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EXPENDITURE PRIORITIES FY 2019-20: ARE WE ON TRACK WITH THE BIG FOUR AGENDA?

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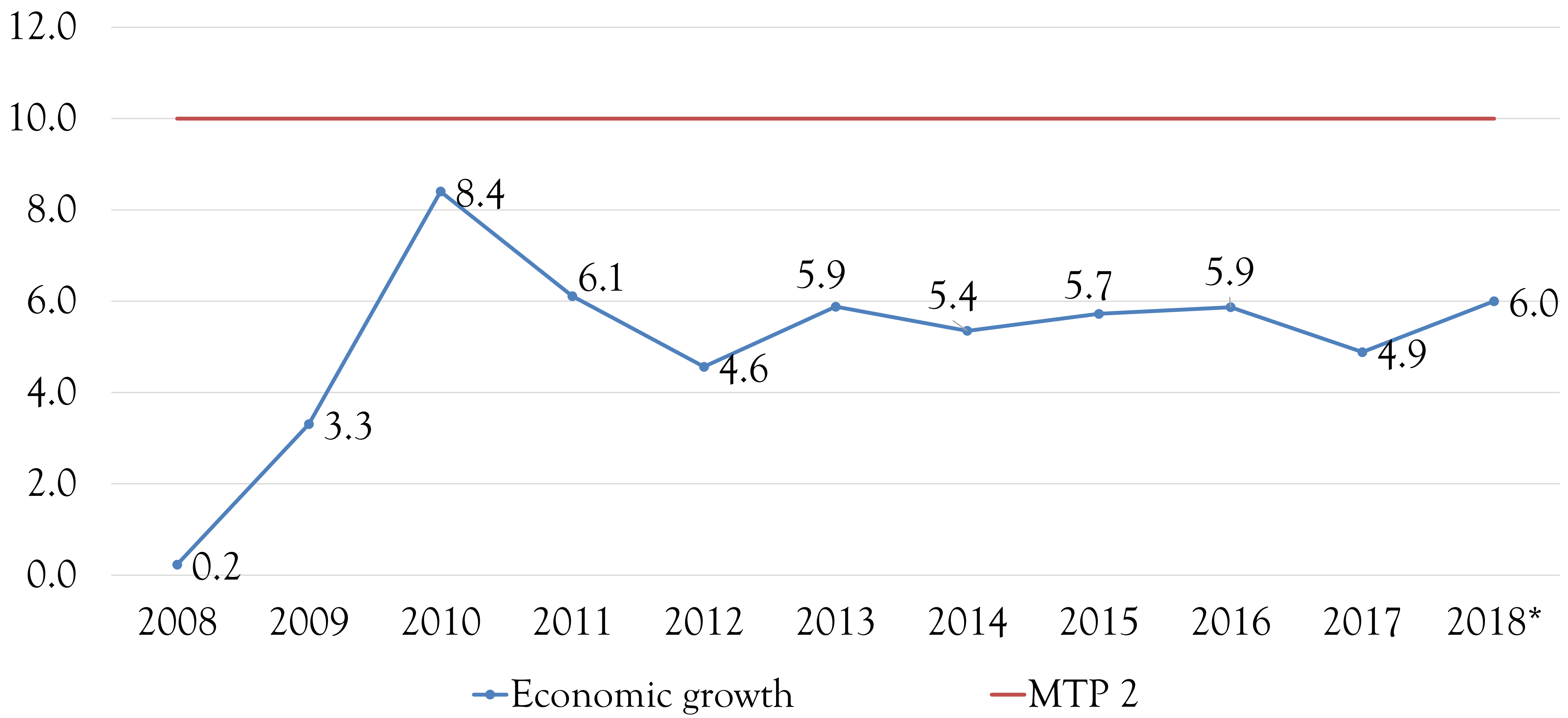
Sovereign Insight

THE STATE OF THE ECONOMY

SOVEREIGN INSIGHT

- In 2018, the economy grew by 6.3 %, up from 4.9% in 2017. Some of the reasons attributed to this growth include;
  - Improved weather conditions which increased agricultural output as well as electricity and water supply;
  - Increased business and consumer confidence attributable to calmness in the political front;
  - A rebound in manufacturing activities
  - A fairly stable macroeconomic environment
  - Improved manufacturing sector attributed to better agriculture performance (dairy, tea and coffee;) motor vehicle assembly, manufacture of basic chemicals, fertilizers as well as primary plastics, pharmaceutical products and preparations.
- **Are people feeling this economic growth?**

ECONOMIC PERFORMANCE : 2008-2018



MEDIUM TERM OUTLOOK

- Economic growth for 2019 is projected at 6.2 percent, 6.3 % in 2020 and 6.6% in 2021; Will be supported by:

i. strong performance in the agricultural and manufacturing activities,

ii. favorable weather conditions,

iii. strong service sector,

iv. ongoing public infrastructural investments

v. sustained business confidence and stable macroeconomic environment that is pegged on security and a calm political climate.

