The Current Macroeconomic Environment And Expenditure Priorities FY 2018-19

Presentation by:

CPA Raphael Matu
Member: ICPAK Tax and Economics panel

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Presentation Agenda

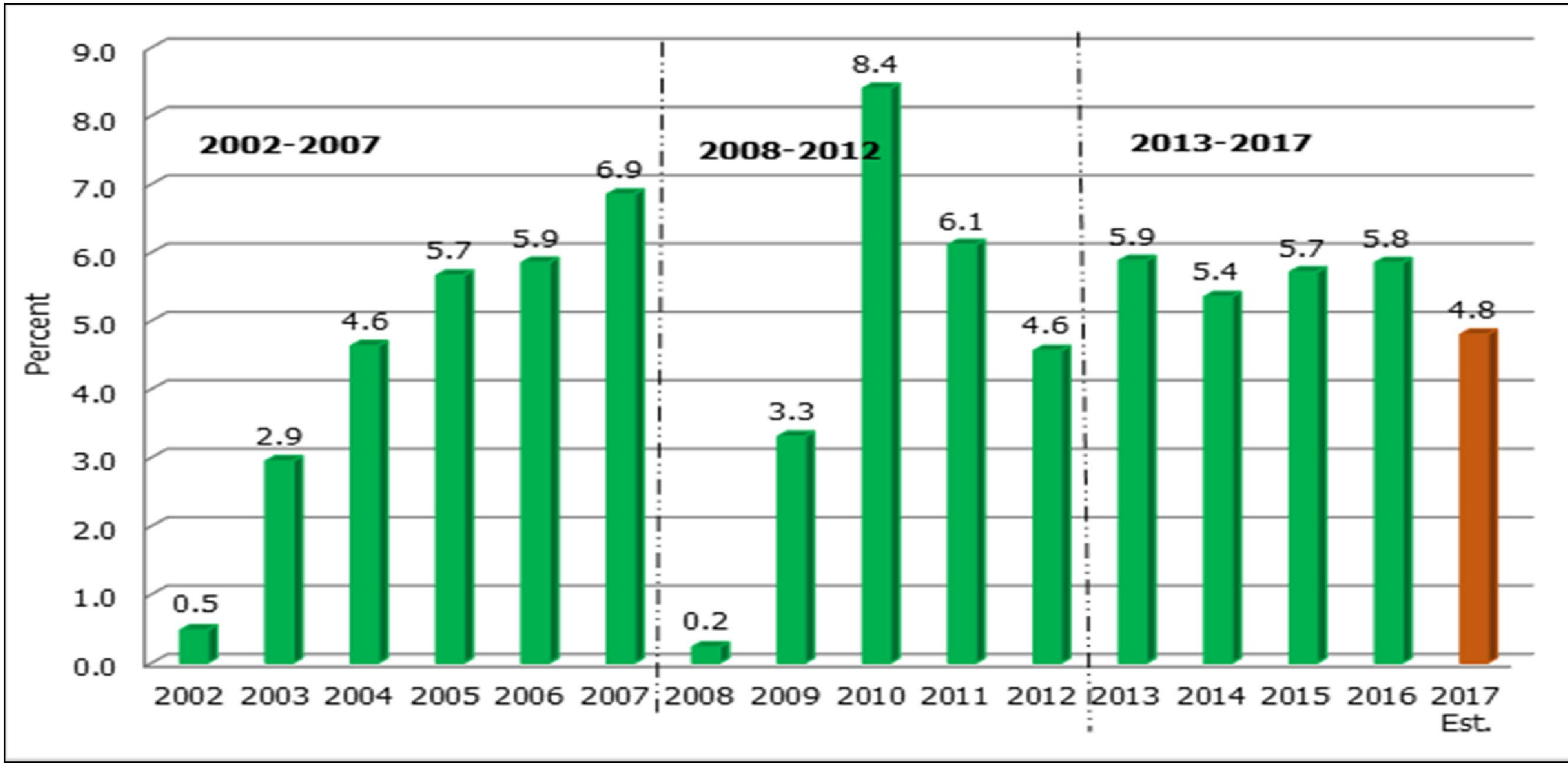
- The current macroeconomic environment
- Expenditure priorities FY 2018-19

Current Macroeconomic Environment

- Kenya's economy remained resilient in 2017 despite:-
  - Adverse weather conditions,
  - A prolonged electioneering period,
  - Subdued credit growth to the private sector.

