

Republic of Kenya

THE NATIONAL TREASURY

Quarterly Economic and Budgetary Review

**First Quarter, Financial Year 2017/2018
Period ending 30th September, 2017**

November 2017 Edition

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LIST OF ABBREVIATIONS AND ACRONYMS

A-I-A	Appropriation in Aid
CBK	Central Bank of Kenya
FY	Fiscal Year
GDP	Gross Domestic Product
ICT	Information, Communication and Technology
IMF	International Monetary Fund
KNBS	Kenya National Bureau of Statistics
Ksh	Kenya Shillings
Mn	Million
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NG-CDF	National Government Constituencies Development Fund
NSE	Nairobi Securities Exchange
QEBR	Quarterly Economic and Budgetary review
RDL	Railway Development Levy
US\$	United States Dollar

LEGAL BASIS/FOUNDATION/PROVISION FOR THE 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 QUARTER, 2017/2018

1. Economic growth

The Kenyan economy recorded robust growth of 5.0 percent in the Second Quarter of 2017 up from a growth of 4.7 percent in the first quarter of 2017. The strong performance was largely supported by modest recovery in agriculture sector following improved weather conditions. In addition, stable macroeconomic conditions, the ongoing government investment in infrastructure development, low international oil prices and robust growth in tourist arrivals supported improved economic activity during the quarter.

2. Inflation

Overall month on month inflation declined to 7.1 percent in September 2017 (within Government target range of 5+/-2.5 percent) from 8.0 percent in August 2017. The decline was due to the fall in the cost of some food items which was mainly attributed to a relief from a situation of depressed supply of goods and services as experienced in August 2017.

3. Balance of Payments

The overall balance of payments position improved to a surplus of US\$ 135.0 million (0.2 percent of GDP) in the year to August 2017 from a deficit of US\$ 1,239.0 million (-1.9 percent of GDP) in the year to August 2016. The current account balance was at a deficit of US\$ 5,197.8 million (7.1 percent of GDP) in the year to August 2017 from a deficit of US\$ 3,325.7 million (5.2 percent of GDP) in the year to August 2016.

4. Foreign Exchange Reserves

The banking system's foreign exchange holdings increased to US\$ 10,368 million in August 2017 from US\$ 10,355 million in August 2016. The official foreign exchange reserves held by the Central Bank remained strong at US\$ 7,910 million (5.3 months of import cover) in August 2017 compared with US\$ 8,144 million (5.3 months of import cover) in August 2016.

5. Money and Credit

Broad money supply, M3, grew by 7.8 percent in the year to September 2017 compared to a growth of 8.0 percent in the year to September 2016. The slowdown in growth was largely on account of a decline in the growth of net foreign assets despite an improvement in the flow of net domestic credit mainly to the Government and other public sectors.

6. Capital Markets

Activities at the stock market slowed down in September 2017 due to the prolonged electioneering period. The Nairobi Securities Exchange (NSE) 20 Share Index slowed to 3,751 points in September 2017 from 4,027 points in August 2017. However, this was a recovery compared to 2,995 points in February 2017.

7. Total Revenue Collection

The National Government cumulative revenue collection including A-I-A for the period July 2017 to September 2017 amounted to Ksh 345.6 billion (equivalent to

3.9 per cent of GDP) against a target of Ksh 388.0 billion or 4.4 per cent of GDP. This represented an underperformance of Ksh 42.5 billion mainly due to shortfalls in Income Tax, 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 September, 2017 amounted to Ksh 412.3 billion. This was Ksh 43.4 billion below the target of Ksh 455.6 billion and was largely attributed to low absorption levels in operations and maintenance, and wages and salaries for the National Government. Expenditure by County Government was below target.

9. Guaranteed Loans

Between July 2017 and September 2017, the National Government paid a total of Ksh 334.3 million on account of guaranteed loans against the projected debt service of Ksh 367.6 million.

10. Overall Fiscal Balance

The cumulative overall fiscal balance, on a commitment basis (excluding grants), amounted to a deficit of Ksh 66.7 billion (equivalent to 0.8 per cent of GDP), as at end-September 2017.

11. External Financing

Between July 2017 and September 2017, external financing amounted to a net borrowing of Ksh 7.5 billion.

12. Net Domestic Borrowing

Net domestic financing amounted to a net borrowing of Ksh 49.2 billion (equivalent to 0.6 per cent of GDP) in the period ending 30th September 2017.

13. Domestic Debt

Total gross domestic debt stock increased by 17.6 per cent from Ksh 1,850.1 billion as at end-September 2016 to Ksh 2,176.6 billion by the end-September 2017.

14. External Debt

The total external debt stock, including the International Sovereign Bond, stood at Ksh 2,309.8 billion for the period ending September 2017. The debt stock comprised of multilateral debt (36.5 per cent), bilateral debt (32.1 per cent), Suppliers Credit debt (0.7 per cent), and Commercial banks' debt (30.7 per cent-including International Sovereign Bond).

RECENT ECONOMIC DEVELOPMENTS

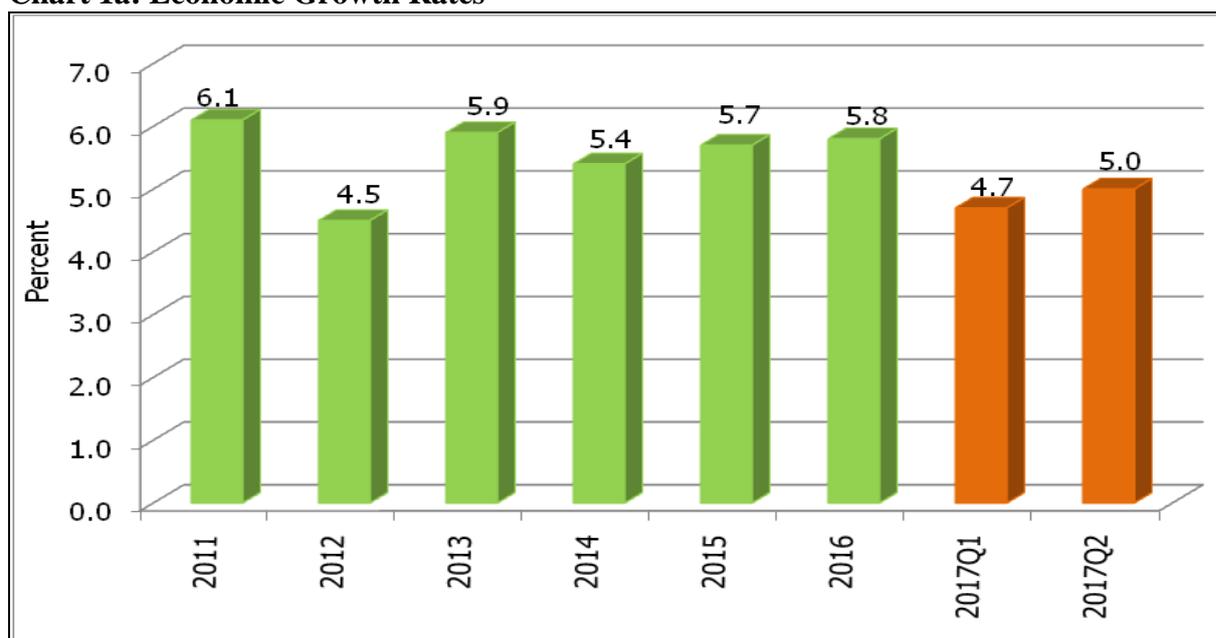
1.0 RECENT ECONOMIC DEVELOPMENTS

1.1 Economic Growth

1. Kenya's economic performance remains robust registering high growth rates of 5.8 per cent in 2016 up from 5.7 per cent in 2015, despite the slow recovery in the global economy as well as that of sub Saharan African region. This growth continues to be supported by stable macroeconomic environment, increased public investment spending, strong consumer demand and continued recovery in the tourism sector.

2. This momentum continued in 2017 with growth of 5.0 per cent in Quarter 2, up from 4.7 per cent in Quarter 1. The strong growth in the second quarter of 2017 was supported by stable macroeconomic conditions and robust activities in accommodation and restaurant (13.4 per cent); real estate (9.7 per cent); information and communication (9.2 per cent); transport and storage (8.2 per cent); construction (7.5 per cent) and wholesale and retail trade (2.8 per cent). On the other hand, the growth was somewhat constrained by subdued performance in agriculture, forestry and fishing, manufacturing, electricity and financial intermediation sectors (**Chart 1a**).

Chart 1a: Economic Growth Rates



Source of data: Kenya National Bureau of Statistics

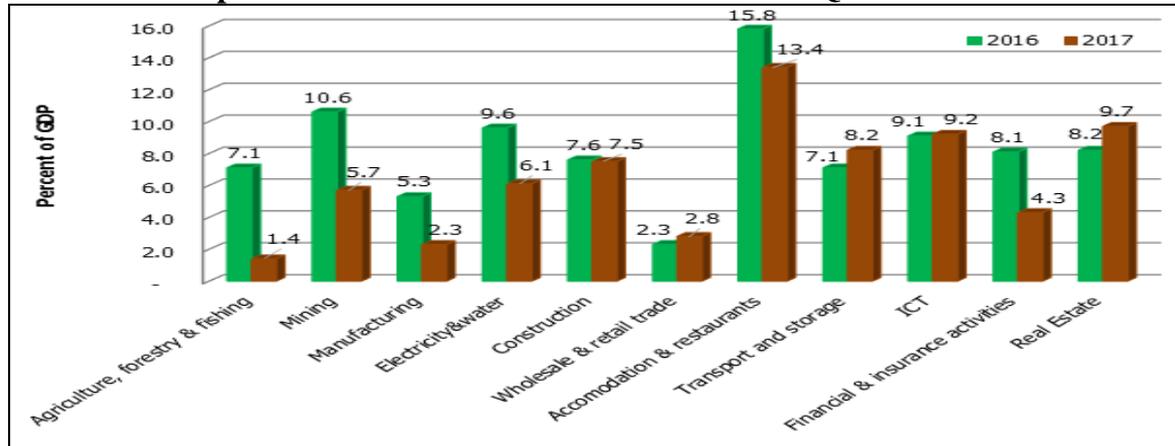
3. The Accommodation and Restaurant sector continued with the strong performance and grew by 13.4 per cent in the second quarter of 2017 largely on account of sustained improvement in security in the country and enhanced marketing efforts, this growth was however lower than the 15.8 per cent growth recorded in the second quarter of 2016 (**Chart 1b**).

4. The Information and Communication sector recorded a growth of 9.2 per cent in the second quarter of 2017 up from 9.1 per cent 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.

RECENT ECONOMIC DEVELOPMENTS

5. Transport and Storage sector improved by 8.2 per cent in the second quarter of 2017 compared to 7.1 per cent in the same quarter in 2016. The sector's performance was mainly supported by increased activity in passenger and freight road transport as evidenced by increased consumption of combustion fuels. Growth in the sector was further buoyed by the introduction of passenger rail transport services using the SGR between Mombasa and Nairobi in the month of June 2017.

Chart 1b: Comparison of Sectoral GDP Growth of Second Quarter 2016 and 2017



Source of data: Kenya National Bureau of Statistics

6. Increased demand in housing both for private and commercial purposes led to the improvement of the real estate sector which recorded a growth of 9.7 per cent in the second quarter of 2017 from 8.2 per cent during the same period in 2016. The ongoing activities in property development as well as civil works being implemented by the government continue to support the construction sector. However, as the Standard Gauge Railway (SGR) construction activities reduced, the vibrancy in the construction sector declined to 7.5 per cent in the second quarter of 2017 from a growth of 7.6 per cent in the second quarter of 2016.

7. The electricity and water supply sector grew by 6.1 per cent in the second quarter of 2017 compared to a growth of 9.6 per cent in the same quarter of 2016. The slowed growth was largely attributable to a contraction in hydro generation of electricity as a result of insufficient long rains which was matched with substantial increase in thermal generation which had a negative impact on the sector's performance.

8. Financial and insurance sector recorded a growth of 4.3 per cent in the second quarter of 2017, a slowdown from a growth of 8.1 per cent registered in a similar period of 2016. The slowdown in 2017 may partly be explained by the decline in domestic credit to the private sector.

9. The manufacturing sector grew by 2.3 per cent in the second quarter of 2017 a slowdown from a growth of 5.3 per cent in a similar period in 2016. The slowdown was manifested in both the food and non-food subsectors. The reduction in agricultural production due to unfavourable weather conditions experienced in early months of the year affected agro processing activities. On the other hand, slowed construction activities led to decline in production of cement and manufacture of galvanized sheets. This together with decline in assembly of motor vehicles slowed growth in the non-food subsector.