- There is need to align policy changes to the drivers of economic growth. Some are based on factors beyond the control of policy makers.

MACROECONOMIC VARIABLES

- **Inflation:** It has remained within the target range of 5± 2.5%. Is this benefit being felt by consumers? What are the risks from fuel costs?
- **Interest rates and private sector credit.** It is projected that they will remain low and stable supported by improved liquidity conditions and ongoing fiscal consolidation.
- What is needs to be examined is if the expansionary monetary policy increased access to credit?
- Crowding out of the credit to the private sector through domestic borrowing remains a major challenge
- **Exchange rate & External Sector:** we have had a stable exchange rate.

THE BIG FOUR AGENDA

i. Increasing manufacturing sector's share of GDP

ii. enhancing food and nutrition security;

iii. providing universal health coverage to all Kenyans

iv. provision of affordable housing.

We will examine the budget statement against these and also look at the implementation strategies at the national & county Level

"THE BIG FOUR" – PRIORITIES AND ACTIONS

- Manufacturing from 9.2% to 20% by 2022 (Enablers being Standards & Market Access)
- 100% Food and Nutrition Security commitment: (large scale production; drive small holder productivity; reduce the cost of food)
- Achieve 100% UHC by scaling up NHIF uptake (Digitize NHIF; Adopt Agency model; Activate Community Health Workers Network; Legal Reforms to align NHIF to UHC; Redefine NHIF to include Multi-Tier benefit packages)
- 1 Million homes programme (affordable housing) – (DD driven master plan; Land at right location; low construction cost; Affordable home buyer financing; supportive ecosystem; Innovative developer financing)

BUDGET STATEMENT & BIG 4

- From 1st July 2019, all MDAs & other Public Entities are required to give exclusive preference in procurement of motor vehicles and motor cycles from firms that have assembly plants in Kenya
- Improving Expenditure Efficiency - Government has implemented new initiatives to contain growth of expenditure. It reviewing the portfolio of externally funded projects with a view to restructuring and re-aligning them with the "Big Four" Plan;
- Increasing Tax Collection - Sustaining the fight against illicit and counterfeit trade that was launched in 2017
- County Governments will receive a proposed allocation of Ksh 371.6 billion. Ksh 310 billion is the equitable share and Ksh 61.6 billion will be conditional transfers. (Ksh 38.7 billion from our development partners

BUDGET STATEMENT & BIG 4

- The theme for FY 2019/2020 is Creating Jobs, Transforming lives and Harnessing the "Big Four Plan"
- 450.9 Billion allocated to the Drivers and Enablers of the Big 4 Plan
- **Universal Health Coverage (UHC)** – the amount allocated is Ksh 47.8 billion
- **Affordable Housing** –Ksh 10.5 billion for Social housing, including housing Units for the Police and Kenya Prison. Ksh 2.3 billion for the Public Servants Housing Mortgage Scheme & Ksh 5.0 billion for the National Housing Development Fund (Government employees).
- The Kenya Mortgage Refinance Company (KMRC) established.
- It has received capital injection of Ksh 1.0 billion from Government; Ksh 35 billion credit line from the World Bank and the Africa Development Bank; Ksh.1.2 billion from other shareholders (Banks and SACCOs), and a further Ksh 400 million is expected from IFC and Shelter Afrique in form of equity injection

- **Increasing Manufacturing Contribution to GDP** - completed the revival of one of the oldest textile company in Kenya based in Eldoret (RIVATEX). It is expected to employ over 3,000 employees when fully operational.
- Ksh 1.1 billion for the development of textile and leather industrial park, Naivasha Industrial Park and Cotton Development subsidy.
- Ksh 1.7 billion to support the growth of SMEs in the manufacturing sector;
- Ksh 0.4 billion to Constituency Industrial Development Centers; and Ksh 1.0 billion to modernize facilities in Kenya Industrial Research and Development Institute (KIRDI).
- **Improving Food and Nutrition Security** - Ksh 2.0 billion for the National Value Chain Support Programme; Ksh 7.9 billion for ongoing irrigation projects.

