,499)	16.0
O/W : Appropriation-in-Aid	34,245	62,842	88,492	(25,649)	83.5
2. DEVELOPMENT	485,364	645,771	803,857	(158,086)	33.0
Development Projects (Net)	332,125	398,064	441,805	(43,740)	19.9
Payment of Guaranteed Loans	2,167	2,443	2,326	117	12.7
Appropriation-in-Aid	145,071	239,263	359,726	(120,463)	64.9
3. County Governments	264,039	284,708	284,722	(14)	7.8
4. Parliamentary Service	19,777	24,215	27,434	(3,219)	-
5. Judicial Service	11,662	11,846	13,406	(1,560)	-
6. Equalization Fund	6,000	6,000	6,000	-	-
7. CF	5,000	-	-	-	-
TOTAL EXPENDITURE	1,768,453	2,108,951	2,326,951	(218,000)	19.3

Source: National Treasury

Chart 11: Expenditure and Net Lending



Source: National Treasury

32. The total cumulative ministerial and other public agencies expenditure was Ksh 1,466.7 billion against a target of Ksh 1,730.5 billion. Recurrent expenditure was Ksh 844.3 billion against a target of Ksh 929.1 billion, while development expenditure was Ksh 622.5 billion against a target of Ksh 801.4 billion. The percentage of total expenditures to the target was 84.8 per cent, while the percentage of total expenditures to the target for recurrent and development were 98.9 per cent and 77.7 per cent

FISCAL DEVELOPMENTS

respectively, as at the end of the period under review. As indicated earlier, the discrepancy between actual and target expenditures partly reflect the non-capture of the sub-National expenditures and hence under reporting by ministries. These ministerial expenditures are therefore, provisional.

33. As at the end of the period ending 30th June, 2017, expenditures by the Ministry of Education, Science and Technology; Teachers Service Commission and Ministry of Health (Social Sector) accounted for 35.8 per cent of total recurrent expenditure. While the State Department for Interior, and Ministry of Defence accounted for 10.9 per cent and 12.0 per cent respectively.

34. Analysis of development outlay indicates that the Department of Transport (23.9 per cent) accounted for the largest share of the total development expenditures, followed by the Department for Infrastructure(17.3 per cent), Ministry of Energy and Petroleum (12.8 per cent) and the State Department Planning (4.8 per cent, mainly on CDF). The development expenditures in large ministries were below the target because of non-inclusion of expenditures from the sub-National and some donor funded projects. **Table 5** gives details of various Ministerial/Departmental and Commissions expenditures for the period under review.

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Table 5: Ministerial Expenditures, Period Ending 30th June, 2017 (Ksh Million)

MINISTRY/DEPARTMENT/COMMISSIONS	Jun-17		Variance	Jun-17		Variance	Jun-17		Variance	% total expenditure to total target
	Recurrent			Development			Total			
	Actual*	Target		Actual*	Target		Actual*	Target		
1011 The Presidency	9,954	10,476	(522)	254	471	(217)	10,207	10,946	(739)	93.2
1021 State Department for Interior	92,091	107,603	(15,512)	24,630	27,434	(2,804)	116,722	135,037	(18,315)	86.4
1023 State Department for Correctional Services	17,094	20,227	(3,133)	254	525	(271)	17,348	20,752	(3,403)	83.6
1032 State Department for Devolution	779	794	(16)	394	1,065	(671)	1,172	1,859	(687)	63.1
1033 State Department for Special Programmes	8,823	8,331	491	6,289	7,460	(1,171)	15,111	15,791	(680)	95.7
1034 State Department for Planning and Statistics	5,671	5,385	286	29,696	31,192	(1,496)	35,367	36,577	(1,210)	96.7
1041 Ministry of Defence	101,148	101,150	(2)	-	25	(25)	101,148	101,175	(27)	100.0
1052 Ministry of Foreign Affairs	10,826	18,120	(7,294)	159	2,750	(2,591)	10,985	20,870	(9,884)	52.6
1063 State Department for Basic Education	54,842	58,134	(3,292)	8,196	13,304	(5,108)	63,038	71,438	(8,400)	88.2
1064 State Department for Vocational And Technical Training	2,446	2,529	(83)	5,427	5,889	(461)	7,874	8,418	(544)	93.5
1065 State Department for University Education	54,282	63,594	(9,313)	9,380	9,966	(586)	63,662	73,560	(9,898)	86.5
1071 The National Treasury	35,343	37,528	(2,185)	21,472	36,105	(14,633)	56,815	73,633	(16,818)	77.2
1081 Ministry of Health	29,806	35,737	(5,931)	26,791	35,697	(8,906)	56,597	71,434	(14,837)	79.2
1091 State Department for Infrastructure	38,760	49,946	(11,186)	107,821	168,322	(60,502)	146,581	218,268	(71,687)	67.2
1092 State Department for Transport	1,511	5,825	(4,314)	148,836	163,305	(14,469)	150,347	169,131	(18,783)	88.9
1093 State Department for Marine time Affairs	241	254	(13)	-	-	-	241	254	(13)	94.9
1094 State Department for Housing & Urban Development	2,324	1,318	1,006	14,015	16,211	(2,196)	16,339	17,529	(1,190)	93.2
1095 State Department for Public Works	753	776	(23)	999	1,169	(169)	1,752	1,944	(192)	90.1
1103 State Department for Water Services	2,305	4,687	(2,382)	33,441	44,205	(10,764)	35,745	48,892	(13,147)	73.1
1104 State Department for Irrigation	470	869	(400)	8,634	11,911	(3,276)	9,104	12,780	(3,676)	71.2
1105 State Department of Environment	2,778	3,669	(891)	1,557	2,621	(1,064)	4,335	6,290	(1,956)	68.9
1106 State Department for Natural Resources	6,400	12,563	(6,163)	1,537	1,957	(420)	7,937	14,520	(6,583)	54.7
1112 Ministry of Lands and Physical Planning	2,118	2,260	(142)	2,945	3,368	(423)	5,062	5,627	(565)	90.0
1122 State Department for Information Communication and Technology &	1,045	1,146	(101)	25,283	27,235	(1,952)	26,328	28,381	(2,052)	92.8
1123 State Department for Broadcasting & Telecommunications	3,103	3,305	(202)	329	329	(0)	3,432	3,634	(202)	94.4
1132 State Department for Sports Development	3,564	3,560	4	2,010	2,011	(0)	5,574	5,571	4	100.1
1133 State Department For Arts And Culture	2,887	2,925	(38)	488	496	(8)	3,375	3,421	(46)	98.7
1152 State Department of Energy	2,022	2,083	(61)	79,568	109,343	(29,774)	81,590	111,426	(29,836)	73.2
1153 State Department of Petroleum	182	203	(21)	1,470	2,870	(1,400)	1,652	3,073	(1,421)	53.8
1161 State Department for Agriculture	11,532	11,618	(86)	9,583	11,458	(1,874)	21,116	23,076	(1,960)	91.5
1162 State Department for Livestock	5,677	6,035	(358)	2,963	9,126	(6,162)	8,640	15,161	(6,521)	57.0
1164 State Department for Fisheries and The Blue Economy	1,796	1,835	(39)	2,707	2,738	(31)	4,503	4,573	(70)	98.5
1172 State Department for Investment and Industry	2,721	2,858	(137)	3,384	3,250	134	6,106	6,108	(2)	100.0
1173 State Department for Cooperatives	3,092	3,159	(68)	530	530	(0)	3,621	3,689	(68)	98.2
1174 State Department for Trade	3,414	3,499	(86)	119	123	(4)	3,532	3,622	(89)	97.5
1183 State Department for East African Integration	1,506	1,512	(6)	16	40	(24)	1,522	1,552	(30)	98.1
1184 State Department for Labour	1,366	1,529	(163)	382	419	(36)	1,748	1,947	(199)	89.8
1185 State Department for Social Protection	6,909	8,009	(1,100)	13,665	14,459	(794)	20,574	22,468	(1,894)	91.6
1191 Ministry of Mining	643	900	(257)	1,252	1,331	(79)	1,894	2,231	(336)	84.9
1201 Ministry of Tourism	1,438	2,453	(1,015)	3,247	3,592	(345)	4,686	6,045	(1,360)	77.5
1211 State Department of Public Service and Youth Affairs	13,077	14,368	(1,291)	14,173	14,757	(583)	27,251	29,125	(1,874)	93.6
1212 State Department for Gender	699	777	(77)	3,430	3,442	(12)	4,129	4,219	(90)	97.9
1252 State Law Office and Department of Justice	3,936	4,645	(709)	60	239	(179)	3,996	4,884	(888)	81.8
1261 The Judiciary	11,428	12,956	(1,528)	2,632	4,153	(1,521)	14,060	17,109	(3,049)	82.2
1271 Ethics and Anti-Corruption Commission	3,180	3,230	(50)	250	250	-	3,430	3,480	(50)	98.6
1281 National Intelligence Service	29,046	29,064	(18)	-	-	-	29,046	29,064	(18)	99.9
1291 Directorate of Public Prosecutions	1,480	2,114	(634)	12	99	(86)	1,492	2,213	(721)	67.4
1311 Registrar of Political Parties	674	827	(153)	-	-	-	674	827	(153)	81.5
1321 Witness Protection Agency	320	388	(68)	-	-	-	320	388	(68)	82.5
2011 Kenya National Commission on Human Rights	419	421	(2)	-	-	-	419	421	(2)	99.6
2021 National Land Commission	1,256	1,267	(12)	103	103	(0)	1,359	1,371	(12)	99.1
2031 Independent Electoral and Boundaries Commission	21,313	23,066	(1,753)	-	552	(552)	21,313	23,617	(2,304)	90.2
2041 Parliamentary Service Commission	8,474	10,486	(2,012)	1,880	3,150	(1,270)	10,354	13,636	(3,282)	75.9
2042 National Assembly	15,740	16,948	(1,208)	-	-	-	15,740	16,948	(1,208)	92.9
2051 Judicial Service Commission	418	450	(32)	-	-	-	418	450	(32)	92.9
2061 Commission on Revenue Allocation	318	357	(39)	-	-	-	318	357	(39)	89.2
2071 Public Service Commission	1,225	1,229	(3)	38	39	(1)	1,264	1,268	(4)	99.7
2081 Salaries and Remuneration Commission	536	556	(20)	-	-	-	536	556	(20)	96.4
2091 Teachers Service Commission	190,925	191,020	(95)	6	100	(94)	190,931	191,120	(189)	99.9
2101 National Police Service Commission	428	435	(7)	-	-	-	428	435	(7)	98.3
2111 Auditor General	4,122	4,253	(131)	144	176	(32)	4,266	4,429	(163)	96.3
2121 Controller of Budget	498	521	(23)	-	-	-	498	521	(23)	95.6
2131 The Commission on Administrative Justice	419	449	(30)	-	-	-	419	449	(30)	93.3
2141 National Gender and Equality Commission	378	387	(9)	-	18	(18)	378	405	(27)	93.4
2151 Independent Policing Oversight Authority	336	485	(149)	-	-	-	336	485	(149)	69.4
Total	844,307	929,102	(84,795)	622,455	801,377	(178,921)	1,466,762	1,730,479	(263,717)	84.8

