Salaries & Remuneration Commission

Rewarding productivity

WAGE BILL QUARTERLY BULLETIN

This bulletin is compiled quarterly by the department of Research, Compliance and Monitoring and Evaluation to provide highlights of current economic trends affecting the management of public sector wage bill in Kenya. It also provides a summary of the direction in which wage bill sustainability is sailing, and news and events around public sector wage bill management in Kenya.

Volume 1, Issue 1 (January-March 2017)

Overview

The public sector's wage bill remained largely stable, despite the industrial unrests. In January-March 2017, the economy witnessed labour market shocks, specifically labour unrest by doctors and other health workers, and lecturers at public universities. This resulted to downtime at public hospitals, including loss of life by patients unable to meet health care costs at mission and private hospitals; and disruption of learning in institutions of higher learning. Demand for higher salaries and benefits were the main reason from these industrial unrests.

Going forward, on one hand, the economy's growth is projected to remain robust sustained by investment in infrastructure, construction and mining sectors; recovery in tourism; lower energy prices; and better agricultural production following improved weather conditions. On the other hand, public sector wage bill is, as a proportion of national ordinary revenue, positive attributed to reform initiatives implemented by the National government and Salaries and Remuneration Commission (SRC) including: rationalization and streamlining of public service pay roll; freezing of new recruitments with exception of limited technical staff, security personnel, teachers and health workers; and job evaluation for State and other Public Officers in the Public Service aimed at ensuring equal pay for work of equal value.

Inflation and Consumer Price Index

Consumer Price Index (CPI) increased from 171.1 points in the 1st quarter to 173.9 points in the 2nd quarter. It further increased to 178.4 in the third quarter of 2016/2017 (Table 1). The overall rate of inflation rose gradually from 6.3 percent in the first quarter, to 8.0 percent in the third quarter of 2016/2017. The overall inflation was, therefore, above the medium term inflation target range of 2.5 percent on either side of the 5.0 percent target.

The changes in CPI and overall inflation reveal a rise in the cost of living over the period under review, implying a reduction of consumers' purchasing power compared to the third quarter of 2015/16 (165.45). The rise in the cost of living was mainly attributed to increase in food prices, largely due to the prolonged drought, higher cost of electricity and moderate decrease in pump prices of petrol and diesel.

In the interim, short rains are expected in the month of May. This will result to increased water levels at major electricity generating dams, thereby ensuring non-interrupted generation and supply of electricity, reduction in cost of electricity, and spuring growth of enterprises. However, prolonged rains would result in flooding and destruction of food crops and infrastructure and, in turn, cause a further rise in inflation as the food supply chain is interrupted due to devastation of food crops and hampered transportation, leading to high food and transport costs in the short term.

WAGE BILL QUARTERLY BULLETIN

Table 1: Quarterly consumer price index and inflation, 2016/2017

Period	CPI	Inflation Rate
1st quarter	171.1	6.3
2nd quarter	173.9	6.5
3rd quarter	178.4	8.0

Source: Kenya National Bureau of Statistics (KNBS) Leading Economic Indicators

Government Revenue

The public service compensation bill as a share of GDP, local revenue and total government expenditure measure the fiscal sustainability of the public service compensation bill. The internationally accepted public service compensation bill as a share of GDP in developing countries is a maximum of 7 percent.

Ordinary revenue, comprising tax and non-tax revenue, increased by Kshs. 12.6 billion from Kshs. 280.9 billion during the 1st quarter to Kshs. 293.5 billion in the second quarter of 2016/2017 (Table 2). Going forward, the outlook for revenue collection remains optimistic, especially with implementation of various legal and administrative measures, to address tax leakages.

