

Republic of Kenya

THE NATIONAL TREASURY

Quarterly Economic and Budgetary Review

**First Half, Financial Year 2016/2017
Period ending 31st December, 2016**

February 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

Legal basis for the publication of the Quarterly Economic and Budgetary Review Report (QEBR)

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: FIRST HALF, 2016/2017

1. Economic Growth

The Kenyan economy continued with the strong growth momentum in 2016 with a growth of 5.7 percent in the third quarter of 2016 from a growth of 6.2 percent and 5.9 percent in the second and first quarter of 2016, respectively. The growth in the third quarter of 2016 was supported by improved performance in; accommodation and restaurant, transport and storage, information and communication and wholesale and retail trade.

2. Inflation

Overall month on month inflation declined to 6.4 percent (within target range) in December 2016 from 6.7 percent in November 2016. On average, the annual inflation rate decline to 6.3 percent in December 2016 compared to 6.6 percent in the same period in 2015

3. Balance of Payments

The overall balance of payments position recorded a deficit of US\$ 821 million in the year to November 2016 from a surplus of US\$ 39 million in the year to November 2015. The current account balance improved to a deficit of US\$ 3,618 million in the year to November 2016 from a deficit of US\$ 4,630 million in the year to November 2015.

4. Foreign Exchange Reserves

The banking system's foreign exchange holdings increased by 9.7 percent to US\$ 10,327 million in November 2016 from US\$ 9,411 million in November 2015. This was due to the increase of the official reserves held by the Central Bank to US\$ 7,872 million in November 2016 from US\$ 7,161 million in 2015.

5. Money and Credit

Growth of broad money supply, M3, slowed to 3.6 percent in the year to December 2016 compared to a growth of 14.1 percent in the year to December 2015.

6. Capital Markets

Activities at the stock market was suppressed in the year to December 2016, with the NSE 20 share index recording 3,157 points in December 2016 from 3251 points in November 2016 due to the prolonged uncertainty in the global financial market and capital outflows to emerging and frontier market economies.

7. Total Revenue Collection

The National Government cumulative revenue collection including A-I-A for the period July 2016 to December 2016 amounted to Ksh. 674.2 billion (equivalent to 9.1 per cent of GDP) against a target of Ksh. 701.7 billion or 9.4 per cent of GDP. This represented an underperformance of Ksh. 27.5 billion mainly due to shortfalls in Income Tax (PAYE), A-I-A collection, VAT (Imports), Import duty and IDF fee.

8. **Government Expenditure and Net Lending**

The total cumulative expenditure and net lending inclusive of transfers to county governments for the period ending 31st December, 2016 amounted to Ksh. 928.5 billion. This was Ksh. 182.4 billion below the target of Ksh. 1,110.9 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 and County Governments were below target.

9. **Guaranteed Loans**

Between July 2016 and December 2016, the National Government paid a total of Ksh. 728.3 million on account of guaranteed loans comprising of Ksh. 669.5 million and Ksh. 58.8 million.

10. **Overall Fiscal Balance**

The cumulative overall fiscal balance, on a commitment basis (excluding grants), amounted to a deficit of Ksh. 254.4 billion (equivalent to 3.4 per cent of GDP), as at end-December 2016.

11. **External Financing**

Between July 2016 and December 2016, external financing amounted to a net borrowing of Ksh. 113.4 billion, compared to a net borrowing of Ksh. 136.8 billion in the same period ending December 2015

12. **Net Domestic Borrowing**

Net domestic financing amounted to a net borrowing of Ksh. 164.6 billion (equivalent to 2.2 per cent of GDP) in the period ending 31st December 2016.

13. **Domestic Debt**

Total gross domestic debt stock increased by 25.4 per cent from Ksh. 1,540.0 billion as at end-December 2015 to Ksh. 1,931.0 billion by the end-December 2016.

14. **External Debt**

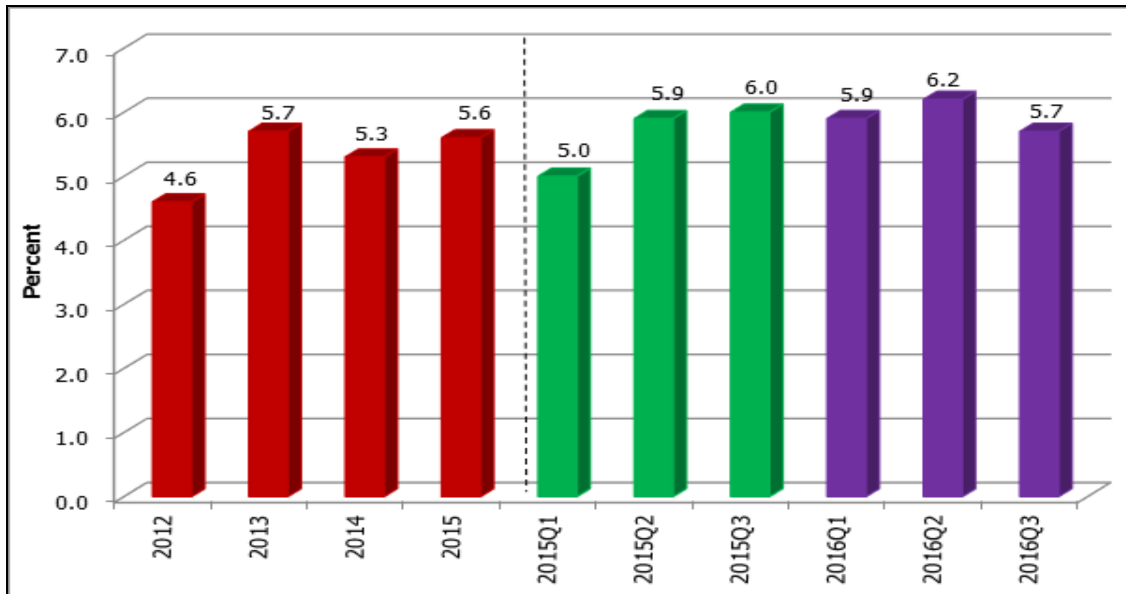
The total external debt stock, including the International Sovereign Bond, stood at Ksh. 1,896.4 billion at the period ending December 2016. The debt stock comprised of multilateral debt (41.2 per cent), bilateral debt (33.8 per cent), Suppliers Credit debt (0.8 per cent), and Commercial banks' debt (24.2 per cent-incl. International Sovereign Bond)

1.0 RECENT ECONOMIC DEVELOPMENTS

1.1 Economic Growth

1. The Kenyan economy continued with the strong growth momentum in 2016 with a growth of 5.7 percent in the third quarter of 2016 from a growth of 6.2 percent and 5.9 percent in the second and first quarter of 2016, respectively (**Chart 1a**). The growth in the third quarter of 2016 was supported by improved performance in; accommodation and restaurant (13.8 percent), transport and storage (10.3 percent), information and communication (8.5 percent) and wholesale and retail trade (6.8 percent). Growth in other sectors, particularly agriculture, forestry and fishing, mining, manufacturing, electricity and water supply, construction, financial and insurance and real estate, remained robust in the quarter to September 2016.

Chart 1a: Economic Growth Rates



Source of data: Kenya National Bureau of Statistics

2. The accommodation and restaurant sector improved by 13.8 percent in the third quarter of 2016, up from a contraction of 6.5 percent in the same quarter in 2015, 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 1b**).

3. The transport and storage sector growth of 10.3 percent in the third quarter of 2016 from a growth of 9.4 percent in the same quarter 2015, is attributed to the favourable prices of fuel that resulted to lower retail prices for petroleum products coupled with the continued improvement in the road network leading to a general increase in commuter services. Air transport activities remained curtailed in the quarter under review partly due to a significant decline in the volume of cargo handled.

4. The information and communication sector recorded a growth of 8.5 percent in the third quarter of 2016 compared to 8.2 percent growth in the same quarter of 2015. The sustained growth in this sector has been on account of strong performance in mobile telephony sub-sector.

RECENT ECONOMIC DEVELOPMENTS

5. The construction sector recorded a growth of 9.3 percent in the third quarter of 2016, a slowdown from a growth of 15.6 percent in the third quarter of 2015. The slower growth is partly on account of reduced activities in the construction of the Standard Gauge Railway (SGR) as its completion draws nearer and a slowdown in private sector development in the real estate sector which is mirrored in the decreased cement consumption and decline of credit to the sector by commercial banks.

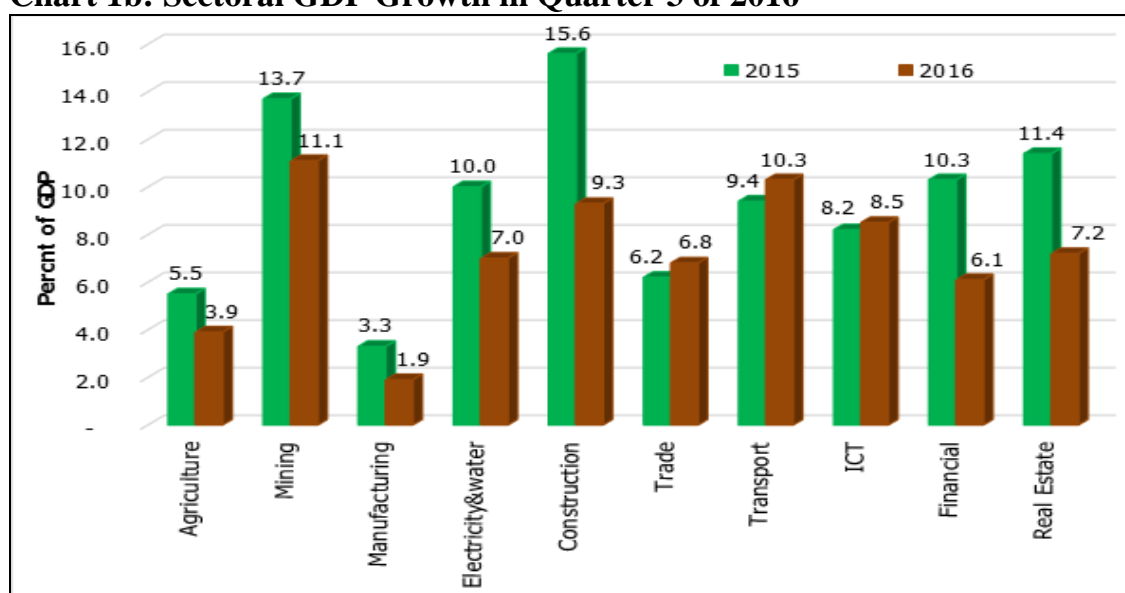
6. The electricity and water supply sector grew by 7.0 percent in the third quarter of 2016 compared to a growth of 10.0 percent in the same quarter of 2015, due to the decline in the production of electricity from geothermal sources. To bridge the gap, thermal and hydro electricity generation increased in the quarter under review

7. Financial and insurance sector recorded a growth of 6.1 percent in the third quarter of 2016 a slowdown from a growth of 10.3 percent registered in a similar period of 2015. This slowdown in 2016 may partly be explained by the decline in domestic credit to the private sector.

8. Agriculture, forestry and fishing sector recorded a growth of 3.9 percent in the third quarter of 2016 compared to a growth of 5.5 percent in the same period in 2015. The growth in the sector was dampened by poor performance in the production of tea and coffee despite increased output of some food crops, cut flowers and livestock production. In addition, total volume of exports of cut flowers and vegetables increased during the review period.

9. The manufacturing sector registered a slow growth of 1.9 percent in the third quarter of 2016 compared to a growth of 3.3 percent in a similar period in 2015. The growth in the sector was dampened by a decline in the production of soft drinks, manufacture of beer and stout, assembly of motor vehicles and cement production.

Chart 1b: Sectoral GDP Growth in Quarter 3 of 2016



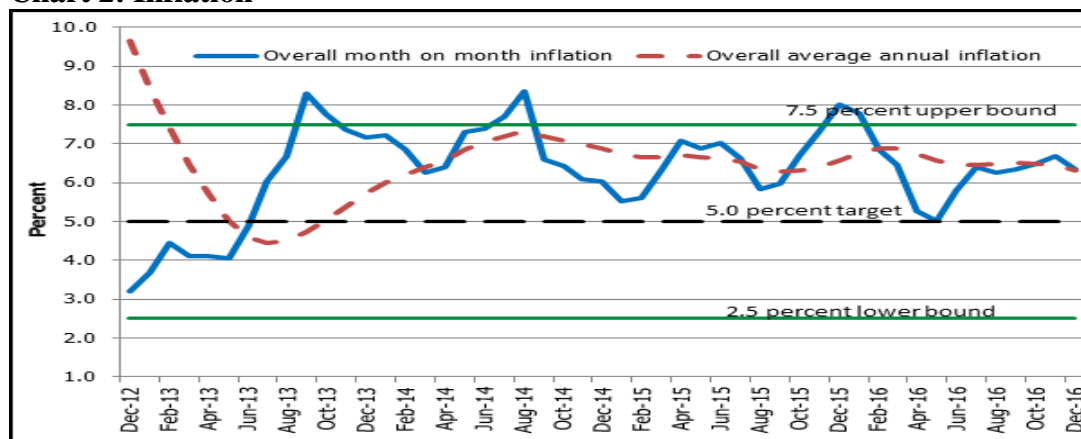
Source of data: Kenya National Bureau of Statistics

RECENT ECONOMIC DEVELOPMENTS

1.2 Inflation

10. Overall month on month inflation declined to 6.4 percent (within target range) in December 2016 from 6.7 percent in November 2016 (**Chart 2**). The decrease in inflation in December 2016 was explained by the easing of fuel inflation owing to significant decline in the cost of cooking gas and the waning effect of the excise tax implemented in December 2015 despite increase in food prices. On average, the annual inflation rate declined to 6.3 percent in December 2016 compared to 6.6 percent in the same period in 2015.

