BUDGET REVIEW & EMERGING TAX ISSUES WORKSHOP

MACROECONOMIC OUTLOOK & EXPENDITURE PRIORITIES
FY 2019-20
Are we on track with the Big Four Agenda?

SOUTH – RIFT BRANCH

Hillary Onami
Public Policy & Research – ICPAK

PRESENTATION OUTLINE

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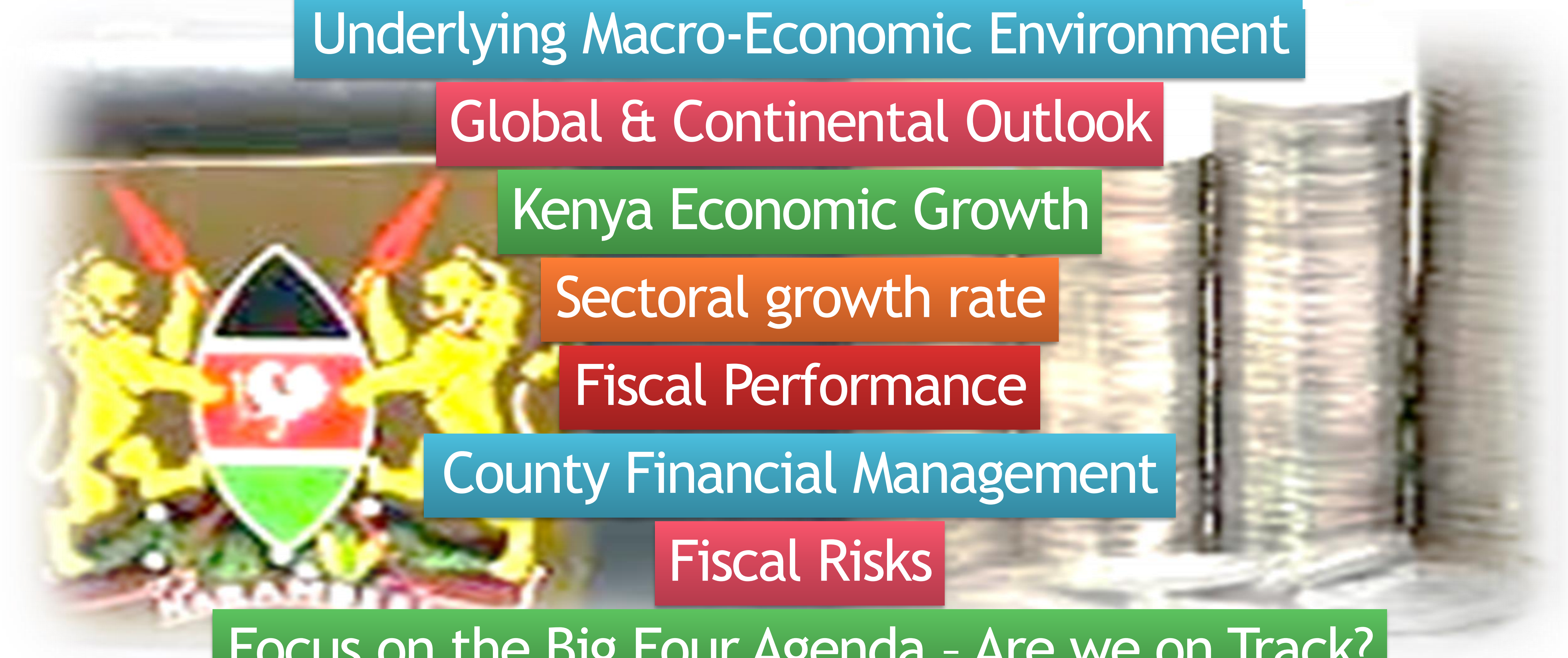


- Underlying Macro-Economic Environment
- Global & Continental Outlook
- Kenya Economic Growth
- Sectoral growth rate
- Fiscal Performance
- County Financial Management
- Fiscal Risks
- Focus on the Big Four Agenda – Are we on Track?