Table 2: Government revenue, July 2016-December 2016 (Kshs. Billion)

Period	Tax Revenue	Non-Tax Revenue	Ordinary Revenue	Total Revenue
1st quarter	280.9	18.0	298.9	317.6
2nd quarter	293.5	40.3	333.7	358.2

Source: CBK, Quarterly Economic Review

Kenya Shilling Exchange Rate

The Kenya shilling exchange rate has remained less volatile in relation to major currencies in quarter three (Table 3). The Kenya shilling exchange rate maintained an average of Kshs. 102.2 to the USD, Kshs. 111.05 to the Euro and Kshs. 7.4 to the South African Rand over the period under review. The stability of the Kenya shilling exchange rate echoes expanding export earnings from tea and horticulture, a decrease in the imports of petroleum products due to lower oil prices, buoyant Diaspora remittances, enhanced tourism performance, fluctuating commodity revenues and appreciation of the USD to major currencies anchored on positive US economic performance during the review period.

Table 3: Quarterly trend in exchange rate of Kenya shilling, July 2016 – February, 2017

Period	US$	Euro	SA Rand
1st quarter	101.3	113.1	7.2
2nd quarter	101.7	109.8	7.3
3rd quarter	103.7	110.25	7.8
Average	**102.2**	**111.05**	**7.4**

Source: Central Bank of Kenya

Public Sector Wage Bill

Leading economic indicators show that the national government's ordinary revenue grew from Kshs. 845.1 billion in 2012/13 to Kshs. 1,158.2 billion in 2015/16 (Table 4). It is projected that in 2016/17, the total revenue shall be Kshs. 1,374.2 billion. Whereas the ordinary revenue witnessed annual increases, there are numerous government programmes competing for the revenue. The wage bill grew from Kshs. 464.9 billion in 2012/13 to Kshs. 627 billion in 2015/16. Wage bill as a percentage of nominal GDP fell from 10.3 percent in 2012/13 to 9.5 percent in 2015/16.

Table 4: Leading economic indicators

Indicator	2012/13	2013/14	2014/15	2015/16	2016/17
Ordinary Revenue (Kshs. billion)	845.1	919.0	1,031.8	1,158.2	1,374.2
Growth in Ordinary Revenue (%)	22.4	8.7	12.3	12.3	18.6
Nominal GDP (Kshs. billion)	4,500.0	5,071.7	5,811.2	6,586.0	7,259.0
Growth in Nominal GDP (%)	38.7	12.7	14.6	13.3	10.2
Growth in Real GDP (%)	5.1	5.6	5.5	5.6	6.1
Wage Bill (Kshs. billion)	464.9	521.6	568.0	627.0	675.8
Growth in Wage Bill (%)	14.4	12.2	8.9	10.4	7.8
Wage Bill as a % of Ordinary Revenue	55.0	56.8	55.0	54.1	49.2
Wage Bill as a % of Nominal GDP	10.3	10.3	9.8	9.5	9.3
Recurrent Expenditure (Kshs. billion)	808.3	787.9	895.2	1,017.5	1,027.5
Total Expenditure (Kshs. billion)	1,117.0	1,300.6	1,640.0	2,014.8	1,781.9

Sources: National Treasury–Budget Policy Statements

The data shows that the country is progressing well in meeting the internationally recognized threshold of public sector wage bill to GDP ratio. This is occasioned by implementation of various interventions by SRC in conjunction with the National Government since 2012. The interventions aim to attain a fiscally sustainable public sector wage bill, attract and retain requisite skills, remunerate public servants, and achieve equal pay for work of equal value. In particular, the Commission set in 2013 the remuneration and benefits of State Officers upon conducting a job evaluation exercise, and is currently concluding one for all other Public Officers. It is envisaged that if the current trajectory of wage bill continues, coupled with improvement in economic performance, the wage bill will be at a sustainable level in the medium term.

Contact

Williamson House, 6th Floor, 4th Ngong Avenue
P.O. Box 43126 - 00100 Nairobi, Kenya
Phone: +254 (20) 2710051/65/71/81, 2724571
Email: info@src.go.ke
Website: www.src.go.ke
Twitter: @srckenya