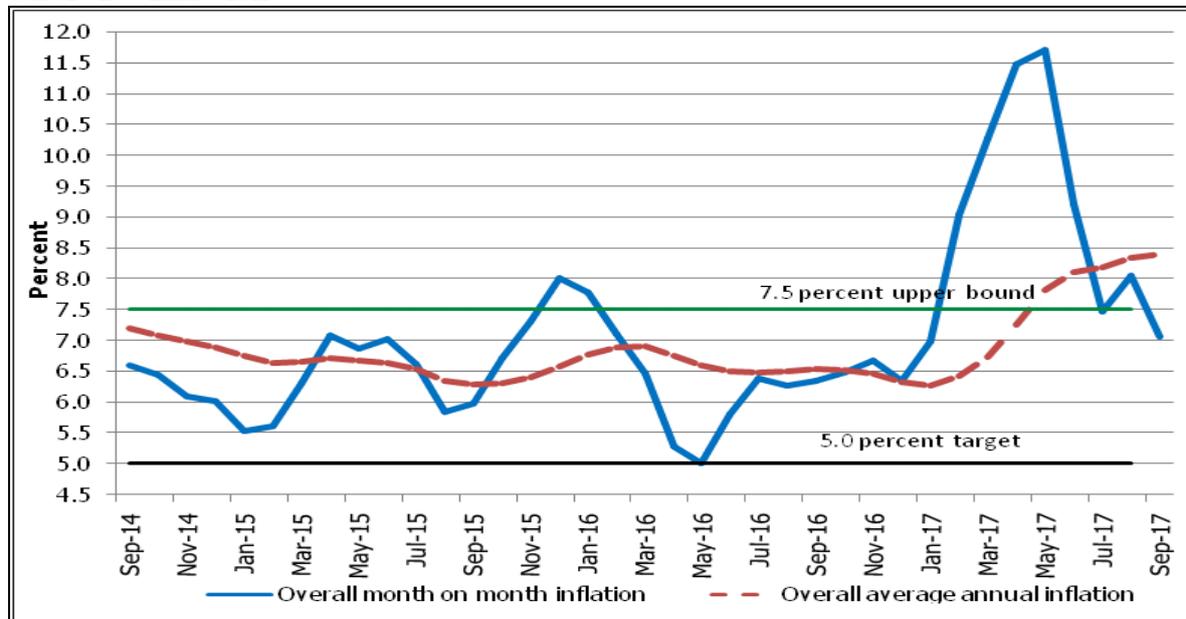
RECENT ECONOMIC DEVELOPMENTS

10. The Agriculture, Forestry and Fishing sector slowed down to a growth of 1.4 per cent in the second quarter of 2017 from a growth of 7.1 in the same quarter in 2016. The slowed growth was largely due to the impact of the drought experienced during the fourth quarter of 2016 and suppressed long rains in 2017 which affected the production of the main food crops. Whereas most sub-sectors registered poor performance, there was a slight improvement in production of tea and horticultural products thereby reducing the effect of underperformance of the other sub-sectors on the overall growth of the sector.

1.2 Inflation

11. Overall month on month inflation declined to 7.1 per cent in September 2017 (within Government target range of 5+/-2.5 per cent) from 8.0 per cent in August 2017 (Chart 2a). The decline was due to the fall in the cost of some food items, mainly attributed to improved supply of goods and services as compared to August 2017 which experienced subdued supply. In the twelve month to September 2017, the average annual inflation rate was 8.4 per cent compared to 6.5 per cent in the same period in 2016..

Chart 2a: Inflation



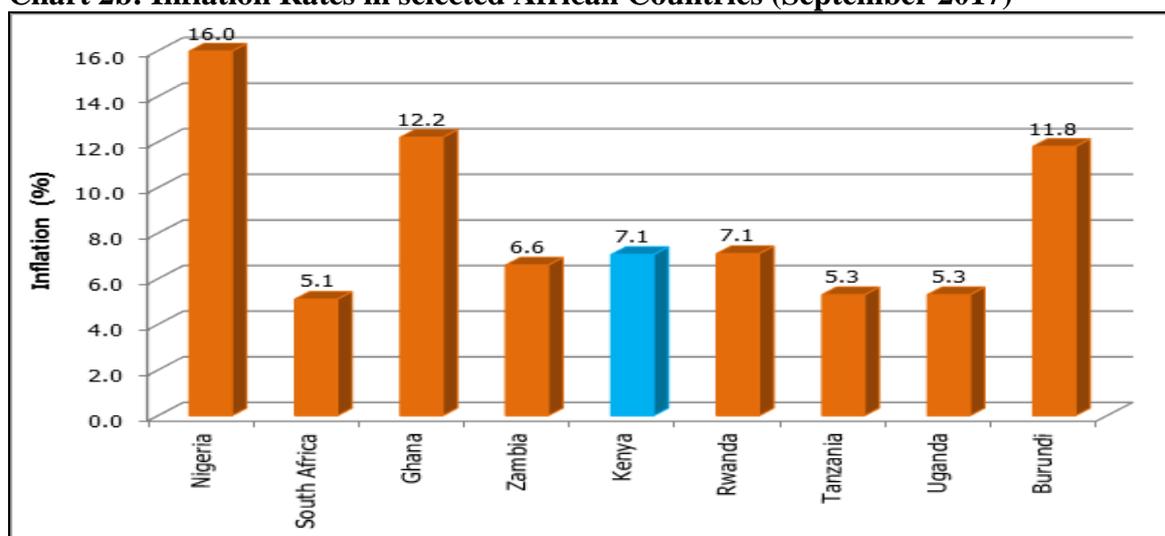
Source of data: Kenya National Bureau of Statistics

12. In the sub Saharan Africa region, the high inflation rates in Ghana and Nigeria reflect difficult economic conditions as a result of foreign currency shortages attributed to lower commodity revenues and slow policy adjustment. The low inflation rate in South Africa reflects improved weather conditions that led to a bumper crop harvest which resulted in lower food prices (Chart 2b).

13. The EAC region (except Burundi) continues to register low inflation rates due to improved weather conditions, and prudent monetary and fiscal policy management. Burundi has been experiencing high inflation rates due to recent drought and flooding episodes. Following this, the Burundi Government instituted customs measures on imported food which is stabilizing food prices in the country.

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Chart 2b: Inflation Rates in selected African Countries (September 2017)

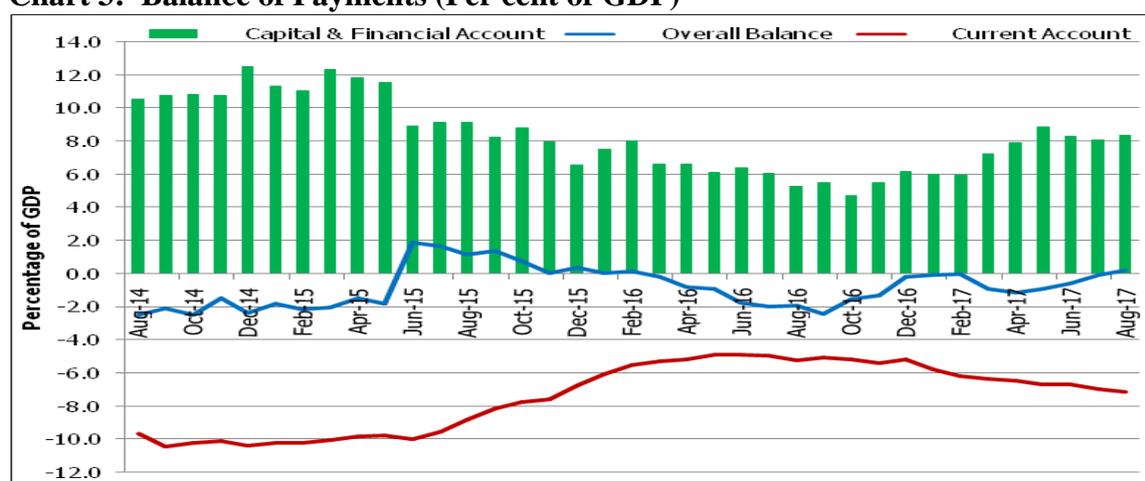


Source of data: IMF/various CBK

1.3 Balance of Payments

14. The overall balance of payments position improved to a surplus of US\$ 135.0 million (0.2 per cent of GDP) in the year to August 2017 from a deficit of US\$ 1,239.0 million (-1.9 per cent of GDP) in the year to August 2016 (**Chart 3**). The current account balance was at a deficit of US\$ 5,197.8 million in the year to August 2017 from a deficit of US\$ 3,325.7 million in the year to August 2016. The widening of the current account deficit reflects a 3.8 per cent drop in receipts from export of goods and a 15.1 per cent increase in imports of goods despite a 2.6 per cent increase in the net service account and an improvement in net payments primary and secondary income. As a share to GDP, the current account deficit was at 7.1 per cent in August 2017 compared to 5.2 per cent in August 2016.

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



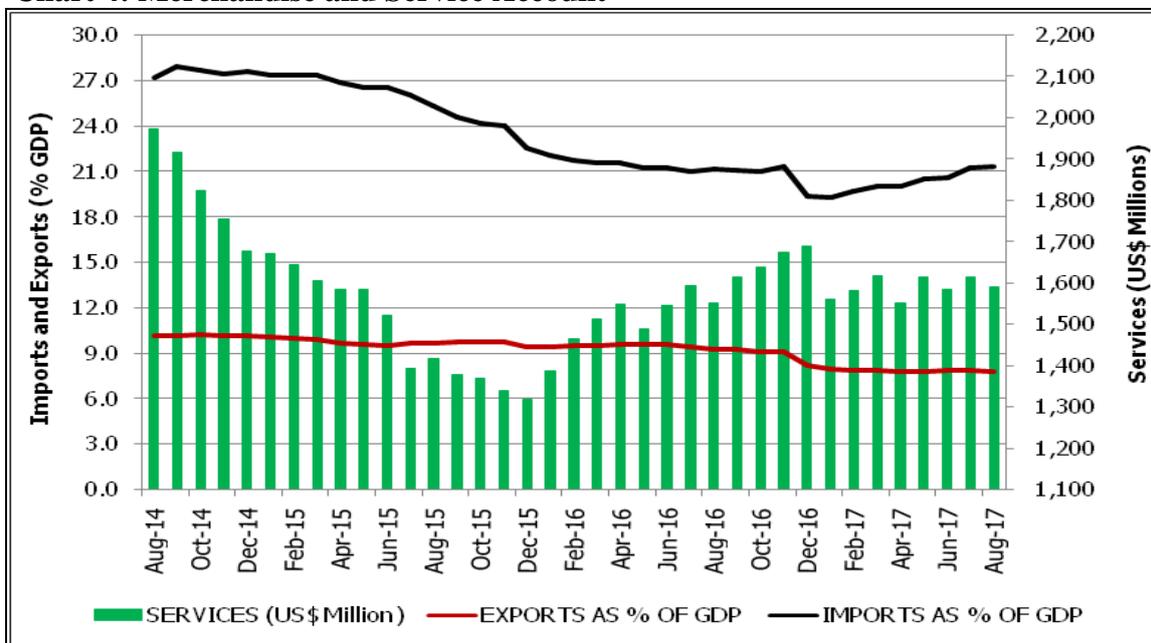
Source of data: Central Bank of Kenya

15. The deficit in the merchandise account widened by US\$ 2,263.3 million to US\$ 9,858.8 million in the year to August 2017 reflecting increase in payments for oil imports on account of the rebound in international oil prices and the increase in imports of

RECENT ECONOMIC DEVELOPMENTS

machinery and transport equipment mostly wagons, locomotives and associated equipment related to the Standard Gauge Railway (SGR) project. In addition, net export of goods and services declined due to 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

16. In the period August 2016 to August 2017, the inflows from the services account increased by 4.7 per cent as a result of improvement in the travel services in line with the recovery in tourist arrivals despite lower receipts from transport and other services (financial services). Inflows (secondary income) improved by 13.7 per cent in the year to August 2017 mainly on account of increased income receipts by Non-Governmental Organizations and an increase in remittance inflows under personal transfers.

17. Flows in the Financial Account increased to US\$ 5,905.9 million in August 2017 compared with US\$ 3,130.9 million in August 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\$ 279 million and US\$ 6,475.5 million, respectively in August 2017. Other investment inflows mainly include foreign financing for Government infrastructure projects.

1.4 Foreign Exchange Reserves

18. The banking system's foreign exchange holdings increased to US\$ 10,368 million in August 2017 from US\$ 10,354 million in August 2016 (**Table 1 and Chart 5**). This was due to the increased holdings by commercial banks to US\$ 2,458 million in 2017 from US\$ 2,210 million in 2016. The official foreign exchange reserves held by the Central Bank remained strong at US\$ 7,910 million (5.3 months of import cover) in August 2017 compared with US\$ 8,144 million (5.3 months of import cover) in August 2016.