GLOBAL & CONTINENTAL OUTLOOK

REGION/COUNTRY	Actual 2017	Estimated 2018	Projected 2019
World	3.8	3.7	3.5
Advanced Economies	2.4	2.3	2.0
Of which: USA	2.2	2.9	2.5
Emerging and Developing Economies	4.7	4.6	4.5
Of which: China	6.9	6.6	6.2
India	6.7	7.3	7.5
Sub-Saharan Africa	*2.9*	*2.9*	*3.5*
Of which: South Africa	1.3	0.8	1.4
Nigeria	0.8	1.9	2.0
EAC-5	5.3	5.9	6.3
Of which: Kenya	4.9	6.0*	6.2*
EAC-5: Burundi, Kenya, Rwanda, Tanzania and Uganda			

Source: January 2019 WEO; *Projections by the National Treasury

Introduced trade measures, including the tariffs imposed on $200 billion of US imports from China

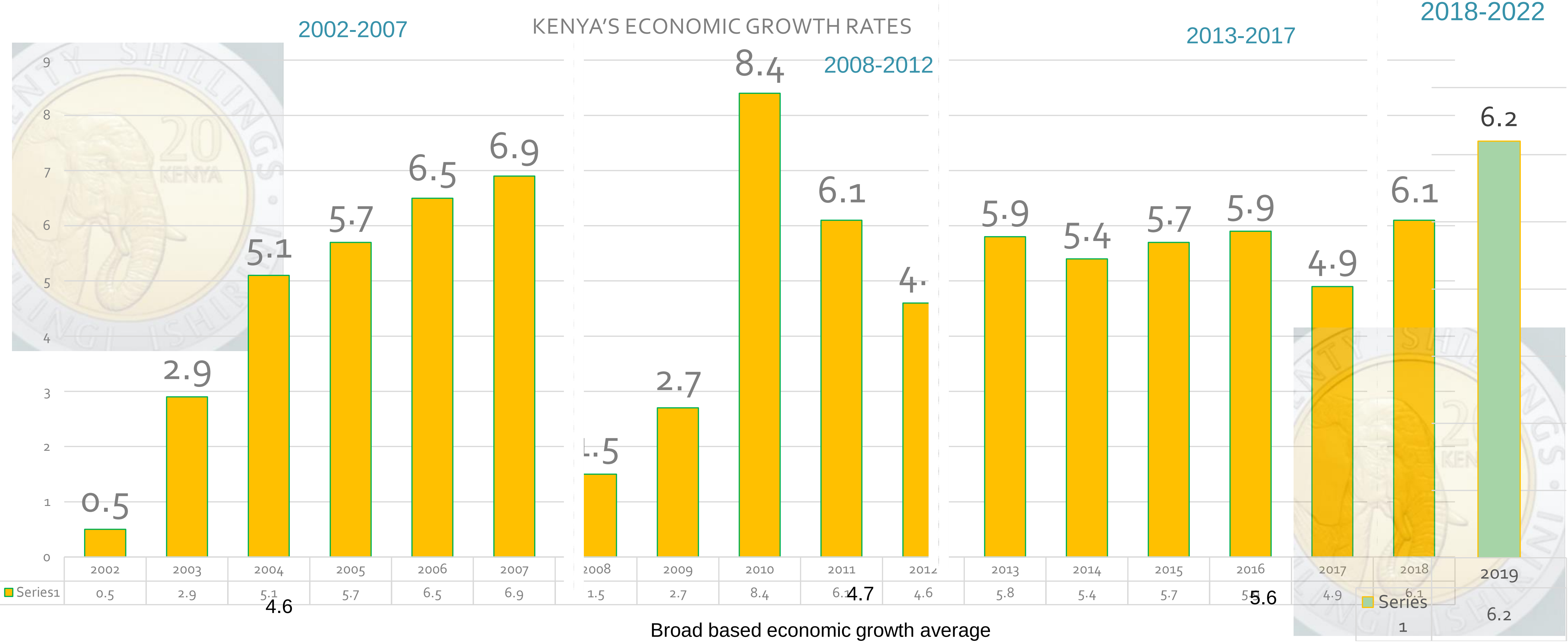
closure of output gaps in advanced economies & moderation in trade and investment