- Economic growth for 2017 is estimated at 4.8 percent from 5.8 percent in 2016 and is projected to bounce back to 5.8 percent in 2018.
- The resilience in growth in 2017 was supported by:-
  - The ongoing public sector infrastructure investments,
  - Recovery in the tourism sector,
  - Continued stable macroeconomic environment.

Trends in Kenya's Economic Growth Rates



Source of data: Kenya National Bureau of Statistics

Global and Regional Economic Developments

- Global growth is projected to increase to 3.9 percent in 2018 from 3.7 percent in 2017 and 3.2 percent in 2016.
- Primarily this growth is driven by improving:-
  - Domestic demand in advanced economies,
  - Domestic demand in China,
  - Performance in other emerging market economies.

Global Economic Growth, Percent

	Actual	Estimated	Projected
	2016	2017	2018
World output	3.2	3.7	3.9
Advanced Economies	1.7	2.3	2.3
Of which: USA	1.5	2.3	2.7
Emerging and Developing Economies	4.4	4.7	4.9
Of which: China	6.7	6.8	6.6
India	7.1	6.7	7.4
Sub-Saharan Africa	1.4	2.7	3.3
Of which: South Africa	0.3	0.9	0.9
Nigeria	-1.6	0.8	2.1
Kenya	**5.8**	**4.8***	**5.6***

*Source: January 2018 WEO; * Projections by the National Treasury*

Inflation Rate

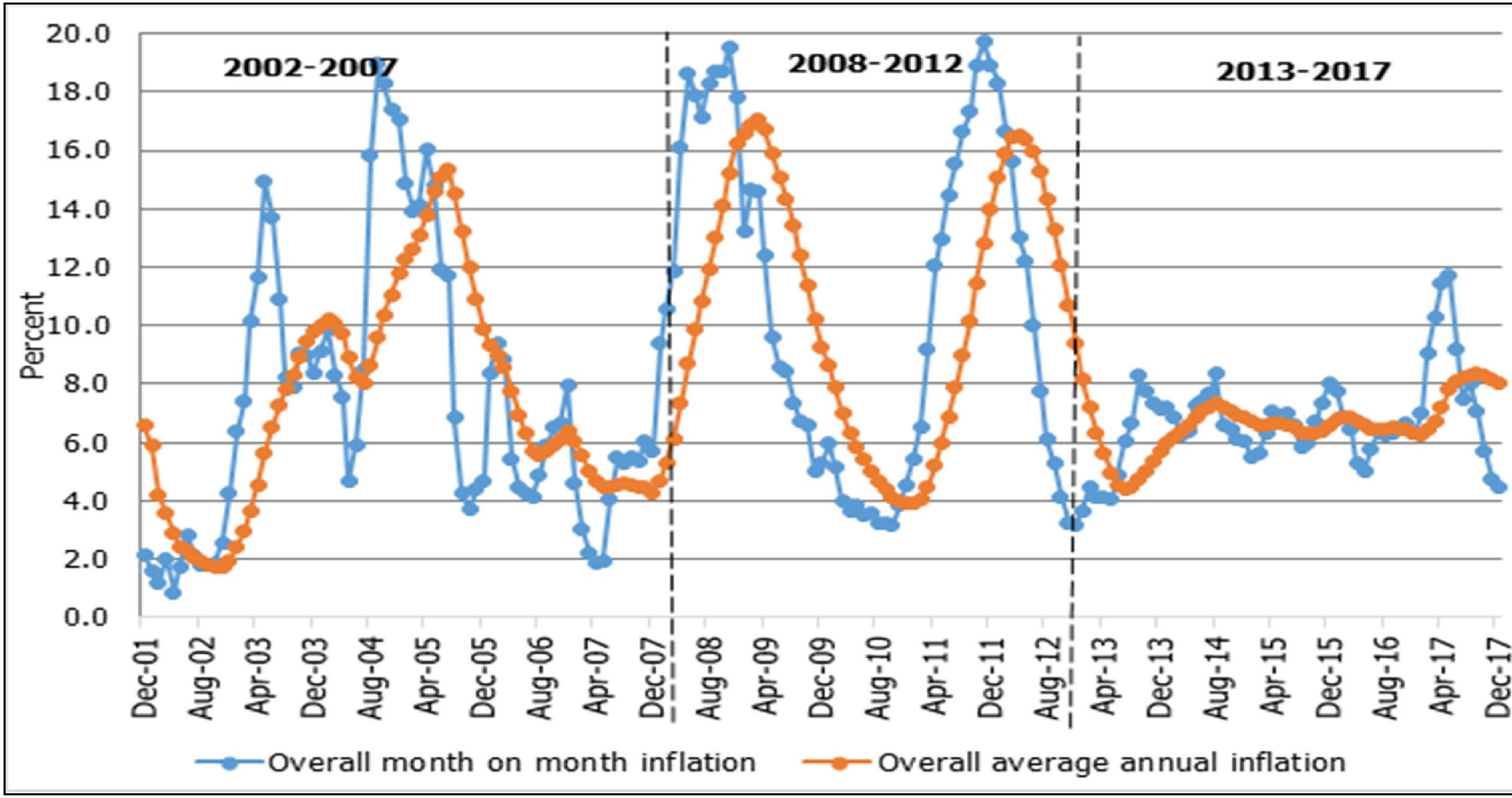
- Inflation rate has been low, stable and within the Government target range of 5+/-2.5.
- Inflation averaged 6.7 percent during the period 2013-2017 compared with 7.4 percent during 2002-2007 and 10.6 percent during 2008-2012.
- Inflation during the period 2008 - 2012 was highly volatile following a steep depreciation of the Kenya Shilling and policy responses.
- However, inflation increased to above target in the first half of 2017 due to drought that affected food prices.