*Provisional

Source: National Treasury

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2.2.1 Guaranteed Loans to Parastatals Payments

35. Cumulative principal and interest payments of guaranteed loans to parastatals with liquidity problems amounted to Ksh 1,443.3 million (principal of Ksh 1,335.1 million and interest Ksh 108.2 million) against a payment target of Ksh 1,037.9 million (**Table 6**) for period ending 30th June, 2017. The projection for the EAPC had not been included in the initial projection.

Table 6: Schedule and actual payments on Guaranteed Debt for the period ending 30th June, 2017 (Ksh M)

Borrower	Quarter I		Quarter II		Quarter III		Quarter IV		Cumm. March 2017*	
	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual	Projected	Actual
EAPC	-	-	-	199.24	360.80	187.54	-	-	360.80	386.78
TARDA	156.10	163.50	-	-	134.15	145.55	0.00	-	290.25	309.05
KBC			361.34	365.55	25.50	-	-	381.88	386.84	747.43
TOTAL (QTR)	156.10	163.50	361.34	564.79	520.45	333.09	0.00	381.88	1,037.89	1,443.26

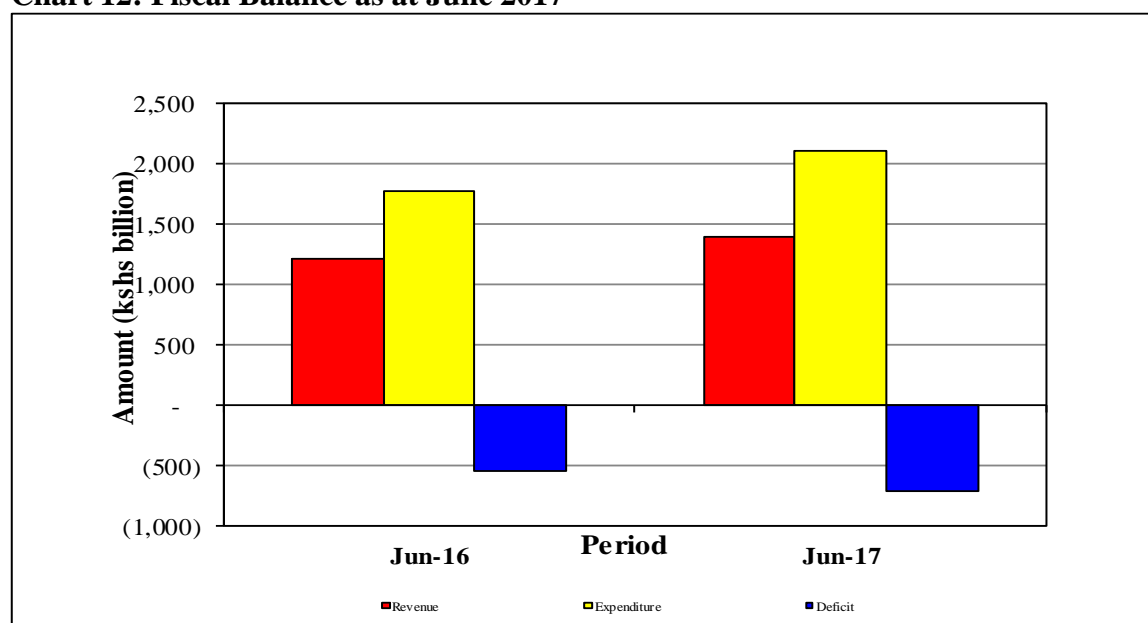
* Provisional

Source: National Treasury

2.3 Fiscal Outturn

36. Between July 1, 2016 and June 30, 2017, cumulative overall fiscal balance (on a commitment basis and excluding grants), amounted to Ksh 708.4 billion (equivalent to 9.2 per cent of GDP) against a targeted deficit of Ksh 871.6 billion (equivalent to 11.3 per cent of GDP) (**Chart 12 and Table 7**). Over the same period in 2016, the fiscal deficit stood at Ksh 546.4 billion (equivalent to 8.4 per cent of GDP). Including grants, the fiscal balance (on a commitment basis) deficit stood at 8.9 per cent of GDP against a targeted deficit of 10.5 per cent of GDP. The Fiscal Outturns for the past years is provided as **Annex I**.