Gradual tightening of financing conditions due to ongoing withdrawal of accommodative monetary policy in advanced economies

Opportunity for Kenya to gain from increased value of exports given expected high commodity prices
- *Encourage intra-Africa trade*

EA Growth supported by stable macroeconomic environment, ongoing infrastructure investments, strong private consumption

THE ECONOMIC ENVIRONMENT & FORECAST



Broad based economic growth average

Uphold . Public . Interest

OTHER MACRO-ECONOMIC VARIABLES

INFLATION

5 ± 2.5

Annual Average 18/19 = 4.75%

INTEREST RATE & PRIVATE SECTOR LENDING

Low & Stable supported by liquidity Conditions & ongoing fiscal consolidation

EXCHANGE RATE & EXTERNAL SECTOR

Stable Exchange Rate but Risky outlook:

What is driving our Forex Reserves?

BALANCE OF TRADE

2018 had an average 2% decline in total imports and a 1% decline in exports, leaving the country with a negative trade balance.

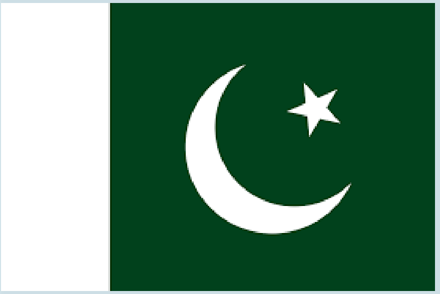
The trade deficit has grown by 26% from 2013 to 2018

- How is our ability to earn foreign currency to pay the 52% of debt denominated in foreign currency

KENYA'S EXPORTS DESTINATIONS AS AT DECEMBER 2018

Pakistan

- Tea 93% of the exports to Pakistan



Uganda

- 8.2% coated flat rolled iron
- 6.9% Refined petroleum,
- 5.1%, Cement
- Palm oil at 5%,

Netherlands

- 66% cut flowers
- other live plants, tropical fruits and legumes 16.7%

USA

- 19% non-knit men's suits
- 12% non knit women's suits
- 11% nuts
- 11% coffee at

United Kingdom

- 41% tea
- 17% cut flowers
- 16% legumes

Are we good at what we do compared to the rest? If not, can we improve or do we look for what it is we are good at?

KENYA'S LARGEST IMPORT ITEMS

- Wheat, Rice, Corn – 5.7%
- Refined Petroleum – 14%
- Raw Sugar – 2.9%
- Computer & Phones – 2.9%
- CARS – 2.9%
- OIL -3.2%

- Pressure will persist on the Kenya Shilling as imports will continue to grow
- with a drought forecast importation of grains will increase.
- With the analysis on the exports, we expect reduced forex receipts