Inflation Rate Cont..

- Inflationary pressures started to ease in the second half of 2017 as the weather situation improved and earlier measures taken by the Government to address the food shortages took effect.
- These measures included: allowing duty free imports of major food items (maize, wheat, sugar, and milk) and introducing a temporary subsidy on maize meal prices

Inflation Rate Cont..

Inflation Rate



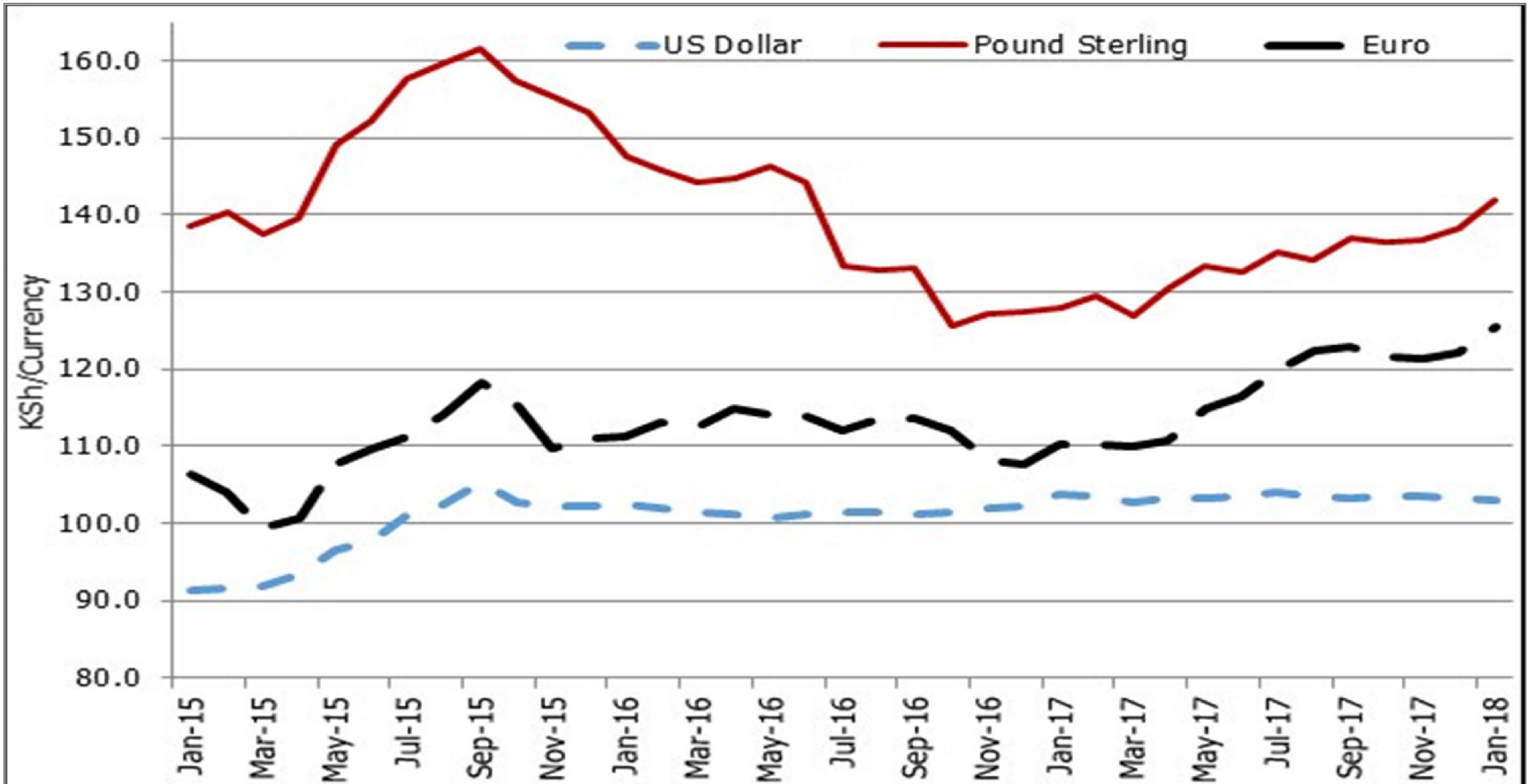
Source of data: Kenya National Bureau of Statistics

Kenya Shilling Exchange Rate

- The Kenya Shilling exchange rate remained broadly stable against major international currencies.
- This stability reflected resilient export 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.