Chart 12: Fiscal Balance as at June 2017



Source: National Treasury

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Table 7: Budget Outturn, Cumulative Ending 30th June, 2017 (Ksh Million)

	2015/2016 Actual	2016/2017		Deviation	% growth	2016/2017 as a % of GDP		2015/2016 Actual as a % of GDP
		Actual*	Targets			Actual	Targets	
A. TOTAL REVENUE AND GRANTS	1,248,651	1,426,891	1,514,174	(87,283)	14.27	18.50	19.64	19.19
1. Revenue	1,219,054	1,400,578	1,455,390	(54,812)	14.89	18.16	18.87	18.73
Ordinary Revenue	1,152,875	1,305,794	1,311,323	(5,529)	13.26	16.93	17.01	17.71
Import Duty	79,188	89,943	89,220	723	13.58	1.17	1.16	1.22
Excise Duty	139,540	165,474	170,258	(4,784)	18.59	2.15	2.21	2.14
Income tax	560,665	625,050	623,872	1,178	11.48	8.11	8.09	8.61
VAT	289,213	339,034	337,570	1,464	17.23	4.40	4.38	4.44
Investment Revenue	19,253	28,524	28,322	202	48.15	0.37	0.37	0.30
Others	65,016	57,769	62,081	(4,312)	(11.15)	0.75	0.81	1.00
Appropriation-in-Aid	66,179	94,784	144,067	(49,283)	43.22	1.23	1.87	1.02
2. Grants	29,597	26,312	58,784	(32,471)	(11.10)	0.34	0.76	0.45
AMISOM Receipts	4,293	6,787	6,440	347	58.08	0.00	0.08	0.07
Revenue	7,866	9,485	18,745	(9,260)	20.59	0.12	0.24	0.12
Appropriation-in-Aid	16,275	9,632	32,677	(23,045)	(40.82)	0.12	0.42	0.25
Italian Debt Swap	499	0	500	(500)	(100.00)	0.00	0.01	0.00
County Health Facilities - DANIDA	664	408	422	(14)	(38.45)	0.00	0.01	0.00
B. EXPENDITURE and NET LENDING	1,768,453	2,108,951	2,326,951	(218,000)	19.25	27.35	30.18	27.17
1. Recurrent	1,014,050	1,178,472	1,238,372	(59,900)	16.21	15.28	16.06	15.58
Domestic Interest	172,857	212,865	181,789	31,076	23.15	2.76	2.36	2.66
Foreign Interest	42,471	58,368	62,387	(4,020)	37.43	0.76	0.81	0.65
Pension	53,401	62,933	65,091	(2,158)	17.85	0.82	0.84	0.82
Wages and Salaries	307,421	336,636	341,155	(4,519)	9.50	4.37	4.42	4.72
O & M/Others	437,899	507,671	587,949	(80,278)	15.93	6.58	7.62	6.73
2. Development and Net Lending	479,364	639,771	797,857	(158,086)	33.46	8.30	10.35	7.37
3. Equalization Fund	6,000	6,000	6,000	-	-	0.00	0.08	0.09
4. County Governments	264,039	284,708	284,722	(14)	7.83	3.69	3.69	4.06
5. CF	5,000	0	0	-	(100.00)	0.00	-	0.08
C. DEFICIT EXCL.GRANT (Commitment basis)	(549,398)	(708,373)	(871,562)	163,188	28.94	(9.19)	(11.30)	(8.44)
D. DEFICIT INCL.GRANTS (Commitment basis)	(519,802)	(682,061)	(812,778)	130,717	31.22	(8.85)	(10.54)	(7.99)
E. ADJUSTMENT TO CASH BASIS	45,232	(15,194)	-	(15,194)	(133.59)	(0.20)	-	0.70
F. DEFICIT INCL.GRANTS (Cash basis)	(474,570)	(697,255)	(812,778)	115,523	46.92	(9.04)	(10.54)	(7.29)
G. FINANCING	474,570	697,255	812,778	(115,523)	46.92	9.04	10.54	7.29
1. Foreign financing	269,924	385,745	463,850	(78,106)	42.91	5.00	6.02	4.15
Disbursements	304,986	421,667	507,472	(85,805)	38.26	5.47	6.58	4.69
Programme Loans	8,574	6,767	7,355	(588)	(21.07)	0.00	0.10	0.13
Project Cash Loans	43,654	30,908	42,340	(11,432)	(29.20)	0.40	0.55	0.67
Project Loans AIA	55,369	86,322	146,832	(60,510)	55.90	1.12	1.90	0.85
Project Loans SGR_ AIA	52,357	111,367	124,643	(13,275)	112.71	1.44	1.62	0.80
Commercial Financing	145,031	186,303	186,303	-	28.46	2.42	2.42	2.23
O/W syndicated loan	145,031	0	0	-	(100.00)	0.00	-	2.23
Debt repayment - Principal	(35,062)	(35,922)	(43,622)	7,699	2.45	(0.47)	(0.57)	(0.54)
2. Other Domestic Financing	2,389	1,751	2,114	(363)	(26.71)	0.02	0.03	0.04
4. NET DOMESTIC FINANCING	202,257	309,760	346,814	(37,054)	53.15	4.02	4.50	3.11
MEMO ITEM								
GDP ESTIMATE	6,508,084.41	7,710,947.27	7,710,947.27					

*Provisional

Source: National Treasury

2.4 Financing

2.4.1 External Financing

37. Cumulative external financing for the period between July 1st 2016 and June 30th 2017 amounted to a net borrowing of Ksh 385.7 billion (**Table 8**). Total disbursements (inflows) including Appropriations-in-Aid amounted to Ksh 421.7 billion for the period ending 30th June, 2017 against a target of Ksh 507.5 billion. The actual disbursement amount included Ksh 30.9 billion Project cash loans, Ksh 86.3 billion project loans A.I.A., Ksh 111.4 billion project loans A.I.A. for SGR, Ksh 186.3 billion Commercial Financing and Ksh 6.8 billion Programme loans. External repayments (outflows) of principal debt amounted to Ksh 35.9 billion. The amount comprises of principal repayments due to both bilateral, multilateral organizations and Commercial amounting to Ksh 19.3 billion, Ksh 15.8 billion and Ksh 771.7 million, respectively.