Chart 2: Inflation

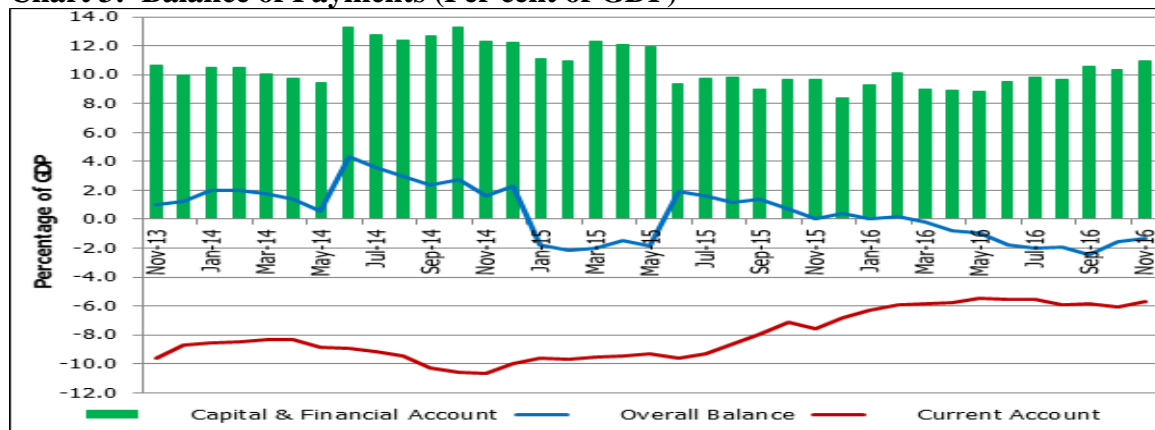


Source of data: Kenya National Bureau of Statistics

1.3 Balance of Payments

11. The overall balance of payments position recorded a deficit of US\$ 821 million in the year to November 2016 from a surplus of US\$ 39 million in the year to November 2015 (**chart 3**). The current account balance improved to a deficit of US\$ 3,618 million in the year to November 2016 from a deficit of US\$ 4,630 million in the year to November 2015. This is attributed to a 13.9 percent improvement in the value of the merchandise account due to a decline in payments for merchandise imports. As a share to GDP, the current account deficit improved to 5.7 percent in November 2016 from 7.5 percent in November 2015.

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

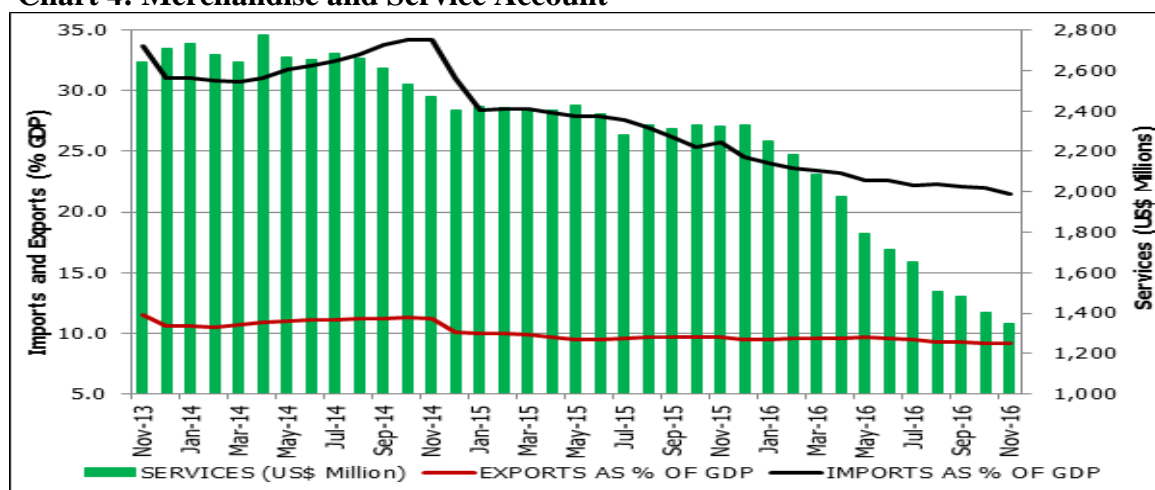


Source of data: Central Bank of Kenya

RECENT ECONOMIC DEVELOPMENTS

12. The deficit in the merchandise account narrowed by US\$ 2,064 million to US\$ 7,834 million in the year to November 2016 reflecting lower imports of petroleum products, machinery and transport equipment and additional inflows from improved horticulture and tea production. **(Chart 4)**. In the period November 2015 to November 2016, the inflows from the services account declined by 10.7 percent mainly due to lower receipts from transport services. On the upside, travel services improved in line with the recovery in tourist arrivals. Inflows (secondary income) from remittances decreased by 6.8 percent in November 2016.

Chart 4: Merchandise and Service Account



Source of data: Central Bank of Kenya

13. Flows in the Financial Account increased to US\$ 6,704 million in November 2016 compared with US\$ 5,678 million in November 2015. The capital inflows were mainly in the form of portfolio investments, direct investment and other investment which stood at US\$ 443 million, US\$ 265 million and US\$ 5,996 million, respectively in November 2016. Other investment inflows mainly include foreign financing for Government infrastructure projects.

1.4 Foreign Exchange Reserves

14. The banking system's foreign exchange holdings increased by 9.7 percent to US\$ 10,327 million in November 2016 from US\$ 9,411 million in November 2015 **(Table 1 and Chart 5)**. This was due to the increase of the official reserves held by the Central Bank to US\$ 7,872 million (5.5 months of import cover) in November 2016 from US\$ 7,161 million (4.5 months of import cover) in 2015. In addition, reserves held by commercial banks increased to US\$ 2,455 million in 2016 from US\$ 2,250 million in 2015.

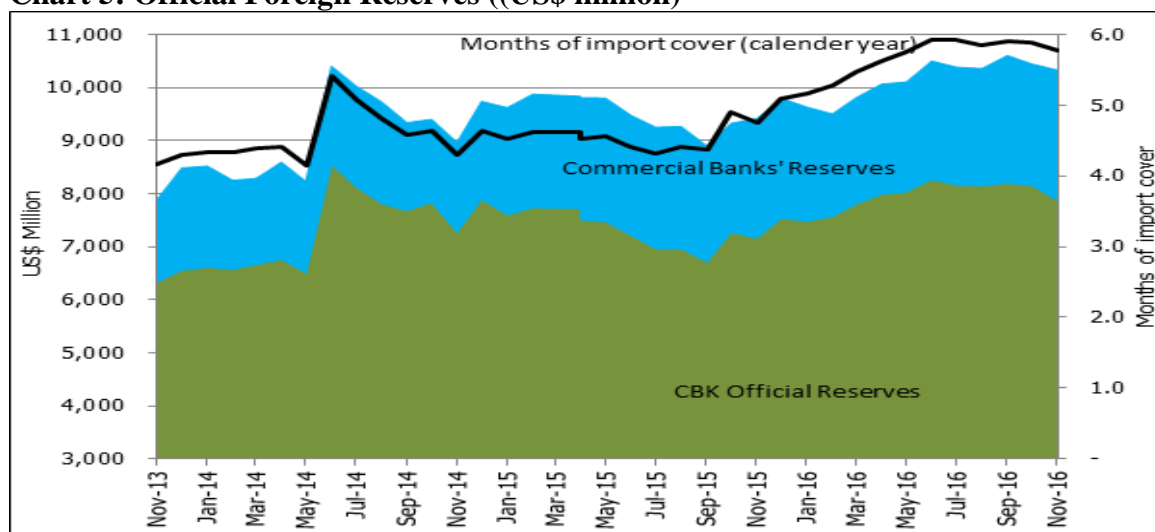
RECENT ECONOMIC DEVELOPMENTS

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

	Nov-15	Jan-16	Mar-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
Gross Foreign Exchange Reserves	9,411	9,629	9,809	10,499	10,381	10,354	10,602	10,442	10,327
Official	7,161	7,481	7,807	8,267	8,165	8,144	8,200	8,155	7,872
Commercial Banks	2,250	2,148	2,002	2,232	2,217	2,210	2,402	2,287	2,455
Import cover (36 mths imports)	4.51	4.79	5.03	5.45	5.45	5.48	5.61	5.68	5.49

Source of data: Central Bank of Kenya

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



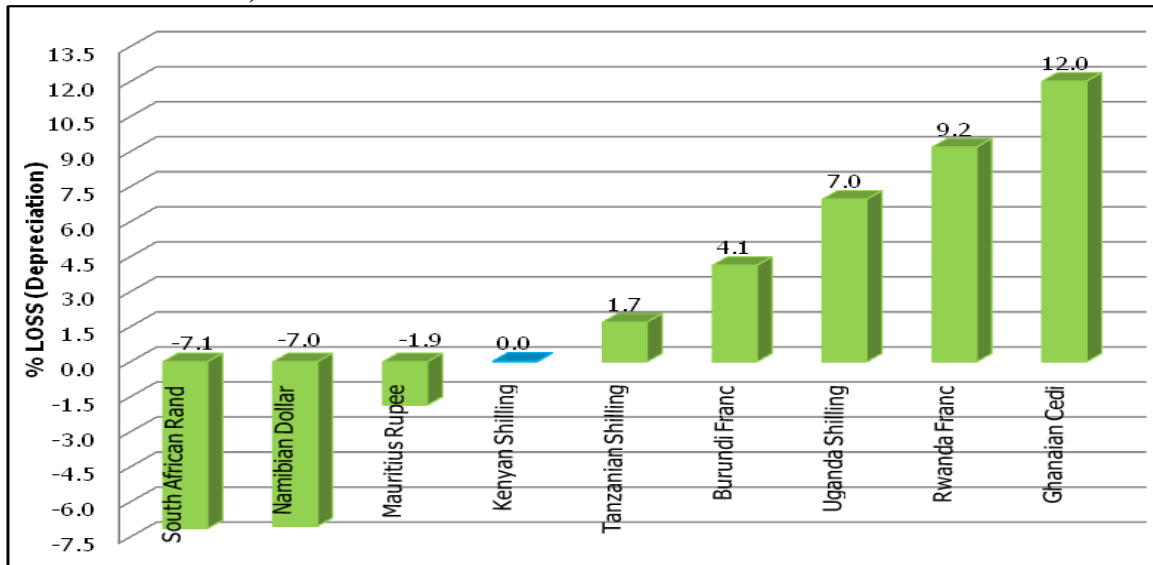
Source of data: Central Bank of Kenya

1.5 Exchange Rates

15. The Kenya shilling exchange rate has continued to display relatively less volatility compared with the major regional currencies and remained stable at Ksh. 102.2 against the US dollar for the period December 2015 to December 2016 (**Chart 6a and 6b**). The stability of the Kenya shilling exchange rate reflected improved export earnings from tea and horticulture, a reduction in the imports bill, resilient Diaspora remittances and improved tourism performance. The currency was at Ksh. 102.2 against the US dollar in December 2016 from Ksh. 101.9 in November 2016. Against the Sterling Pound and the Euro, the exchange rate was at Ksh. 127.7 and Ksh. 107.7 in December 2016 from Ksh. 127.1 and 108.1 in November 2016, respectively.

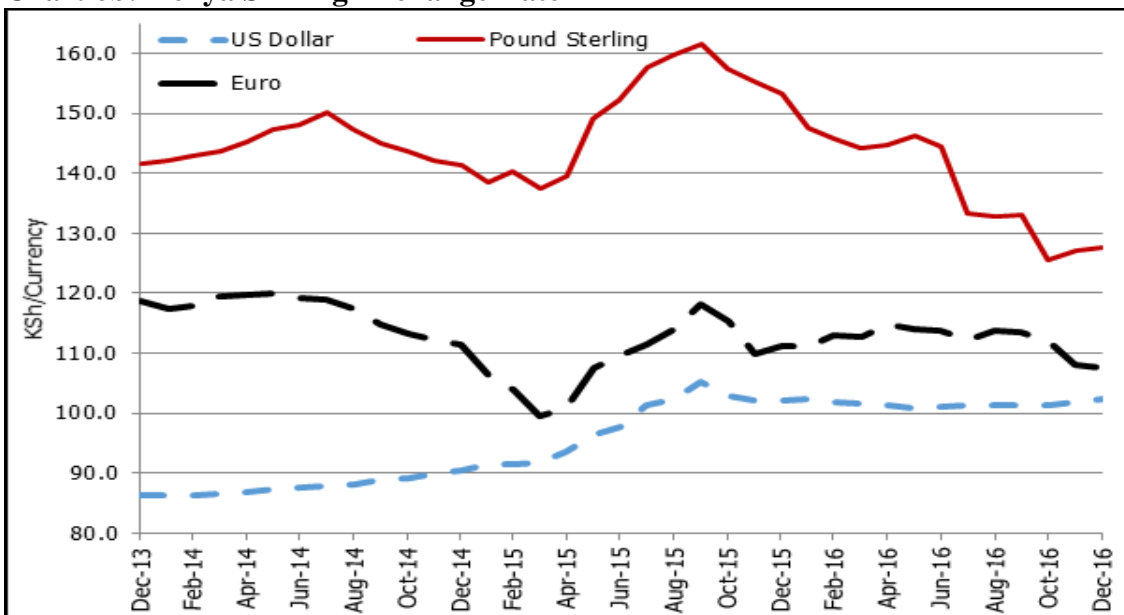
RECENT ECONOMIC DEVELOPMENTS

Chart 6a: Performance of selected Currencies against the US Dollar (December 2015 to December 2016)



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

16. Growth of broad money supply, M3, slowed to 3.6 percent in the year to December 2016 compared to a growth of 14.1 percent in the year to December 2015 (**Table 2**). The slowdown in the growth in the year to December 2016 was largely on account of a decline in the uptake of domestic credit both by the Government and the private sector.