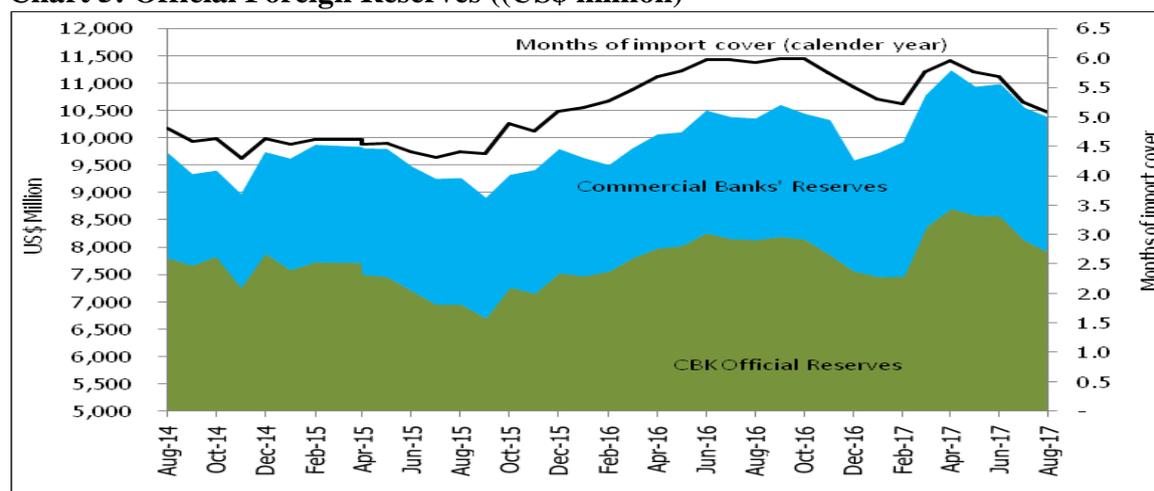
RECENT ECONOMIC DEVELOPMENTS

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

	Aug-16	Sep-16	Dec-16	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17
Gross Foreign Exchange Reserves	10,354	10,602	9,587	10,786	11,233	10,934	10,984	10,550	10,368
Official	8,144	8,200	7,573	8,379	8,715	8,591	8,580	8,135	7,910
Commercial Banks	2,210	2,402	2,015	2,407	2,518	2,343	2,405	2,415	2,458
Import cover (36 mths imports)	5.31	5.35	5.52	5.53	5.78	5.70	5.68	5.39	5.26

Source of data: Central Bank of Kenya

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

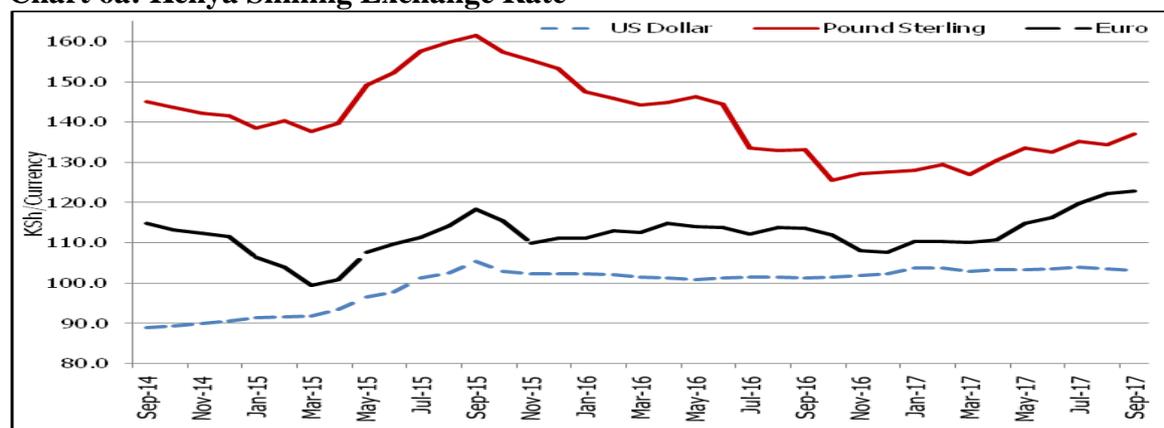


Source of data: Central Bank of Kenya

1.5 Exchange Rates

19. The Kenya Shilling exchange rate remained broadly stable against major international currencies. In September 2017, against the dollar, the Shilling depreciated by around 1.8 per cent in nominal terms to close at Ksh 103.1 from Ksh 101.3 in September 2016. Against the Euro and the Sterling pound, the Shilling weakened to Ksh 122.9 and Ksh 137.0 in September 2017 from Ksh 113.5 and Ksh 133.2 in September 2016, respectively (Chart 6a).

Chart 6a: Kenya Shilling Exchange Rate

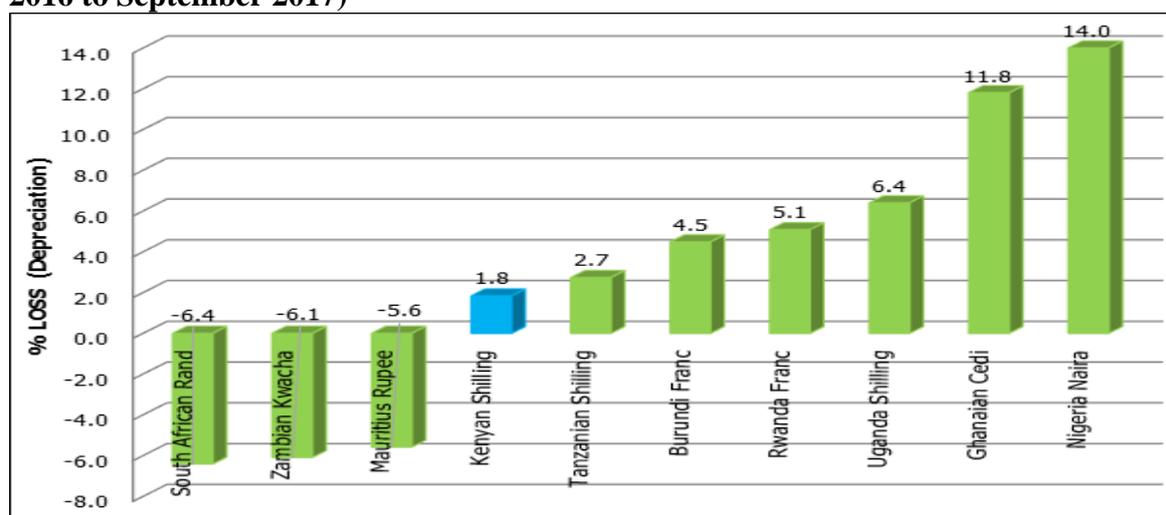


Source of data: Central Bank of Kenya

RECENT ECONOMIC DEVELOPMENTS

20. As compared to the regional currencies, the Kenya Shilling exchange rate has continued to display relatively less volatility (**Chart 6b**). The stability of the Kenya shilling exchange 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.

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



Source: Data from Various National Central Banks

1.6 Money and Credit

21. Broad money supply, M3, grew by 7.8 per cent in the year to September 2017 compared to a growth of 8.0 per cent in the year to September 2016 (**Table 2**). The slowdown in growth was largely on account of a decline in the growth of net foreign assets (NFA) of the Central Bank despite an improvement in the flow of net domestic credit mainly by the Government and other public sectors.

Table 2: Money and Credit Developments, Ksh billion

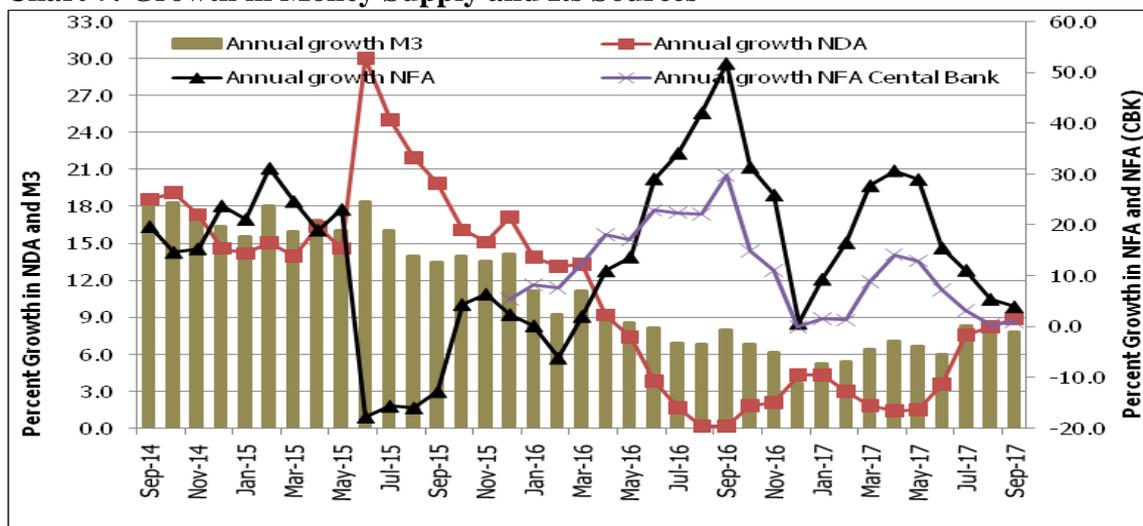
	2015 SEPT	2016 SEPT	2017 SEPT	Absolute Change		percent change	
				2015-2016 SEPT	2016-2017 SEPT	12 months to Sep-16	12 months to Sep-17
Money supply, M3 (1+2)	2,567.1	2,772.7	2,990.3	205.5	217.7	8.0	7.8
1. Net foreign assets (1.1+1.2)	389.7	591.9	615.6	202.2	23.7	51.9	4.0
1.1 Central Bank	529.3	687.2	694.6	157.9	7.5	29.8	1.1
1.2 Banking Institutions	-139.5	-95.3	-79.1	44.3	16.2	-31.7	-17.0
2. Net domestic assets (2.1+2.2)	2,177.4	2,180.8	2,374.7	3.4	194.0	0.2	8.9
2.1 Domestic credit (2.1.1+2.1.2+2.1.3)	2,785.4	2,858.7	3,069.7	73.3	211.0	2.6	7.4
2.1.1 Government (net)	554.3	525.2	678.1	-29.1	152.9	-5.2	29.1
2.1.2 Other public sector	82.8	90.2	110.0	7.4	19.7	8.9	21.9
2.1.3 Private sector	2,148.3	2,243.3	2,281.6	95.0	38.4	4.4	1.7
2.2 Other assets net	-608.0	-677.9	-694.9	-69.9	-17.0	11.5	2.5

Source of data: Central Bank of Kenya

RECENT ECONOMIC DEVELOPMENTS

22. Net Foreign Assets (NFA) of the banking system in the year to September 2017 slowed to a growth of 4.0 per cent from a growth of 51.9 per cent over a similar period in 2016 (**Chart 7**). 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 7: Growth in Money Supply and Its Sources



Source of data: Central Bank of Kenya

23. Meanwhile, the NDA of the banking system improved to a growth of 8.9 per cent in the year to September 2017 from the growth of 0.2 per cent over a similar period in 2016. The pickup in growth in 2017 is due to an improvement in the growth of net domestic credit despite the contraction in the other assets net of the banking system.

24. Domestic credit improved to an annual growth of Ksh 211.0 billion (7.4 per cent) in the year to September 2017 compared to a growth of Ksh 73.3 billion (2.6 per cent) in the year to September 2016. The improvement reflects an increase in government deposits leading to an improvement in net bank credit to government despite a decline in credit uptake by the private sector. The slowdown in the other assets in the year to September 2017 is attributed to a decline in the other items at the Central Bank and other banking institutions

25. Bank credit to the private sector slowed to a growth of 1.7 per cent in the year to September 2017 from a 4.4 per cent growth in the same period in 2016. However, this is an improvement compared to the growth of 1.6 per cent in the year to August 2017 reversing the downward trend witnessed since August 2015. Real estate, manufacturing, trade, building and construction and private households on a net basis received credit flows from the banking sector in the year to September 2017.

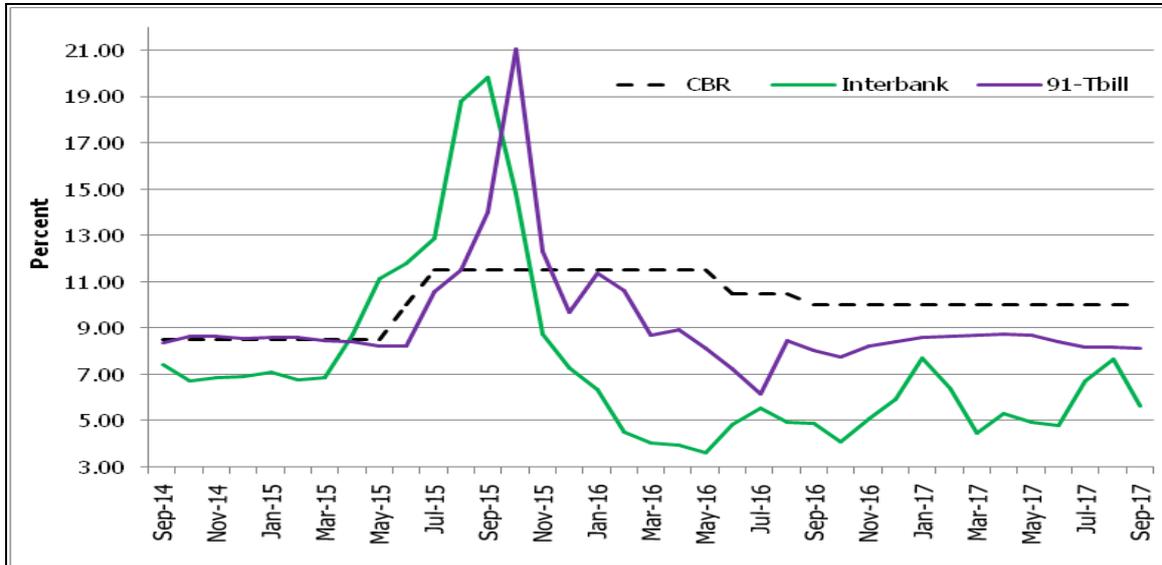
1.7 Interest Rates

26. Interest rates have remained fairly low and stable. The Monetary Policy Committee at their meeting of 18th September 2017 left the Central Bank Rate unchanged at 10 per cent. The interbank rate has remained low at 5.5 per cent in September 2017 from 8.1 per cent in August 2017 due to ample liquidity in the money market (**Chart 8a**), while the 91-

RECENT ECONOMIC DEVELOPMENTS

day Treasury Bills rate declined to 8.1 per cent in September from 8.2 per cent in August 2017. The 182 day and the 364 day Treasury Bills stabilized at 10.3 per cent and 10.9 per cent, respectively in September and August 2017.