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Table 8: External Financing, Period Ending 30th June, 2017 (Ksh Million)

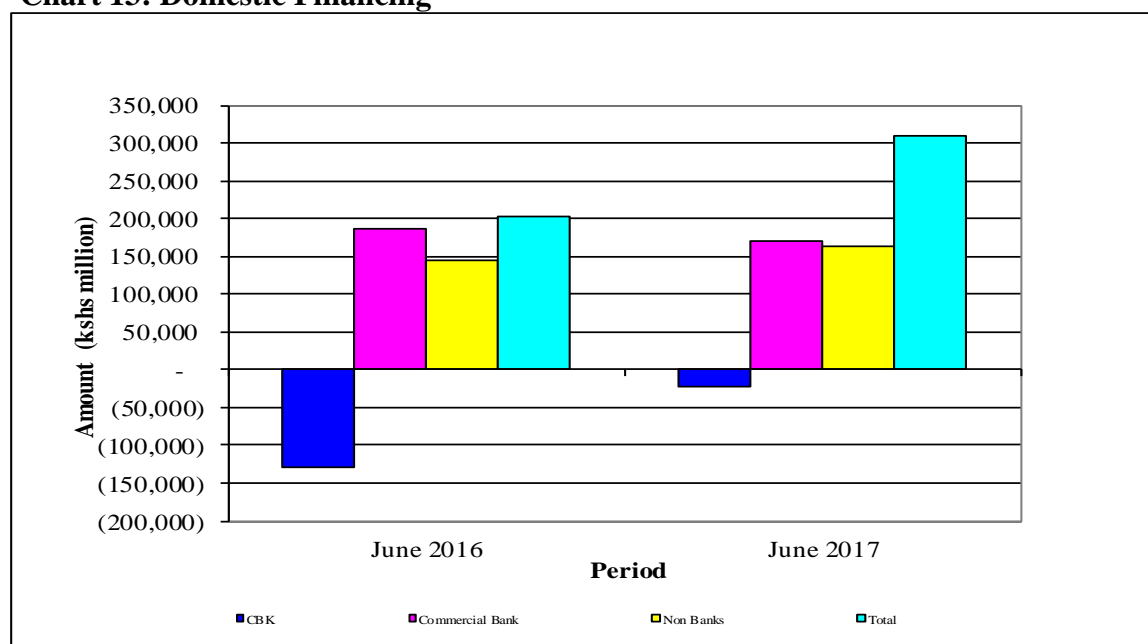
	Quarter IV 2015/16	Quarter I 2016/17	Quarter II 2016/17	Quarter III 2016/17	Quarter IV 2016/17	Cumulative June 2017*	
	Actual	Actual	Actual	Actual		Actual	Target
DISBURSEMENTS:	304,985.50	47,230.74	81,141.41	191,773.42	101,521.43	421,667.01	507,471.74
Project Cash loans	43,654.47	1,246.85	10,168.77	11,162.99	8,328.98	30,907.59	42,339.84
Project loans A-I-A	55,368.94	8,187.85	22,157.65	35,824.60	20,151.75	86,321.86	146,831.67
Project Loans SGR _ AIA	52,356.79	27,682.04	45,157.05	38,528.39	-	111,367.47	124,642.64
Commercial Financing	145,031.20	10,114.00	-	106,257.44	69,931.16	186,302.59	186,302.59
O/W syndicated loan	145,031.20	-	-	-	-	-	-
Export Credit	-	-	-	-	-	-	-
Programme Loans	8,574.10	-	3,657.94	-	3,109.55	6,767.49	7,355.00
EXTERNAL REPAYMENTS:	35,061.60	8,065.42	7,764.27	9,412.02	10,680.67	35,922.37	33,080.29
Bilateral (incl. Italy Debt SWAP)	18,834.11	3,511.15	4,980.63	5,067.13	5,770.92	19,329.84	19,039.66
Multilateral (excl. IMF)	15,424.64	4,554.27	2,399.48	4,344.89	4,522.19	15,820.82	13,624.88
Commercial	802.85	-	384.16	-	387.56	771.72	415.75
NET FOREIGN FINANCING	269,923.90	39,165.32	73,377.15	182,361.40	90,840.76	385,744.64	474,391.45

Source: National Treasury

2.4.2 Domestic Financing

38. By the end of June 2017, net domestic borrowing amounted to Ksh 309.8 billion against a target borrowing of Ksh 380.3 billion (**Table 7**). The borrowing comprised of Ksh 169.5 billion from Commercial Banks, Ksh 160.7 billion from Non-Banking Financial Institutions and Ksh 1.9 billion from Non Residents, and a repayment of Ksh 22.4 billion to the Central Bank, (**Table 9**). Comparatively, for the same period in 2016, the net domestic borrowing, comprised of net repayments of, Ksh 128.4 billion to the Central Bank, and a borrowing of Ksh 4.6 billion from Non-Residents, Ksh 187.2 billion from commercial banks and Ksh 139.4 billion from non-banking financial institutions (**chart 13**).

Chart 13: Domestic Financing



Source: Central Bank of Kenya

FISCAL DEVELOPMENTS

39. The stock of Treasury Bills held by Non- Banks and Commercial Banks recorded net increase of Ksh 98.8 billion, and Ksh 53.8 billion respectively, while the stock of Treasury Bills held by Non-residents decreased by Ksh 356.0 million,. The stock of Fixed Rate Bonds held by Commercial Banks, Non-Residents and non-Banks recorded a net increase of Ksh 99.8 billion, Ksh 38.7 billion, and Ksh1.9 billion respectively.

Table 9: Domestic Financing, Period Ending 30th June, 2017 (Ksh Million)

	JUNE	SEPTEMBER	DECEMBER	MARCH	JUNE
	2016	2016	2016	2017	2017
1.CENTRAL BANK	(128,376)	(24,582)	37,830	35,840	(22,370)
Overdraft	7,709	(40,884)	(14,271)	(13,934)	(44,204)
Treasury bills rediscounts	20,549	-	-	-	-
Fixed rate Bonds	9,381	-	-	-	-
Items on Transit	(2)	(27)	(57)	(52)	(37)
Frozen Account	(1,117)	-	-	(555)	(555)
Less Govt Deposits	(164,896)	16,329	52,158	50,380	22,426
2.COM. BANKS	187,152	37,357	18,858	12,527	169,536
Advances	2,830	243	275	352	5,508
Treasury bills	131,164	17,528	(10,647)	(28,561)	53,818
Fixed rate Bonds	37,281	29,011	24,219	22,162	99,764
Special Bonds	-	-	-	-	(5,000)
Zero Coupon bonds	-	-	-	-	-
Infrastructure Bonds	9,978	(6,933)	6,147	10,291	10,291
Savings and Development Bond	-	-	-	-	-
Less Govt Deposits	5,899	(2,493)	(1,136)	8,282	5,155
3. NON BANKS	139,440	37,529	106,819	132,395	160,676
Treasury bills	92,163	10,704	44,574	60,341	98,820
Fixed rate Bonds	37,705	33,055	44,471	49,071	38,722
Zero Coupon bonds	-	-	-	-	-
Infrastructure Bonds	9,573	(6,230)	17,774	22,983	22,983
Savings and Development Bond	-	-	-	-	-
M-Akiba Bond	-	-	-	-	150
4. NON RESIDENTS	4,576	(873)	1,088	1,372	1,917
Treasury bills	(119)	(1,695)	(363)	(142)	(356)
Fixed rate Bonds	2,339	822	1,115	1,179	1,938
Infrastructure Bond	2,356	(0)	336	335	335
Savings and Development Bond	-	-	-	-	-
Zero Coupon bonds	-	-	-	-	-
5. NET CREDIT	202,793	49,431	164,595	182,134	309,760

Note: Treasury bills as reflected here are given at cost value as opposed to Table 11 given at Face value.