SECTORAL REAL GDP GROWTH RATES

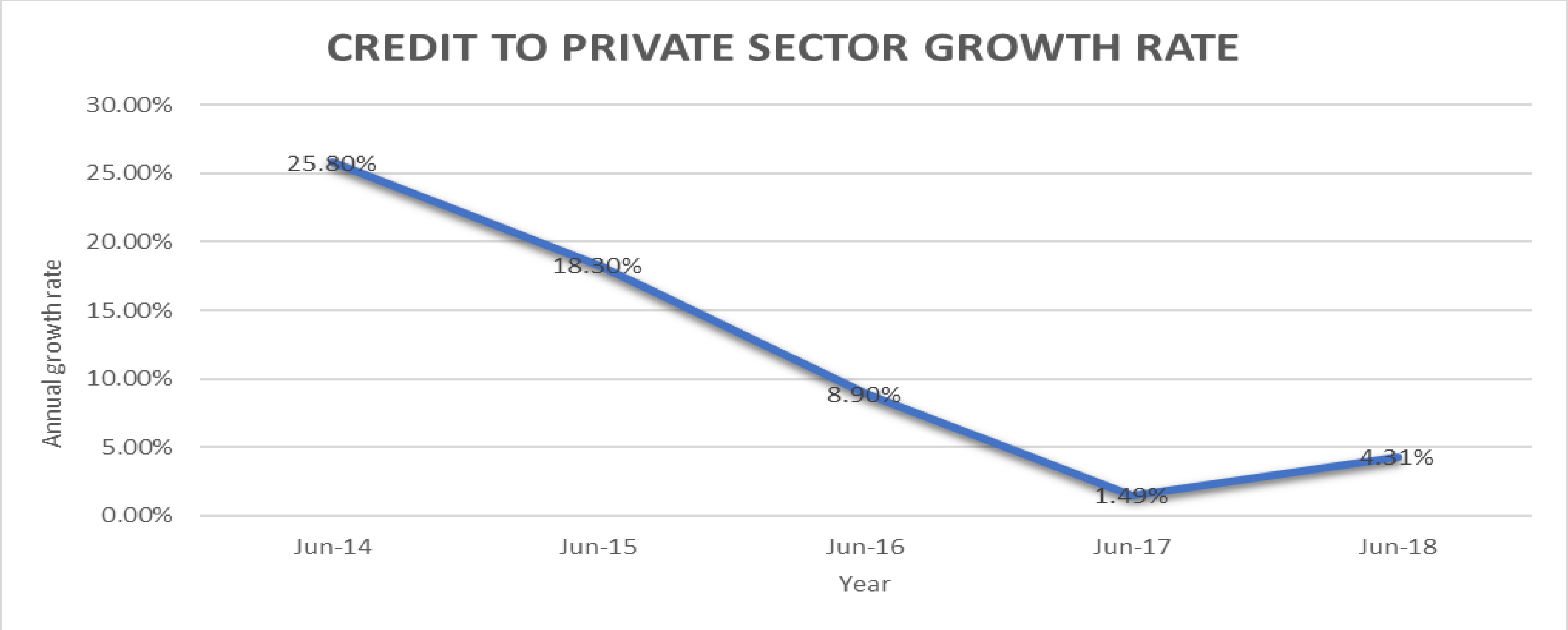
Sector	2013	2014	2015	2016	2017	2018*
Primary Sector	**5.0**	**4.8**	**5.6**	**4.9**	**1.8**	**5.3**
Agriculture	5.4	4.4	5.3	4.7	1.6	5.3
Mining	-4.2	14.9	12.3	9.5	6.1	5.5
Industry	**5.9**	**5.6**	**7.0**	**5.5**	**3.4**	**4.7**
Manufacturing	5.6	2.5	3.6	2.7	0.2	2.9
Electricity and water supply	6.6	6.1	8.5	8.3	5.6	7.4
Construction	6.1	13.1	13.8	9.8	8.6	6.7
Health	7.7	8.1	6.1	5.0	5.9	5.7
Service Sectors	**5.4**	**6.3**	**6.4**	**6.5**	**6.2**	**6.3**
Overall Real GDP Growth	**5.9**	**5.4**	**5.7**	**5.9**	**4.9**	**6.0**