RECENT ECONOMIC DEVELOPMENTS

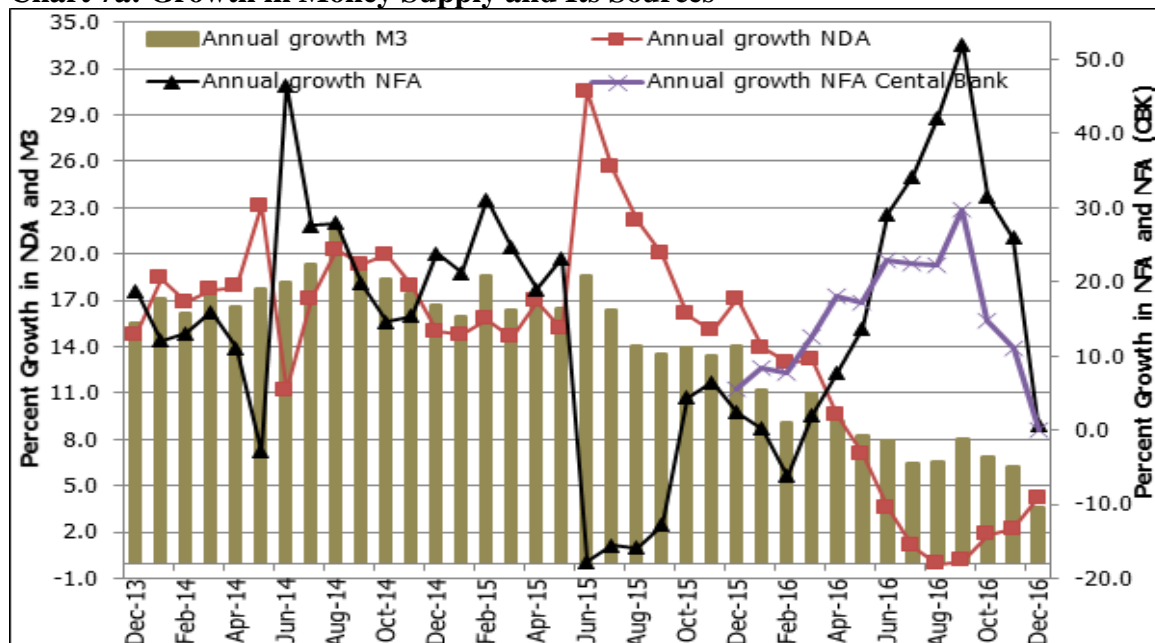
Table 2: Money and Credit Developments, Ksh. billion

				Absolute Change		percent change	
	2014	2015	2016	2014-2015	2015-2016	12 months to	12 months to
	DEC	DEC	DEC	DEC	DEC	Dec-15	Dec-16
Money supply, M3 (1+2)	2,330.0	2,658.2	2,753.5	328.2	95.4	14.1	3.6
1. Net foreign assets (1.1+1.2)	479.7	491.5	495.2	11.8	3.7	2.5	0.8
1.1 Central Bank	588.8	621.4	621.6	32.6	0.2	5.5	0.0
1.2 Banking Institutions	-109.1	-129.9	-126.4	-20.8	3.5	19.0	-2.7
2. Net domestic assets (2.1+2.2)	1,850.3	2,166.7	2,258.4	316.4	91.7	17.1	4.2
2.1 Domestic credit (2.1.1+2.1.2+2.1.3)	2,312.2	2,793.9	2,917.8	481.7	123.8	20.8	4.4
2.1.1 Government (net)	379.3	524.0	536.3	144.7	12.2	38.2	2.3
2.1.2 Other public sector	48.4	49.8	66.8	1.4	17.0	3.0	34.1
2.1.3 Private sector	1,884.5	2,220.0	2,314.7	335.6	94.6	17.8	4.3
2.2 Other assets net	-461.9	-627.2	-659.4	-165.4	-32.2	35.8	5.1

Source of data: Central Bank of Kenya

17. Net Foreign Assets (NFA) of the banking system in the year to December 2016 grew by 0.8 percent from a growth of 2.5 percent over a similar period in 2015 (**Chart 7a**). NFA of the Central bank increased by an equivalent of Ksh. 0.2 billion in the year to December 2016 while that of the banking institutions increased by Ksh. 3.5 billion during the same period.

Chart 7a: Growth in Money Supply and Its Sources



Source of data: Central Bank of Kenya

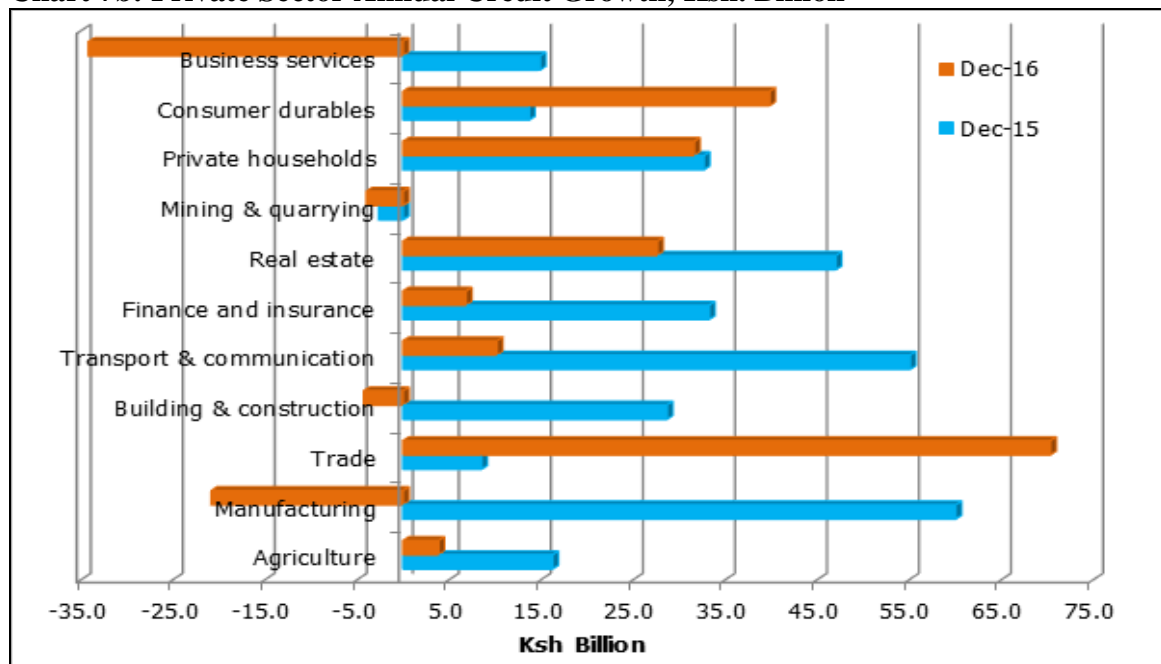
18. Meanwhile, the NDA of the banking system slowdown to a growth of 4.2 percent in the year to December 2016 from the growth of 17.1 percent over a similar period in 2015. The slowdown in 2016 is due to a decline in the growth of net domestic credit and the contraction in the other assets net of the banking system.

RECENT ECONOMIC DEVELOPMENTS

19. Domestic credit slowed to an annual growth of Ksh. 123.8 billion (4.4 percent) in the year to December 2016 compared to a growth of Ksh. 481.7 billion (20.8 percent) in December 2015. The slowdown was mainly attributed to a decline in lending to the Government and to the private sector which grew by Ksh. 12.2 billion and Ksh. 94.6 billion, respectively. Credit to other Public sectors had an increased growth of Ksh. 17.0 billion. Bank credit to the private sector slowed to a growth of 4.3 percent in the year to December 2016 from a 17.8 percent growth in the same period in 2015.

20. As shown in **Chart 7b**, most sectors of the economy except trade and consumer durables, experienced a slowdown in credit uptake compared to the same period in 2015 due to tight credit conditions.

Chart 7b: Private Sector Annual Credit Growth, Ksh. Billion



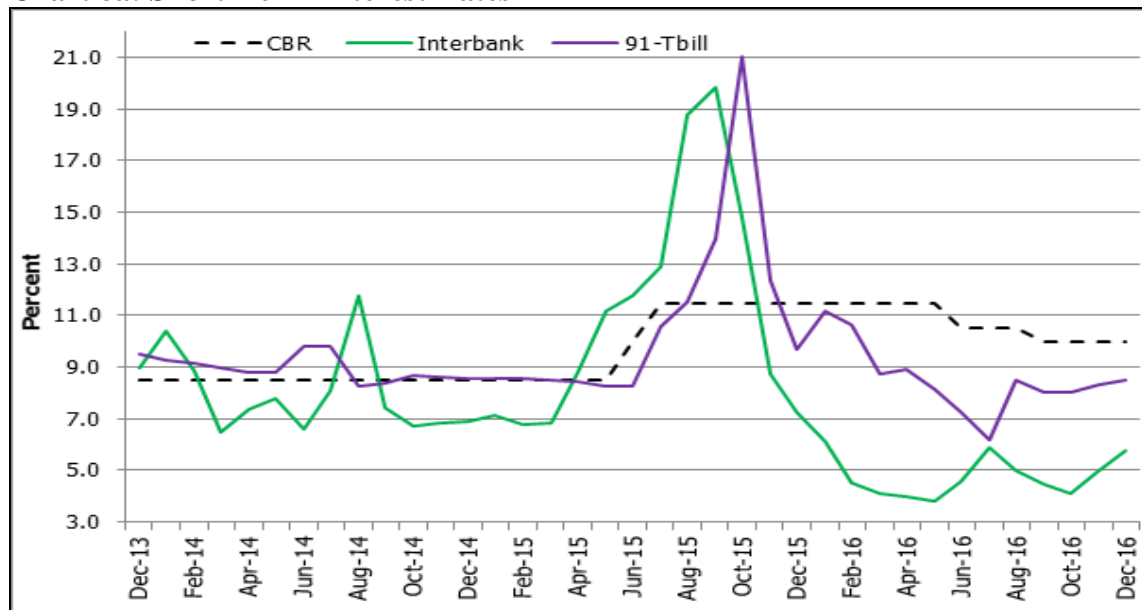
Source of data: Central Bank of Kenya

1.7 Interest Rates

21. The short term interest rates have remained fairly stable and oscillated around the 10 percent Central Bank Rate (CBR). The interbank rate averaged 5.8 percent in December 2016 from 5.0 percent in November 2016 (**Chart 8a**), while the 91-day Treasury bill rate averaged 8.5 percent from 8.3 percent over the same period. The 182 day Treasury bill averaged 10.5 percent in December 2016 from 10.4 percent in November 2016 while the 364 day Treasury bill rate averaged 11.1 percent from 10.8 percent over the same period.

RECENT ECONOMIC DEVELOPMENTS

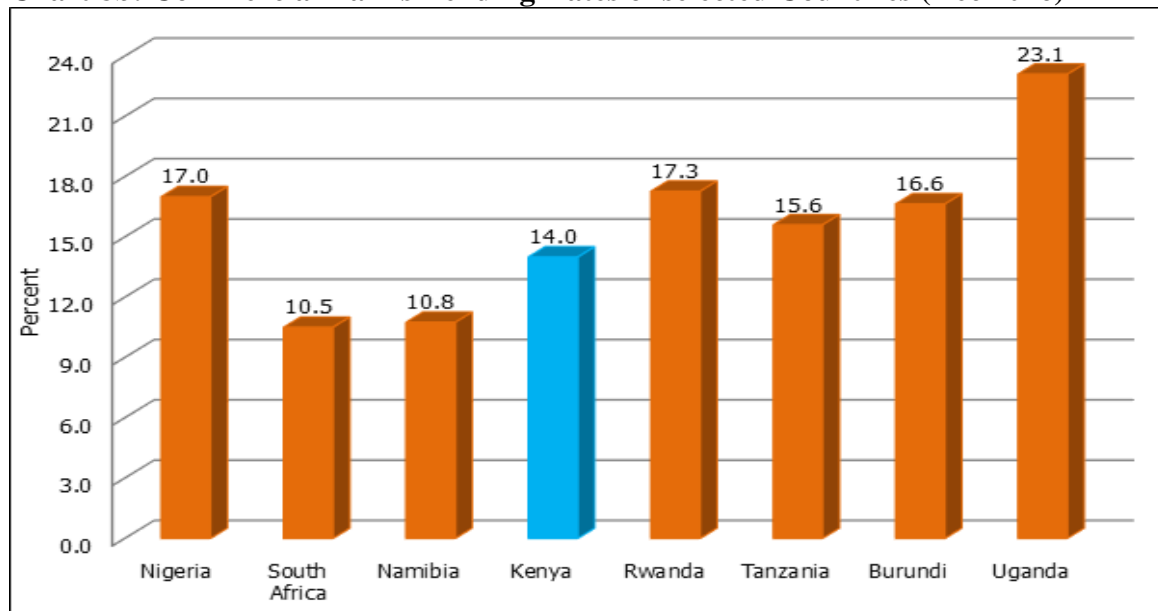
Chart 8a: Short-Term Interest Rates



Source of data: Central Bank of Kenya

22. Lending rates in the banking industry declined to 14.0 percent since September 2016, from 17.7 percent in August 2016 following enactment of the Banking (Amendment) Act, 2016. Deposit rate has been at 7.0 percent since September 2016 from 6.4 percent in August 2016 (Chart 8b).

Chart 8b: Commercial Banks Lending Rates of selected Countries (Dec 2016)



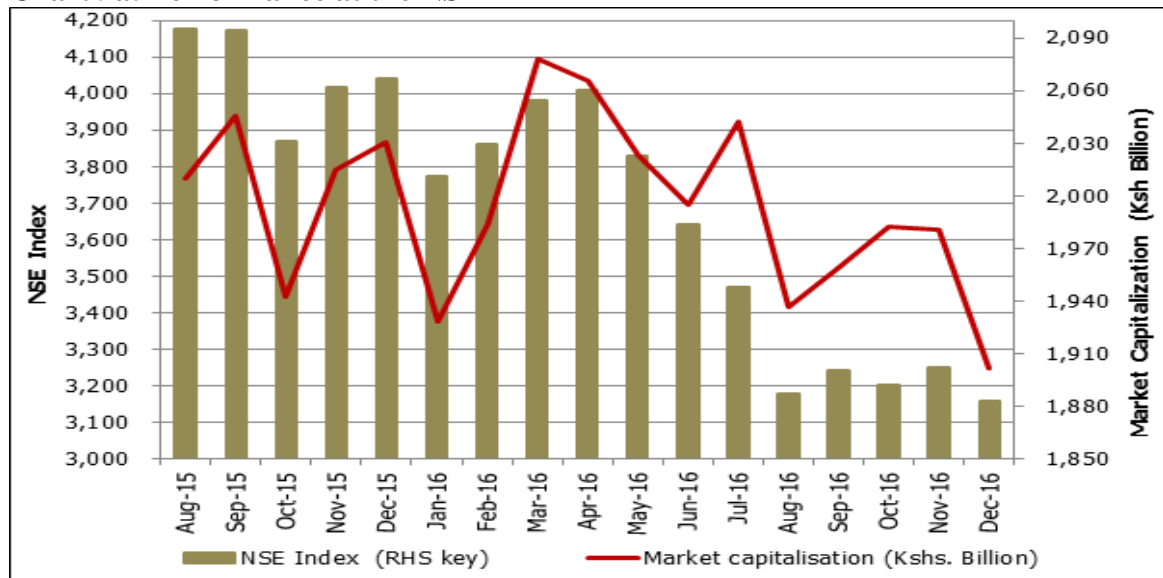
Source of data: National Central Banks

1.8 Capital Markets

23. Activities at the stock market was suppressed in the year to December 2016, with the NSE 20 share index at 3,157 points in December 2016 from 3,251 points in November 2016 while market capitalization stood at Ksh. 1,902 billion in December 2016 from Ksh. 1,981 billion in November 2016 (Chart 9a).