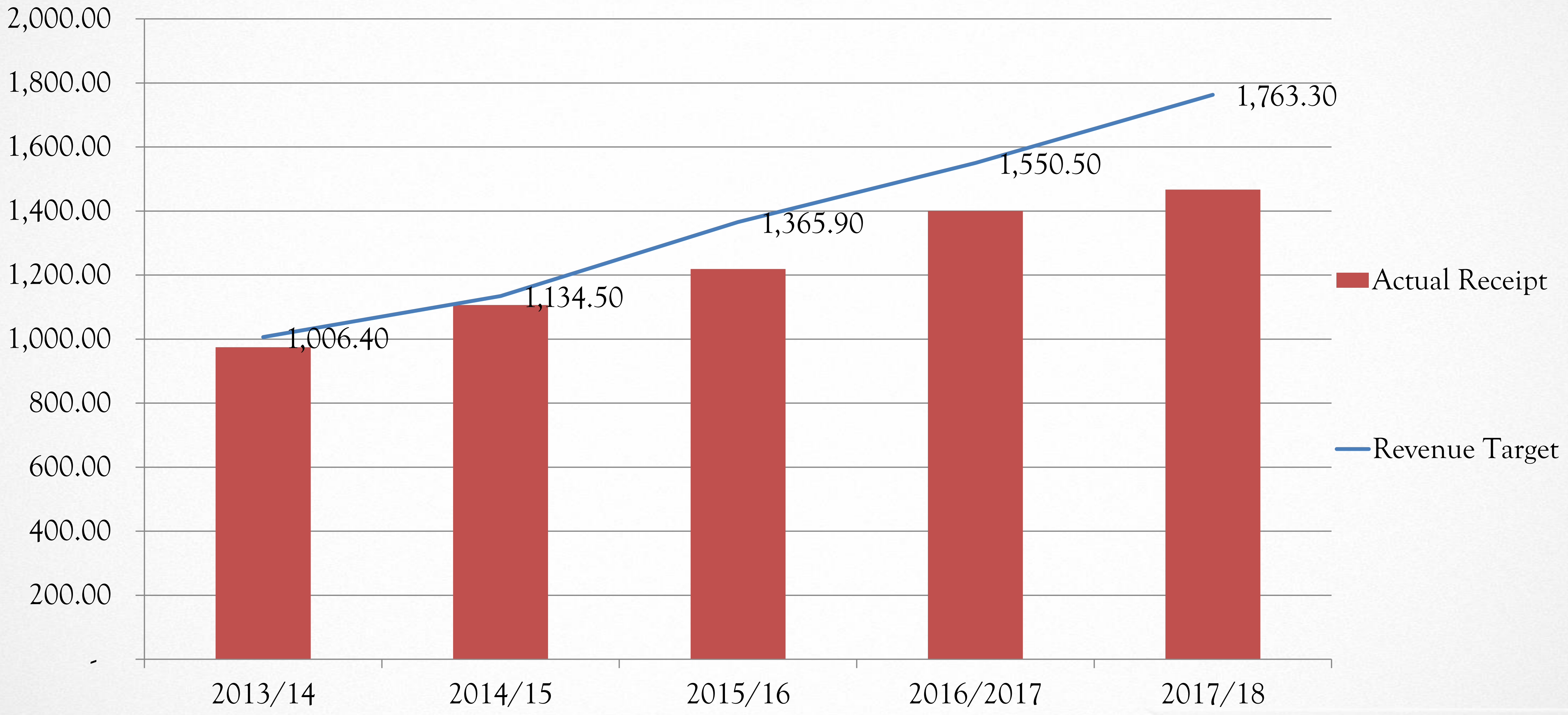
TAXATION PROPOSALS & BIG 4 PLAN

- Finance Bill 2019 and Regulations changes aligned to the "Big Four" Plan.
- The tax policy measures in this budget are expected to generate an additional Ksh 37.0 billion
- Reduction of VAT Withholding from 6% to 2%. It will help enhance the cash flow of our business community and stimulate economic activities and job creation.
- Assembling of electronics and computers: Exemption from VAT locally manufactured motherboards and all inputs used in their manufacture.
- Exemption from VAT all services offered to plastic recycling plants and supply of machinery and equipment used in the construction of these plants. Lowering of corporation tax to 15% for the first 5 years for any investor operating a plastic recycling plant.
- Metal and Allied sector: import duty rate which was increased last year to 25% for a one-year period be maintained

- Timber & Furniture industry – protection from proliferation of cheap finished timber products and to enhance local production; an ad valorem rate of import duty at 25% with corresponding specific rate of import duty on the products.
- Excise revenue has declined from approximately 3% of GDP in 2003/04 to about 2% in 2017/18. Negative externalities associated with consumption
- There is a proposed increase of the rates of excise duty on cigarettes, wines and spirit by 15%. A 750ml bottle of wine will have an excise duty of Ksh 136 which is Ksh 18 more from the current rate; the duty of a bottle of whisky will go up by Ksh 24 to Ksh 182 for a 750ml bottle.
- The excise duty on a packet of 20 cigarettes will increase by Ksh 8 to Ksh 61 per packet.
- Local manufacturers – reduction of import declaration fee (IDF) on intermediate goods and raw materials used by manufacturers from 2% to 1.5%,
- Export levy on tanned and crust hides and skins at 10% to accelerate value addition and promote the manufacturing of local leather products

- Proposal to amend the Umbrella Retirement Schemes Regulations to allow members of the Umbrella Retirement Benefits Schemes to contribute towards Post-retirement Medical Fund. This will also contribute to the achievement of UHC.
- Through the Finance Bill – proposal to repeal of section 33B of the Banking (Amendment) Act, 2016. The aim is to unlock credit to the private sector and in particular to the MSMEs.
- Launching of "SME Credit Guarantee Scheme" to deepen access to credit by SMEs without being subjected to complex application procedures and collateral requirements.
- Establishment of Biashara Kenya Fund as part of the efforts to address shortcomings in the credit market but will also catalyze provision of credit