Kenya Shilling Exchange Rate

Chart: ***Kenya Shilling Exchange Rate***



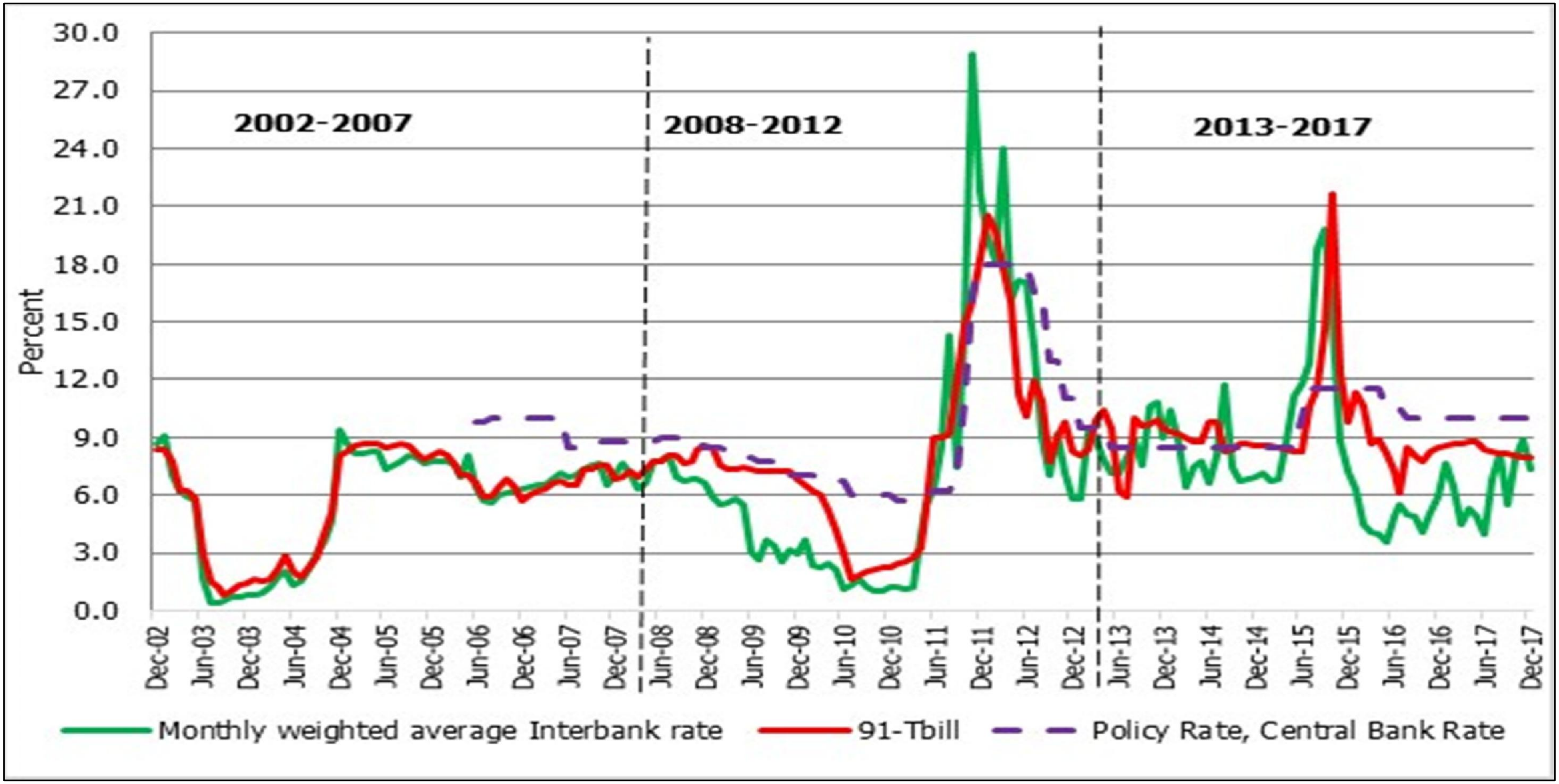
Source of data: Central Bank of Kenya

Interest Rates

- Interest rates remained stable and low in the period 2013-2017 except June – December 2015 when world currencies were under pressure.
- During the period, the policy rate (Central Bank Rate) was adjusted appropriately to anchor inflation expectations

Interest Rates Cont..

Chart: Short-Term Interest Rates



Source of data: Central Bank of Kenya

BUDGET AND THE MEDIUM TERM

Revenue Projections

- In the FY 2018/19 revenue collection including appropriation-in-Aid (AiA) is projected at Ksh 1,949.2 billion (20.0 percent of GDP) from Ksh 1,659.6 billion (19.2 percent of GDP) in the FY 2017/18.
- This revenue performance will be underpinned by on-going reforms in tax policy and revenue administration.
- Ordinary revenues are projected at Ksh1,688.5 billion (17.2 percent of GDP) in FY 2018/19 up from Ksh 1,486.3 billion (17.2 percent of GDP) in FY 2017/18.

Expenditure Projections

- In the FY 2018/19, overall expenditure and net lending are projected at Ksh2,556.6 billion (26.3 percent of GDP).
- These expenditures comprises among others, recurrent of Ksh1,550.0 billion (15.9 percent of GDP).
- Development expenditures projected at ksh625.1 Billions (6.4 percent of GDP)
- Transfer to county governments will amount to Kshs376.4 Billions (3.9 percent of GDP)

Deficit

- The deficit of Ksh 558.9 billion (equivalent to 5.7 percent of GDP) will be financed by:-
  - Net external financing amounting to Ksh 287.0 billion (equivalent to 3.0 percent of GDP)
  - Domestic financing will amount to Ksh 271.9 billion (equivalent to 2.8 percent of GDP)