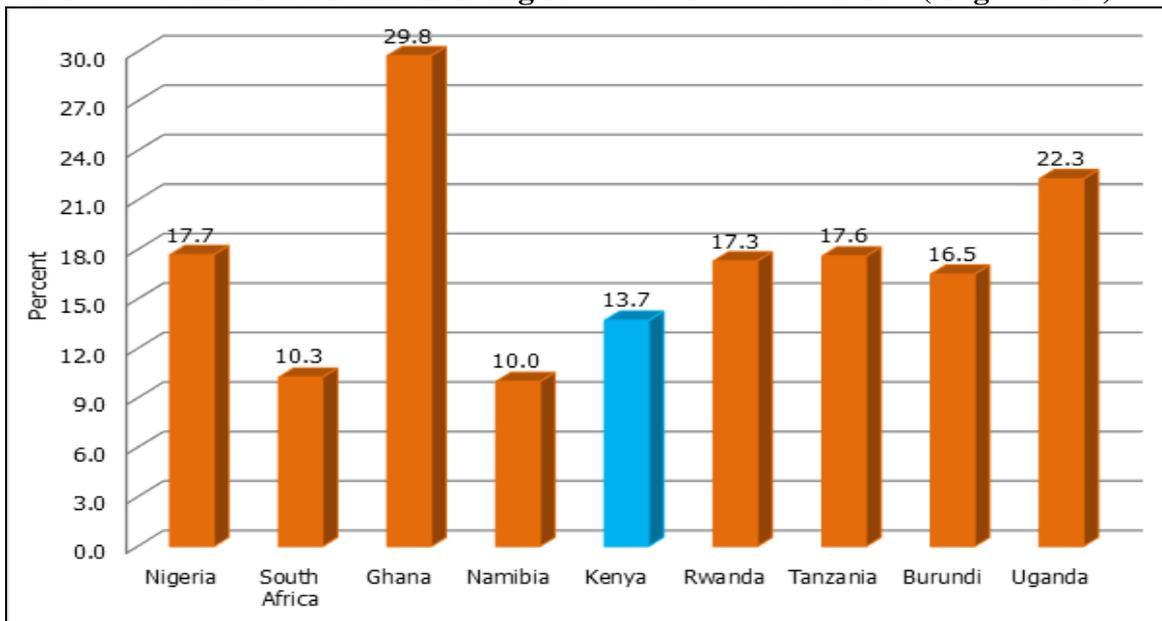
Chart 8a: Short-Term Interest Rates



Source of data: Central Bank of Kenya

27. The interest rate spread narrowed to 6.3 per cent in August 2017 from 11.2 per cent in August 2016 as a result of the developments in the lending and deposit rates. Commercial Banks' average lending interest declined to 13.7 per cent in August 2017 compared to 17.7 per cent in August 2016. Meanwhile, the average commercial banks' deposit rate increased to 7.4 per cent from 6.4 per cent over the same period. In addition, as a result of the new Act, Kenya has the lowest lending rate among the East African countries (Chart 8b).

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



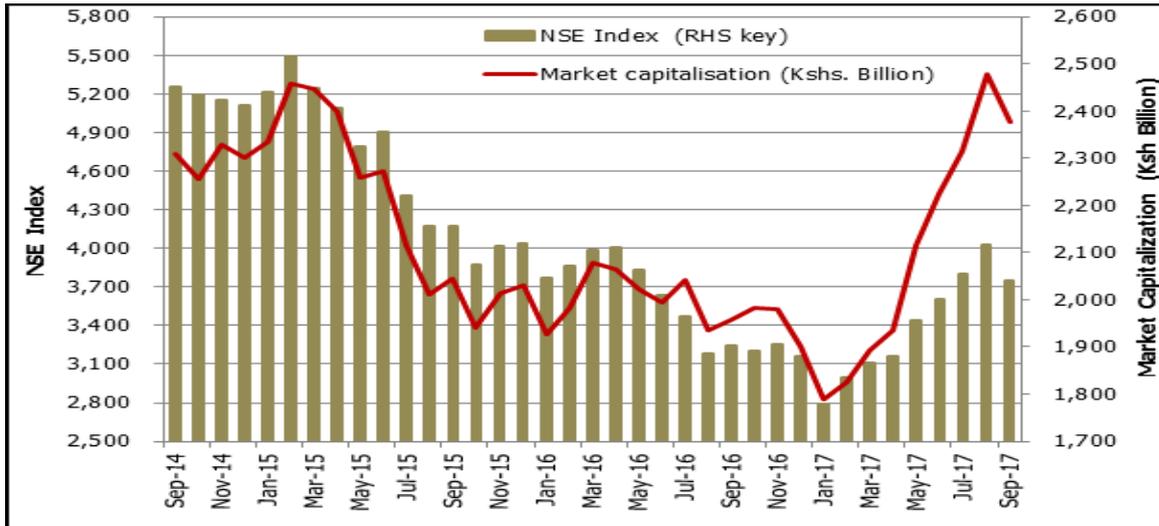
Source of data: National Central Banks

RECENT ECONOMIC DEVELOPMENTS

1.8 Capital Markets

28. Activities at the stock market slowed down in September 2017 due to the prolonged electioneering period. The NSE 20 Share Index slowed to 3,751 points in September 2017 from 4,027 points in August 2017 while the market capitalization also slowed to Ksh 2,377 billion from Ksh 2,479 billion over the same period. However, this was a recovery compared to the performance in February 2017 with the NSE 20 share index at 2,995 points and Market capitalization at Ksh 1,825 billion. (Chart 9).

Chart 9: Performance at the NSE



Source of data: Central Bank of Kenya

FISCAL DEVELOPMENTS

2.0 FISCAL DEVELOPMENTS

2.1 Revenue

29. By the end of September 2017, total cumulative revenue including A-I-A collected amounted to Ksh 345.6 billion against a target of Ksh 388.0 (*Table 3 and Chart 10*). This performance was below the target by Ksh 42.5 billion. Ordinary revenue collection was Ksh 320.9 billion against a target of Ksh 350.8 billion, which was Ksh 29.9 billion below the target. The Railway Development Levy collection amounted to Ksh 5.2 billion against a target of Ksh 5.4 billion. Cumulative ministerial A-I-A recorded an under performance of Ksh 13.8 billion for the period under review, reflecting under reporting by the ministries' expenditure return for the period under review. However, compared to the last FY., the Revenue collection increased by 9.8 per cent.

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

	2016/2017 Actual	2017/18		Deviation KShs.	Deviation in percentage
		Actual	Target		
Total Revenue (a+b)	313,645	345,557	388,022	(42,465)	(10.94)
(a) Ordinary Revenue	294,475	320,932	350,822	(29,890)	(8.52)
Import Duty	19,969	20,974	23,925	(2,951)	(12.33)
Excise Duty	40,427	40,328	45,400	(5,072)	(11.17)
PAYE	68,038	72,446	89,598	(17,152)	(19.14)
Other Income Tax	72,817	84,799	81,905	2,894	3.53
VAT Local	47,106	48,897	49,385	(488)	(0.99)
VAT Imports	32,542	37,485	41,616	(4,131)	(9.93)
Investment Revenue	1,453	50	625	(574)	(91.97)
Traffic Revenue	645	544	1,378	(834)	(60.53)
Taxes on Intl. Trade & Trans.(IDF Fee)	5,875	5,973	8,674	(2,701)	(31.14)
Others ¹	5,603	9,436	8,316	1,120	13.47
(b) Appropriation In Aid ²	19,169	24,625	37,200	(12,575)	(33.80)
o/w Railway Development Levy	4,448	5,232	5,393	(161)	(2.98)
(c) External Grants	1,478	1,597	10,780	(9,182)	(85.18)
Total Revenue and External Grants	315,123	347,154	398,802	(51,647)	(12.95)
Total Revenue and External Grants as a percentage of GDP	4.24	3.94	4.53		-

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

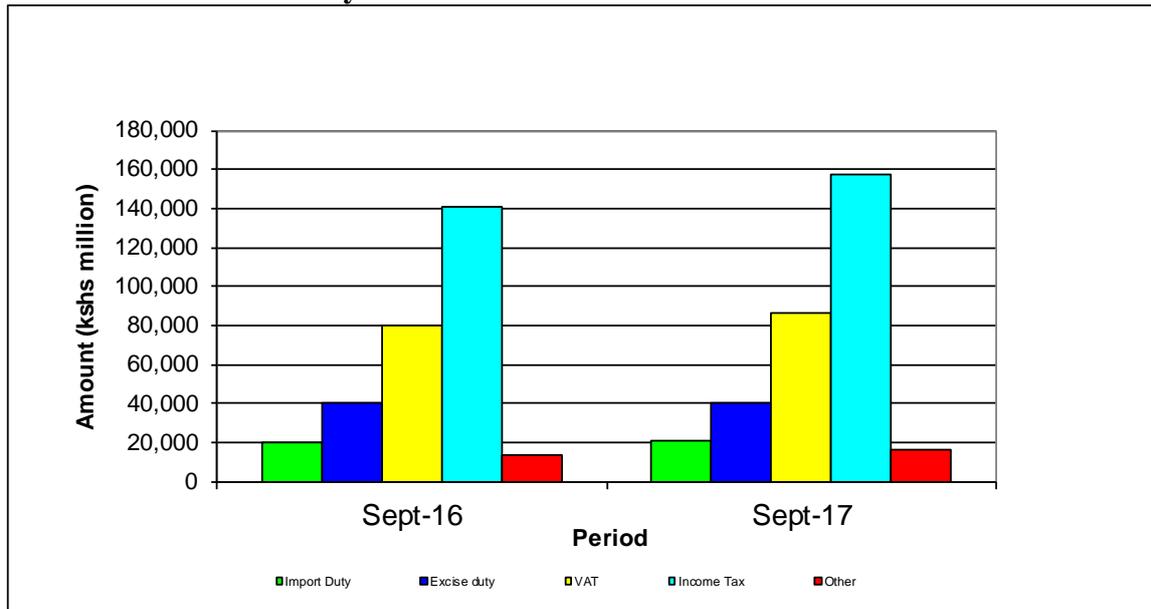
2/ includes receipts from Road Maintenance Levy Fund and A-I-A from Universities

Source: National Treasury

30. As a proportion of GDP, the total cumulative revenue and grants in the period under review amounted to 3.9 per cent compared to 4.2 per cent in the corresponding period of the FY 2016/17. External grants amounted to Ksh 1.6 billion against a target of Ksh 10.8 billion, representing an under performance of Ksh 9.2 billion.

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Chart 10: Total Ordinary Revenue



Source: National Treasury

2.2 Expenditure

31. The total expenditure and net lending for the period under review amounted to Ksh 412.3 billion, against a target of Ksh 455.6 billion. The shortfall of Ksh 43.4 billion was attributed to lower absorption recorded in both recurrent and development expenditures by the National Government and County Governments. (**Table 4 and Chart 11**). Recurrent expenditure for National Government amounted to Ksh 294.7 billion (excl. Ksh 5.2 billion for Parliament and Judiciary), against a target of Ksh 281.1 billion, with underperformance mainly recorded in wages and salaries, and pension which accounted for Ksh 6.3 billion, and Ksh 5.1 billion, respectively.

32. Foreign interest payments amounted to Ksh 17.3 billion, compared to Ksh 7.4 billion in the same period of the FY 2016/17. The domestic interest payments totalled Ksh 49.9 billion, which was higher than Ksh 42.5 billion paid in the corresponding period of the previous financial year.

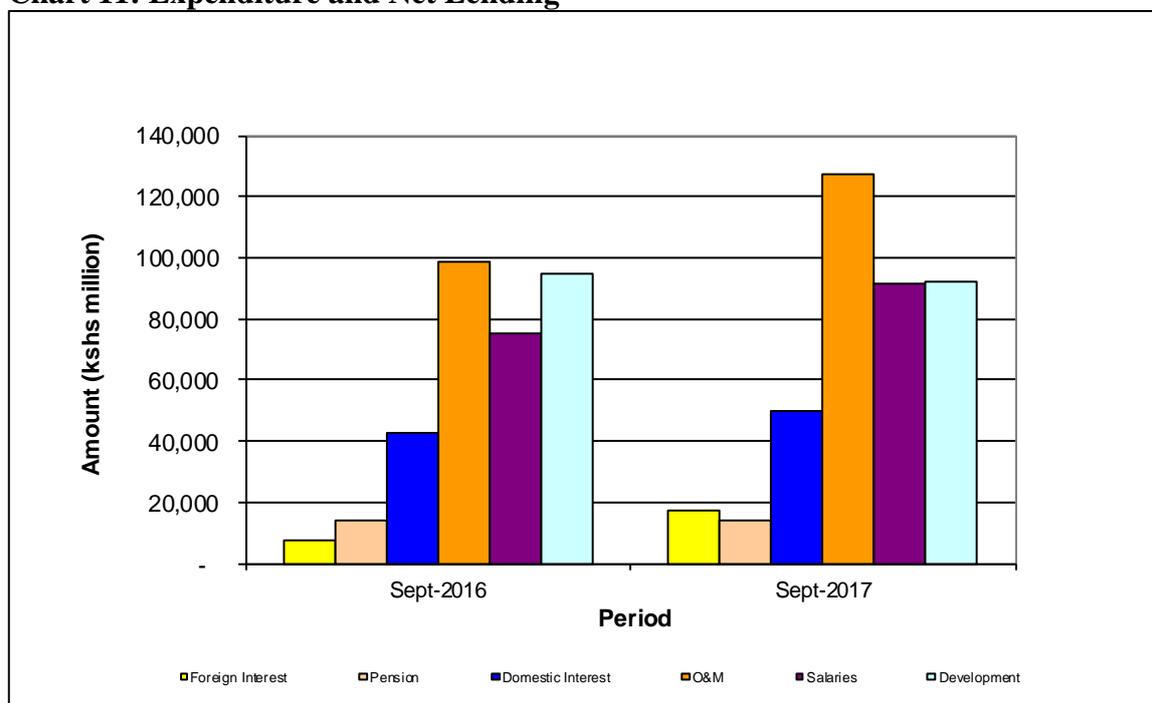
FISCAL DEVELOPMENTS

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

	2016/2017 Actual	2017/18		Deviation	% Growth
		Actual	Targets		
1. RECURRENT	230,227	294,701	281,058	13,643	28.0
Domestic Interest	42,517	49,871	50,297	(425)	17.3
Foreign Interest	7,409	17,283	12,247	5,036	133.3
Pensions	13,828	13,954	19,153	(5,198)	0.9
Wages and Salaries	75,100	91,503	97,815	(6,312)	21.8
Operation and Maintenance	91,374	122,089	101,547	20,542	33.6
O/W : Appropriation-in-Aid	15,009	19,089	26,469	(7,380)	27.2
2. DEVELOPMENT	94,553	90,675	88,131	2,544	(4.1)
Development Projects (Net)	53,768	69,955	45,740	24,214	30.1
Payment of Guaranteed Loans	164	-	368	(368)	(100.0)
Appropriation-in-Aid	40,621	20,720	42,023	(21,303)	(49.0)
3. County Governments	55,347	20,434	73,488	(53,054)	(63.1)
4. Parliamentary Service	4,994	3,025	8,223	(5,198)	-
5. Judicial Service	2,492	2,188	3,481	(1,292)	-
6. Equalization Fund	-	-	-	-	-
7. CF	-	1,251	1,250	1	-
TOTAL EXPENDITURE	387,612	412,274	455,631	(43,357)	6.4

Source: National Treasury

Chart 11: Expenditure and Net Lending



Source: National Treasury

33. The total cumulative ministerial and other public agencies expenditure was Ksh 304.0 billion against a target of Ksh 325.7 billion (**Table 5**). Recurrent expenditure was Ksh 218.8 billion against a target of Ksh 228.6 billion, while development expenditure was Ksh 85.2 billion against a target of Ksh 97.1 billion. The percentage of total

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expenditures to the target was 93.3 per cent, while the percentage of total expenditures to the target for recurrent and development were 95.7 per cent and 87.7 per cent 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.