RECENT ECONOMIC DEVELOPMENTS

Chart 9a: Performance at the NSE



Source of data: Central Bank of Kenya

FISCAL DEVELOPMENTS

2.0 FISCAL DEVELOPMENTS

2.1 Revenue

24. By the end of December 2016, total cumulative revenue including A-I-A collected amounted to Ksh. 674.2 billion against a target of Ksh. 701.7 (*Table 3 and Chart 9*). This performance was below the target by Ksh. 27.5 billion. Ordinary revenue collection was Ksh. 623.7 billion against a target of Ksh. 643.9 billion, which was Ksh. 20.1 billion below the target. The Railway Development Levy collection amounted to Ksh. 13.4 billion against a target of Ksh. 9.7 billion, an over performance of Ksh. 3.6 billion. Cumulative ministerial A-I-A recorded an under performance of Ksh. 7.4 billion for the period under review. The A-I-A under performance reflects the problem of under reporting by the ministry's expenditure return for the period under review. However, compared to the last quarter of the fiscal year 2015/16, the Revenue collection increased by 18.5 percentage.

Table 3: Government Revenue and External Grants, Period Ending 31st December, 2016 (Ksh. Million)

	2015/2016 Actual	2016/17		Deviation KShs.	Deviation in percentage
		Actual	Target		
Total Revenue (a+b)	568,808	674,155	701,682	(27,526)	(3.92)
(a) Ordinary Revenue	544,203	623,715	643,858	(20,143)	(3.13)
Import Duty	39,170	42,883	46,645	(3,762)	(8.06)
Excise Duty	64,705	81,664	79,641	2,024	2.54
PAYE	132,261	144,065	161,536	(17,470)	(10.82)
Other Income Tax	129,923	145,209	146,270	(1,061)	(0.73)
VAT Local	71,775	91,950	84,728	7,222	8.52
VAT Imports	66,261	68,586	78,737	(10,151)	(12.89)
Investment Revenue	9,833	21,646	12,009	9,637	80.25
Traffic Revenue	1,617	1,335	1,876	(542)	(28.87)
Taxes on Intl. Trade & Trans.(IDF Fee)	13,124	11,371	15,301	(3,930)	(25.68)
Others ¹	15,534	15,005	17,114	(2,109)	(12.33)
(b) Appropriation In Aid ²	24,605	50,440	57,824	(7,384)	(12.77)
o/w Railway Development Levy	8,927	13,350	9,716	3,634	37.40
(c) External Grants	12,312	5,775	34,744	(28,969)	(83.38)
Total Revenue and External Grants	581,120	679,930	736,425	(56,495)	(7.67)
Total Revenue and External Grants as a percentage of GDP	8.80	9.14	9.90		-

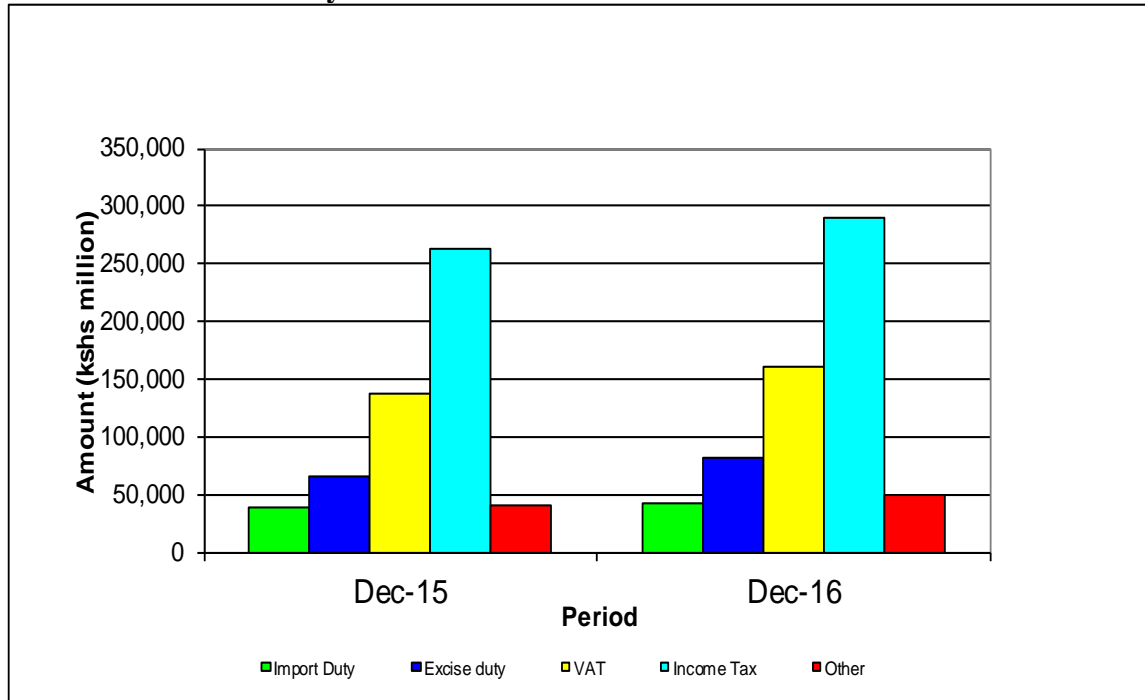
1/ includes rent of buildings, fines and forfeitures, other taxes, reimbursements and other fund contributions, and miscellaneous revenue.

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

Source: National Treasury

25. As a proportion of GDP, the total cumulative revenue and grants in the period under review amounted to 9.1 per cent compared to 8.8 per cent in the corresponding period of the FY 2015/16. External grants amounted to Ksh. 5.8 billion against a target of Ksh. 34.7 billion, representing an under performance of Ksh. 29.0 billion.

Chart 9: Total Ordinary Revenue



Source: National Treasury

2.2 Expenditure

26. The total expenditure and net lending for the period under review amounted to Ksh. 928.5 billion, against a target of Ksh. 1,110.9 billion. The shortfall of Ksh. 182.4 billion was attributed to lower absorption recorded in both recurrent and development expenditures by the National Government and County Governments. (Table 4 and Chart 10). Recurrent expenditure for National Government amounted to Ksh. 520.4 billion (excl. Ksh. 17.2 billion for Parliament and Judiciary), against a target of Ksh. 562.7 billion, with underperformance recorded in wages and salaries, and Operation and Maintenance which accounted for Ksh. 24.6 billion, and Ksh. 22.7 billion, respectively.

27. Foreign interest payments amounted to Ksh. 25.2 billion, compared to Ksh. 17.4 billion in the same period of the 2015/16 FY. The domestic interest payments totalled Ksh. 100.1 billion, which was higher than Ksh. 85.7 billion paid in the corresponding period of the previous financial year.

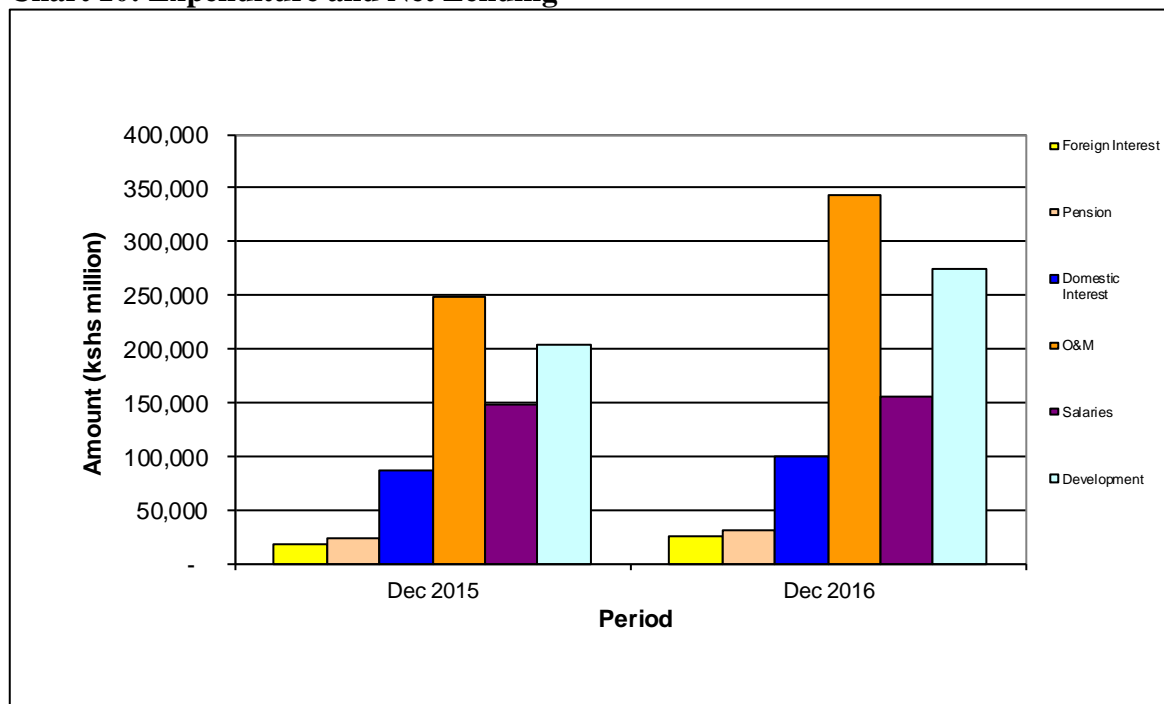
FISCAL DEVELOPMENTS

Table 4: Expenditure and Net Lending, Period Ending 31st December, 2016 (Ksh. Million)

	2015/2016 Actual	2016/17		Deviation	% Growth
		Actual	Targets		
1. RECURRENT	416,489	520,361	562,749	(42,388)	24.9
Domestic Interest	85,715	100,088	94,865	5,224	16.8
Foreign Interest	17,422	25,210	25,448	(238)	44.7
Pensions	22,812	29,984	30,060	(76)	31.4
Wages and Salaries	148,715	155,742	180,388	(24,646)	4.7
Operation and Maintenance	141,825	209,337	231,989	(22,652)	47.6
O/W : Appropriation-in-Aid	15,209	36,637	30,661	5,977	140.9
2. DEVELOPMENT	204,421	274,744	376,138	(101,394)	34.4
Development Projects (Net)	114,984	152,831	162,956	(10,125)	32.9
Payment of Guaranteed Loans	504	1,283	1,062	221	154.6
Appropriation-in-Aid	88,934	120,630	212,119	(91,490)	35.6
3. County Governments	99,191	116,252	149,164	(32,912)	17.2
4. Parliamentary Service	2,054	11,927	13,665	(1,738)	-
5. Judicial Service	5,215	5,226	6,655	(1,429)	-
6. Equalization Fund	-	-	3,000	(3,000)	-
7. CF	-	-	2,500	(2,500)	-
TOTAL EXPENDITURE	727,369	928,510	1,110,871	(182,362)	27.7

Source: National Treasury

Chart 10: Expenditure and Net Lending



Source: National Treasury

FISCAL DEVELOPMENTS

28. The total cumulative ministerial and other public agencies expenditure was Ksh. 619.1 billion against a target of Ksh. 838.9 billion. Recurrent expenditure was Ksh. 345.6 billion against a target of Ksh. 428.8 billion, while development expenditure was Ksh. 273.5 billion against a target of Ksh. 410.1 billion. The percentage of total expenditures to the target was 73.8 per cent (55.8 per cent recurrent and 44.2 per cent development) 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 some district expenditures and hence under reporting by ministries. These ministerial expenditures are therefore, provisional.

29. As at the end of the period ending 31st December, 2016, expenditures by the Ministry of Education, Science and Technology; Teachers Service Commission and Ministry of Health (Social Sector) accounted for 38.5 per cent of total recurrent expenditure. While the State Department for Interior, and Ministry of Defence accounted for 11.3 per cent and 11.9 per cent respectively.

30. Analysis of development outlay indicates that the State Department for Transport (35.4 per cent) accounted for the largest share of the total development expenditures (mainly on SGR), followed by the State Department infrastructure (10.4 per cent) , the State Department for Planning and Statistics (9.8 per cent, mainly on CDF) and the State Department for Energy (8.7). The development expenditures in large ministries were below the target because of non-inclusion of expenditures from the districts and some donor funded projects. **Table 5** gives details of various Ministerial/Departmental and Commissions expenditures for the period under review.