REVENUE TARGETS FY 2013/14-2017/18

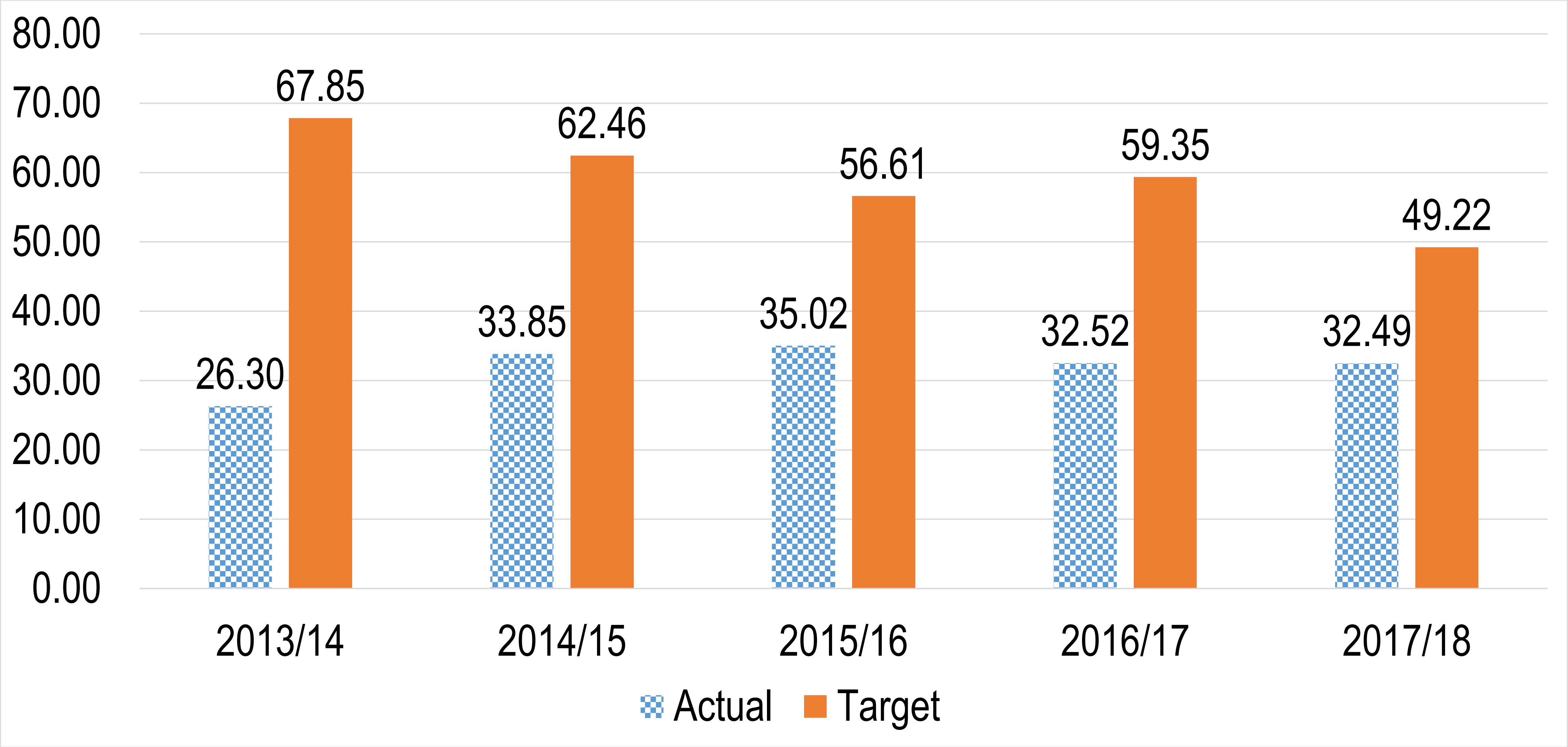


THE COST OF EXEMPTIONS (BPS)