Source: Central Bank of Kenya

3.0 PUBLIC DEBT

3.1 Overall Debt Position

40. The gross public debt increased by Ksh 795.7 billion, from Ksh 3,611.3 billion as at end of June 2016 to Ksh 4,407.0 billion by 30th June 2017, comprising of 52.1 per cent of External debt and 47.9 per cent of Domestic debt. The overall increase is attributed to increased external debt due to exchange rate fluctuations, disbursements from external loans debt during the period. Net public debt increased by Ksh 761.8 billion, from Ksh 3,210.8 billion as at end of June 2016 to Ksh 3,972.5 billion by period under review (*Table 10*).

FISCAL DEVELOPMENTS

Table 10: Kenya's Public and Publicly Guaranteed Debt, June 2015 to June 2017 (Ksh million)

	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	June 17*
EXTERNAL									
BILATERAL	445,057	482,203	481,282	478,883	548,351	545,652	641,763	689,119	724,823
MULTILATERAL	684,631	754,599	751,154	762,089	798,842	839,936	781,256	806,922	841,899
COMMERCIAL BANKS	276,937	295,642	366,231	360,175	432,377	452,495	458,122	594,140	712,100
SUPPLIERS CREDIT	16,628	17,788	16,516	16,359	16,628	16,628	15,302	11,210	15,914
SUB - TOTAL	1,423,253	1,550,233	1,615,183	1,617,506	1,796,198	1,854,711	1,896,443	2,101,391	2,294,736
DOMESTIC:									
CENTRAL BANK	63,335	107,637	101,386	102,648	99,856	58,945	85,528	85,316	55,061
COMMERCIAL BANKS	730,419	682,694	764,399	829,688	927,307	969,790	947,030	975,803	1,141,889
TOTAL BANKS	793,755	790,331	865,785	932,336	1,027,163	1,028,735	1,032,559	1,061,119	1,196,950
NON BANKS & NON RESIDENTS	626,689	597,635	674,232	714,192	787,970	825,820	898,415	883,834	915,316
SUB-TOTAL	1,420,444	1,387,966	1,540,017	1,646,527	1,815,133	1,854,555	1,930,973	1,944,953	2,112,265
GRAND TOTAL GROSS	2,843,698	2,938,199	3,155,200	3,264,033	3,611,331	3,709,266	3,827,417	4,046,344	4,407,001
LESS ON-LENDING	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)
LESS GOVERNMENT DEPOSITS	(236,565)	(208,869)	(305,496)	(320,041)	(394,856)	(426,911)	(373,016)	(364,909)	(428,774)
GRAND TOTAL NET	2,601,432	2,723,628	2,844,004	2,938,291	3,210,775	3,276,654	3,448,699	3,675,734	3,972,526

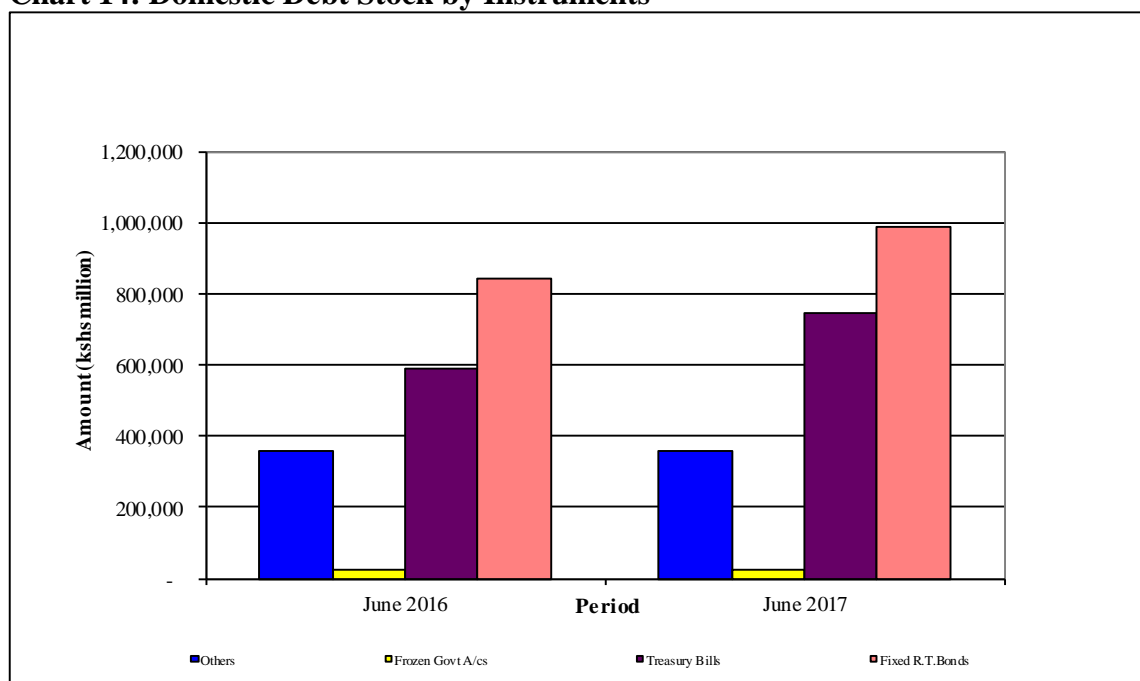
*Provisional

Source: National Treasury

3.2 Domestic Debt

41. The stock of gross domestic debt increased by Ksh 297.1 billion from Ksh 1,815.1 billion in June 2016 to Ksh 2,112.3 billion in June 2017. The stock of Treasury Bills held by Central Bank, Commercial Banks, Non-Banking Financial Institution and Non Residents increased by Ksh 156.1 billion from Ksh 588.1 billion in June 2016 to Ksh 744.2 billion in June 2017, (**Table 11**). The total stock of Treasury Bonds, Floating, Fixed Rate, Special and Zero coupon Bonds, increased by Ksh 137.8 billion from Ksh 852.1 billion in June 2016 to Ksh 989.9 billion in June 2017 (**Chart 14**).

Chart 14: Domestic Debt Stock by Instruments



Source: Data from CBK

FISCAL DEVELOPMENTS

Table 11: Stock of Domestic Debt, by end June 2017 (Ksh million)