Revenue & Expenditure Projections

	FY 2016/17		FY 2017/18			FY 2018/19
	Prel. Actuals	Revised Budget II	Budget	BPS 2018	Deviation (BPS - Budget)	Proj.
			Ksh billion			
A. TOTAL REVENUE AND GRANTS	1,426.9	1,514.1	1,763.3	1,702.4	(61.0)	1,904.4
TOTAL REVENUE	1,400.6	1,455.4	1,704.5	1,643.1	(61.4)	1,853.9
Ordinary revenue	1,305.8	1,311.3	1,549.4	1,486.3	(63.1)	1,688.5
Ministerial Appropriation in Aid	94.8	144.0	155.1	156.8	1.7	165.5
GRANTS	26.3	58.8	58.8	59.2	0.4	50.5
B. TOTAL EXPENDITURE AND NET LENDING	2,110.0	2,327.0	2,298.8	2,323.1	24.4	2,492.2
Recurrent Expenditure	1,165.0	1,228.8	1,336.2	1,392.8	57.5	1,501.5
Development	645.8	797.0	640.3	579.6	(33.2)	612.9
County Allocation	305.0	301.2	345.7	345.7	-	372.7
Contingency Fund	-	-	5.0	5.0	-	5.0
C. BALANCE EXCLUSIVE OF GRANTS	(709.4)	(871.7)	(594.3)	(680.0)	(85.8)	(638.2)
D. BALANCE INCLUSIVE OF GRANTS	(683.1)	(812.9)	(535.5)	(620.8)	(85.3)	(587.7)
Discrepancy	14.2	-	-	-	-	-
F. TOTAL FINANCING	697.3	812.9	535.5	620.8	85.3	587.7
NET FOREIGN FINANCING	385.7	463.9	256.0	323.2	67.3	214.7
NET DOMESTIC FINANCING	311.5	349.0	279.5	297.6	309.8	373.0
NOMINAL GDP	7,658.1	7,659.7	8,689.9	8,654.6	(35.2)	9,790.8

Expenditure Priority Areas

- "The Big Four" Plan, includes
  - Manufacturing,
  - Food and nutrition security,
  - Universal health coverage
  - Construction
- Around ksh 460 billion to "the big four" sector drivers and their enabling sectors

Expenditure Priority Areas Cont..

The Big Four" Plan targets to:

- Support value addition and raise the manufacturing sector's share to GDP to 15 percent by 2022. This will accelerate economic growth, create jobs and reduce poverty;
- Focus on initiatives that guarantee food security and nutrition to all Kenyans by 2022 through expansion of food production and supply, reduction of food prices to ensure affordability and support value addition in the food processing value chain;

Expenditure Priority Areas Cont..

- Provide Universal Health Coverage thereby guaranteeing quality and affordable healthcare to all Kenyans; and,
- Provide at least five hundred thousand (500,000) affordable new houses to Kenyans by 2022, and thereby improve the living conditions for Kenyans.

Manufacturing Share to 15% of GDP: Priority Subsectors

Manufac-turing from 9% to 15% by 2022

	Detailed targets by 2022	Priority Initiatives
Textile/ apparel/ Cotton	\$350m → \$2bn 500,000 cotton jobs; New Apparel jobs 100,000	▪ Policy reviews for sector & incentives ▪ 5m sq ft of Industrial Sheds ▪ 200,000 ha of BT Cotton ▪ Train 50,000 youth & women
Leather	\$140M → \$500m exports 50,000 New jobs 20m shoes made	▪ Train & set up 5,000 cottage industries ▪ Complete Machakos Leather park ▪ Change policies esp.in stopping imports ▪ Identify 3 other parks
Agro-processing	16% → 50% 1000 SME's 200,000 jobs	▪ Map tea, dairy, meat & crops value chains ▪ Attract 2 global tea processors in Mombasa ▪ Regulate milk hawking business in Kenya ▪ Develop warehousing and cold chain sites ▪ Progress Mombasa food value add hub
Construction materials	\$ 470m → \$1bn 10,000 New jobs	▪ Identify key housing components ▪ Identify manufacturers ▪ Buy Kenya policy (70% of total) for housing materials
Oil, Mining & Gas	Attract 1 global scale player in Mining value add	▪ Conclude policy direction for value Addition ▪ Attract at least 1 International investor ▪ Refine vs crude export for Turkana oil
Iron & Steel	\$1bn in new investments	▪ Develop Policy & incentive framework ▪ Establish coal & iron ore deposits ▪ Conclude JV with manufacturer ▪ Commit Gov't share of at least 30%

