



Monthly Bulletin on Indicators on Budget and Economy July/August 2014

This brief provides a summary of key recent economic and budget developments and is intended to keep stakeholders especially the legislators updated on the latest trends in the economy.

The month of July 2014

In the Month of July, Kenya's budget implementation picture for 2014/15 suffered a set back as a result of the slow pace of disbursement of funds to county governments occasioned by the delay in passage of County Allocation of Revenue Bill. This has put provision of basic social services at county level under threat manifested by the current unrest in the health sector due to issues surrounding payment of salaries to the health personnel. Overall, budget execution has started at a slow pace with expenditure pressures starting to build mainly from the health sector.

In June and July, the Government overdraft was almost hitting the statutory level of Kshs.39.22 billion. However, in the month of August, the overdraft declined significantly to Kshs. 24.9 Billion. This may have be occasioned by the slow uptake of cash by government ministries and the late disbursement of funds to counties. This may however be short lived if the expenditure pressures outpace the revenue collection in the coming months.

Going forward, financing the development agenda for the 2014/15 budget aimed at accelerating the socio-economic development shall require multifaceted approaches for enhancing Domestic Resource Mobilization while at the same time addressing the expenditure re-orientation challenges.

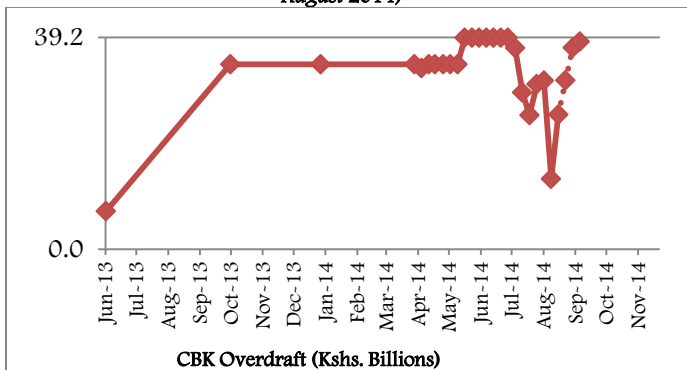
As the country partners with other countries in bilateral trade and restructuring of the government way of doing business, there is renewed hope of growing our resource base. Reforms around the procurement system via introduction of e-procurement will go a long way in boosting investment confidence. This premised on the fact that it will introduce transparency in the process and reduce the turnaround time.

Economic Growth

It is estimated that Kenya's economic growth rate for the calendar year for the first half was 4.3 percent. This means that the economy must grow by 7.3 percent in the second half in order to meet the 5.8 percent target set by National Treasury.

The below target growth rate is an early warning sign that the 5.8 percent target set by national treasury may be unlikely achieved. The pressure may not ease since factors affecting the preferred growth are exogenous to the system. Travel advisories, the Ebola outbreak, internal threat (insecurity) and the persistent electioneering mood are but few of these exogenous factors worth mentioning.

Figure 1: Trends in Government Overdraft in Kshs.Billion (June-2013-August 2014)



Data Source: CBK



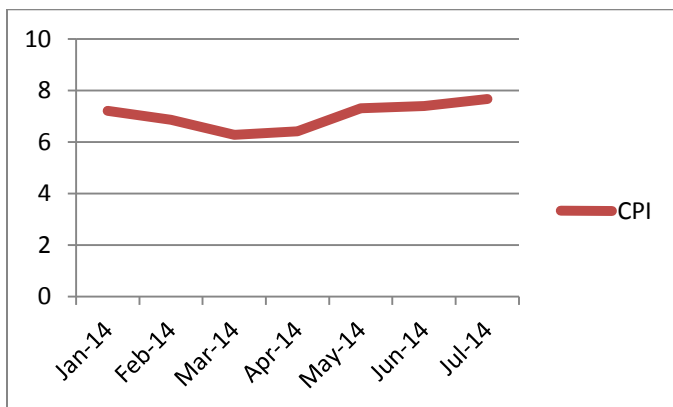
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Inflation

Inflationary pressures have continued to intensify in recent months. Consumer price inflation breached the upper limit of the inflation target range in July 2014 as energy and food price inflation increased considerably. Inflation increased from 7.39% in June to 7.67% in July. This was occasioned by the increase in the prices of food and non-alcoholic drinks.