FISCAL DEVELOPMENTS

Table 5: Ministerial Expenditures, Period Ending 31st December, 2016 (Ksh. Million)

MINISTRY/DEPARTMENT/COMMISSIONS	Dec-16		Variance	Dec-16		Variance	Dec-16		Variance	% total expenditure to total target
	Recurrent			Development			Total			
	Actual*	Target	Actual*	Target	Actual*	Target				
1011 The Presidency	3,226	3,972	(746)	74	241	(166)	3,300	4,212	(912)	78.3
1021 State Department for Interior	39,054	51,454	(12,400)	8,251	11,427	(3,176)	47,305	62,881	(15,576)	75.2
1023 State Department for Correctional Services	8,906	9,605	(698)	61	525	(464)	8,968	10,130	(1,162)	88.5
1032 State Department for Devolution	264	325	(61)	125	1,212	(1,087)	388	1,537	(1,148)	25.3
1033 State Department for Special Programmes	1,453	703	751	2,515	2,556	(41)	3,968	3,259	710	121.8
1034 State Department for Planning and Statistics	2,006	2,359	(353)	26,855	20,753	6,102	28,861	23,112	5,750	124.9
1041 Ministry of Defence	41,185	49,327	(8,142)	-	23	(23)	41,185	49,350	(8,165)	83.5
1052 Ministry of Foreign Affairs	3,413	8,603	(5,190)	38	1,500	(1,462)	3,451	10,103	(6,652)	34.2
1063 State Department for Basic Education	15,592	29,390	(13,798)	1,086	4,198	(3,111)	16,678	33,588	(16,909)	49.7
1064 State Department for Vocational And Technical Training	1,075	1,162	(87)	846	2,100	(1,255)	1,921	3,263	(1,342)	58.9
1065 State Department for University Education	23,275	30,326	(7,051)	3,346	5,740	(2,393)	26,621	36,066	(9,445)	73.8
1071 The National Treasury	15,107	18,370	(3,263)	2,065	22,765	(20,700)	17,172	41,135	(23,963)	41.7
1081 Ministry of Health	10,780	14,495	(3,715)	8,329	15,640	(7,311)	19,109	30,135	(11,026)	63.4
1091 State Department for Infrastructure	13,637	14,520	(882)	28,401	73,856	(45,455)	42,039	88,375	(46,337)	47.6
1092 State Department for Transport	558	2,890	(2,332)	96,871	87,903	8,967	97,429	90,794	6,635	107.3
1093 State Department for Marine time Affairs	81	119	(37)	-	-	-	81	119	(37)	68.4
1094 State Department for Housing & Urban Development	308	431	(123)	7,055	9,645	(2,589)	7,363	10,076	(2,713)	73.1
1095 State Department for Public Works	302	449	(147)	609	1,024	(415)	910	1,472	(562)	61.8
1103 State Department for Water Services	674	1,812	(1,138)	9,244	19,803	(10,559)	9,919	21,615	(11,696)	45.9
1104 State Department for Irrigation	183	467	(283)	4,530	9,054	(4,524)	4,713	9,520	(4,808)	49.9
1105 State Department of Environment	1,058	1,490	(432)	999	2,123	(1,124)	2,057	3,613	(1,556)	56.5
1106 State Department for Natural Resources	2,407	5,661	(3,254)	1,045	1,796	(751)	3,452	7,457	(4,005)	46.3
1112 Ministry of Lands and Physical Planning	1,005	1,094	(90)	1,176	1,921	(744)	2,181	3,015	(834)	72.3
1122 State Department for Information Communication and Technology &	337	455	(117)	17,945	11,157	6,788	18,283	11,611	6,671	157.5
1123 State Department for Broadcasting & Telecommunications	981	1,025	(44)	292	329	(37)	1,273	1,354	(81)	94.0
1132 State Department for Sports Development	1,509	1,803	(295)	562	778	(215)	2,071	2,581	(510)	80.2
1133 State Department For Arts And Culture	1,125	1,326	(201)	329	493	(164)	1,453	1,819	(365)	79.9
1152 State Department of Energy	905	1,039	(134)	23,679	57,592	(33,913)	24,584	58,631	(34,047)	41.9
1153 State Department of Petroleum	18	46	(28)	281	2,104	(1,824)	298	2,150	(1,851)	13.9
1161 State Department for Agriculture	3,105	4,293	(1,188)	4,304	6,339	(2,035)	7,409	10,632	(3,223)	69.7
1162 State Department for Livestock	1,298	945	353	1,273	5,871	(4,598)	2,571	6,816	(4,245)	37.1
1164 State Department for Fisheries and The Blue Economy	707	827	(120)	1,010	1,265	(255)	1,717	2,092	(375)	82.7
1172 State Department for Investment and Industry	1,158	1,334	(177)	2,396	2,690	(294)	3,554	4,024	(470)	88.3
1173 State Department for Cooperatives	2,448	1,560	887	250	265	(15)	2,698	1,825	872	147.8
1174 State Department for Trade	1,652	1,460	192	57	123	(66)	1,708	1,582	126	108.0
1183 State Department for East African Integration	709	771	(62)	4	33	(29)	703	803	(90)	88.7
1184 State Department for Labour	497	651	(154)	169	239	(70)	665	890	(224)	74.8
1185 State Department for Social Protection	3,395	4,054	(660)	6,559	7,411	(852)	9,954	11,465	(1,511)	86.8
1191 Ministry of Mining	106	349	(243)	553	1,945	(1,392)	659	2,294	(1,635)	28.7
1201 Ministry of Tourism	662	1,177	(515)	1,541	2,421	(880)	2,204	3,598	(1,394)	61.3
1211 State Department of Public Service and Youth Affairs	6,244	6,519	(275)	4,871	6,324	(1,453)	11,115	12,843	(1,729)	86.5
1212 State Department for Gender	242	563	(320)	1,715	1,748	(33)	1,957	2,311	(354)	84.7
1252 State Law Office and Department of Justice	1,380	2,018	(637)	3	190	(187)	1,383	2,207	(824)	62.7
1261 The Judiciary	5,062	6,430	(1,368)	1,061	2,225	(1,164)	6,123	8,654	(2,531)	70.7
1271 Ethics and Anti-Corruption Commission	1,822	1,346	477	-	50	(50)	1,822	1,396	427	130.6
1281 National Intelligence Service	12,428	12,673	(245)	-	-	-	12,428	12,673	(245)	98.1
1291 Directorate of Public Prosecutions	600	1,063	(463)	16	49	(33)	616	1,112	(496)	55.4
1311 Registrar of Political Parties	278	413	(136)	-	-	-	278	413	(136)	67.2
1321 Witness Protection Agency	139	190	(51)	-	-	-	139	190	(51)	73.3
2011 Kenya National Commission on Human Rights	201	214	(13)	-	-	-	201	214	(13)	93.8
2021 National Land Commission	555	717	(162)	81	52	29	636	769	(133)	82.7
2031 Independent Electoral and Boundaries Commission	1,911	9,283	(7,372)	-	383	(383)	1,911	9,666	(7,754)	19.8
2041 Parliamentary Service Commission	4,151	5,191	(1,040)	1,037	2,075	(1,038)	5,189	7,266	(2,077)	71.4
2042 National Assembly	7,775	8,474	(699)	-	-	-	7,775	8,474	(699)	91.8
2051 Judicial Service Commission	163	225	(62)	-	-	-	163	225	(62)	72.6
2061 Commission on Revenue Allocation	114	178	(64)	-	-	-	114	178	(64)	64.2
2071 Public Service Commission	626	590	37	6	20	(14)	632	609	23	103.8
2081 Salaries and Remuneration Commission	183	267	(84)	-	-	-	183	267	(84)	68.5
2091 Teachers Service Commission	93,033	96,996	(3,963)	-	50	(50)	93,033	97,046	(4,013)	95.9
2101 National Police Service Commission	189	218	(29)	-	-	-	189	218	(29)	86.6
2111 Auditor General	1,744	2,091	(347)	29	112	(83)	1,774	2,203	(429)	80.5
2121 Controller of Budget	173	281	(107)	-	-	-	173	281	(107)	61.8
2131 The Commission on Administrative Justice	169	234	(65)	-	-	-	169	234	(65)	72.3
2141 National Gender and Equality Commission	173	208	(35)	-	-	-	173	208	(35)	83.0
2151 Independent Policing Oversight Authority	75	246	(171)	-	-	-	75	246	(171)	30.5
Total	345,594	428,763	(83,169)	273,545	410,132	(136,588)	619,138	838,895	(219,757)	73.8

*Provisional

Source: National Treasury

2.2.1 Guaranteed Loans to Parastatals

31. Cumulative principal and interest payments of guaranteed loans to parastatals with liquidity problems amounted to Ksh. s 728.3 million against a payment (**Table 6**) for period ending 31st December, 2016. The payments were Ksh. 669.5 million principal and Ksh. 58.8 million interest. It is noted that while the guaranteed loan to Nairobi City County was repaid, a new guaranteed loan by East African Portland Cement (EAPC) which had not been projected in the current period has been taken over by the Government from the current quarter under review.

FISCAL DEVELOPMENTS

Table 6: Schedule and actual payments on Guaranteed Debt for the period ending 31st December, 2016 (Ksh. Million)

Borrower	Quarter I		Quarter II		Cumm. December 2016	
	Projected	Actual	Projected	Actual	Projected	Actual
EAPC	-	-	-	199.24	-	199.24
TARDA	156.10	163.50	-	-	156.10	163.50
KBC			361.34	365.55	361.34	365.55
TOTAL (QTR)	156.10	163.50	361.34	564.79	517.44	728.29

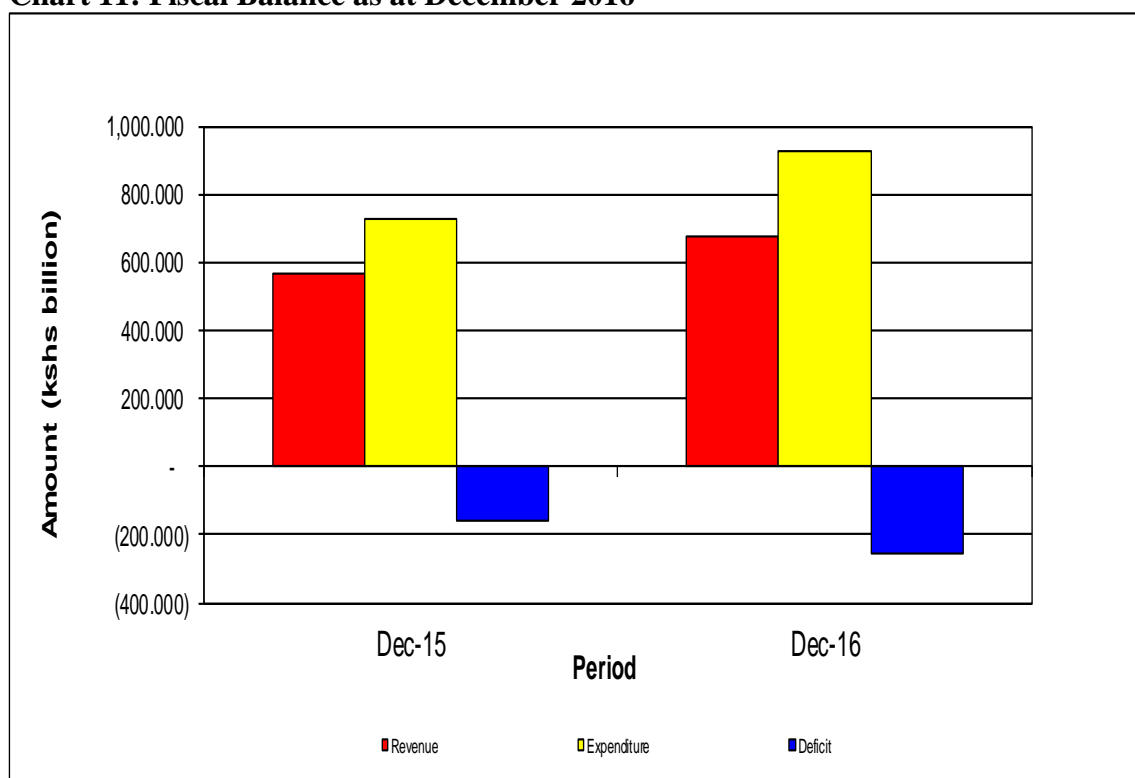
* Provisional

Source: National Treasury

2.3 Fiscal Outturn

32. Between July 1, 2016 and December 31, 2016, cumulative overall fiscal balance (on a commitment basis and excluding grants), amounted to Ksh. 254.4 billion (equivalent to 3.4 per cent of GDP) against a targeted deficit of Ksh. 409.2 billion (equivalent to 5.5 per cent of GDP) (*Chart 11 and Table 7*). Over the same period in 2015, the fiscal deficit stood at Ksh. 158.6 billion (equivalent to 2.4 per cent of GDP). Including grants, the fiscal balance (on a commitment basis) deficit stood at 3.3 per cent of GDP against a targeted deficit of 5.0 per cent of GDP. The Fiscal Outturns for the past years is provided as **Annex I**.

Chart 11: Fiscal Balance as at December 2016



Source: National Treasury

FISCAL DEVELOPMENTS

Table 7: Budget Outturn, Cumulative Ending 31st December, 2016 (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	581,120	679,930	736,425	(56,495)	17.00	9.14	9.90	8.80
1. Revenue	568,808	674,155	701,682	(27,526)	18.52	9.07	9.44	8.61
Ordinary Revenue	544,203	623,715	643,858	(20,143)	14.61	8.39	8.66	8.24
Import Duty	39,170	42,883	46,645	(3,762)	9.48	0.58	0.63	0.59
Excise Duty	64,705	81,664	79,641	2,024	26.21	1.10	1.07	0.98
Income tax	262,184	289,275	307,806	(18,531)	10.33	3.89	4.14	3.97
VAT	138,036	160,536	163,465	(2,930)	16.30	2.16	2.20	2.09
Investment Revenue	9,833	21,646	12,009	9,637	-	0.29	0.16	0.15
Others	30,275	27,711	34,292	(6,581)	(8.47)	0.37	0.46	0.46
Appropriation-in-Aid	24,605	50,440	57,824	(7,384)	105.00	0.68	0.78	0.37
2. Grants	12,312	5,775	34,744	(28,969)	(53.09)	0.08	0.47	0.19
AMISOM Receipts	2,309	199	1,604	(1,405)	-	0.00	0.02	0.03
Revenue	1,182	2,565	8,394	(5,829)	117.04	0.03	0.11	0.02
Appropriation-in-Aid	8,322	3,012	24,285	(21,273)	(63.81)	0.04	0.33	0.13
Italian Debt Swap	499	0	250	0	-	0.00	-	0.00
County Health Facilities - DANIDA	0	0	211	0	-	0.00	-	0.00
B. EXPENDITURE and NET LENDING	727,369	928,510	1,110,871	(182,361)	27.65	12.49	14.94	11.01
1. Recurrent	423,757	537,513	583,069	(45,556)	26.84	7.23	7.84	6.42
Domestic Interest	85,715	100,088	94,865	5,224	16.77	1.35	1.28	1.30
Foreign Interest	17,422	25,210	25,448	(238)	44.70	0.34	0.34	0.26
Pension	22,812	29,984	30,060	(76)	31.44	0.40	0.40	0.35
Wages and Salaries	148,715	155,742	180,388	(24,646)	4.73	2.09	2.43	2.25
O & M/Others	149,093	226,489	252,308	(25,819)	51.91	3.05	3.39	2.26
2. Development and Net Lending	204,421	274,744	373,138	(98,394)	34.40	3.70	5.02	3.10
3. Equalization Fund	0	0	3,000	(3,000)	-	0.00	0.04	0.00
4. County Governments	99,191	116,252	149,164	(32,912)	17.20	1.56	2.01	1.50
5. CF	0	0	2,500	(2,500)	-	0.00	0.03	0.00
C. DEFICIT EXCL. GRANT (Commitment basis)	(158,561)	(254,354)	(409,189)	154,835	60.41	(3.42)	(5.50)	(2.40)
D. DEFICIT INCL. GRANTS (Commitment basis)	(146,249)	(248,579)	(374,446)	125,866	69.97	(3.34)	(5.04)	(2.21)
E. ADJUSTMENT TO CASH BASIS	-19,013	(29,631)	-	(29,631)	55.85	(0.40)	-	(0.29)
F. DEFICIT INCL. GRANTS (Cash basis)	(165,262)	(278,211)	(374,446)	96,235	68.35	(3.74)	(5.04)	(2.50)
G. FINANCING	165,262	278,211	374,446	(96,235)	68.35	3.74	5.04	2.50
1. Foreign financing	136,777	113,376	174,593	(61,217)	(17.11)	1.52	2.35	2.07
Disbursements	153,180	129,060	196,544	(67,484)	(15.75)	1.74	2.64	2.32
Programme Loans	0	3,658	1,928	1,730	-	0.00	0.03	0.00
Project Cash Loans	8,090	11,473	23,831	(12,358)	41.82	0.15	0.32	0.12
Project Loans AIA	19,657	30,976	89,654	(58,678)	57.59	0.42	1.21	0.30
Project Loans SGR _ AIA	51,101	72,839	71,017	1,822	-	0.00	0.96	0.77
Commercial Financing	74,333	10,114	10,114	-	-	0.00	0.14	1.13
O/W syndicated loan	74,333	0	0	-	-	0.00	-	1.13
Debt repayment - Principal	(16,403)	(15,684)	(21,951)	6,267	(4.38)	(0.21)	(0.30)	(0.25)
2. Other Domestic Financing	786	239	1,302	(1,063)	-	0.00	0.02	0.01
4. NET DOMESTIC FINANCING	27,699	164,595	198,551	(33,956)	494.23	2.21	2.67	0.42
MEMO ITEM								
GDP ESTIMATE	6,604,178.26	7,435,211.03	7,435,211.03					

*Provisional

Source: National Treasury

2.3.1. Government Financial Statistics (GFS) 2014

33. In line with the international best practice the Government is committed to improving the quality and coverage of its statistics, as such this QEBR has included a statement of Government operation in the GFSM 2014 format for budgetary Central Government (National Government) from 2015/16 to 2016/17. See annex II.