Source: BPS 2019, KNBS
***Estimates**

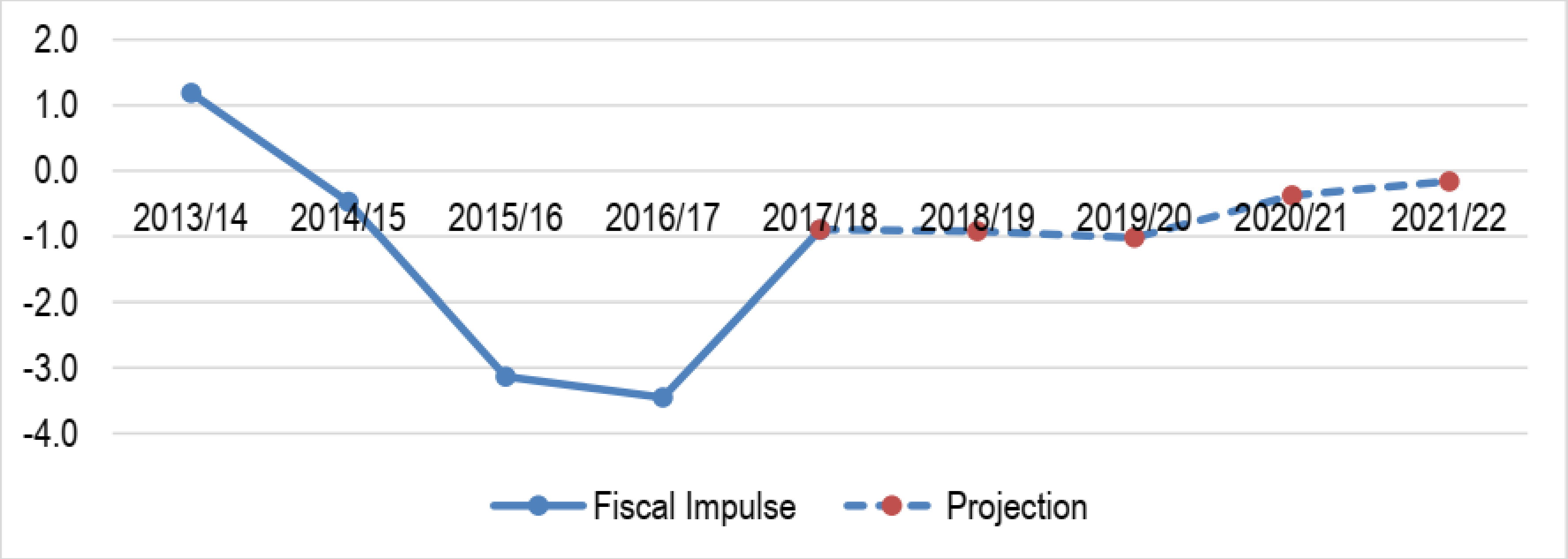
The key drivers of growth will be:

- ✓ **Strong performance in the agricultural and manufacturing activities,**
- ✓ **Favorable weather conditions,**
- ✓ **Strong service sector,**
- ✓ **Stable macroeconomic environment,**
- ✓ **Ongoing public infrastructural investments**
- ✓ **Sustained business confidence**

CREDIT TO PRIVATE SECTOR



FISCAL POLICY



Source: KNBS, BPS, PBO

While this is commendable, the challenge will be in maintaining a contractionary fiscal path given the prevailing expenditure pressures

The current fiscal policy is edging towards a contractionary fiscal policy for FY 2019/20 - indicated by a fiscal impulse that is slowly edging upwards

-ve fiscal impulse = an expansionary fiscal policy

3. + fiscal impulse = contractionary fiscal policy.