Figure 2: Trends in Inflation over the period Jan 2014-July 2014



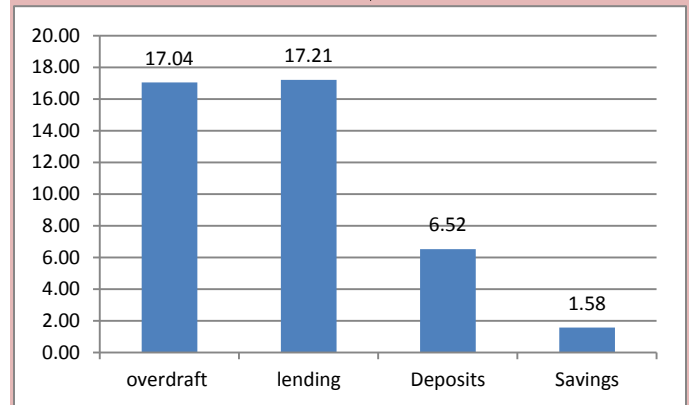
Source: KNBS

Interest Rates

The average yield rate for the 91-day Treasury bills, which is a benchmark for the general trend of interest rates, decreased from 9.28 per cent in June 2014 to 8.47 per cent in July 2014, this however has not translated into decreased cost of credit in commercial banks. A quick scan indicates that average interest charged for borrowings by most commercial banks ranged from 14 per cent to 16 per cent.

Interest Rates

Figure 3: Trends in Average Interest Rates in percent (January 2013- July, 2014)



Data Source: CBK

Financing of Central Government Operations

The continued enlargement of government expenditure, slow performance of revenues, and challenges in flow of borrowed funds has led to a rise in CBK overdraft. The continued use of the overdraft and lack of repayment at the end of the FY 2013/14 raises concerns on the Cash Management Framework being implemented undertaken by the Treasury. In July 2014, the CBK overdraft stood at 30.5 billion, compared to Kshs. 39.1 billion at the end of June, 2014. From the foregoing, it is apparent that the Government simply rolled over the outstanding balance into 2014/15.

The overdraft instrument has adverse effects to the economy such as pushing up inflation in the domestic market; this is because it is a form of monetary expansion. Moreover, the interest rate charged on the overdraft is quite high, which adds to the already high projected interest payments over the year.

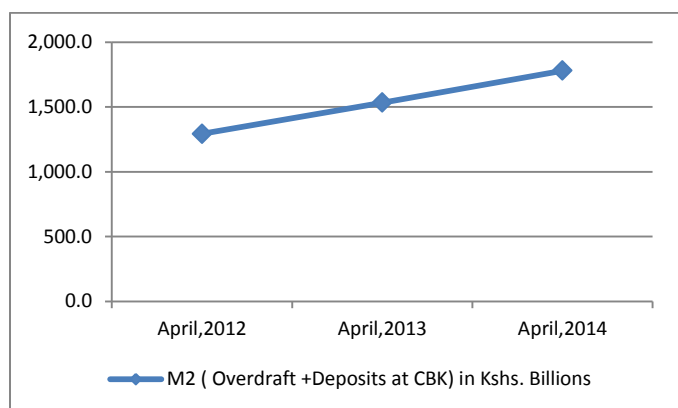


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The delay in full operationalization of the Treasury Single Account as enacted in the PFM Act, 2012 could be one of the factors that contribute to the increased use of the overdraft instrument by the government. In addition, the slow pace of revenue growth calls for keener public finance scrutiny, especially in so far as containing recurrent expenditure is concerned.

Figure 4: Trends in M2 (in Kshs. Billion) over the period April 2012 - April 2014



Data Source: Central Bank of Kenya

Exchange Rate

The shilling remained vulnerable to international developments and domestic factors, erratic weather patterns and electricity supply constraints.