	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
1.CENTRAL BANK	63,335	107,637	101,386	102,648	99,856	58,945	85,528	85,316	55,061
Overdraft	36,494	45,924	45,233	46,455	44,204	3,319	29,933	30,270	0
Frozen Govt Accounts	26,676	26,676	26,114	26,114	25,559	25,559	25,559	25,004	25,004
Treasury bills / bonds rediscounts	39	25,545	20,588	20,588	20,588	20,588	20,588	20,588	20,588
Items on Transit	82	47	26	65	80	52	23	28	43
Fixed rate bonds	45	9,445	9,426	9,426	9,426	9,426	9,426	9,426	9,426
2.COM.BANKS	730,419	682,694	764,399	829,688	927,307	969,790	947,030	975,803	1,141,889
Advances	2,488	1,717	5,446	5,559	5,093	5,530	5,857	5,657	11,020
Stocks	-	-	-	-	-	-	-	-	-
Treasury Bills	217,703	172,346	244,167	296,347	361,859	382,112	349,544	328,624	415,923
Floating Rate T. Bonds	-	-	-	-	-	-	-	-	-
Fixed Rate T. Bonds	364,511	373,861	373,753	390,314	403,844	433,059	428,536	426,565	504,989
Special Bonds	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	5,000
Zero Coupon Bonds	-	-	-	-	-	-	-	-	-
Savings and Development Bond	7,648	7,648	7,648	7,648	7,648	7,648	7,648	7,648	7,648
Infrastructure Bonds	128,069	117,122	123,385	119,820	138,863	131,441	145,444	197,309	197,309
3. NON BANKS	616,025	586,102	661,652	702,233	774,943	809,375	879,998	862,291	893,215
Stocks	-	-	-	-	-	-	-	-	-
Treasury Bills	94,478	61,237	117,923	149,588	199,033	210,788	243,989	260,232	301,522
Floating Rate T. Bonds	-	-	-	-	-	-	-	-	-
Fixed Rate T. Bonds	382,006	393,498	404,174	416,825	422,830	456,711	468,465	473,083	462,566
Tax Reserve Certificate	69	69	69	69	69	69	69	69	69
Zero Coupon Bonds	-	-	-	-	-	-	-	-	-
Infrastructure Bonds	118,892	110,718	118,906	115,171	132,431	121,227	146,894	108,327	108,327
Savings and Development Bond	20,580	20,580	20,580	20,580	20,580	20,580	20,580	20,580	20,582
M- Akiba Bond	-	-	-	-	-	-	-	-	150
4. NON RESIDENTS	10,664	11,533	12,580	11,958	13,027	12,020	13,632	21,543	22,100
Treasury Bills	6,709	7,469	8,132	6,370	6,608	4,760	6,069	6,322	6,122
Floating Rate T. Bonds	-	-	-	-	-	-	-	-	-
Fixed Rate T. Bonds	3,502	3,611	3,994	5,135	5,966	6,806	7,110	7,174	7,934
Zero Coupon Bonds	-	-	-	-	-	-	-	-	-
Savings and Development Bond	9	9	9	9	9	9	9	9	7
Infrastructure Bonds	445	445	445	445	445	445	445	8,037	8,037
5. TOTAL DEBT	1,420,444	1,387,966	1,540,017	1,646,527	1,815,133	1,850,129	1,926,189	1,944,953	2,112,265
6. LESS ON-LENDING	5,701	5,701	5,701	5,701	5,701	5,701	5,701	5,701	5,701
7. Less Govt Deposits	236,565	208,869	305,496	320,041	394,856	426,911	373,016	364,909	428,774
8. NET DEBT	1,178,178	1,173,395	1,228,821	1,320,785	1,414,577	1,417,518	1,547,472	1,574,343	1,677,790

NOTE: Treasury Bills reflected here are at face value as opposed to Table 9, given at cost

Source: Central Bank of Kenya

3.3 External Public Debt

42. In dollar terms, external public debt stock increased by US \$ 3,540.1 million from US\$ 17,836.0 million in June 2016 to US\$ 21,376.1 million by end of June 2017 (*Table 12 and Chart 15*). The debt stock comprised 32.7 per cent, 38.0 per cent, 28.6 per cent and 0.7 per cent of debt owed to bilateral, multilateral institutions, Commercial Banks and suppliers' credit, respectively. During the fourth quarter, external public debt increased by US\$ 960.6 million to US\$ 21,376.1 million in June 2017 from US\$ 20,415.5 million as at end of March 2017 This increase is attributed to disbursements made during the period. Exchange rate end June 2017 Ksh 103.71 per US\$.

FISCAL DEVELOPMENTS

Table 12: Kenya's External Public and Publicly Guaranteed Debt June 2015- June 2017 (US \$ Million)

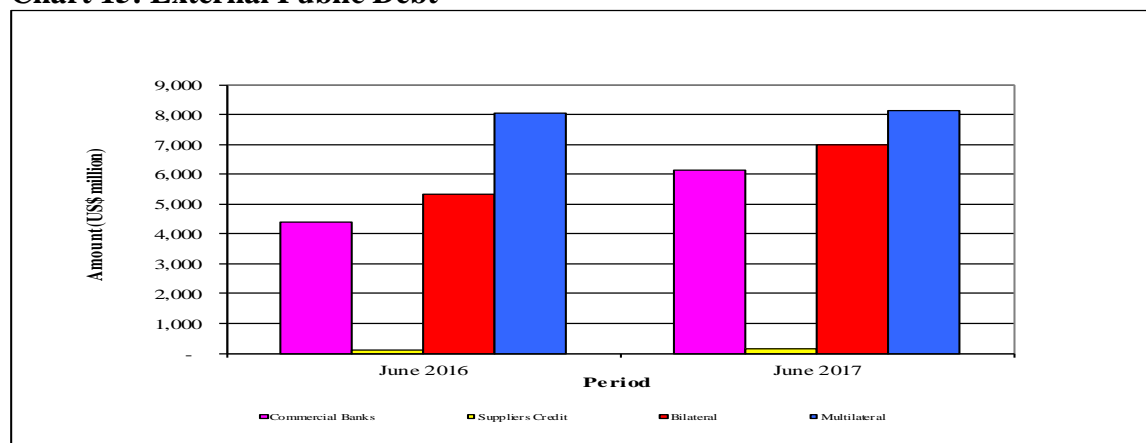
CREDITOR	Jun-15	Sep-15	Dec. 2015	Mar. 2016	Jun-16	Sep-16	Dec-16	Mar-17	June 2017*
<u>BILATERAL</u>									
AUSTRIA	7.53	7.56	10.02	10.38	7.69	10.29	8.33	5.34	5.67
BELGIUM	62.26	73.03	68.01	66.18	72.16	77.10	70.45	86.56	94.82
CANADA	12.88	12.88	8.20	8.20	8.01	8.01	7.26	7.26	6.26
DENMARK	14.57	14.64	15.68	16.25	15.24	15.36	13.64	12.69	13.49
FINLAND	0.72	1.72	29.40	0.47	2.45	14.13	11.34	16.24	16.55
FRANCE	598.47	613.81	589.97	606.29	587.79	597.62	547.79	574.20	614.59
GERMANY	228.70	229.65	220.12	222.12	225.18	355.91	284.91	294.30	311.98
ITALY	11.17	6.39	13.43	8.81	6.15	6.22	1.17	5.94	6.31
JAPAN	801.06	814.31	795.64	835.50	1,025.20	985.45	841.59	850.60	883.47
NETHERLANDS	19.87	20.16	18.88	17.48	23.24	21.91	16.58	18.40	17.74
UK	14.87	14.33	12.44	12.02	9.81	9.45	7.46	7.63	6.27
USA	45.23	42.79	41.67	40.01	40.08	37.23	36.34	34.16	33.72
CHINA	2,555.16	2,536.23	2,734.72	3,141.41	3,097.14	3,258.07	4,089.09	4,426.05	4,614.78
OTHERS	139.46	147.16	145.92	170.06	212.89	335.16	326.03	351.11	363.18
TOTAL BILATERAL	4,511.95	4,534.64	4,704.10	5,155.18	5,333.03	5,731.90	6,261.97	6,690.48	6,988.82
<u>MULTILATERAL</u>									
ADB/ADF	1,523.02	1,617.33	1,645.79	1,732.41	1,967.01	1,768.98	1,760.18	1,788.41	1,880.33
BADEA						31.36	33.86	28.17	28.43
EEC/EIB	209.09	220.46	209.71	212.38	208.43	201.69	187.37	190.62	197.49
IBRD									
IDA/IFAD									
IMF**	4,243.70	4,409.66	4,564.97	4,684.74	4,928.48	4,998.98	4,846.50	5,026.45	5,210.20
OTHERS	873.38	871.74	860.55	845.21	839.22	837.40	741.11	748.01	748.59
	91.55	92.49	60.82	90.83	91.01	58.83	54.05	52.53	52.65
TOTAL MULTILATERAL	6,940.74	7,211.68	7,341.84	7,565.57	8,034.16	7,897.24	7,623.06	7,834.20	8,117.68
COMMERCIAL BANKS 1/	2,807.57	2,807.81	3,579.57	3,554.34	4,377.73	4,373.30	4,470.11	5,740.26	6,116.15
EXPORT CREDIT	168.58	168.94	161.43	161.43	91.06	152.66	149.30	150.55	153.45
GRAND TOTAL	14,428.84	14,723.07	15,786.94	16,436.52	17,835.97	18,155.10	18,504.45	20,415.48	21,376.10
In percentage of total									
BILATERAL	31.27	30.80	29.80	31.36	29.90	31.57	33.84	32.77	32.69
MULTILATERAL	48.10	48.98	46.51	46.03	45.04	43.50	41.20	38.37	37.98
COMMERCIAL BANKS 1/	19.46	19.07	22.67	21.62	24.54	24.09	24.16	28.12	28.61
EXPORT CREDIT	1.17	1.15	1.02	0.98	0.51	0.84	0.81	0.74	0.72
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