FISCAL DEVELOPMENTS

2.4 Financing

2.4.1 External Financing

34. Cumulative external financing for the period between July 1st 2016 and December 31st 2016 amounted to a net borrowing of Ksh. 113.4 billion (**Table 8**). Total disbursements (inflows) including Appropriations-in-Aid amounted to Ksh. 129.1 billion for the period ending 31st December, 2016 against a target of Ksh. 196.5 billion. This amount included Ksh. 11.5 billion Project cash loans, Ksh. 31.0 billion project loans A.I.A., Ksh. 72.8 billion project loans A.I.A. for SGR and Ksh. 10.1 billion Commercial Financing. External repayments (outflows) of principal debt amounted to Ksh. 15.7 billion. The amount comprises of principal repayments due to bilateral, multilateral organizations and Commercial amounting to Ksh. 8.4 billion, Ksh. 6.9 billion and Ksh. 384.2 million respectively.

Table 8: External Financing, Period Ending 31st December, 2016 (Ksh. Million)

	Quarter II 2015/16	Quarter I 2016/17	Quarter II 2016/17	Cumulative December 2016*	
	Actual	Actual	Actual	Actual	Target
DISBURSEMENTS:	153,180.48	47,230.74	81,141.41	129,060.34	196,544.25
Project Cash loans	8,090.02	1,246.85	10,168.77	11,473.31	23,831.30
Project loans A-I-A	19,656.61	8,187.85	22,157.65	30,976.00	89,654.22
Project Loans SGR _ AIA	51,100.85	27,682.04	45,157.05	72,839.09	71,017.00
Commercial Financing	74,333.00	10,114.00	-	10,114.00	10,114.00
O/W syndicated loan	74,333.00	-	-	-	-
Export Credit	-	-	-	-	-
Programme Loans	-	-	3,657.94	3,657.94	1,927.73
EXTERNAL REPAYMENTS:	16,403.49	7,988.27	7,695.93	15,684.20	21,478.69
Bilateral(incl. Italy Debt SWAP)	8,124.23	3,434.00	5,009.68	8,443.68	12,613.51
Multilateral (excl. IMF)	7,875.21	4,554.27	2,302.10	6,856.36	8,449.43
Commercial	404.05	-	384.16	384.16	415.75
NET FOREIGN FINANCING	136,776.99	39,242.47	73,445.48	113,376.14	175,065.55

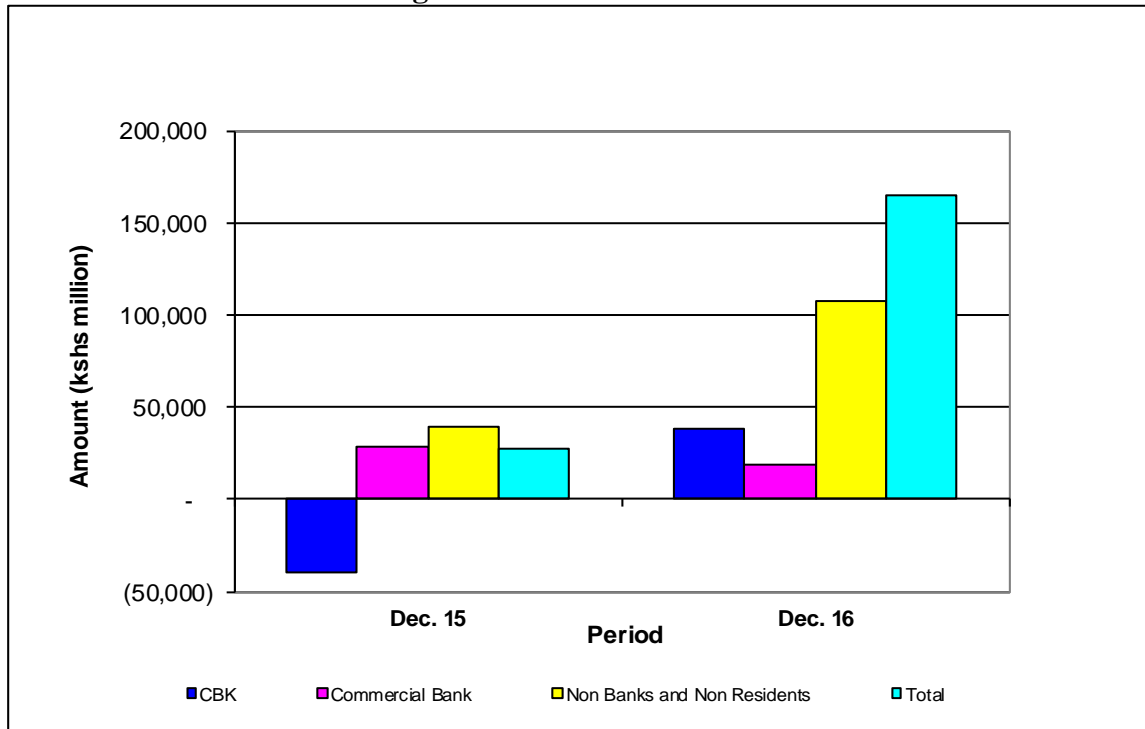
*Provisional

Source: National Treasury

2.4.2 Domestic Financing

35. By the end of December 2016, net domestic borrowing amounted to Ksh. 164.6 billion against a target borrowing of Ksh. 198.6 billion (**Table 7**). The borrowing comprised of Ksh. 18.9 billion from Commercial Banks, Ksh. 106.8 billion from Non-Banking Financial Institutions, Ksh. 37.8 billion from the Central Bank and Ksh. 1.1 billion from Non Residents, (**Table 9**). Comparatively, for the same period in 2015, the net domestic borrowing was Ksh. 27.7 billion, comprising of net repayments of, Ksh. 39.7 billion to Central Bank and a borrowing of Ksh. 27.9 billion from the Commercial Bank, Ksh. 1.8 billion from Non-Residents and Ksh. 37.7 billion from non-banking financial institutions (**chart 12**).

Chart 12: Domestic Financing



Source: Central Bank of Kenya

36. The stock of Treasury Bills held by Non-residents and Commercial Banks recorded net decrease of Ksh. 1.1 billion, and Ksh. 10.6 billion respectively, while the stock of Treasury Bills held by Non- Banks increased by Ksh. 44.6 billion. The stock of Fixed Rate Bonds held by Commercial Banks, Non-Residents and non-Banks recorded a net increase of Ksh. 24.2 billion, Ksh. 1.1 billion and Ksh. 44.5 billion respectively.

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Table 9: Domestic Financing, Period Ending 31st December, 2016 (Ksh. Millions)

	DECEMBER	JUNE	SEPTEMBER	DECEMBER
	2015	2016	2016	2016
1. CENTRAL BANK	(39,720)	(128,376)	(24,582)	37,830
Overdraft	8,738	7,709	(40,884)	(14,271)
Treasury bills rediscounts	20,549	20,549		
Fixed rate Bonds	9,381	9,381	-	-
Items on Transit	(56)	(2)	(27)	(57)
Frozen Account	(562)	(1,117)	-	-
Less Govt Deposits	(77,771)	(164,896)	16,329	52,158
2. COM. BANKS	27,925	187,152	37,357	18,858
Advances	2,852	2,830	243	275
Treasury bills	23,774	131,164	17,528	(10,647)
Fixed rate Bonds	8,910	37,281	29,011	24,219
Special Bonds	-	-	-	-
Zero Coupon bonds	-	-	-	-
Infrastructure Bonds	(4,683)	9,978	(6,933)	6,147
Savings and Development Bond	-	-	-	-
Less Govt Deposits	(2,928)	5,899	(2,493)	(1,136)
3. NON BANKS	37,673	139,440	37,529	106,819
Treasury bills	16,266	92,163	10,704	44,574
Fixed rate Bonds	22,228	37,705	33,055	44,471
Zero Coupon bonds	-	-	-	-
Infrastructure Bonds	(821)	9,573	(6,230)	17,774
Savings and Development Bond	-	-	-	-
4. NON RESIDENTS	1,820	4,576	(873)	1,088
Treasury bills	1,215	(119)	(1,695)	(363)
Fixed rate Bonds	493	2,339	822	1,115
Infrastructure Bond	112	2,356	(0)	336
Savings and Development Bond	-	-	-	-
Zero Coupon bonds	-	-	-	-
5. NET CREDIT	27,699	202,793	49,431	164,595

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

37. The gross public debt increased by Ksh. 672.2 billion from Ksh. 3,155.2 billion as at end of December 2015 to Ksh. 3,827.4 billion (equivalent to 51.5 per cent of GDP) by 31st December 2016, comprising of 49.5 per cent of external debt and 50.5 per cent of domestic debt. The overall increase is attributed to increased external debt due to exchange rate fluctuations, disbursements from external loans and more uptake of domestic debt during the period. Net public debt increased by Ksh. 604.7 billion from Ksh. 2,844.0 billion as at end of December 2015 to Ksh. 3,448.7 billion (equivalent to 46.4 per cent of GDP) by period under review (*Table 10*).

Table 10: Kenya’s Public and Publicly Guaranteed Debt, June 2014 to December 2016 (Ksh. millions)

	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16*
EXTERNAL											
BILATERAL	289,914	278,547	389,083	384,607	445,057	482,203	481,282	478,883	548,351	580,422	641,763
MULTILATERAL	597,340	608,022	612,353	618,456	684,631	754,599	751,154	762,089	798,842	799,688	781,256
COMMERCIAL BANKS	234,799	185,163	255,188	259,746	276,937	295,642	366,231	360,175	432,377	442,848	458,122
SUPPLIERS CREDIT	16,451	16,096	15,959	15,298	16,628	17,788	16,516	16,359	16,628	15,458	15,302
SUB - TOTAL	1,138,504	1,087,828	1,272,583	1,278,108	1,423,253	1,550,233	1,615,183	1,617,506	1,796,198	1,838,416	1,896,443
DOMESTIC:											
CENTRAL BANK	65,700	63,580	58,286	64,835	63,335	107,637	101,386	102,648	99,856	58,945	85,528
COMMERCIAL BANKS	617,221	601,426	649,940	715,011	730,419	682,694	764,399	829,688	927,307	969,790	947,039
TOTAL BANKS	682,921	665,006	708,227	779,846	793,755	790,331	865,785	932,336	1,027,163	1,028,735	1,032,568
NON BANKS & NON RESIDENTS	601,406	595,868	599,723	617,280	626,689	597,635	674,232	714,192	787,970	825,820	898,415
SUB-TOTAL	1,284,327	1,260,875	1,307,950	1,397,126	1,420,444	1,387,966	1,540,017	1,646,527	1,815,133	1,854,555	1,930,982
GRAND TOTAL GROSS	2,422,831	2,348,702	2,580,533	2,675,234	2,843,698	2,938,199	3,155,200	3,264,033	3,611,331	3,692,970	3,827,426
LESS ON-LENDING	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)
LESS GOVERNMENT DEPOSITS	(199,815)	(239,554)	(298,879)	(275,083)	(236,565)	(208,869)	(305,496)	(320,041)	(394,856)	(426,911)	(373,016)
GRAND TOTAL NET	2,217,315	2,103,447	2,275,953	2,394,449	2,601,432	2,723,628	2,844,004	2,938,291	3,210,775	3,260,359	3,448,708

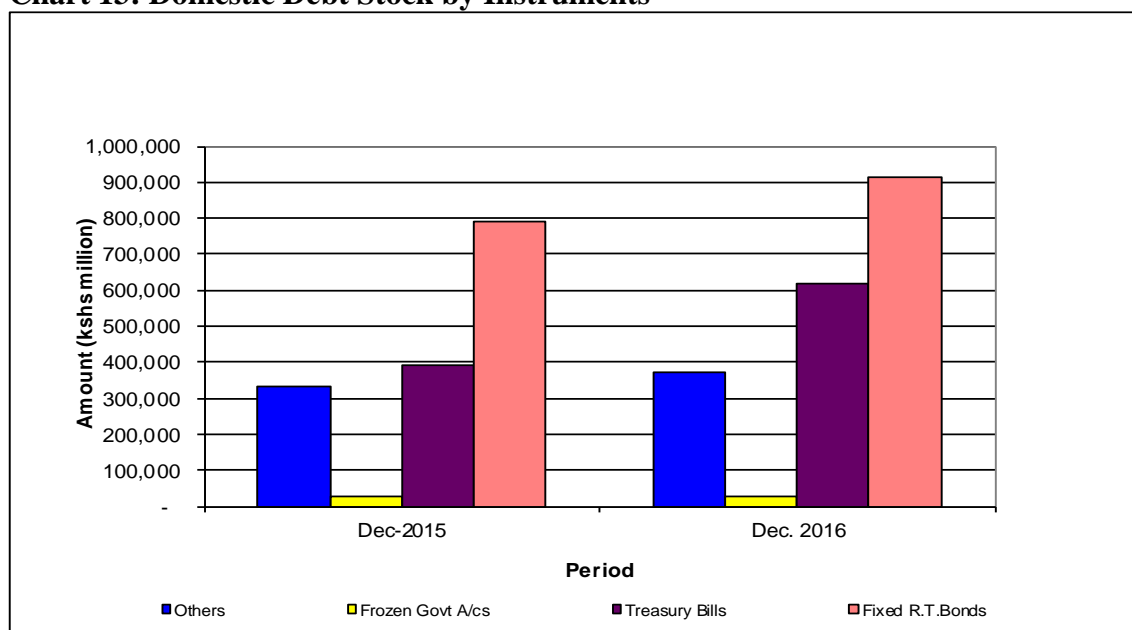
*Provisional

Source: National Treasury

3.2 Domestic Debt

38. The stock of gross domestic debt increased by Ksh. 466.6 billion from Ksh. 1,540.0 billion in December 2015 to Ksh. 1,931.0 billion in December 2016. The stock of Treasury Bills held by Central Bank, Commercial Banks, Non-Banking Financial Institution and Non Residents increased by Ksh. 229.4 billion from Ksh. 390.8 billion in December 2015 to Ksh. 620.2 billion in December 2016, (**Table 11**). The total stock of Treasury Bonds, Floating, Fixed Rate, Special and Zero coupon Bonds, increased by Ksh. 122.2 billion from Ksh. 801.3 billion in December 2015 to Ksh. 923.5 billion in December 2016 (**Chart 13**).