Manufac-turing from 9% to 15 % by 2022

	Detailed targets by 2022	Priority Initiatives
ICT	Phone, laptop, TV assembly plants 5 BPO players 10,000 jobs	▪ Develop IT Entrepreneurship Program to support sector ▪ Computer, light electronics & IT related parts assembly/ manufacture ▪ Strengthen Innovation Ecosystem (Incubators & Accelerators)
Fish Processing	\$ 20m fish feed Mill investment 20,000 jobs	▪ Identify 2 aquaculture investors ▪ Identify key local/ foreign investors to invest in fish feed mill ▪ Develop blue-ocean policy with MOLAF ▪ Designate acqua-culture SEZ in Lake victoria

The Housing Program

Land at right location

- Public land use
- Max 5km from employment
- Joint zoning and urban planning with county governments

Demand driven master plan

- All GoK supported housing developments target known demand (affordability, type, location)
- No single development ends up as ghost town

Low construction cost

- Government negotiated scale discounts for input materials
- Development of local construction technology sector
- Design to value & fast project delivery




Innovative developer financing

- PPP models, e.g. land swap
- NSSF balance sheet
- Off-plan sales through regulated escrow accounts

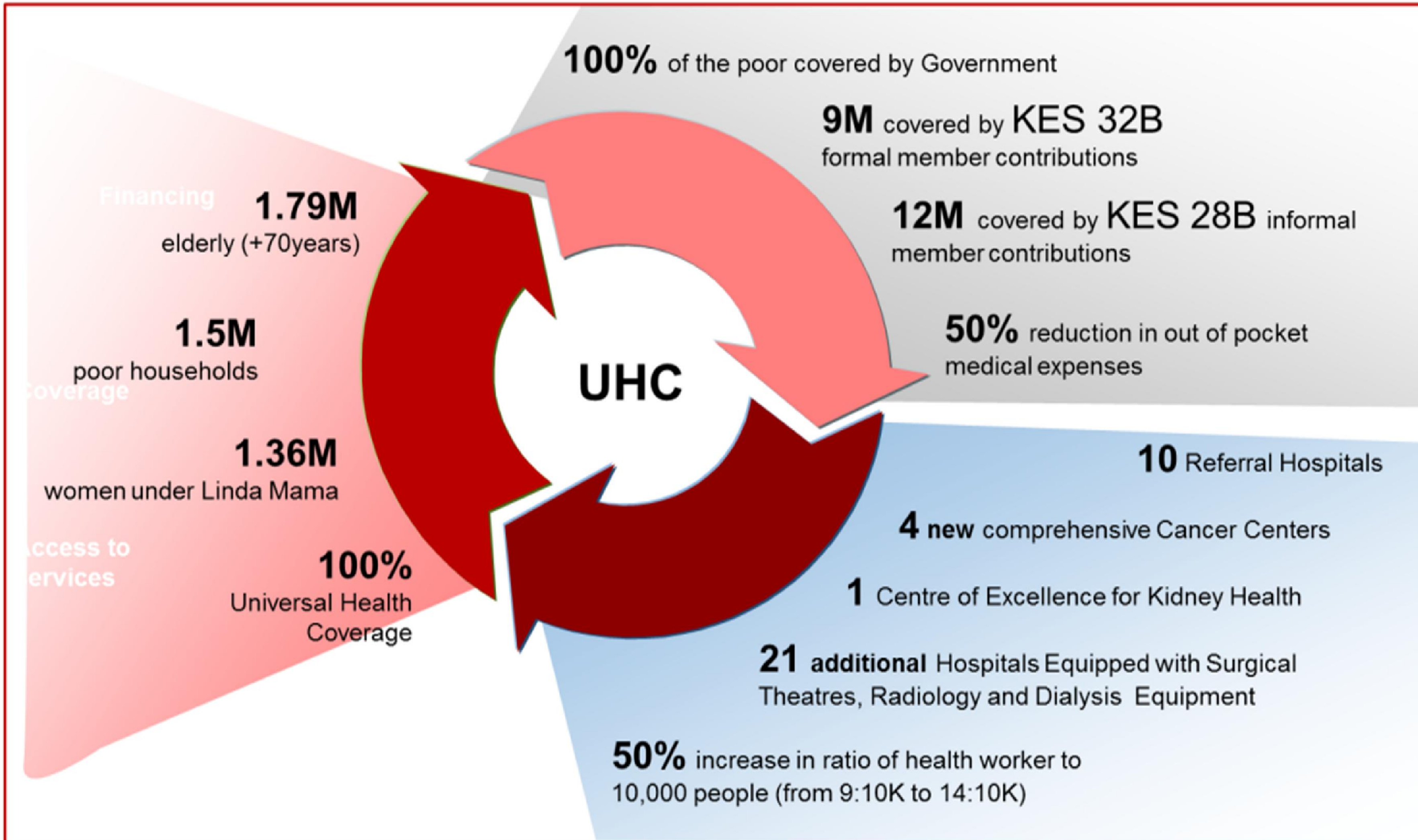
Affordable home buyer financing

- Line of credit
- Kenya Mortgage Refinancing Company
- Multi-generational mortgages & extension of background check to cover informal sector
- Incentives for First Time Home Buyers

Supportive ecosystem

- Fast permitting and transfer of titles
- Fast-track PPP process
- Delivery units between county and national level

Key Deliverables to Achieve UHC in Five Years



FOOD AND NUTRITION SECURITY OVER THE NEXT FIVE YEARS

CPAK
Uphold Public Interest

Focus areas	Detailed Initiatives
Enhance large scale production	▪ Place **additional 700,000 Acres through PPP** (including idle arable land) under maize, potato, rice, cotton, aquaculture and feeds production. ▪ Form an Agriculture and Irrigation Sector Working Group **(AISWAG) to provide coordination for irrigated Agriculture** ▪ Use **locally blended fertilizer** on a 50/50 basis and **implement liming** e.g. maize. ▪ Avail **incentives for post-harvest technologies** to reduce post-harvest losses from 20% to 15% e.g. **waive duty** on cereal drying equipment, hematic bags, grain cocoons/silos, fishing and aquaculture equipment and feed