*Provisional

** include IMF item

Source: National Treasury

Chart 15: External Public Debt



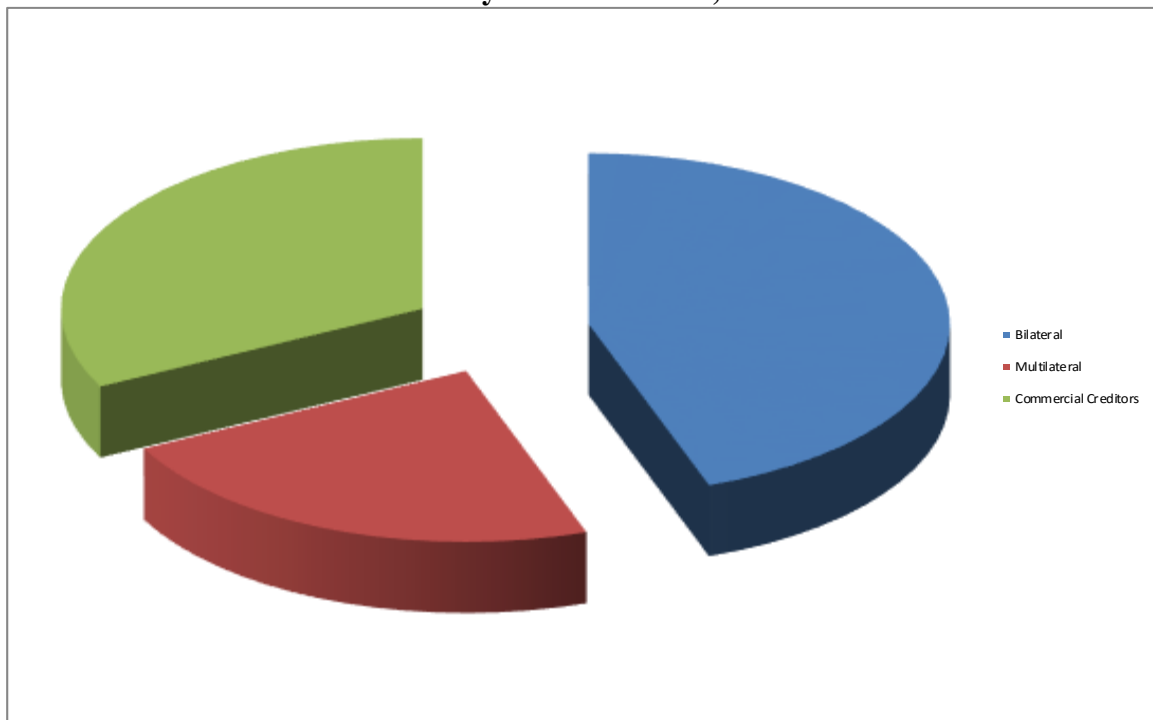
Source: National Treasury

FISCAL DEVELOPMENTS

3.3.1 External Debt Service

43. At the end of June 2017, the total cumulative debt service payments to external creditors amounted to Ksh 94.3 billion. This comprised of Ksh 35.9 billion (38.1 per cent) principal and Ksh 58.4 billion (61.9 per cent) interest (*Table 13 and chart 16*).

Chart 16: External Debt Service by Creditors June, 2017



Source: National Treasury

FISCAL DEVELOPMENTS

Table 14: External Debt Service, July 2016 – June 2017 (Ksh Million)

CATEGORY	PRINCIPAL*	INTEREST*	TOTAL*
BILATERAL			
AUSTRIA	141.50	15.31	156.81
FINLAND	198.49	5.00	203.49
FRANCE	4,144.51	1,247.81	5,392.32
ITALY	7.05	808.83	815.88
JAPAN	5,918.73	794.67	6,713.41
SAUDI FUND	528.53	132.83	661.36
SPAIN	601.75	208.27	810.02
USA	658.80	141.34	800.14
CANADA	216.06	12.55	228.60
BELGIUM	1,348.05	170.82	1,518.87
GERMANY	972.49	726.52	1,699.01
CHINA	3,186.76	17,941.03	21,127.79
KUWAIT	230.21	19.24	249.45
NETHERLANDS	316.75	221.13	537.88
SWEDEN	59.08	0.72	59.81
SWITZERLAND	66.84	0.82	67.66
DENMARK	291.60	-	291.60
KOREA	116.63	35.31	151.93
UK	326.00	11.42	337.42
INDIA		74.30	74.30
OTHERS/NEW LOANS	-	153.54	153.54
TOTAL BILATERAL	19,329.84	22,721.44	42,051.28
MULTILATERAL			
ADB/ADF	1,295.47	1,319.77	2,615.23
BADEA	209.81	49.76	259.57
EIB/EEC	1,300.22	599.91	1,900.13
IDA	12,111.09	3,576.13	15,687.22
OPEC	503.06	92.90	595.96
NDF	58.77	21.28	80.05
IFAD	342.41	104.29	446.70
**IMF			-
TOTAL MULTILATERAL	15,820.82	5,764.04	21,584.86
COMMERCIAL	771.72	29,882.11	30,653.83
GRAND TOTAL	35,922.37	58,367.59	94,289.96