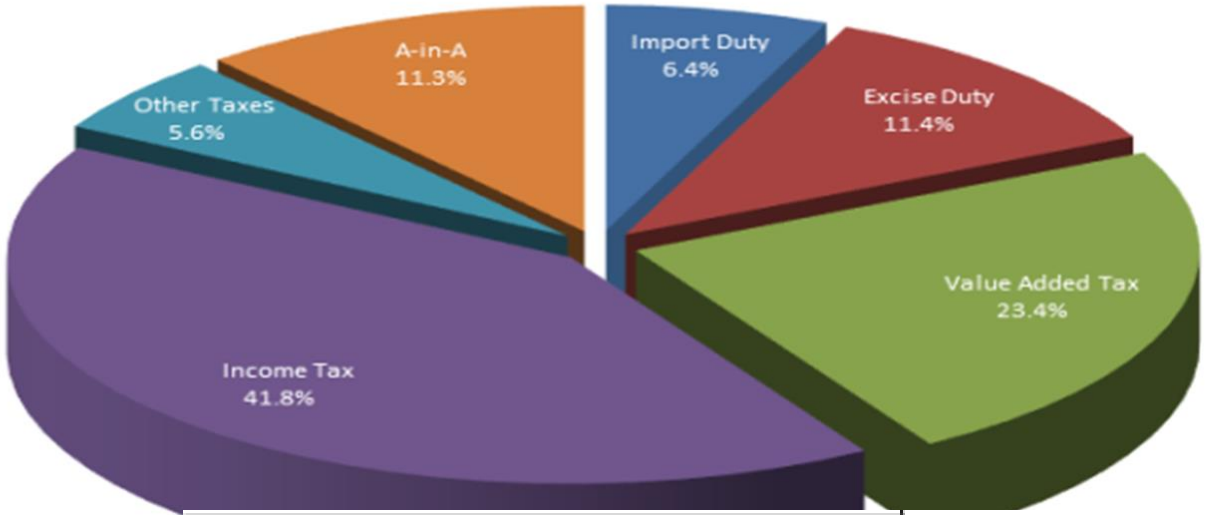
FY 2019/20 OVERALL BUDGET

Total Revenue Ksh 2,115.9bn

Grants Ksh 38.8bn

Deficit (Ksh 607.8bn)

