MACRO-FISCAL PROFILE

KENYA

May 2016

Key Indicators	
Population (2014)	44.9 million
Per capita GDP (2014, current USD)	$1,420
Average population growth rate (2010–2014)	2.7%
Government revenue as % of GDP (2014)	22.5%
Country income classification	Lower-middle

Source: World Bank, 2015.

Country Policy and Institutional Assessment Ratings (1 = low, 6 = high), 2014	National	SSA Mean
Efficiency of revenue mobilization	4	3.5
Equity of public resource use	4	3.3
Fiscal policy	4	3.1
Macroeconomic management	4.5	3.5
Quality of budgetary and financial management	3.5	3.1

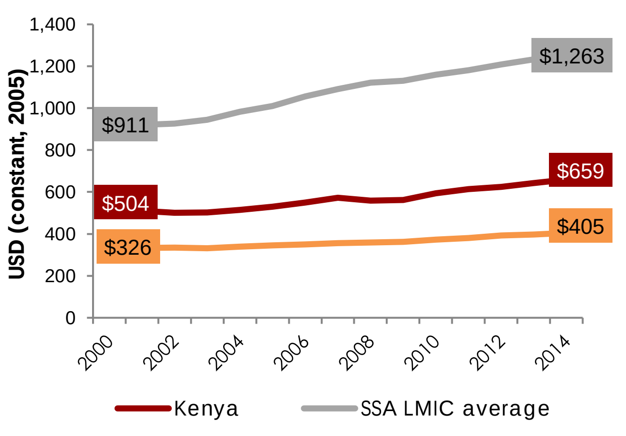
Source: World Bank, 2014.

Macroeconomic Forecasts

Indicator	2013	2014	2015 (est.)	2016 (proj.)	2017 (proj.)
Real GDP growth	5.7%	5.3%	5.5%	6.0%	6.4%
GDP per capita growth	3.0%	2.6%	2.9%	3.4%	3.8%

Source: Chokerah, Odero, and Reeves, 2016; IMF, 2015.

Figure 1: GDP per Capita Growth



Source: World Bank. 2015.

Overview

Kenya's economy is the fifth largest in sub-Saharan Africa (SSA), characterized by a strong private sector and advanced human capital base. In 2014, Kenya transitioned from a low-income country (LIC) to a lower middle-income country (LMIC) by World Bank standards; the percentage of Kenyans living in poverty is estimated to have declined from 47% in 2005 to between 34% and 42% as of 2013. However, income inequality remains a challenge.

Kenya's gross domestic product (GDP) is projected to increase by at least 6% in the near term, supported by lower energy costs, along with investments in infrastructure, agriculture, manufacturing, and other industries. Kenya's economy is also less reliant on natural resources than many of its neighbors, with resource rents accounting for just 3.3% of GDP.

However, the country faces risks related to security, weather shocks, slowdown in global growth, and volatility in financial markets. The current expansionary fiscal path is unsustainable, with a high fiscal deficit at 8.3% of GDP in fiscal year (FY) 2014/15 and the relationship of public debt to GDP passing the 50% threshold in FY 2015/16. Kenya's current account deficit is also a challenge and stood at 9.8% of GDP in June 2015.

Political Economy

Kenya's indicators regarding policy response and governance efficiency are stronger than average for SSA countries. After adopting a new constitution in 2010, Kenya introduced a devolved governance system. Both macroeconomic management and fiscal policies are consistent with price and macroeconomic stability. Although slippages occur, these policies avoid private sector crowding out, respond to shocks, meet public sector wage needs, and generally support medium-term growth. Public expenditure is aligned toward poverty reduction, but the implementation of related programs is only partial. Overall tax burden in Kenya is progressive, but the rationalization of value-added tax (VAT) in 2013 and excise tax on cigarettes may place a higher effective tax burden on low income households. Policies and priorities are broadly reflected in the budget. Budget monitoring and control systems exist, albeit with some deficiencies. There are delays in preparing the public accounts and taking action on budget reports or audit findings.