Drive small holder productivity	▪ **Establish 1,000 targeted production level SMEs** using a performance based **incentive model** in the entire value chain ▪ Improve access to credit/input for farmers through **Warehouse Receipt System** and **strengthen commodity fund** ▪ **Establish commercialized feed systems** for **livestock, fish, poultry and piggery** to revolutionize feed regime and **traceability of animals** to **access export markets**. ▪ Secure **investors to construct a Shipyard** (in 2018 – site existing) and increase **domestic fishing fleet by 68 Vessels** in the Coast.

Focus areas	Detailed initiatives
Reduce cost of food	▪ **Contract farmers for Strategic Food Reserve** (price stabilization) and other commercial off-takers. ▪ **Redesign subsidy model** to maximize impact by focusing on specific farmer needs (flexible voucher and incentive based model) ▪ Secure investments through PPP in **post-harvest handling** (storage, cold storage for fish, aggregation) and **market distribution infrastructure to reduce losses** ▪ Rehabilitate and operationalize fish landing sites in Lake Victoria (Migori, HomaBay and Busia) ▪ **Eliminate multiple levies across counties** in the agriculture value chain (enforce laws on roads)

Key Priority Enablers

- Macroeconomic stability,
- Improving the ease of doing business,
- Expanding infrastructure,
- Improving security,
- Expanding access to finance, and instituting governance reforms.
- Investing in quality and accessible social services (health, education and social safety net,
- Consolidating gains in devolution for services delivery,
- Enhanced rural development.

Expenditure Priority Areas Cont..

❑ In addition to funding "The Big Four" Agenda, other priority areas are:-

- Social protection (cash transfers),
- Education,
- Access to electricity,
- Drought and disaster risk mitigation measures.
- Transfers to Counties,
- National Constituency Development Fund,
- National Government Affirmative Action Fund
- Equalization Fund.

END