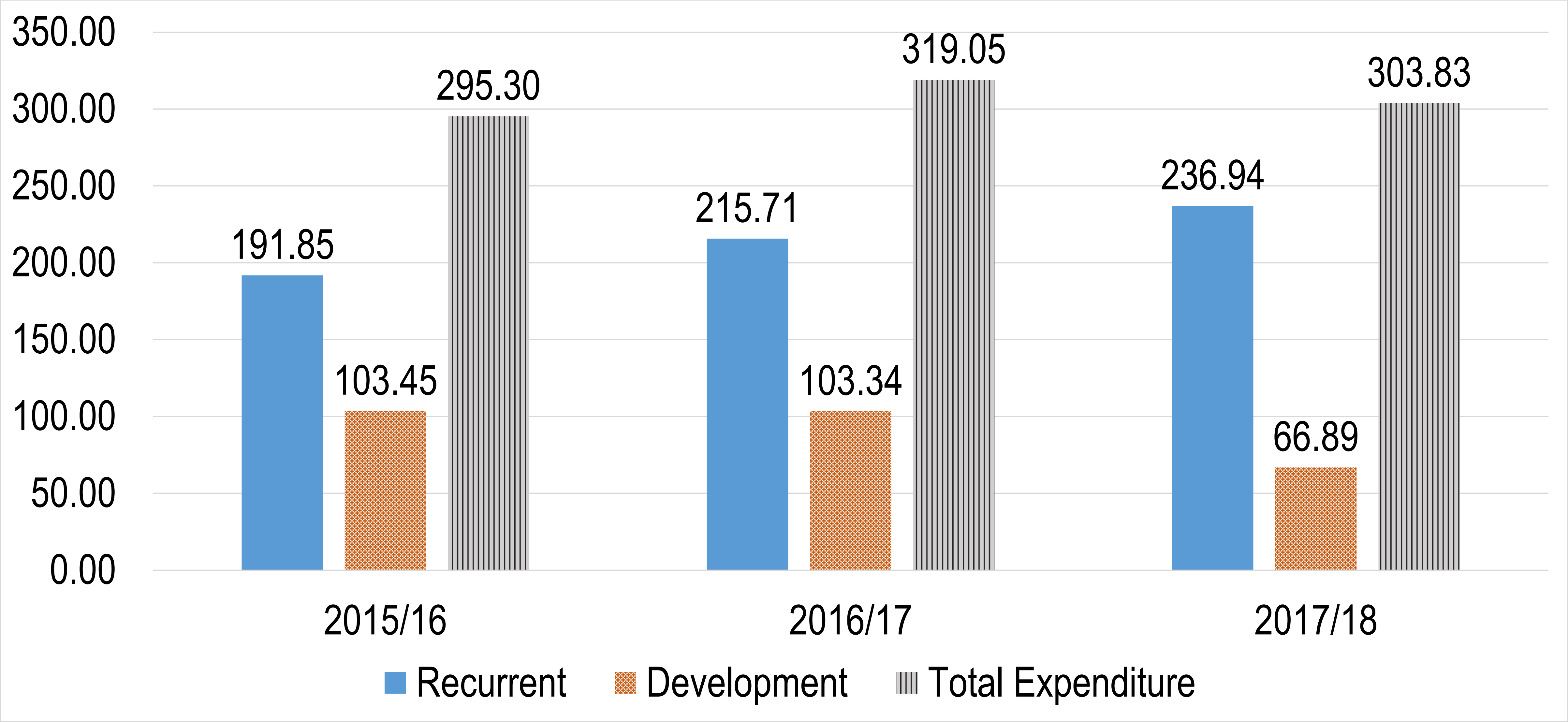
Proposal	Potential revenue impact (2019/20-2022/23)
i. Eliminate Corporate Income Tax exemptions	143,454,004,702
i. Removing VAT exemptions	113,827,560,000
Total Medium term impact (Additional Revenue)	257,281,564,702

COUNTY OWN SOURCE REVENUE COLLECTION 2013/14- 2017/18 (KSH. BILLIONS)