Chart 13: Domestic Debt Stock by Instruments



Source: Data from CBK

FISCAL DEVELOPMENTS

Table 11: Stock of Domestic Debt, First Half 2016/2017 (Ksh. million)

	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
1.CENTRAL BANK	58,286	64,835	63,335	107,637	101,386	102,648	99,856	58,945	85,528
Overdraft	30,929	37,398	36,494	45,924	45,233	46,455	44,204	3,319	29,933
Frozen Govt Accounts	27,231	27,231	26,676	26,676	26,114	26,114	25,559	25,559	25,559
Treasury bills / bonds rediscounts	64	95	39	25,545	20,588	20,588	20,588	20,588	20,588
Items on Transit	25	62	82	47	26	65	80	52	23
Fixed rate bonds	36	48	45	9,445	9,426	9,426	9,426	9,426	9,426
2.COM.BANKS	649,940	715,011	730,419	682,694	764,399	829,688	927,307	969,790	947,039
Advances	3,291	2,594	2,488	1,717	5,446	5,559	5,093	5,530	5,866
Stocks	-	-	-	-	-	-	-	-	-
Treasury Bills	191,132	236,776	217,703	172,346	244,167	296,347	361,859	382,112	349,544
Floating Rate T. Bonds	-	-	-	-	-	-	-	-	-
Fixed Rate T. Bonds	337,638	348,473	364,511	373,861	373,753	390,314	403,844	433,059	428,536
Special Bonds	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
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	100,231	109,519	128,069	117,122	123,385	119,820	138,863	131,441	145,444
3. NON BANKS	585,917	604,389	616,025	586,102	661,652	702,233	774,943	813,800	884,782
Stocks	-	-	-	-	-	-	-	-	-
Treasury Bills	89,838	96,446	94,478	61,237	117,923	149,588	199,033	210,788	243,989
Floating Rate T. Bonds	-	-	-	-	-	-	-	-	-
Fixed Rate T. Bonds	371,410	374,585	382,006	393,498	404,174	416,825	422,830	456,711	468,465
Tax Reserve Certificate	69	69	69	69	69	69	69	69	69
Zero Coupon Bonds	-	-	-	-	-	-	-	-	-
Infrastructure Bonds	104,020	112,709	118,892	110,718	118,906	115,171	132,431	125,652	151,679
Savings and Development Bond	20,580	20,580	20,580	20,580	20,580	20,580	20,580	20,580	20,580
4. NON RESIDENTS	13,806	12,891	10,664	11,533	12,580	11,958	13,027	12,020	13,632
Treasury Bills	10,370	8,959	6,709	7,469	8,132	6,370	6,608	4,760	6,069
Floating Rate T. Bonds	-	-	-	-	-	-	-	-	-
Fixed Rate T. Bonds	2,983	3,478	3,502	3,611	3,994	5,135	5,966	6,806	7,110
Zero Coupon Bonds	-	-	-	-	-	-	-	-	-
Savings and Development Bond	9	9	9	9	9	9	9	9	9
Infrastructure Bonds	445	445	445	445	445	445	445	445	445
5. TOTAL DEBT	1,307,950	1,397,126	1,420,444	1,387,966	1,540,017	1,646,527	1,815,133	1,854,555	1,930,982
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	298,879	275,083	236,565	208,869	305,496	320,041	394,856	426,911	373,016
8. NET DEBT	1,003,370	1,116,341	1,178,178	1,173,395	1,228,821	1,320,785	1,414,577	1,421,943	1,552,265

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

39. In dollar terms, external public debt stock increased by US \$ 2,717.5 million from US\$ 15,786.9 million in December 2015 to US\$ 18,504.5 million by end of December 2016 (*Table 12 and Chart 14*). The debt stock comprised 33.8 per cent, 41.2 per cent, 24.2 per cent and 0.8 per cent of debt owed to bilateral, multilateral institutions, Commercial Banks and suppliers' credit, respectively. This increase is attributed to disbursements made during the period. Exchange rate end December 2016 Ksh. /US\$= 102.49.

FISCAL DEVELOPMENTS

Table 12: Kenya's External Public and Publicly Guaranteed Debt December 2014-December 2016 (US \$ Million)

CREDITOR	Dec. 2014	Mar. 2015	Jun-15	Sep-15	Dec. 2015	Mar. 2016	Jun-16	Sep-16	December 2016*
<u>BILATERAL</u>									
AUSTRIA	6.10	5.43	7.53	7.56	10.02	10.38	7.69	10.29	8.33
BELGIUM	72.16	64.79	62.26	73.03	68.01	66.18	72.16	77.10	70.45
CANADA	13.70	13.70	12.88	12.88	8.20	8.20	8.01	8.01	7.26
DENMARK	19.09	16.88	14.57	14.64	15.68	16.25	15.24	15.36	13.64
FINLAND	0.84	0.80	0.72	1.72	29.40	0.47	2.45	14.13	11.34
FRANCE	664.36	589.69	598.47	613.81	589.97	606.29	587.79	597.62	547.79
GERMANY	263.23	224.78	228.70	229.65	220.12	222.12	225.18	355.91	284.91
ITALY	12.11	10.83	11.17	6.39	13.43	8.81	6.15	6.22	1.17
JAPAN	794.31	803.01	801.06	814.31	795.64	835.50	1,025.20	985.45	841.59
NETHERLANDS	24.10	20.22	19.87	20.16	18.88	17.48	23.24	21.91	16.58
UK	16.29	15.47	14.87	14.33	12.44	12.02	9.81	9.45	7.46
USA	48.51	46.89	45.23	42.79	41.67	40.01	40.08	37.23	36.34
CHINA	2,221.16	2,214.53	2,555.16	2,536.23	2,734.72	3,141.41	3,097.14	3,258.07	4,089.09
OTHERS	138.65	138.33	139.46	147.16	145.92	170.06	212.89	335.16	326.03
TOTAL BILATERAL	4,294.61	4,165.34	4,511.95	4,534.64	4,704.10	5,155.18	5,333.03	5,731.90	6,261.97
<u>MULTILATERAL</u>									
ADB/ADF	1,253.70	1,438.45	1,523.02	1,617.33	1,645.79	1,732.41	1,967.01	1,768.98	1,760.18
BADEA								31.36	33.86
EEC/EIB	232.65	204.40	209.09	220.46	209.71	212.38	208.43	201.69	187.37
IBRD									
IDA/IFAD	4,342.33	4,176.27	4,243.70	4,409.66	4,564.97	4,684.74	4,928.48	4,998.98	4,846.50
IMF**	833.30	786.53	873.38	871.74	860.55	845.21	839.22	837.40	741.11
OTHERS	97.05	92.32	91.55	92.49	60.82	90.83	91.01	58.83	54.05
TOTAL MULTILATERAL	6,759.02	6,697.96	6,940.74	7,211.68	7,341.84	7,565.57	8,034.16	7,897.24	7,623.06
COMMERCIAL BANKS 1/	2,816.72	2,813.09	2,807.57	2,807.81	3,579.57	3,554.34	4,377.73	4,373.30	4,470.11
EXPORT CREDIT	176.15	165.68	168.58	168.94	161.43	161.43	91.06	152.66	149.30
GRAND TOTAL	14,046.50	13,842.07	14,428.84	14,723.07	15,786.94	16,436.52	17,835.97	18,155.10	18,504.45
In percentage of total									
BILATERAL	30.57	30.09	31.27	30.80	29.80	31.36	29.90	31.57	33.84
MULTILATERAL	48.12	48.39	48.10	48.98	46.51	46.03	45.04	43.50	41.20
COMMERCIAL BANKS 1/	20.05	20.32	19.46	19.07	22.67	21.62	24.54	24.09	24.16
EXPORT CREDIT	1.25	1.20	1.17	1.15	1.02	0.98	0.51	0.84	0.81
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

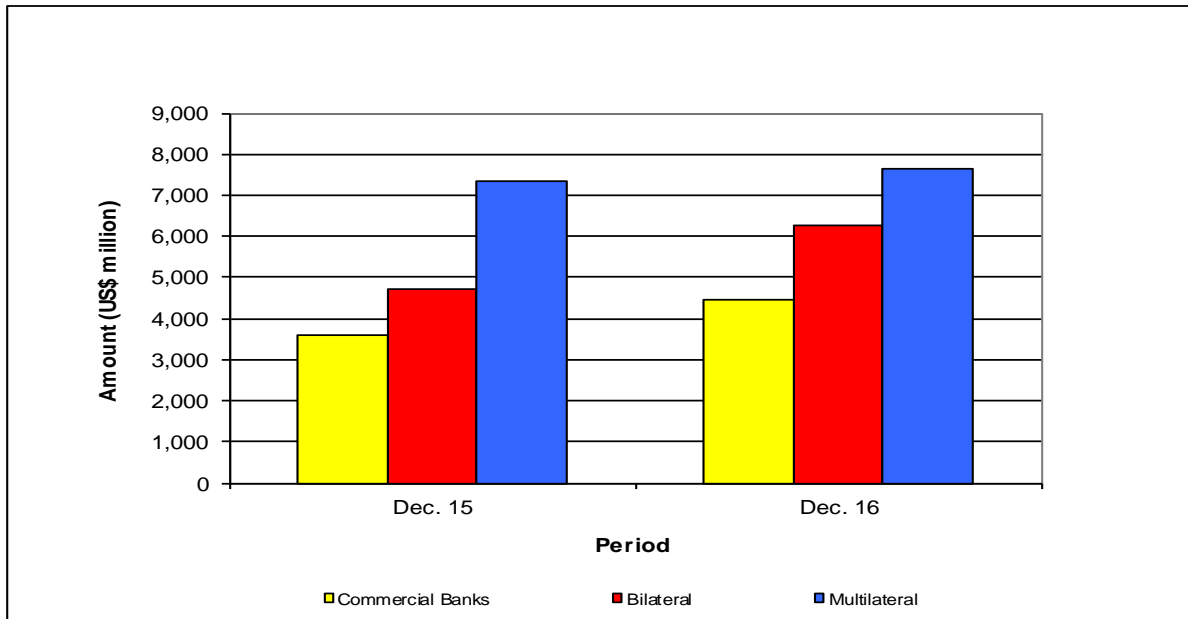
*Provisional

** include IMF item

Source: National Treasury

FISCAL DEVELOPMENTS

Chart 14: External Public Debt

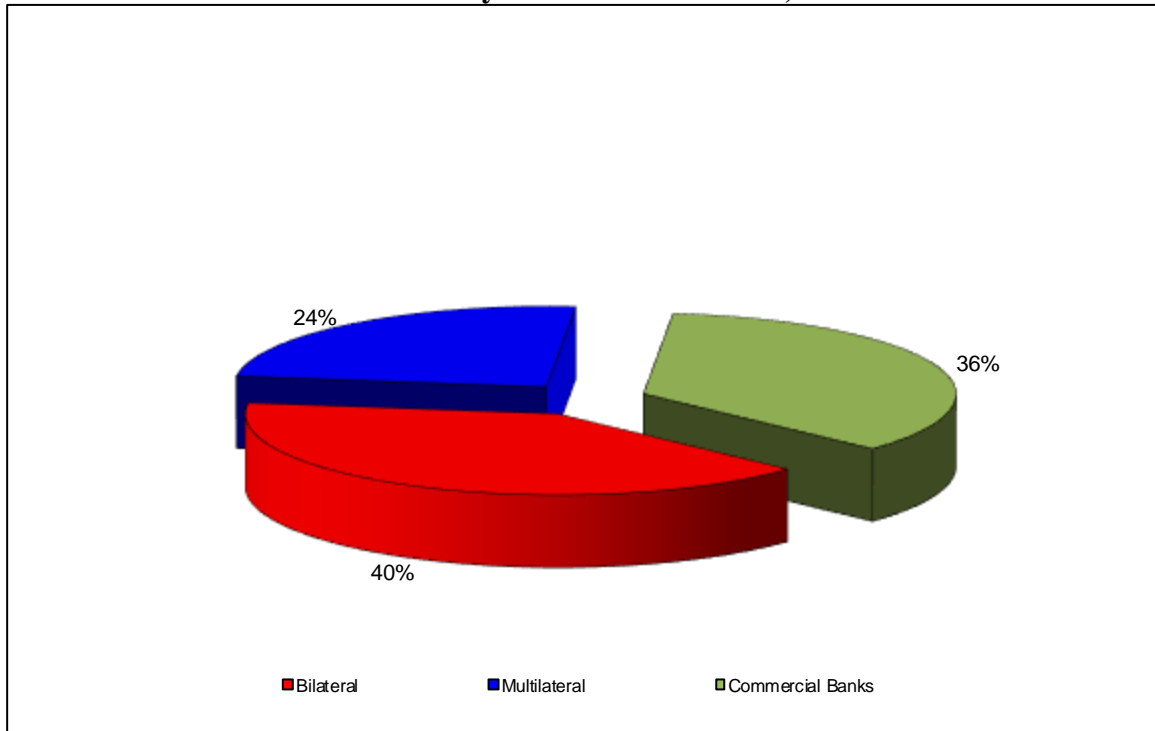


Source: National Treasury

3.3.1 External Debt Service

40. At the end of December 2016, the total cumulative debt service payments to external creditors amounted to Ksh. 40.9 billion. This comprised of Ksh. 15.7 billion (38.4 per cent) principal and Ksh. 25.2 billion (61.7 per cent) interest (*Table 13 and chart 15*).