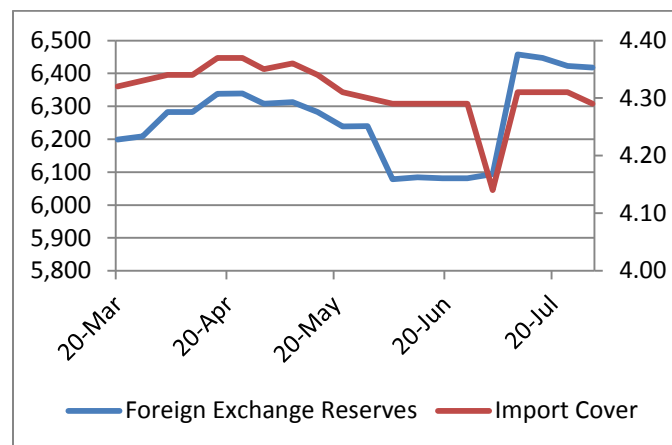
The the shilling had a marginal appreciation against major currencies in the month of July. This was occasioned by the improvement of the terms of trade due to increased volume of agricultural products such as tea, coffee, and cut flower. The export of coffee from Kenya grew by 18 percent over the period May – June. The export front was also boosted by the improvement in the price for tea and coffee. Indeed, composite price for coffee improved by 38 basis points while the price of tea improved by 500 basis points.

The fluctuations of the shilling were in a range of Ksh.87.63 and Ksh.87. 80 against the USD in July 2014 compared to a range of Ksh.87.38 and Ksh.87.92 against the USD in June 2014. On other major currencies the shilling exchanged at an average of Kshs. 117.63, Kshs. 148.58 and Kshs.14.22 respectively, to the Euro, Sterling pound, and the Chinese Yuan in the month of July.

Foreign Exchange Reserves

The usable official foreign exchange reserves held by Central Bank stood at US\$ 6,081 million by the end of June 2014 (4.29 months cover) and increased further to US\$ 6,418 by 31st July 2014 (4.29 months of import cover). The increase in foreign reserves could be attributed to the Sovereign bond that raised 2 billion dollars. However, limited inflows from exports and rising international oil prices may offset the Kenya's current account hence worsening foreign reserves.

Figure 6: Trends in Forex Reserves in March- July 2014 (in US\$ Million)



Data Source: Central Bank of Kenya



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Domestic Debt

The stock of domestic debt increased by Kshs.223.8 billion from Kshs.1, 050.6 billion in June 2013 to Kshs.1, 284.3 billion in June 2014. The foreign debt increased by US\$2,584.2 million from US\$9,807.7 million in June 2013 to US\$12,391.9 million by end of June 2014. The rise of foreign debt was due to depreciation of the shilling against the Eurozone currency in the Euro-denominated foreign debt and the increased disbursements from IDA and China.

Memorandum Items ¹		
Category	Estimate for 2014/15	Current Actual/Provisional
GDP Growth rate	5.8% (Nat. Treasury 2014)	4.7% (2013)
Revenue Target (excluding external grants)	Kshs.1,087.1 billion	Kshs. 65.3 billion(6 %target of the FY) (31 st July,2014)
Stock of Debt	Kshs. 2,200 billion	
<i>Of which: Domestic</i>		Kshs. 1,281billion (15 th August , 2014)
<i>External</i>		Kshs. 1,085.9 billion (June, 2014)
<i>CBK Overdraft</i>		Kshs. 24.9 Billion (August,2014)
Exchequer releases	Kshs. 1,182 billion	Kshs. 38.51 Billion(31 st July, 2014)
<i>Of which: CFS</i>	<i>Kshs. 415.5 billion</i>	Kshs. 5.1 Billion (31 st July, 2014)
Transfers to Counties	<i>Kshs.226.66 billion</i>	

Main data sources are Central Bank, KNBS, KRA, Treasury and PBO