34. As at the end of 30th September, 2017, expenditures by the Ministry of Education, Science and Technology; Teachers Service Commission and Ministry of Health (Social Sector) accounted for 40.6 per cent of total recurrent expenditure. While the State Department for Interior, and Ministry of Defence accounted for 9.1 per cent and 11.3 per cent respectively.

35. Analysis of development outlay indicates that the Ministry of Energy and Petroleum (18.3 per cent) accounted for the largest share of the total development expenditures, followed by the Department for Infrastructure (14.3 per cent), Department of Transport (10.5 per cent) and the State Department Planning (10.1 per cent, mainly on NG-CDF). The development expenditures in large ministries were below the target because of non-inclusion of expenditures from some donor funded projects.

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

MINISTRY/DEPARTMENT/COMMISSIONS	Sep-17		Variance	Sep-17		Variance	Sep-17		Variance	% total expenditure to total target
	Recurrent			Development			Total			
	Actual*	Target	Actual*	Target	Actual*	Target				
1011 The Presidency	1,773	2,173	(401)	20	278	(257)	1,793	2,451	(658)	73.2
1021 State Department for Interior	19,942	26,611	(6,669)	1,858	4,295	(2,438)	21,800	30,907	(9,107)	70.5
1023 State Department for Correctional Services	3,846	5,384	(1,537)	5	225	(220)	3,851	5,609	(1,757)	68.7
1032 State Department for Devolution	156	277	(120)	61	635	(574)	217	912	(695)	23.8
1033 State Department for Special Programmes	1,538	538	1,000	699	738	(38)	2,237	1,276	961	175.3
1034 State Department for Planning and Statistics	1,279	1,347	(69)	8,617	9,215	(598)	9,896	10,563	(667)	93.7
1041 Ministry of Defence	24,738	25,894	(1,156)	-	-	-	24,738	25,894	(1,156)	95.5
1052 Ministry of Foreign Affairs	498	4,335	(3,837)	1	500	(499)	499	4,835	(4,336)	10.3
1063 State Department for Basic Education	21,127	14,629	6,498	757	1,573	(816)	21,884	16,202	5,682	135.1
1064 State Department for Vocational And Technical Training	561	660	(99)	2,952	1,087	1,866	3,513	1,747	1,766	201.1
1065 State Department for University Education	16,643	11,779	4,864	1,541	2,423	(882)	18,184	14,202	3,982	128.0
1071 The National Treasury	6,716	19,361	(12,645)	1,414	6,637	(5,223)	8,129	25,997	(17,868)	31.3
1081 Ministry of Health	5,243	6,686	(1,443)	2,561	4,904	(2,343)	7,804	11,590	(3,786)	67.3
1091 State Department for Infrastructure	10,855	471	10,384	12,140	20,465	(8,325)	22,995	20,936	2,059	109.8
1092 State Department for Transport	336	364	(28)	8,956	3,894	5,062	9,292	4,258	5,034	218.2
1093 State Department for Marine time Affairs	44	69	(25)	-	-	-	44	69	(25)	64.1
1094 State Department for Housing & Urban Development	341	431	(91)	2,478	2,312	167	2,819	2,743	76	102.8
1095 State Department for Public Works	170	211	(41)	69	544	(475)	239	755	(515)	31.7
1103 State Department for Water Services	398	469	(71)	2,913	2,224	689	3,311	2,693	618	122.9
1104 State Department for Irrigation	115	139	(23)	2,736	2,256	481	2,852	2,394	457	119.1
1105 State Department for Environment	658	682	(24)	567	843	(276)	1,225	1,525	(300)	80.3
1106 State Department for Natural Resources	1,766	1,818	(53)	653	703	(50)	2,419	2,521	(103)	95.9
1112 Ministry of Lands and Physical Planning	523	614	(90)	276	943	(666)	800	1,556	(757)	51.4
1122 State Department for Information Communication and Technology &	87	319	(232)	3,781	4,050	(269)	3,869	4,369	(501)	88.5
1123 State Department for Broadcasting & Telecommunications	638	479	159	87	191	(104)	725	670	55	108.3
1132 State Department for Sports Development	551	617	(66)	281	140	140	832	757	74	109.8
1133 State Department For Arts And Culture	732	732	(0)	155	251	(96)	887	983	(97)	90.2
1152 State Department of Energy	483	461	22	15,559	7,825	7,734	16,043	8,287	7,756	193.6
1153 State Department of Petroleum	30	49	(19)	312	731	(420)	341	780	(439)	43.8
1161 State Department for Livestock	1,107	1,571	(464)	1,630	2,225	(595)	2,737	3,796	(1,059)	72.1
1162 State Department for Livestock	923	1,258	(335)	687	1,170	(484)	1,609	2,428	(819)	66.3
1164 State Department for Fisheries and The Blue Economy	268	514	(246)	3	229	(225)	271	743	(471)	36.5
1172 State Department for Investment and Industry	519	580	(61)	939	1,332	(393)	1,458	1,911	(453)	76.3
1173 State Department for Cooperatives	76	110	(34)	88	123	(35)	163	232	(69)	70.2
1174 State Department for Trade	251	599	(348)	4	82	(77)	255	681	(425)	37.5
1183 State Department for East African Integration	102	388	(286)	-	-	-	102	388	(286)	26.2
1184 State Department for Labour	267	504	(237)	22	261	(239)	289	765	(476)	37.8
1185 State Department for Social Protection	958	2,351	(1,393)	2,942	3,740	(798)	3,900	6,091	(2,191)	64.0
1191 Ministry of Mining	80	363	(283)	57	309	(252)	137	671	(534)	20.4
1201 Ministry of Tourism	375	469	(94)	723	980	(257)	1,098	1,450	(351)	75.8
1211 State Department of Public Service and Youth Affairs	5,167	3,335	1,832	4,978	3,248	1,731	10,145	6,583	3,562	154.1
1212 State Department for Gender	113	403	(291)	733	858	(125)	845	1,261	(416)	67.0
1252 State Law Office and Department of Justice	840	1,073	(233)	1	284	(283)	841	1,358	(517)	61.9
1261 The Judiciary	2,136	3,358	(1,222)	665	1,032	(367)	2,801	4,390	(1,589)	63.8
1271 Ethics and Anti-Corruption Commission	906	692	214	-	317	(317)	906	1,009	(103)	89.8
1281 National Intelligence Service	10,768	6,651	4,117	-	-	-	10,768	6,651	4,117	161.9
1291 Directorate of Public Prosecutions	383	563	(180)	8	21	(13)	391	583	(192)	67.0
1311 Registrar of Political Parties	110	219	(110)	-	-	-	110	219	(110)	50.0
1321 Witness Protection Agency	41	108	(67)	-	-	-	41	108	(67)	37.6
2011 Kenya National Commission on Human Rights	112	113	(0)	-	-	-	112	113	(0)	99.9
2021 National Land Commission	294	363	(69)	73	75	(2)	366	438	(72)	83.7
2031 Independent Electoral and Boundaries Commission	15,000	14,214	786	-	11	(11)	15,000	14,225	775	105.4
2041 Parliamentary Service Commission	1,444	2,932	(1,487)	167	788	(621)	1,611	3,719	(2,108)	43.3
2042 National Assembly	2,452	5,292	(2,839)	-	-	-	2,452	5,292	(2,839)	46.3
2051 Judicial Service Commission	69	123	(54)	-	-	-	69	123	(54)	56.1
2061 Commission on Revenue Allocation	49	91	(42)	-	-	-	49	91	(42)	53.7
2071 Public Service Commission	280	340	(59)	6	15	(10)	286	355	(69)	80.6
2081 Salaries and Remuneration Commission	112	137	(24)	-	-	-	112	137	(24)	82.1
2091 Teachers Service Commission	50,444	50,341	103	-	30	(30)	50,444	50,370	74	100.1
2101 National Police Service Commission	81	121	(40)	-	16	(16)	81	138	(56)	59.1
2111 Auditor General	854	1,282	(428)	-	59	(59)	854	1,340	(487)	63.7
2121 Controller of Budget	97	144	(47)	-	-	-	97	144	(47)	67.1
2131 The Commission on Administrative Justice	78	119	(41)	-	-	-	78	119	(41)	65.2
2141 National Gender and Equality Commission	102	111	(9)	-	-	-	102	111	(9)	91.8
2151 Independent Policing Oversight Authority	53	150	(97)	-	38	(38)	53	188	(134)	28.5
7021 Equalization Fund - Ministry of Water	87	-	87	10	-	10	98	-	98	#DIV/0!
7051 Equalization Fund Energy	22	-	22	-	-	-	22	-	22	#DIV/0!
Total	218,806	228,578	(9,772)	85,186	97,121	(11,935)	303,992	325,699	(21,707)	93.3

*Provisional

Source: National Treasury

2.2.1 Guaranteed Loans to Parastatals Payments

36. Cumulative principal and interest payments of guaranteed loans to parastatals with liquidity problems amounted to Ksh 334.3 million (principal of Ksh 310.8 million and interest Ksh 23.5 million) against a payment target of Ksh 367.6 million (Table 6) for period ending 30th September, 2017.

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

Borrower	Quarter I				Cumm. September 2017*	
	Projected		Actual		Projected	Actual
	Principal	Interest	Principal	Interest		
EAPC	189.45	14.21	174.13	13.16	203.65	187.29
TARDA	152.40	11.52	136.71	10.33	163.92	147.04
KBC			0	0	-	-
TOTAL (QTR)	341.84	25.73	310.84	23.49	367.58	334.33

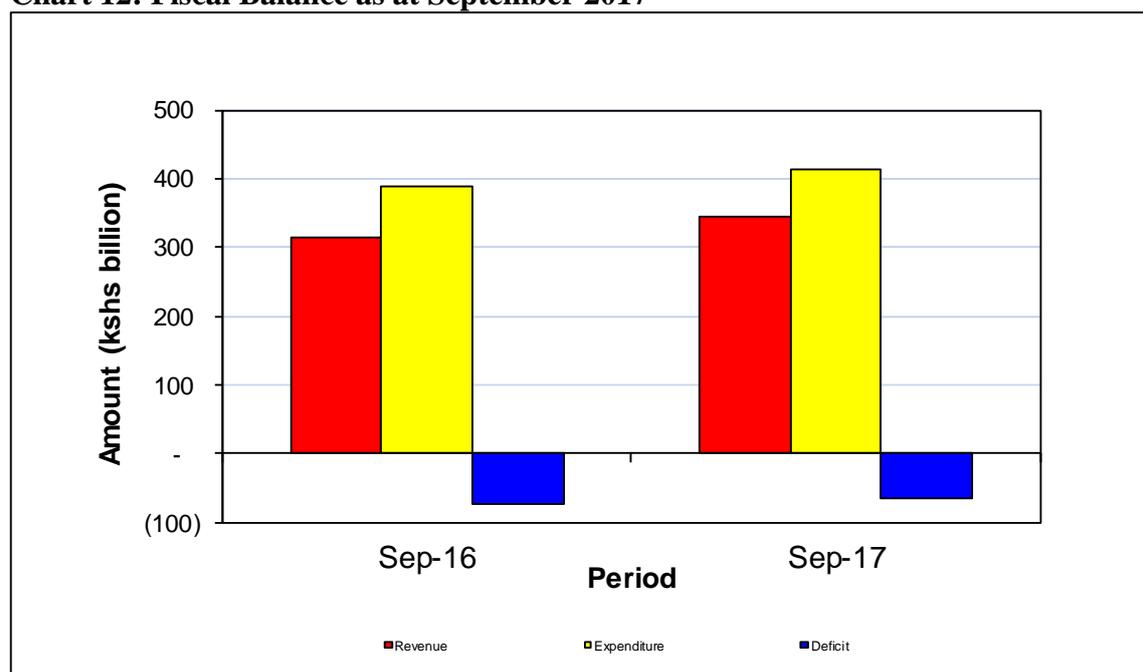
* Provisional

Source: National Treasury

2.3 Fiscal Outturn

37. Between July 1, 2017 and September 30, 2017, cumulative overall fiscal balance (on a commitment basis and excluding grants), amounted to Ksh 66.7 billion (equivalent to 0.76 per cent of GDP) against a targeted deficit of Ksh 67.6 billion (equivalent to 0.77 per cent of GDP) (*Chart 12 and Table 7*). Over the same period in 2016, the fiscal deficit stood at Ksh 74.0 billion (equivalent to 0.99 per cent of GDP). Including grants, the fiscal balance (on a commitment basis) deficit stood at 0.74 per cent of GDP against a targeted deficit of 0.65 per cent of GDP. The Fiscal Outturns for the past years is provided as Annex I.