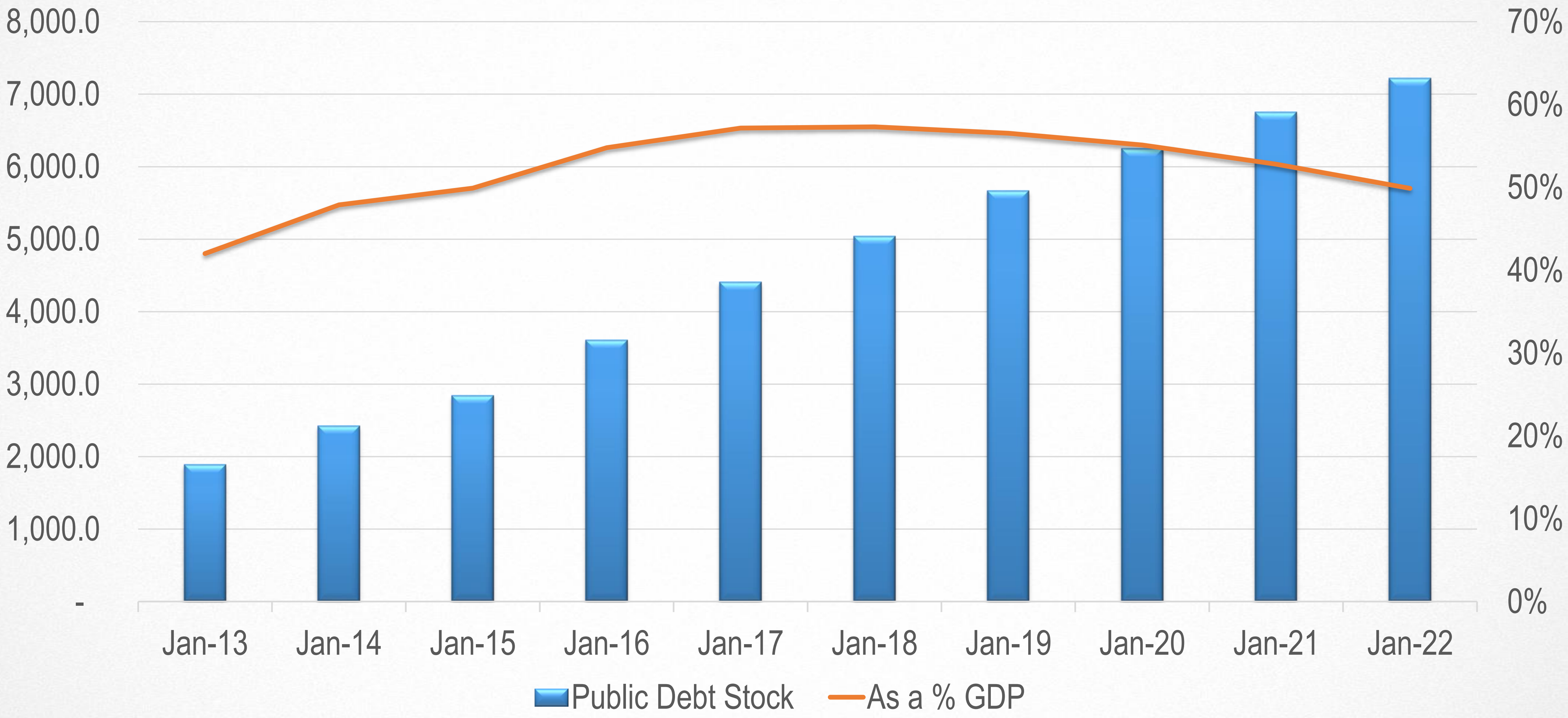
SOVEREIGN INSIGHT



EXPENDITURE PERFORMANCE FOR FY 2015/16 - FY 2017/18 (KSH. BILLIONS)



PUBLIC DEBT TREND (BPS)



DEBT SUSTAINABILITY THRESHOLDS (BPS)

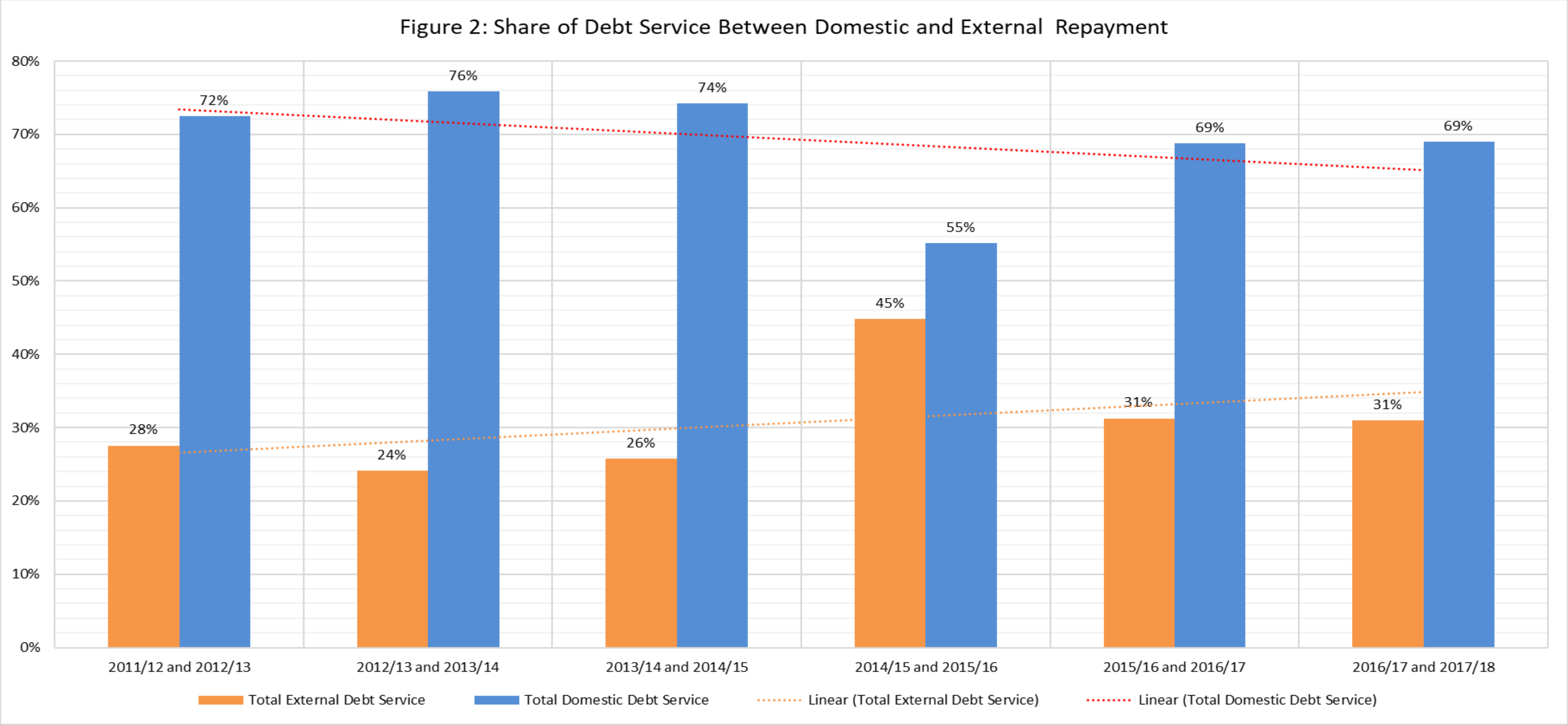
	Threshold	2017	2018	2019	2020	2021
PV of Debt as % of GDP	74	55.4	60.6	59.9	56.9	54.3
PV of debt as % of GDP (PFM)	50	55.4	60.6	59.9	56.9	54.3
PV of Debt as % of Revenue	300	285	299.6	292.9	282.1	269.7
Debt Services to Revenue Ratio (%)	30	42.7	43.7	48.2	48.1	47.8
Debt Stabilizing Primary Balance		0.1	-2.7	0.8	2.5	2.2

