A focus on the 2015/2016 budget

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Executive summary

With the recent release of the Budget Policy Statement 2015/16, various opportunities and risks have emerged for the country. On one hand, increased government spending on infrastructure will play a vital role in boosting the economy. The enhancement will not only come from massive job creation in the undertaking of projects such as the Standard Gauge Railway, but also the improving infrastructure networks will support key industries such as Agriculture and the Service sector. On the other hand, the increase in expenditure comes with some draw backs. There will be increased taxation which include enactment of the income tax regime for the extractive industry and re-introduction of capital gains tax which may not augur well with investors.

Budget Summary

There is an increase in the government expenditure for both Recurrent and Development but if the past trend is anything to go by, the rate of absorption on the development side has been lagging behind. There has been an increase in the deficit which will be financed through both domestic and international borrowings. With increased foreign borrowing, the country has effectively increased its exposure to the erratic cycles of the global markets. On the domestic front, increased government borrowing is bound to crowd out local borrowers by limiting credit. This is likely to increase lending rates and stifle growth. As a whole, the increased spending by government is a positive but needs to be well managed to ensure growth of the economy to the long term.

The policy statement is the second to be prepared under the Jubilee Government and occurs at a time when Kenya has recently graduated into an emerging economy with bright prospects. This happened after the rebasing of the GDP estimates. As a result, the economy grew by 25% placing Kenya in the lower middle income economy and is now ranked as the 9th largest economy in Africa. Kenya?s growth outlook remains positive and is estimated at 6.9% in 2015.

In short, the draft budget 2015/16, targets a total revenue collection of 1,340.5 billion (26.0% of GDP) from Ksh 1,162.7 billion (20.3% of GDP) in financial year 2014/15. From this total revenue, ordinary revenues will amount to Ksh 1,242.7 billion (19.1% of GDP) which is an increase from the projected Ksh 1,068.6 billion (18.7% of GDP) in financial year 2014/15. This increased revenue demand will be met by on-going reforms in tax policy and better revenue administration.

The overall expenditure is projected at Ksh 1,875.9 billion or (28.8% of GDP), which is an increase from Ksh 1,717.9 billion (30.0% of GDP) in the FY 2014/15 budget. From the overall expenditure, recurrent expenditure is projected to be Ksh 939.4 billion (14.4% of GDP) compared with Ksh 904.7 billion (15.8 percent of GDP) in FY 2014/15. The government is also set to allocate more resources for development. As such, development expenditure is estimated at Ksh 675.2 billion (10.4% of GDP).

With the given projections on revenue and expenditures, the overall fiscal balance including grants is projected at Ksh 476.5 billion. In FY 2014/15 the deficit was at 496.4 billion. In order to finance the deficit, the government plans to increase foreign financing from Ksh 208.3 billion in FY 2014/15 to Ksh 287.6 billion.

Conclusion

In all, the 2015/16 policy statement lays great emphasis on the broad policies highlighted in the 2014/15 statement. Impressive economic growth is possible in the current year, though that is pegged on the government?s diligent implementation of the projects it has highlighted as the key drivers of the economy. For instance, increased infrastructure spending on the Standard Gauge Railway and LAPPSET projects. More importantly, this is bound to lay a good foundation for the newly discovered resources such as oil and coal which will put Kenya on track to achieving its envisioned 10% growth as outlined in its vision 2030 blue print.