Chart 12: Fiscal Balance as at September 2017



Source: National Treasury

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

	2016/2017 Actual	2017/2018		Deviation	% growth	2017/2018 as a % of GDP		2016/2017 Actual as a % of GDP
		Actual*	Targets			Actual	Targets	
A. TOTAL REVENUE AND GRANTS	315,123	347,154	398,802	(51,647)	10.16	3.94	4.53	4.24
I. Revenue	313,645	345,557	388,022	(42,465)	10.17	3.92	4.41	4.22
Ordinary Revenue	294,475	320,932	350,822	(29,890)	8.98	3.64	3.98	3.96
Import Duty	19,969	20,974	23,925	(2,951)	5.03	0.24	0.27	0.27
Excise Duty	40,427	40,328	45,400	(5,072)	(0.25)	0.46	0.52	0.54
Income tax	140,855	157,245	171,503	(14,258)	11.64	1.79	1.95	1.89
VAT	79,648	86,382	91,001	(4,620)	8.45	0.98	1.03	1.07
Investment Revenue	1,453	50	625	(574)	(96.55)	0.00	0.01	0.02
Others	12,123	15,953	18,368	(2,415)	31.59	0.18	0.21	0.16
Appropriation-in-Aid	19,169	24,625	37,200	(12,575)	28.46	0.28	0.42	0.26
2. Grants	1,478	1,597	10,780	(9,182)	8.10	0.02	0.12	0.02
AMISOM Receipts	199	100	179	(78)	(49.50)	0.00	0.00	0.00
Revenue	687	747	2,521	(1,774)	8.69	0.01	0.03	0.01
Appropriation-in-Aid	592	750	8,080	(7,330)	26.76	0.01	0.09	0.01
Italian Debt Swap	0	0	0	-	-	0.00	-	0.00
County Health Facilities - DANIDA	0	0	0	-	-	0.00	-	0.00
B. EXPENDITURE and NET LENDING	387,612	412,274	455,631	(43,357)	6.36	4.68	5.17	5.21
1. Recurrent	237,713	299,914	292,762	7,152	26.17	3.41	3.32	3.20
Domestic Interest	42,517	49,871	50,297	(425)	17.30	0.57	0.57	0.57
Foreign Interest	7,409	17,283	12,247	5,036	133.28	0.20	0.14	0.10
Pension	13,828	13,954	19,153	(5,198)	0.92	0.16	0.22	0.19
Wages and Salaries	75,100	91,503	97,815	(6,312)	21.84	1.04	1.11	1.01
O & M/Others	98,860	127,303	113,251	14,052	28.77	1.45	1.29	1.33
2. Development and Net Lending	94,553	90,675	88,131	2,544	(4.10)	1.03	1.00	1.27
3. Equalization Fund	0	0	0	-	-	0.00	-	0.00
4. County Governments	55,347	20,434	73,488	(53,054)	(63.08)	0.23	0.83	0.74
5. CF	0	1,251	1,250	1	-	0.01	0.01	0.00
C. DEFICIT EXCL. GRANT (Commitment basis)	(73,968)	(66,717)	(67,609)	892	(9.80)	(0.76)	(0.77)	(0.99)
D. DEFICIT INCL. GRANTS (Commitment basis)	(72,490)	(65,120)	(56,829)	-8,290	(10.17)	(0.74)	(0.65)	(0.97)
E. ADJUSTMENT TO CASH BASIS	-16,346	7,958	-	7,958	(148.69)	0.09	-	(0.22)
F. DEFICIT INCL. GRANTS (Cash basis)	(88,836)	(57,162)	(56,829)	-332	(35.65)	(0.65)	(0.65)	(1.19)
G. FINANCING	88,836	57,162	56,829	332	(35.65)	0.65	0.65	1.19
1. Foreign financing	39,165	7,456	17,034	(9,578)	(80.96)	0.08	0.19	0.53
Disbursements	47,231	16,529	29,710	(13,182)	(65.00)	0.19	0.34	0.64
Programme Loans	0	0	0	-	-	0.00	-	0.00
Project Cash Loans	1,247	2,094	6,499	(4,405)	67.96	0.02	0.07	0.02
Project Loans AIA	8,188	14,191	23,212	(9,021)	73.32	0.16	0.26	0.11
Project Loans SGR_PHASE_1&2A_AIA	27,682	244	0	244	(99.12)	0.00	-	0.37
Project Loans SGR_PHASE_2B_AIA	0	0	0	-	-	0.00	-	0.00
Commercial Financing	10,114	0	0	-	(100.00)	0.00	-	0.14
O/W syndicated loan	10,114	0	0	-	(100.00)	0.00	-	0.14
Debt repayment - Principal	(8,065)	(9,073)	(12,677)	3,604	12.49	(0.10)	(0.14)	(0.11)
2. Other Domestic Financing	240	530	475	56	120.78	0.01	0.01	0.00
4. NET DOMESTIC FINANCING	49,431	49,176	39,321	9,855	(0.52)	0.56	0.45	0.66
MEMO ITEM								
GDP ESTIMATE	7,435,211.03	8,804,904.60	8,804,904.60					

*Provisional

Source: National Treasury

2.4 Financing

2.4.1 External Financing

38. Cumulative external financing for the period between July 1st 2017 and September 30th 2017 amounted to a net borrowing of Ksh 7.5 billion (**Table 8**). Total disbursements (inflows) including Appropriations-in-Aid amounted to Ksh 16.5 billion for the period ending 30th September, 2017 against a target of Ksh 29.7 billion. The actual disbursement amount included Ksh 2.1 billion Project cash loans, Ksh 14.2 billion project loans A.I.A. and Ksh 244.0 million project loans A.I.A. for SGR. External repayments (outflows) of principal debt amounted to Ksh 9.1 billion. The amount comprises of principal repayments due to both bilateral and multilateral organizations amounting to Ksh 5.3 billion, Ksh 3.7 billion, respectively.

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

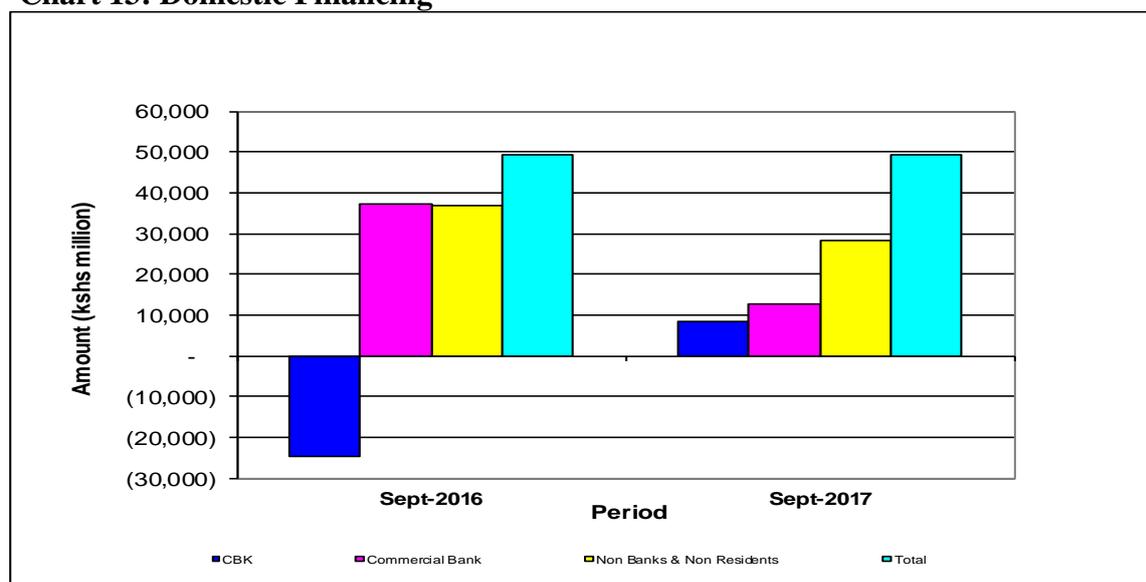
	Quarter I 2016/17	Quarter I 2017/18	Cumulative September 2017*	
	Actual		Actual	Target
DISBURSEMENTS:	47,230.74	16,528.89	16,528.89	29,710.49
Project Cash loans	1,246.85	2,094.24	2,094.24	6,498.95
Project loans A-I-A	8,187.85	14,190.96	14,190.96	23,211.54
Project Loans SGR_PHASE_1&2A_AIA	27,682.04	243.70	243.70	-
Project Loans SGR_PHASE_2B_AIA				
Commercial Financing	10,114.00	-	-	-
O/W syndicated loan		-	-	-
Export Credit		-	-	-
Programme Loans		-	-	-
EXTERNAL REPAYMENTS:	8,065.42	9,073.06	9,073.06	12,676.92
Bilateral (incl. Italy Debt SWAP)	3,511.15	5,345.20	5,345.20	5,266.27
Multilateral (excl. IMF)	4,554.27	3,727.86	3,727.86	7,410.65
Commercial	-	-	-	-
NET FOREIGN FINANCING	39,165.32	7,455.83	7,455.83	17,033.57

Source: National Treasury

2.4.2 Domestic Financing

39. By the end of September 2017, net domestic borrowing amounted to Ksh 49.2 billion against a target borrowing of Ksh 39.3 billion (**Table 7**). The borrowing comprised of Ksh 12.6 billion from Commercial Banks, Ksh 26.3 billion from Non-Banking Financial Institutions, Ksh 1.9 billion from Non Residents, and Ksh 8.3 billion from the Central Bank of Kenya, (**Table 9**). Comparatively, for the same period in 2016, the net domestic borrowing amounted to Ksh 49.4 billion, comprised of net repayments of, Ksh 24.6 billion to the Central Bank of Kenya, and Ksh 873 million to Non-Residents, a borrowing of, Ksh 37.4 billion from commercial banks and Ksh 37.5 billion from non-banking financial institutions (**chart 13**).

Chart 13: Domestic Financing



Source: Central Bank of Kenya

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40. The stock of Treasury Bills held by Non- Banks and Non-Residents recorded net increase of Ksh 1.7 billion, and Ksh 1.3 billion respectively, while the stock of Treasury Bills held by Commercial Banks decreased by Ksh 23.5 billion. The stock of Fixed Rate Bonds held by Commercial Banks, Non-Residents and non-Banks recorded a net increase of Ksh 36.1 billion, Ksh 1.0 billion, and Ksh 33.2 billion respectively.

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

	SEPTEMBER	DECEMBER	MARCH	JUNE	SEPTEMBER
	2016	2016	2017	2017	2017
1.CENTRAL BANK	(24,582)	37,830	35,840	(22,370)	8,300
Overdraft	(40,884)	(14,271)	(13,934)	(44,204)	24,717
Treasury bills rediscounts	-	-	-	-	-
Fixed rate Bonds	-	-	-	-	-
Items on Transit	(27)	(57)	(52)	(37)	(21)
Frozen Account	-	-	(555)	(555)	-
Less Govt Deposits	16,329	52,158	50,380	22,426	(16,396)
2.COM. BANKS	37,357	18,858	12,527	169,536	12,618
Advances	243	275	352	5,508	471
Treasury bills	17,528	(10,647)	(28,561)	53,818	(23,450)
Fixed rate Bonds	29,011	24,219	22,162	99,764	36,097
Special Bonds	-	-	-	(5,000)	-
Zero Coupon bonds	-	-	-	-	-
Infrastructure Bonds	(6,933)	6,147	10,291	10,291	(8,967)
Savings and Development Bond	-	-	-	-	-
Less Govt Deposits	(2,493)	(1,136)	8,282	5,155	8,466
3. NON BANKS	37,529	106,819	132,395	160,676	26,317
Treasury bills	10,704	44,574	60,341	98,820	1,723
Fixed rate Bonds	33,055	44,471	49,071	38,722	33,189
Zero Coupon bonds	-	-	-	-	-
Infrastructure Bonds	(6,230)	17,774	22,983	22,983	(8,843)
Savings and Development Bond	-	-	-	-	-
M-Akiba Bond	-	-	-	150	248
4. NON RESIDENTS	(873)	1,088	1,372	1,917	1,940
Treasury bills	(1,695)	(363)	(142)	(356)	1,317
Fixed rate Bonds	822	1,115	1,179	1,938	1,019
Infrastructure Bond	(0)	336	335	335	(396)
Savings and Development Bond	-	-	-	-	-
Zero Coupon bonds	-	-	-	-	-
5. NET CREDIT	49,431	164,595	182,134	309,760	49,176

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

41. The gross public debt increased by Ksh 777.5 billion, from Ksh 3,709.3 billion as at end of September 2016 to Ksh 4,486.8 billion by 30th September 2017, comprising of 51.5 per cent of External debt and 48.5 per cent of Domestic debt. The overall increase is attributed to increased external debt due to exchange rate fluctuations and, disbursements from external loans debt during the period. Net public debt increased by Ksh 772.3 billion, from Ksh 3,276.7 billion as at end of September 2016 to Ksh 4,049.0 billion by end of the period under review (*Table 10*).