GROWTH IN TAX SOURCES COMPARED TO PREVIOUS YEAR

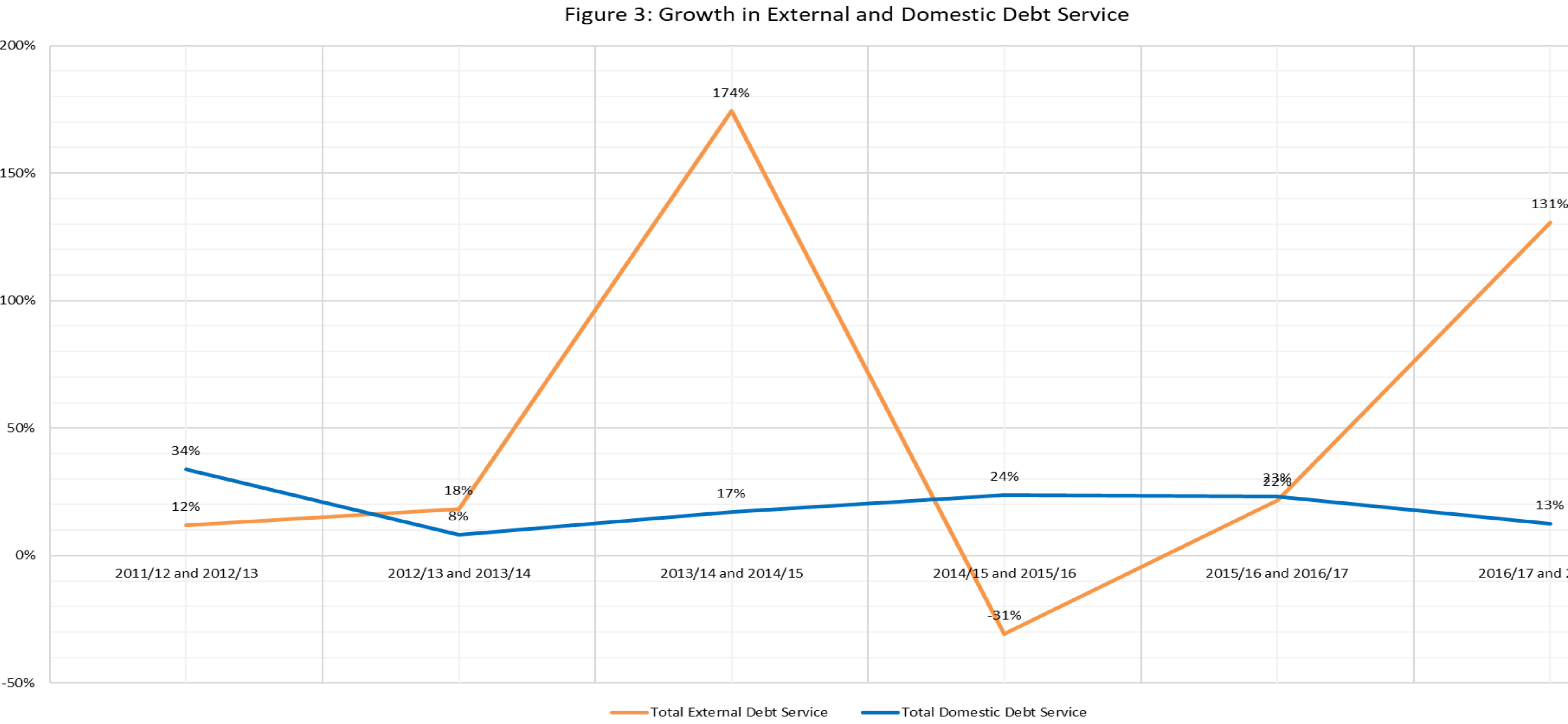
SOVEREIGN INSIGHT

Year	Import Duty	Excise Duty	Income Tax	VAT	Total Tax Revenue	Non-Tax Revenue	Total Revenue
2012/13							
2013/14	10%	11%	21%	8%	15%	42%	18%
2014/15	10%	14%	13%	12%	12%	5%	12%
2015/16	7%	20%	11%	11%	12%	22%	13%
2016/17	14%	19%	11%	17%	14%	21%	15%
2017/18	4%	1%	3%	5%	3%	54%	10%

