News release

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Nairobi

2012/2013 National Budget Briefing

Growing tomorrow's economy

The Ministry of Finance released the budget estimates on 14 June 2011 including the announcement that spending will increase to 1.459 trillion shillings in 2012/2013, Kenya's most ambitious budget yet. The Budget's allocations support growth, stability and equality but there are also concerns about how this 1.459 trillion will be financed and whether it can be absorbed or executed effectively.

"Many of the Budget's priorities resonate with what the private sector expects to see," says Alphan Njeru, a partner with PwC Kenya and a public sector expert. "We know that growing the economy, infrastructure, poverty reduction and financial sector stability are important. But we must ask whether the government spent 1 trillion shillings in 2011/2012 and if the economy felt the impact. In fact, close to 60% of the development expenditure was not spent."

Kenya's economy grew by 4.4% in 2011, compared to 5.8% in 2010. Key reasons for this lower rate of growth included erratic weather conditions, escalating oil prices and the weakening of the Kenya shilling. The overall annual inflation rate was 14.5% in 2011 due to high fuel and electricity prices which affected the cost of production and the distribution of goods and services. Finance Minister Hon. Robinson Githae expressed the explicit aim of bringing inflation down to 5%.

To support durable and equitable growth going forward, the Budget identifies priority sectors like infrastructure, education and health. The Budget increases the allocation to infrastructure by 21% over last year, to 268.1 billion KES. A record 233 billion KES was allocated to education.

The Budget also allocates resources to implementing the Constitution, amounting to 18.9% of nationally collected revenues, as compared to the 15% minimum set out in the Constitution. In the 2013/14 and 2014/15 Budget, it is just over 19%.

"In our opinion, these amounts are still insufficient to fund the requirements of the counties," says Kuria Muchiru, Country Senior Partner for PwC Kenya. "We also believe that there are important things that have not been provided for in the Budget, like the cost of clearing the significant backlog in the current administration so that counties can start up with the necessary confidence, or making sure that they are financially viable or that they can assume their functions adequately and sustainably."

The Minister also proposed a number of measures to enhance supervision of the financial services sector such as the Central Bank of Kenya implementing coordinated supervision of banks with cross-border operations and plans to tighten the regulation around agency banking activities which will likely increase the cost of the agency banking model.

“Regulation of the Kenyan financial services industry has lagged behind recent developments in the sector,” says Richard Njoroge, a partner with PwC Kenya and an expert on the banking industry. “Within this budget, the supervisory regime appears to have caught up with several of the new trends and the greater stability this new regulation should bring is to be welcomed by businesses and the public as a whole.”

On tax measures, there are changes to streamline tax administration but no significant amendments. "The intention is to simplify and modernise the legislation," says Steve Okello, the Tax Leader at PwC Kenya. "Stakeholders should take this opportunity to share their views and frustrations with the current regime."

This year’s budget shows that the Government and the private sector are aligned on the main priorities to support growth, stability and equality but that Government has some work to do to ensure that the Budget has the intended impact. PwC is confident that by working together, the public and private sectors can help to realise shared ambitions for growing the economy of tomorrow.

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Notes to the editor

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