FISCAL DEVELOPMENTS

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

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sept. 17*
EXTERNAL									
BILATERAL	482,203	481,282	478,883	548,351	545,652	641,763	689,119	724,823	742,064
MULTILATERAL	754,599	751,154	762,089	798,842	839,936	781,256	806,922	841,899	842,814
COMMERCIAL BANKS	295,642	366,231	360,175	432,377	452,495	458,122	594,140	712,100	708,231
SUPPLIERS CREDIT	17,788	16,516	16,359	16,628	16,628	15,302	11,210	15,914	17,089
SUB - TOTAL	1,550,233	1,615,183	1,617,506	1,796,198	1,854,711	1,896,443	2,101,391	2,294,736	2,310,198
DOMESTIC:									
CENTRAL BANK	107,637	101,386	102,648	99,856	58,945	85,528	85,316	55,061	79,201
COMMERCIAL BANKS	682,694	764,399	829,688	927,307	969,790	947,030	975,803	1,141,889	1,148,296
TOTAL BANKS	790,331	865,785	932,336	1,027,163	1,028,735	1,032,559	1,061,119	1,196,950	1,227,497
NON BANKS & NON RESIDENTS	597,635	674,232	714,192	787,970	825,820	898,415	883,834	915,316	949,098
SUB-TOTAL	1,387,966	1,540,017	1,646,527	1,815,133	1,854,555	1,930,973	1,944,953	2,112,265	2,176,595
GRAND TOTAL GROSS	2,938,199	3,155,200	3,264,033	3,611,331	3,709,266	3,827,417	4,046,344	4,407,001	4,486,793
LESS ON-LENDING	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)	(5,701)
LESS GOVERNMENT DEPOSITS	(208,869)	(305,496)	(320,041)	(394,856)	(426,911)	(373,016)	(364,909)	(428,774)	(432,113)
GRAND TOTAL NET	2,723,628	2,844,004	2,938,291	3,210,775	3,276,654	3,448,699	3,675,734	3,972,526	4,048,978

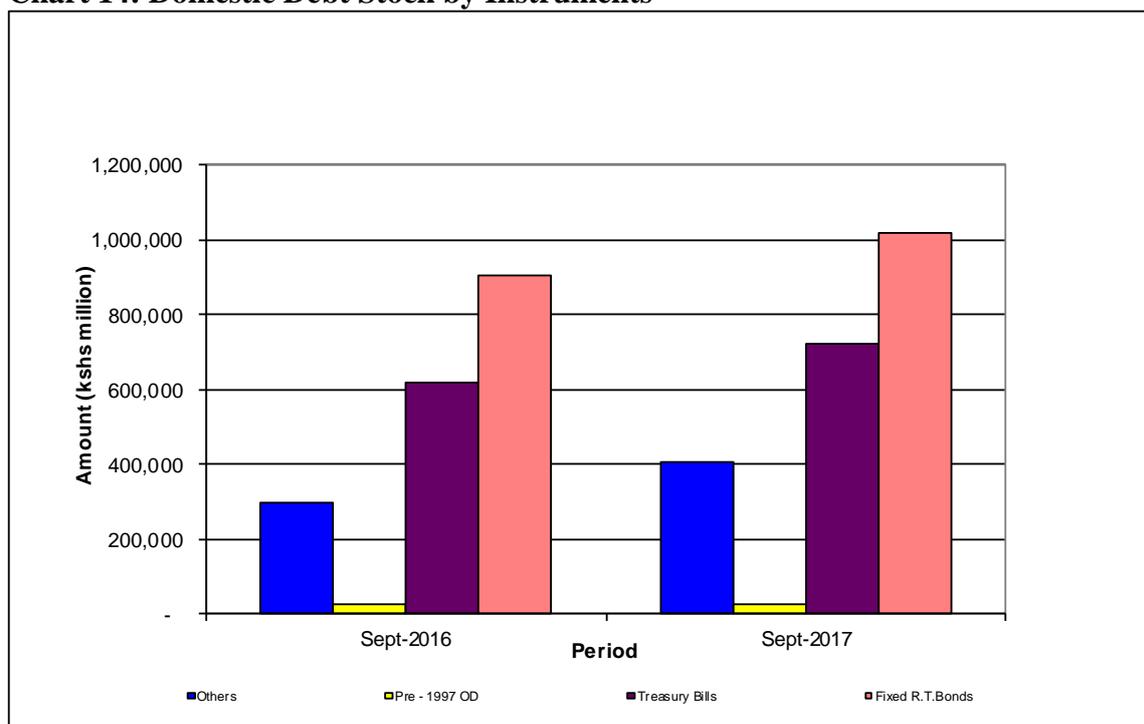
*Provisional

Source: National Treasury

3.2 Domestic Debt

42. The stock of gross domestic debt increased by Ksh 326.5 billion from Ksh 1,854.6 billion in September 2016 to Ksh 2,176.6 billion in September 2017. The stock of Treasury Bills held by Central Bank, Commercial Banks, Non-Banking Financial Institution and Non Residents increased by Ksh 106.6 billion from Ksh 618.2 billion in September 2016 to Ksh 724.8 billion in September 2017, (**Table 11**). The total stock of Treasury Bonds, Floating, Fixed Rate, Special and Zero coupon Bonds, increased by Ksh 109.1 billion from Ksh 916.0 billion in September 2016 to Ksh 1,025.2 billion in September 2017, (**Chart 14**).

Chart 14: Domestic Debt Stock by Instruments



Source: Data from CBK

FISCAL DEVELOPMENTS

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

	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
1.CENTRAL BANK	107,637	101,386	102,648	99,856	58,945	85,528	85,316	55,061	79,201
Overdraft	45,924	45,233	46,455	44,204	3,319	29,933	30,270	0	24,717
Frozen Govt Accounts	26,676	26,114	26,114	25,559	25,559	25,559	25,004	25,004	24,449
Treasury bills / bonds rediscunts	25,545	20,588	20,588	20,588	20,588	20,588	20,588	20,588	20,588
Items on Transit	47	26	65	80	52	23	28	43	22
Fixed rate bonds	9,445	9,426	9,426	9,426	9,426	9,426	9,426	9,426	9,426
2.COM.BANKS	682,694	764,399	829,688	927,307	969,790	947,030	975,803	1,141,889	1,148,296
Advances	1,717	5,446	5,559	5,093	5,530	5,857	5,657	11,020	15,977
Stocks	-	-	-	-	-	-	-	-	-
Treasury Bills	172,346	244,167	296,347	361,859	382,112	349,544	328,624	415,923	391,905
Floating Rate T. Bonds	-	-	-	-	-	-	-	-	-
Fixed Rate T. Bonds	373,861	373,753	390,314	403,844	433,059	428,536	426,565	504,989	541,061
Special Bonds	10,000	10,000	10,000	10,000	10,000	10,000	10,000	5,000	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	117,122	123,385	119,820	138,863	131,441	145,444	197,309	197,309	186,704
3. NON BANKS	586,102	661,652	702,233	774,943	809,375	879,998	862,291	893,215	924,962
Stocks	-	-	-	-	-	-	-	-	-
Treasury Bills	61,237	117,923	149,588	199,033	210,788	243,989	260,232	301,522	304,742
Floating Rate T. Bonds	-	-	-	-	-	-	-	-	-
Fixed Rate T. Bonds	393,498	404,174	416,825	422,830	456,711	468,465	473,083	462,566	460,708
Tax Reserve Certificate	69	69	69	69	69	69	69	69	69
Zero Coupon Bonds	-	-	-	-	-	-	-	-	-
Infrastructure Bonds	110,718	118,906	115,171	132,431	121,227	146,894	108,327	108,327	138,464
Savings and Development Bond	20,580	20,580	20,580	20,580	20,580	20,580	20,580	20,582	20,580
M- Akiba Bond	-	-	-	-	-	-	-	150	398
4. NON RESIDENTS	11,533	12,580	11,958	13,027	12,020	13,632	21,543	22,100	24,136
Treasury Bills	7,469	8,132	6,370	6,608	4,760	6,069	6,322	6,122	7,567
Floating Rate T. Bonds	-	-	-	-	-	-	-	-	-
Fixed Rate T. Bonds	3,611	3,994	5,135	5,966	6,806	7,110	7,174	7,934	8,955
Zero Coupon Bonds	-	-	-	-	-	-	-	-	-
Savings and Development Bond	9	9	9	9	9	9	9	7	9
Infrastructure Bonds	445	445	445	445	445	445	8,037	8,037	7,605
5. TOTAL DEBT	1,387,966	1,540,017	1,646,527	1,815,133	1,850,129	1,926,189	1,944,953	2,112,265	2,176,595
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	208,869	305,496	320,041	394,856	426,911	373,016	364,909	428,774	432,113
8. NET DEBT	1,173,395	1,228,821	1,320,785	1,414,577	1,417,518	1,547,472	1,574,343	1,677,790	1,738,780

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

43. In dollar terms, external public debt stock increased by US \$ 4,216.1 million from US\$ 18,155.1 million in September 2016 to US\$ 22,371.2 million by end of September 2017 (*Table 12 and Chart 15*). The debt stock comprised 32.1 per cent, 36.5 per cent, 30.7 per cent and 0.7 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.

FISCAL DEVELOPMENTS

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

CREDITOR	Sep-15	Dec. 2015	Mar. 2016	Jun-16	Sep-16	Dec-16	Mar-17	June 2017*	Sept. 2017*
<u>BILATERAL</u>									
AUSTRIA	7.56	10.02	10.38	7.69	10.29	8.33	5.34	5.67	5.11
BELGIUM	73.03	68.01	66.18	72.16	77.10	70.45	86.56	94.82	101.84
CANADA	12.88	8.20	8.20	8.01	8.01	7.26	7.26	6.26	5.19
DENMARK	14.64	15.68	16.25	15.24	15.36	13.64	12.69	13.49	12.66
FINLAND	1.72	29.40	0.47	2.45	14.13	11.34	16.24	16.55	16.05
FRANCE	613.81	589.97	606.29	587.79	597.62	547.79	574.20	614.59	687.89
GERMANY	229.65	220.12	222.12	225.18	355.91	284.91	294.30	311.98	314.25
ITALY	6.39	13.43	8.81	6.15	6.22	1.17	5.94	6.31	6.42
JAPAN	814.31	795.64	835.50	1,025.20	985.45	841.59	850.60	883.47	879.29
NETHERLANDS	20.16	18.88	17.48	23.24	21.91	16.58	18.40	17.74	15.78
UK	14.33	12.44	12.02	9.81	9.45	7.46	7.63	6.27	6.46
USA	42.79	41.67	40.01	40.08	37.23	36.34	34.16	33.72	30.98
CHINA	2,536.23	2,734.72	3,141.41	3,097.14	3,258.07	4,089.09	4,426.05	4,614.78	4,733.94
OTHERS	147.16	145.92	170.06	212.89	335.16	326.03	351.11	363.18	362.06
TOTAL BILATERAL	4,534.64	4,704.10	5,155.18	5,333.03	5,731.90	6,261.97	6,690.48	6,988.82	7,177.91
<u>MULTILATERAL</u>									
ADB/ADF	1,617.33	1,645.79	1,732.41	1,967.01	1,768.98	1,760.18	1,788.41	1,880.33	1,993.19
BADEA					31.36	33.86	28.17	28.43	28.16
EEC/EIB	220.46	209.71	212.38	208.43	201.69	187.37	190.62	197.49	197.09
IBRD									
IDA/IFAD	4,409.66	4,564.97	4,684.74	4,928.48	4,998.98	4,846.50	5,026.45	5,210.20	5,132.15
IMF**	871.74	860.55	845.21	839.22	837.40	741.11	748.01	748.59	760.79
OTHERS	92.49	60.82	90.83	91.01	58.83	54.05	52.53	52.65	51.99
TOTAL MULTILATERAL	7,211.68	7,341.84	7,565.57	8,034.16	7,897.24	7,623.06	7,834.20	8,117.68	8,163.36
COMMERCIAL BANKS 1/	2,807.81	3,579.57	3,554.34	4,377.73	4,373.30	4,470.11	5,740.26	6,116.15	6,864.39
EXPORT CREDIT	168.94	161.43	161.43	91.06	152.66	149.30	150.55	153.45	165.51
GRAND TOTAL	14,723.07	15,786.94	16,436.52	17,835.97	18,155.10	18,504.45	20,415.48	21,376.10	22,371.18
In percentage of total									
BILATERAL	30.80	29.80	31.36	29.90	31.57	33.84	32.77	32.69	32.09
MULTILATERAL	48.98	46.51	46.03	45.04	43.50	41.20	38.37	37.98	36.49
COMMERCIAL BANKS 1/	19.07	22.67	21.62	24.54	24.09	24.16	28.12	28.61	30.68
EXPORT CREDIT	1.15	1.02	0.98	0.51	0.84	0.81	0.74	0.72	0.74
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