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GDP and Economic Growth

Kenya has the largest economy in East Africa, with its GDP reaching US$60.9 million (in current U.S. dollars) in 2014. The country experienced strong GDP growth between 2004–2007 and 2010–2014. Growth was stagnant in 2008 and 2009 due to the global economic crisis and political shocks from violence following the 2007 presidential election. Kenya's GDP per capita in constant USD has grown modestly from 2000 to 2014, at an average rate of 1.6% per year (Figure 1). This growth rate is lower than the average rate (2.7%) for LMICs in SSA, but in line with the average rate (1.4%) for LICs in the region. Under Kenya's *Vision 2030*, economic growth is one of three priority pillars for the country; specifically, Kenya aims to have 10% annual growth in GDP over the next 25 years.

Government Revenue and Expenditure

Central government revenues were 22.5% of GDP as of 2013 (Figure 2). County revenues and grants amounted to 5.5% of GDP in FY 2013/14; local revenue and transfers from the central government accounted for 24% and 76% of this revenue, respectively. Income taxes generate 45% of the central government revenue—a higher proportion than in neighboring countries such as Tanzania (12%) and Zambia (35%) (Figure 3). VAT is also a significant source of revenue. Kenya's FY 2014/15 budget incorporated a number of measures to increase revenues, including a revision of the *Excise and Income Tax Acts* and amendments to the act to address tax avoidance by multinationals, higher duties on iron and steel products, and improved tax administration.

As a percentage of GDP, Kenya's public spending is above average for LMICs in sub-Saharan Africa. Development and wages are the two largest government expenditures (Figure 4). Public wages are high due to increases in recent years, thus limiting the fiscal space for investments in priority energy, transport, and agricultural infrastructure. Wage setting by counties could magnify this problem; over half of counties' budgets in FY 2013/14 were spent on wages. The government is attempting to rationalize the payroll.

References and Works Consulted

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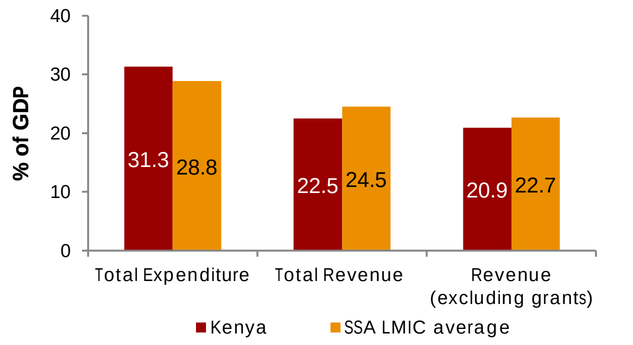
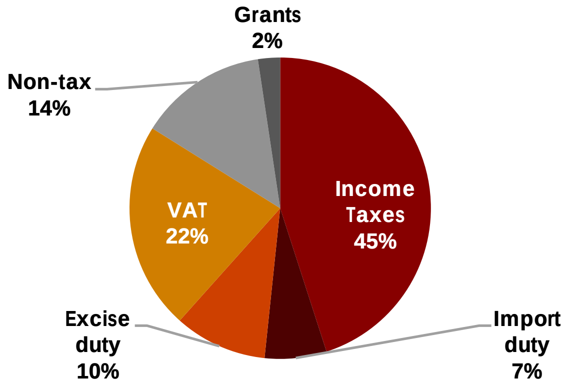
Figure 2: Government Revenue and Expenditure (2013)



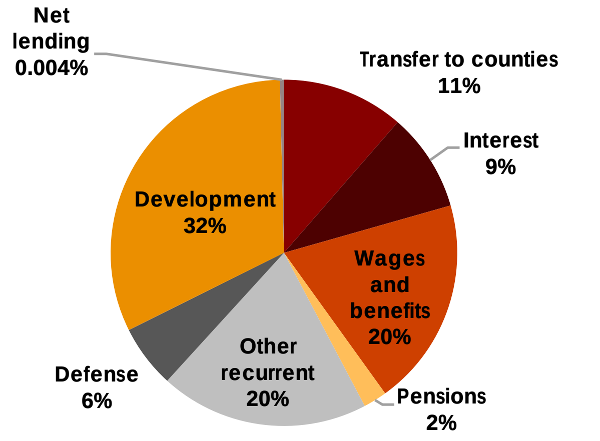
Source: Chokerah, Odero, and Reeves, 2016.

Figure 3: Revenue Sources (FY 2014/15)



Source: IMF, 2015.

Figure 4: Expenditure (FY 2014/15)



Source: IMF, 2015.

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