Chart 15: External Debt Service by Creditors December, 2016



Source: National Treasury

FISCAL DEVELOPMENTS

Table 13: External Debt Service, July – December 2016 (Ksh. Million)

CATEGORY	PRINCIPAL*	INTEREST*	TOTAL*
BILATERAL			
AUSTRIA	66.26	3.58	69.84
FINLAND	83.62	1.71	85.33
FRANCE	1,991.84	1,136.50	3,128.34
ITALY	3.57	4.17	7.74
JAPAN	2,716.82	727.09	3,443.90
SAUDI FUND	300.33	22.35	322.67
SPAIN	232.01	116.17	348.18
USA	308.21	93.96	402.17
CANADA	103.79	6.11	109.89
BELGIUM	513.98	74.64	588.63
GERMANY	428.53	114.91	543.44
CHINA	1,044.77	5,255.95	6,300.72
KUWAIT	53.19	6.74	59.94
NETHERLANDS	229.59	252.04	481.63
SWEDEN			-
SWITZERLAND	31.80	0.44	32.24
DENMARK	119.35	41.78	161.13
KOREA	58.31	63.74	122.05
UK	157.71	6.73	164.43
INDIA		32.35	32.35
OTHERS/NEW LOANS	-	43.68	43.68
TOTAL BILATERAL	8,443.68	8,004.62	16,448.30
MULTILATERAL			
ADB/ADF	640.46	834.38	1,474.84
BADEA	80.65	20.88	101.53
EIB/EEC	337.61	350.88	688.49
IDA	5,535.66	1,745.08	7,280.73
OPEC	180.90	118.61	299.51
NDF	30.07	10.94	41.01
IFAD	51.01	18.61	69.62
**IMF			-
TOTAL MULTILATERAL	6,856.36	3,099.38	9,955.74
COMMERCIAL	384.16	14,105.91	14,490.07
GRAND TOTAL	15,684.20	25,209.91	40,894.11

* Provisional

** IMF debt serviced by CBK

Source: National Treasury

ANNEX I

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	1,500,509
1.Revenue	621,852	681,766	775,698	918,990	1,031,248	1,152,875	1,376,424
Income Tax	272,439	312,463	373,086	449,590	508,581	560,665	671,099
VAT	171,881	176,386	184,916	232,630	259,685	289,213	345,582
Import Duty	46,072	51,712	57,650	67,555	74,048	79,188	96,281
Excise Duty	80,567	78,884	85,660	102,029	115,872	139,540	169,310
Other Revenue	50,893	62,320	74,386	67,185	73,062	84,269	94,151
2.Appropriation –in –Aid	37,752	66,362	90,807	55,428	75,130	66,179	124,085
B.EXPENDITURE & NET LENDING	819,767	945,313	1,132,126	1,300,589	1,639,199	1,768,453	2,275,556
1.Recurrent	584,126	650,414	816,365	752,502	860,569	1,014,050	1,168,483
Wages and Salaries	197,959	218,833	274,407	281,197	297,978	307,421	360,776
Interest Payments	78,876	81,913	121,235	134,821	171,876	215,329	250,787
Domestic Interest	71,887	71,873	110,184	119,193	139,615	172,857	197,267
Foreign Interest Due	6,989	10,039	11,051	15,628	32,261	42,471	53,520
Pensions, etc	26,670	26,082	27,611	30,155	37,508	53,401	60,169
Civil Service Reform	5	6	10	-	-	-	1,500
Operations & maintenance/ Others	280,616	323,580	393,102	306,330	353,206	437,899	495,250
Of which Appropriation-in-Aid	45,691	61,578	68,551	28,205	50,566	45,108	72,699
2.Development & Net Lending	234,566	294,899	305,978	319,274	509,713	453,925	817,289
Development Projects	183,658	190,116	186,231	225,850	278,676	300,686	411,396
Appropriation-in-Aid	48,379	102,144	117,346	91,239	228,511	145,071	403,766
Payment of guaranteed loans	2,529	2,639	2,400	2,185	2,125	2,167	2,127
3. Drought Development Expenditures/CCF	1,075	-	-	-	4,951	5,000	5,000
4. Transfer to County Governments	-	-	9,783	193,390	229,336	264,039	284,785
5. Parliamentary Service	-	-	-	22,473	22,743	19,777	-
6. Judicial Service	-	-	-	12,951	11,887	11,662	-
7. Equalization Fund	-	-	-	-	400	6,000	-
D.DEFICIT EXCL. GRANTS (Commitment Basis)	(160,164)	(197,185)	(265,621)	(326,172)	(532,821)	(549,398)	(775,047)
E.GRANTS	19,253	15,645	20,990	26,957	28,117	29,598	-
F.DEFICIT INCL.GRANTS (Commitment basis)	(140,910)	(181,540)	(244,631)	(299,214)	(504,703)	(519,801)	(775,047)
G. ADJUSTMENT TO CASH BASIS	20,765	3,752	(12,555)	(8,505)	33,129	45,231	-
H.DEFICIT INCL.GRANTS (cash basis)	(120,145)	(177,788)	(257,184)	(307,720)	(471,574)	(474,570)	(775,047)
I.FINANCING	120,145	177,788	257,184	307,720	471,574	474,570	702,328
Foreign Financing	28,602	112,575	85,306	104,726	217,479	269,924	462,267
Other Domestic Financing	1,160	1,813	2,102	1,267	2,992	2,389	3,956
NET DOMESTIC FINANCING	90,383	63,400	169,776	201,727	251,102	202,257	236,105
Of which Sovereign Bond Deposits	-	-	-	-	140,509	-	-
Others	-	-	-	-	110,593	-	-
In Percentage of GDP							
A.TOTAL REVENUE	19.13	18.73	19.24	19.21	19.04	18.46	20.18
1.Revenue	18.04	17.07	17.23	18.12	17.75	17.46	18.51
Income Tax	7.90	7.82	8.28	8.86	8.75	8.49	9.03
VAT	4.99	4.42	4.11	4.59	4.47	4.38	4.65
Import Duty	1.34	1.29	1.28	1.33	1.27	1.20	1.29
Excise Duty	2.34	1.98	1.90	2.01	1.99	2.11	2.28
Other Revenue	1.48	1.56	1.65	1.32	1.26	1.28	1.27
2.Appropriation –in –Aid	1.10	1.66	2.02	1.09	1.29	1.00	1.67
B.EXPENDITURE & NET LENDING	23.78	23.67	25.14	25.64	28.21	26.78	30.61
1.Recurrent	16.94	16.29	18.13	14.84	14.81	15.35	15.72
Wages and Salaries	5.74	5.48	6.09	5.54	5.13	4.65	4.85
Interest Payments	2.29	2.05	2.69	2.66	2.96	3.26	3.37
Domestic Interest	2.09	1.80	2.45	2.35	2.40	2.62	2.65
Foreign Interest Due	0.20	0.25	0.25	0.31	0.56	0.64	0.72
Pensions	0.77	0.65	0.61	0.59	0.65	0.81	0.81
Civil Service Reform	0.00	0.00	0.00	-	-	-	0.02
O &M/ Others	8.14	8.10	8.73	6.04	6.08	6.63	6.66
of which Appropriation-in-Aid	1.33	1.54	1.52	0.56	0.87	0.68	0.98
2.Development & Net Lending	6.80	7.38	6.79	6.30	8.77	6.87	10.99
Development Projects	5.33	4.76	4.14	4.45	4.80	4.55	5.53
Appropriation-in-Aid	1.40	2.56	2.61	1.80	3.93	2.20	5.43
Payment of guaranteed loans	0.07	0.07	0.05	0.04	0.04	0.03	0.03
3. Drought Expenditures	0.03	-	-	-	0.09	0.08	0.07
4. Transitional Transfer to County Governments	-	-	0.22	3.81	3.95	4.00	3.83
5. Parliamentary Service	-	-	-	0.44	0.39	0.30	-
6. Judicial Service	-	-	-	0.26	0.20	0.18	-
7. Equalization Fund	-	-	-	-	0.01	0.09	-
D.DEFICIT EXCL. GRANTS (Commitment Basis)	(4.65)	(4.94)	(5.90)	(6.43)	(9.17)	(8.32)	(10.42)
E.GRANTS	0.56	0.39	0.47	0.53	0.48	0.45	-
F.DEFICIT INCL.GRANTS (Commitment basis)	(4.09)	(4.55)	(5.43)	(5.90)	(8.69)	(7.87)	(10.42)
G.ADJUSTMENT TO CASH BASIS	0.60	0.09	(0.28)	(0.17)	0.57	0.68	-
H.DEFICIT INCL.GRANTS (cash basis)	(3.48)	(4.45)	(5.71)	(6.07)	(8.11)	(7.19)	(10.42)
I.FINANCING	3.48	4.45	5.71	6.07	8.11	7.19	9.45
Foreign Financing	0.83	2.82	1.89	2.06	3.74	4.09	6.22
Other Domestic Financing	0.03	0.05	0.05	0.02	0.05	0.04	0.05
NET DOMESTIC FINANCING	2.62	1.59	3.77	3.98	4.32	3.06	3.18
Of which Sovereign Bond Deposits	-	-	-	-	2.42	-	-
Others	-	-	-	-	1.90	-	-
Memorandum Item:							
Nominal GDP at Market price (Kshs. million)	3,447,609.95	3,993,534.55	4,503,295.53	5,071,729.50	5,811,194.50	6,604,178.26	7,435,211.03

Note: * indicate Preliminary results

Source: National Treasury

ANNEX II

BUDGET CENTRAL GOVERNMENT*

	STATEMENT OF SOURCES AND USES OF CASH	FY 2015/16		FY 2016/17	FY 2015/16		FY 2016/17
		Preliminary Actual	Approved Estimates	Budget Estimates	Preliminary Actual	Approved Estimates	Budget Estimates
		Ksh millions			% of GDP		
1	CASH FLOWS FROM OPERATING ACTIVITIES:						
	Cash receipts from operating activities	1,256,361.4	1,365,884.9	1,573,228	19.0	20.7	21.2
	Taxes	1,158,454.8	1,199,243.8	1,392,146	17.5	18.2	18.7
	Taxes on income, profits, and capital gains	560,664.7	577,985.3	671,099	8.5	8.8	9.0
	Taxes on property	3,898.8	5,335.7	6,159	0.1	0.1	0.1
	Taxes on goods & services	461,761.1	476,633.2	554,775	7.0	7.2	7.5
	Taxes on international trade & transactions	121,706.6	127,720.0	147,041	1.8	1.9	2.0
	Other taxes	10,423.5	11,569.6	13,071	0.2	0.2	0.2
	Social contributions	0.0	129.6	147	0.0	0.0	0.0
	Grants	37,307.2	65,973.3	72,719	0.6	1.0	1.0
	Other receipts	60,599.4	100,538.2	108,215	0.9	1.5	1.5
2	Cash payments for operating activities	1,559,185.9	1,664,928.5	1,880,989	23.6	25.2	25.3
	Compensation of employees	314,856.0	334,795.9	353,312	4.8	5.1	4.8
	Purchases of goods and services	133,262.4	170,653.0	192,671	2.0	2.6	2.6
	Interest	215,328.5	215,507.4	250,787	3.3	3.3	3.4
	Subsidies	30,299.6	30,300.0	31,553	0.5	0.5	0.4
	Grants	784,422.9	854,070.0	989,083	11.9	12.9	13.3
	Social benefits	52,049.5	53,022.2	58,583	0.8	0.8	0.8
	Other payments	28,966.9	6,580.0	5,000	0.4	0.1	0.1
3	Net cash inflow from operating activities (3=1-2)	-302,824.5	-299,043.6	-307,761.4	-4.6	-4.5	-4.1
	CASH FLOWS FROM INVESTMENTS IN NONFINANCIAL ASSETS (NFAs):						
4	Purchases of nonfinancial assets	183,595.5	322,445.8	368,504.8	2.8	4.9	5.0
	Fixed assets	182,473.1	321,323.4	366,925.0	2.8	4.9	4.9
	Strategic stocks	1,122.5	1,122.5	1,579.9	0.0	0.0	0.0
5	Sales of nonfinancial assets	0.0	0.0	0	0.0	0.0	0.0
6	Net cash outflow: investments in NFAs (6=4-5)	183,595.5	322,445.8	368,504.8	2.8	4.9	5.0
	Cash surplus / deficit (3-6)	-486,420.0	-621,489.5	-676,266.3	-7.4	-9.4	-9.1
	CASH FLOWS FROM FINANCING ACTIVITIES:						
7	Net acquisition of financial assets other than cash	30,172.3	32,510.4	14,617	0.5	0.5	0.2
	Domestic	26,422.0	28,760.0	11,017	0.4	0.4	0.1
	Foreign	3,750.3	3,750.4	3,600	0.1	0.1	0.0
8	Net incurrence of liabilities	626,996.6	661,990.4	696,244	9.5	10.0	9.4
	Domestic	358,123.1	243,925.3	234,995	5.4	3.7	3.2
	Foreign	268,873.5	418,065.2	461,250	4.1	6.3	6.2
	Net cash inflow from financing activities (8-7)	596,824.3	629,480.0	681,626.9	9.0	9.5	9.2
	Net change in the stock of cash	130,275.6	0.0	0.0	2.0	0.0	0.0
	Discrepancy	-19,871.4	7,990.6	5,360.7	-0.3	0.1	0.1
	Nominal GDP	6,604,178	6,604,178	7,435,211	100.0	100.0	100.0

Source: National Treasury

*National Government