* Provisional

** IMF debt serviced by CBK

Source: National Treasury

FISCAL RESULTS, 2010/11 – 2016/2017 (Ksh Millions)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16*	2016/17 **
A. TOTAL REVENUE	659,603	748,128	866,505	974,418	1,106,378	1,219,054	1,400,578
1. Revenue	621,852	681,766	775,698	918,990	1,031,248	1,152,875	1,305,794
Income Tax	272,439	312,463	373,086	449,590	508,581	560,665	625,050
VAT	171,881	176,386	184,916	232,630	259,685	289,213	339,034
Import Duty	46,072	51,712	57,650	67,555	74,048	79,188	89,943
Excise Duty	80,567	78,884	85,660	102,029	115,872	139,540	165,474
Other Revenue	50,893	62,320	74,386	67,185	73,062	84,269	86,293
2. Appropriation –in –Aid	37,752	66,362	90,807	55,428	75,130	66,179	94,784
B. EXPENDITURE & NET LENDING	819,767	945,313	1,132,126	1,300,589	1,639,199	1,768,453	2,108,951
1. Recurrent	584,126	650,414	816,365	752,502	860,569	1,014,050	1,178,472
Wages and Salaries	197,959	218,833	274,407	281,197	297,978	307,421	336,636
Interest Payments	78,876	81,913	121,235	134,821	171,876	215,329	271,233
Domestic Interest	71,887	71,873	110,184	119,193	139,615	172,857	212,865
Foreign Interest Due	6,989	10,039	11,051	15,628	32,261	42,471	58,368
Pensions, etc	26,670	26,082	27,611	30,155	37,508	53,401	62,933
Civil Service Reform	5	6	10	-	-	-	-
Operations & maintenance/ Others	280,616	323,580	393,102	306,330	353,206	437,899	507,671
Of which Appropriation-in-Aid	45,691	61,578	68,551	28,205	50,566	45,108	62,842
2. Development & Net Lending	234,566	294,899	305,978	319,274	509,713	453,925	609,710
Development Projects	183,658	190,116	186,231	225,850	278,676	300,686	362,004
Appropriation-in-Aid	48,379	102,144	117,346	91,239	228,511	145,071	239,263
Payment of guaranteed loans	2,529	2,639	2,400	2,185	2,125	2,167	2,443
3. Drought Development	1,075	-	-	-	4,951	5,000	-
4. Transfer to County Governments	-	-	9,783	193,390	229,336	264,039	284,708
5. Parliamentary Service	-	-	-	22,473	22,743	19,777	24,215
6. Judicial Service	-	-	-	12,951	11,887	11,662	11,846
7. Equalization Fund	-	-	-	-	400	6,000	6,000
D. DEFICIT EXCL. GRANTS (Commitment Basis)	(160,164)	(197,185)	(265,621)	(326,172)	(532,821)	(549,398)	(708,373)
E. GRANTS	19,253	15,645	20,990	26,957	28,117	29,598	26,312
F. DEFICIT INCL. GRANTS (Commitment basis)	(140,910)	(181,540)	(244,631)	(299,214)	(504,703)	(519,801)	(682,061)
G. ADJUSTMENT TO CASH BASIS	20,765	3,752	(12,553)	(8,505)	33,129	45,231	(15,194)
H. DEFICIT INCL. GRANTS (cash basis)	(120,145)	(177,788)	(257,184)	(307,720)	(471,574)	(474,570)	(697,255)
I. FINANCING	120,145	177,788	257,184	307,720	471,574	474,570	697,255
Foreign Financing	28,602	112,575	85,306	104,726	217,479	269,924	385,745
Other Domestic Financing	1,160	1,813	2,102	1,267	2,992	2,389	1,751
NET DOMESTIC FINANCING	90,383	63,400	169,776	201,727	251,102	202,257	309,760
Of which Sovereign Bond Deposits	-	-	-	-	140,509	-	-
Others	-	-	-	-	110,593	-	-
In Percentage of GDP							
A. TOTAL REVENUE	19.13	18.73	19.24	19.20	18.98	18.73	18.16
1. Revenue	18.04	17.07	17.23	18.11	17.69	17.71	16.93
Income Tax	7.90	7.82	8.28	8.86	8.73	8.61	8.11
VAT	4.99	4.42	4.11	4.58	4.46	4.44	4.40
Import Duty	1.34	1.29	1.28	1.33	1.27	1.22	1.17
Excise Duty	2.34	1.97	1.90	2.01	1.99	2.14	2.15
Other Revenue	1.48	1.56	1.65	1.32	1.25	1.29	1.12
2. Appropriation –in –Aid	1.10	1.66	2.02	1.09	1.29	1.02	1.23
B. EXPENDITURE & NET LENDING	23.78	23.67	25.14	25.63	28.13	27.17	27.35
1. Recurrent	16.94	16.28	18.13	14.83	14.77	15.58	15.28
Wages and Salaries	5.74	5.48	6.09	5.54	5.11	4.72	4.37
Interest Payments	2.29	2.05	2.69	2.66	2.95	3.31	3.52
Domestic Interest	2.09	1.80	2.45	2.35	2.40	2.66	2.76
Foreign Interest Due	0.20	0.25	0.25	0.31	0.55	0.65	0.76
Pensions	0.77	0.65	0.61	0.59	0.64	0.82	0.82
Civil Service Reform	0.00	0.00	0.00	-	-	-	-
O &M/ Others	8.14	8.10	8.73	6.04	6.06	6.73	6.58
of which Appropriation-in-Aid	1.33	1.54	1.52	0.56	0.87	0.69	0.81
2. Development & Net Lending	6.80	7.38	6.79	6.29	8.75	6.97	7.91
Development Projects	5.33	4.76	4.14	4.45	4.78	4.62	4.69
Appropriation-in-Aid	1.40	2.56	2.61	1.80	3.92	2.23	3.10
Payment of guaranteed loans	0.07	0.07	0.05	0.04	0.04	0.03	0.03
3. Drought Expenditures	0.03	-	-	-	0.08	0.08	-
4. Transitional Transfer to County	-	-	0.22	3.81	3.93	4.06	3.69
5. Parliamentary Service	-	-	-	0.44	0.39	0.30	0.31
6. Judicial Service	-	-	-	0.26	0.20	0.18	0.15
7. Equalization Fund	-	-	-	-	0.01	0.09	0.08
D. DEFICIT EXCL. GRANTS (Commitment Basis)	(4.65)	(4.94)	(5.90)	(6.43)	(9.14)	(8.44)	(9.19)
E. GRANTS	0.56	0.39	0.47	0.53	0.48	0.45	0.34
F. DEFICIT INCL. GRANTS (Commitment basis)	(4.09)	(4.54)	(5.43)	(5.90)	(8.66)	(7.99)	(8.85)
G. ADJUSTMENT TO CASH BASIS	0.60	0.09	(0.28)	(0.17)	0.57	0.69	(0.20)
H. DEFICIT INCL. GRANTS (cash basis)	(3.48)	(4.45)	(5.71)	(6.06)	(8.09)	(7.29)	(9.04)
I. FINANCING	3.48	4.45	5.71	6.06	8.09	7.29	9.04
Foreign Financing	0.83	2.82	1.89	2.06	3.73	4.15	5.00
Other Domestic Financing	0.03	0.05	0.05	0.02	0.05	0.04	0.02
NET DOMESTIC FINANCING	2.62	1.59	3.77	3.98	4.31	3.11	4.02
Of which Sovereign Bond Deposits	-	-	-	-	2.41	-	-
Others	-	-	-	-	1.90	-	-
Memorandum Item:							
Nominal GDP at Market price (Kshs. million)	3,447,610	3,994,393	4,503,257	5,073,777	5,828,115	6,508,084	7,710,947

Note: * indicate Preliminary results

Source: National Treasury