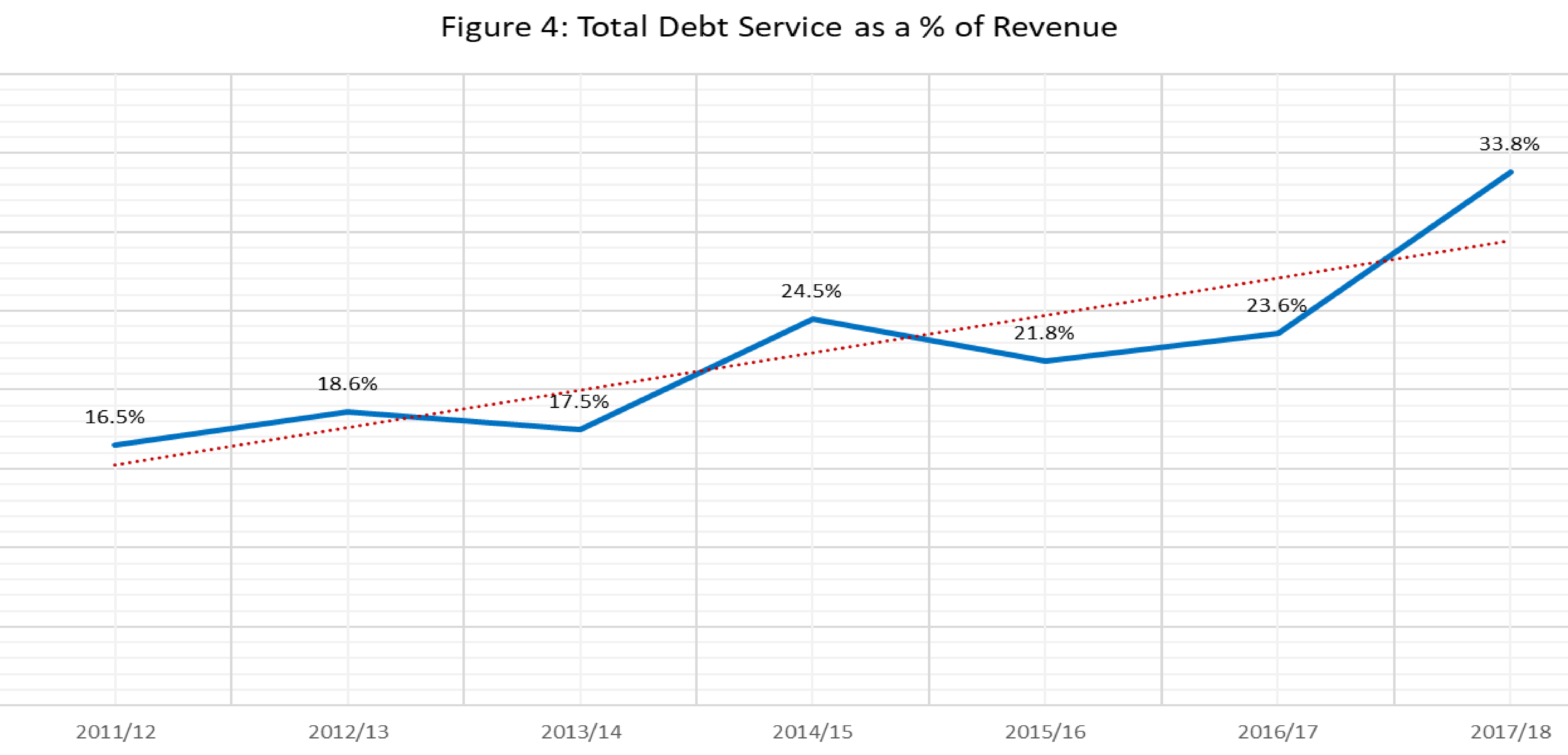
DEBT SERVICE:DOMESTIC & EXTERNAL REPAYMENT



GROWTH IN EXTERNAL AND DOMESTIC DEBT SERVICE



TOTAL DEBT SERVICE AS A % OF GDP



BUDGET CONSTRAINTS & BIG 4

SOVEREIGN INSIGHT

- The country is on track on the big four plan. There's need to address other issues to support the plan
- Increasing Tax Revenue remains to be a key challenge and there is need to look at the rax measures and revenue administration?
- Reduce spending is a possible option to manage public debt
- Expand Opportunities in private sector i.e. Reduce cost of doing business – energy costs, labour costs (increase labour productivity)
- On board the Informal sector – Increasing the base
- Address the leakages and wastage
- Deal decisively with pilferage and corruption

Comments and Questions Welcome!

THANK YOU FOR YOUR ATTENTION!
GOD BLESS