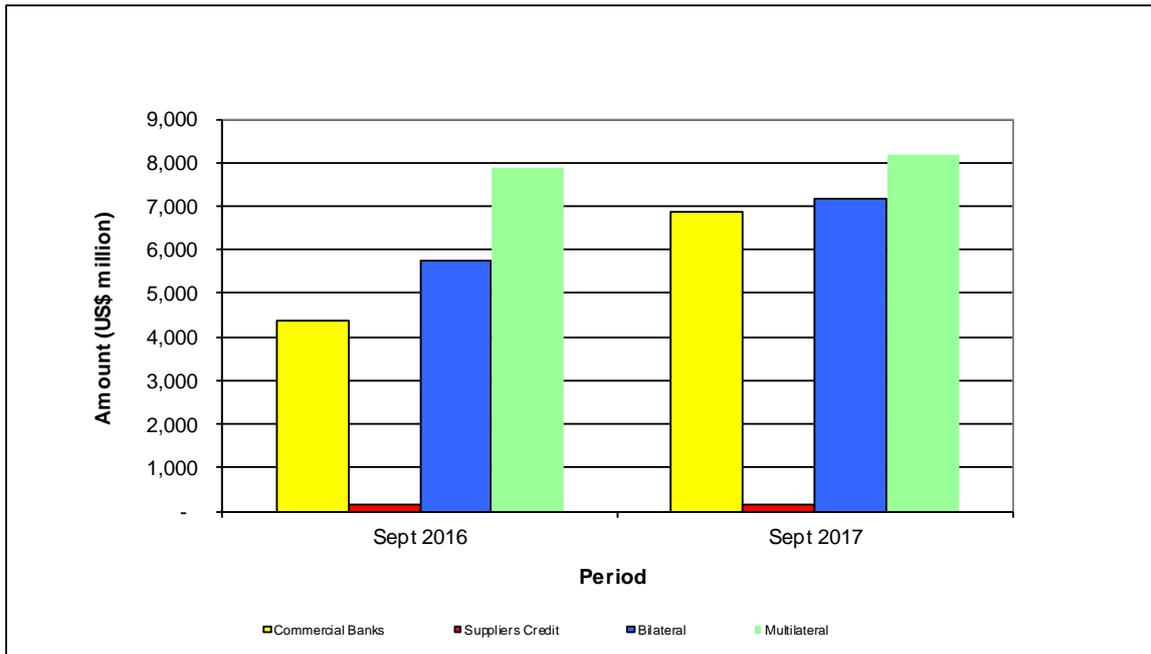
*Provisional

** include IMF item

Source: National Treasury

FISCAL DEVELOPMENTS

Chart 15: External Public Debt

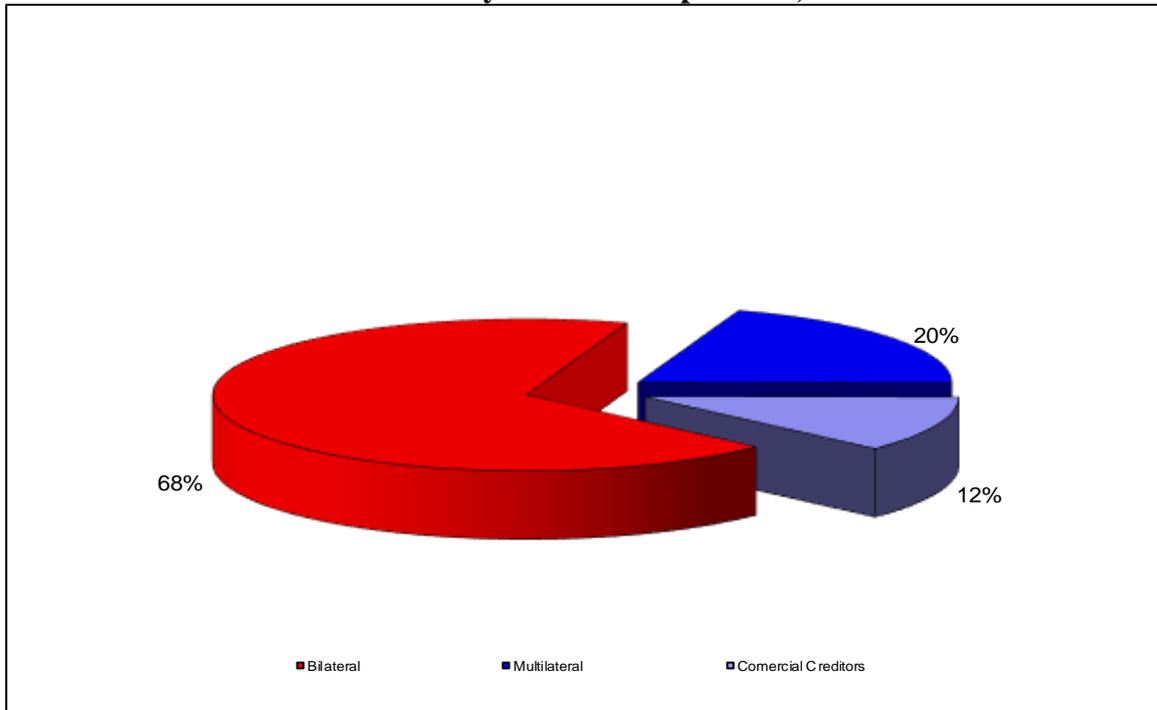


Source: National Treasury

3.3.1 External Debt Service

44. At the end of September 2017, the total cumulative debt service payments to external creditors amounted to Ksh 26.4 billion. This comprised of Ksh 9.1 billion (34.4 per cent) principal and Ksh 17.3 billion (65.6 per cent) interest (*Table 13 and chart 16*).

Chart 16: External Debt Service by Creditors September, 2017



Source: National Treasury

FISCAL DEVELOPMENTS

Table 13: External Debt Service, July – September 2017 (Ksh Million)

CATEGORY	PRINCIPAL*	INTEREST*	TOTAL*
BILATERAL			
AUSTRIA	-	2.33	2.33
FINLAND	-	106.07	106.07
FRANCE	1,150.43	732.75	1,883.18
ITALY	-	483.49	483.49
JAPAN	1,115.47	167.67	1,283.14
SAUDI FUND	298.02	9.00	307.01
SPAIN	339.63	153.02	492.65
USA	81.83	21.33	103.15
CANADA	-	-	-
BELGIUM	78.97	34.31	113.28
GERMANY	-	110.50	110.50
CHINA	2,055.41	10,662.81	12,718.21
KUWAIT	52.40	4.28	56.68
NETHERLANDS	79.00	5.37	84.38
SWEDEN	-	-	-
SWITZERLAND	-	-	-
DENMARK	-	-	-
KOREA	59.03	16.36	75.39
UK	-	-	-
INDIA		45.87	45.87
OTHERS/NEW LOANS	35.02	92.30	127.33
TOTAL BILATERAL	5,345.20	12,647.47	17,992.67
MULTILATERAL			
ADB/ADF	108.19	355.32	463.52
BADEA	60.00	8.01	68.01
EIB/EEC	71.85	426.78	498.63
IDA	3,259.44	647.33	3,906.77
OPEC	145.50	43.38	188.88
NDF	32.53	12.33	44.86
IFAD	50.35	21.90	72.25
**IMF			-
TOTAL MULTILATERAL	3,727.86	1,515.05	5,242.91
COMMERCIAL	-	3,120.13	3,120.13
GRAND TOTAL	9,073.06	17,282.64	26,355.71

* 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 *	2017/18 **
A. TOTAL REVENUE	659,603	748,128	866,505	974,418	1,106,378	1,219,054	1,400,578	1,704,503
1. Revenue	621,852	681,766	775,698	918,990	1,031,248	1,152,875	1,305,794	1,549,367
Income Tax	272,439	312,463	373,086	449,590	508,581	560,665	625,050	765,602
VAT	171,881	176,386	184,916	232,630	259,685	289,213	339,034	383,522
Import Duty	46,072	51,712	57,650	67,555	74,048	79,188	89,943	102,401
Excise Duty	80,567	78,884	85,660	102,029	115,872	139,540	165,474	197,370
Other Revenue	50,893	62,320	74,386	67,185	73,062	84,269	86,293	100,471
2. Appropriation – in – Aid	37,752	66,362	90,807	55,428	75,130	66,179	94,784	155,136
B. EXPENDITURE & NET LENDING	819,767	945,313	1,132,126	1,300,589	1,639,199	1,768,453	2,108,951	2,298,875
1. Recurrent	584,126	650,414	816,365	752,502	860,569	1,014,050	1,178,472	1,347,380
Wages and Salaries	197,959	218,833	274,407	281,197	297,978	307,421	336,636	391,259
Interest Payments	78,876	81,913	121,235	134,821	171,876	215,329	271,233	280,720
Domestic Interest	71,887	71,873	110,184	119,193	139,615	172,857	212,865	210,148
Foreign Interest Due	6,989	10,039	11,051	15,628	32,261	42,471	58,368	70,572
Pensions, etc	26,670	26,082	27,611	30,155	37,508	53,401	62,933	76,173
Civil Service Reform	5	6	10	-	-	-	-	-
Operations & maintenance/ Others	280,616	323,580	393,102	306,330	353,206	437,899	507,671	599,228
Of which Appropriation-in-Aid	45,691	61,578	68,551	28,205	50,566	45,108	62,842	112,175
2. Development & Net Lending	234,566	294,899	305,978	319,274	509,713	453,925	609,710	598,970
Development Projects	183,658	190,116	186,231	225,850	278,676	300,686	362,004	334,441
Appropriation-in-Aid	48,379	102,144	117,346	91,239	228,511	145,071	239,263	254,415
Payment of guaranteed loans	2,529	2,639	2,400	2,185	2,125	2,167	2,443	2,398
3. Drought Development Expenditures/CCF	1,075	-	-	-	4,951	5,000	-	-
4. Transfer to County Governments	-	-	9,783	193,390	229,336	264,039	284,708	306,200
5. Parliamentary Service	-	-	-	22,743	19,777	22,743	24,215	32,893
6. Judicial Service	-	-	-	12,951	11,887	11,662	11,846	13,433
7. Equalization Fund	-	-	-	-	400	6,000	6,000	7,716
D. DEFICIT EXCL. GRANTS (Commitment Basis)	(160,164)	(197,185)	(265,621)	(326,172)	(532,821)	(549,398)	(708,373)	(594,372)
E. GRANTS	19,253	15,645	20,990	26,957	28,117	29,598	26,312	58,821
F. DEFICIT INCL. GRANTS (Commitment basis)	(140,910)	(181,540)	(244,631)	(299,214)	(504,703)	(519,801)	(682,061)	(535,551)
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)	(535,551)
I. FINANCING	120,145	177,788	257,184	307,720	471,574	474,570	697,255	535,551
Foreign Financing	28,602	112,575	85,306	104,726	217,479	269,924	385,745	255,954
Other Domestic Financing	1,160	1,813	2,102	1,267	2,992	2,389	1,751	3,809
NET DOMESTIC FINANCING	90,383	63,400	169,776	201,727	251,102	202,257	309,760	275,789
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	19.36
1. Revenue	18.04	17.07	17.23	18.11	17.69	17.71	16.93	17.60
Income Tax	7.90	7.82	8.28	8.86	8.73	8.61	8.11	8.70
VAT	4.99	4.42	4.11	4.58	4.46	4.44	4.40	4.36
Import Duty	1.34	1.29	1.28	1.33	1.27	1.22	1.17	1.16
Excise Duty	2.34	1.97	1.90	2.01	1.99	2.14	2.15	2.24
Other Revenue	1.48	1.56	1.65	1.32	1.25	1.29	1.12	1.14
2. Appropriation – in – Aid	1.10	1.66	2.02	1.09	1.29	1.02	1.23	1.76
B. EXPENDITURE & NET LENDING	23.78	23.67	25.14	25.63	28.13	27.17	27.35	26.11
1. Recurrent	16.94	16.28	18.13	14.83	14.77	15.58	15.28	15.30
Wages and Salaries	5.74	5.48	6.09	5.54	5.11	4.72	4.37	4.44
Interest Payments	2.29	2.05	2.69	2.66	2.95	3.31	3.52	3.19
Domestic Interest	2.09	1.80	2.45	2.35	2.40	2.66	2.76	2.39
Foreign Interest Due	0.20	0.25	0.25	0.31	0.55	0.65	0.76	0.80
Pensions	0.77	0.65	0.61	0.59	0.64	0.82	0.82	0.87
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	6.81
of which Appropriation-in-Aid	1.33	1.54	1.52	0.56	0.87	0.69	0.81	1.27
2. Development & Net Lending	6.80	7.38	6.79	6.29	8.75	6.97	7.91	6.80
Development Projects	5.33	4.76	4.14	4.45	4.78	4.62	4.69	3.80
Appropriation-in-Aid	1.40	2.56	2.61	1.80	3.92	2.23	3.10	2.89
Payment of guaranteed loans	0.07	0.07	0.05	0.04	0.04	0.03	0.03	0.03
3. Drought Expenditures	0.03	-	-	-	0.08	0.08	-	-
4. Transitional Transfer to County Governments	-	-	0.22	3.81	3.93	4.06	3.69	3.48
5. Parliamentary Service	-	-	-	0.44	0.39	0.30	0.31	0.37
6. Judicial Service	-	-	-	0.26	0.20	0.18	0.15	0.15
7. Equalization Fund	-	-	-	-	0.01	0.09	0.08	0.09
D. DEFICIT EXCL. GRANTS (Commitment Basis)	(4.65)	(4.94)	(5.90)	(6.43)	(9.14)	(8.44)	(9.19)	(6.75)
E. GRANTS	0.56	0.39	0.47	0.53	0.48	0.45	0.34	0.67
F. DEFICIT INCL. GRANTS (Commitment basis)	(4.09)	(4.54)	(5.43)	(5.90)	(8.66)	(7.99)	(8.85)	(6.08)
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)	(6.08)
I. FINANCING	3.48	4.45	5.71	6.06	8.09	7.29	9.04	6.08
Foreign Financing	0.83	2.82	1.89	2.06	3.73	4.15	5.00	2.91
Other Domestic Financing	0.03	0.05	0.05	0.02	0.05	0.04	0.02	0.04
NET DOMESTIC FINANCING	2.62	1.59	3.77	3.98	4.31	3.11	4.02	3.13
Of which Sovereign Bond Deposits	-	-	-	-	2.41	-	-	-
Others	-	-	-	-	1.90	-	-	-
Memorandum Item:								
Nominal GDP at Market price (Kshs. million)	3,447,609.95	3,994,393.13	4,503,256.73	5,073,776.75	5,828,115.16	6,508,084.41	7,710,947.27	8,804,904.60

Note: * indicate Preliminary results

- Budget

Source: National Treasury