Sources of the Ksh 2,115.9bn Total Revenue inclusive of A.I.A



Project Loans **Ksh 240.6bn**

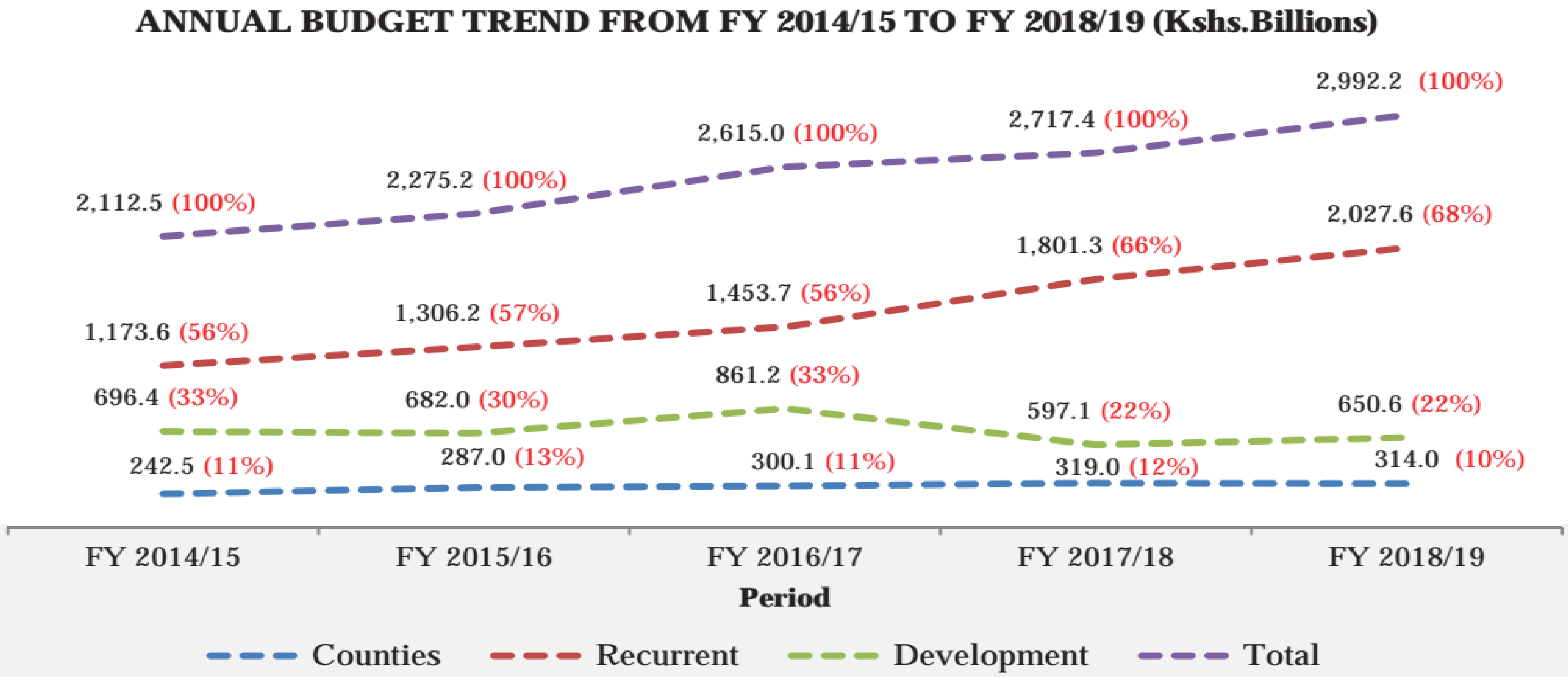
Commercial Financing **Ksh 213.1bn**

Program Support **Ksh 2.0bn**

Foreign Payments **Ksh –131.4bn**

Net Domestic Financing **Ksh 283.5bn**

Budget Trend



FISCAL PERFORMANCE

	2013/14	2014/15	2015/16	2016/17	2017/18
Budget	1,006,862	1,170,529	1,299,912	1,514,989	1,704,503
Actual	974,418	1,113,038	1,235,845	1,403,692	1,650,989
Deviation	(32,444)	(57,492)	(64,067)	(111,297)	(53,514)
Performance rate	97%	95%	95%	93%	97%

In the **FY 2019/20** revenue collection including Appropriation-in-Aid (A.i.A) is projected to increase to **Ksh 2,080.9 billion (18.3 percent of GDP)** up from **Ksh 1,831.5 billion (18.3 percent of GDP) in the FY 2018/19** Ordinary revenues will amount to Ksh 1,877.2 billion (16.5 percent of GDP) in FY 2019/20 up from Ksh 1,651.5 billion (16.5 percent of GDP) in FY 2018/19.

BUDGET CEILING FY 2019/20

National Government	1766.36
Parliament	38.50
Judiciary	17.46
Consolidated Fund Services	535.75
County Equitable Share	310

BUDGET ALLOCATION FY 2019/20

- **Ksh 1,208.6bn** Ministerial recurrent expenditure; includes Judiciary **(Ksh 15.0bn**) and Parliament **(Ksh 37.5bn)**
- **Ksh 686.1bn for** Ministerial development expenditure;
- *(includes Judiciary (Ksh 4.4bn) and Parliament (Ksh 3.1bn)*
- **Ksh 551.6bn** CFS excl domestic bond redemptions;
- **Ksh 310.0bn** Shareable transfer to Counties
- **Ksh 5bn** for contingency fund
- **Ksh 1.74bn** for net lending

FY 2019/20 BUDGET AND THE MEDIUM TERM

	2017/18	2018/19	2019/20	2020/21
National Government	**1,660,073.00**	**1,676,655.00**	**1,829,370.00**	**2,005,628.00**
Recurrent	1,077,211.00	1,022,949.00	1,127,521.00	1,226,699.00
Development	582,862.00	653,706.00	701,849.00	778,929.00
County Allocation	**331,681.00**	**374,627.00**	**372,164.00**	**381,909.00**
Overall budget	2,773,828.00	3,074,160.00	3,150,526.60	3,428,750.15
GDP	8,654,618.00	9,790,760.00	11,100,784.00	12,620,781.00
Source: BPS For FY 2014-2018				

FISCAL RISKS

Fiscal risks that the Kenyan economy is exposed to that may affect the achievement of the macroeconomic targets and objectives detailed in the BPS:

Public expenditure pressures

Revenue underperformance

Shocks to exchange rates which could impact the size of debt servicing, the terms of trade and inflation;

Contingent liabilities from key state Corporations; and

the risks associated with the **devolved system of governance**

Sustainability of the Public Debt

EXPENDITURE PRIORITIES FY 19/20

ARE WE ON TRACK ON THE **BIG FOUR AGENDA**

Manufacturing

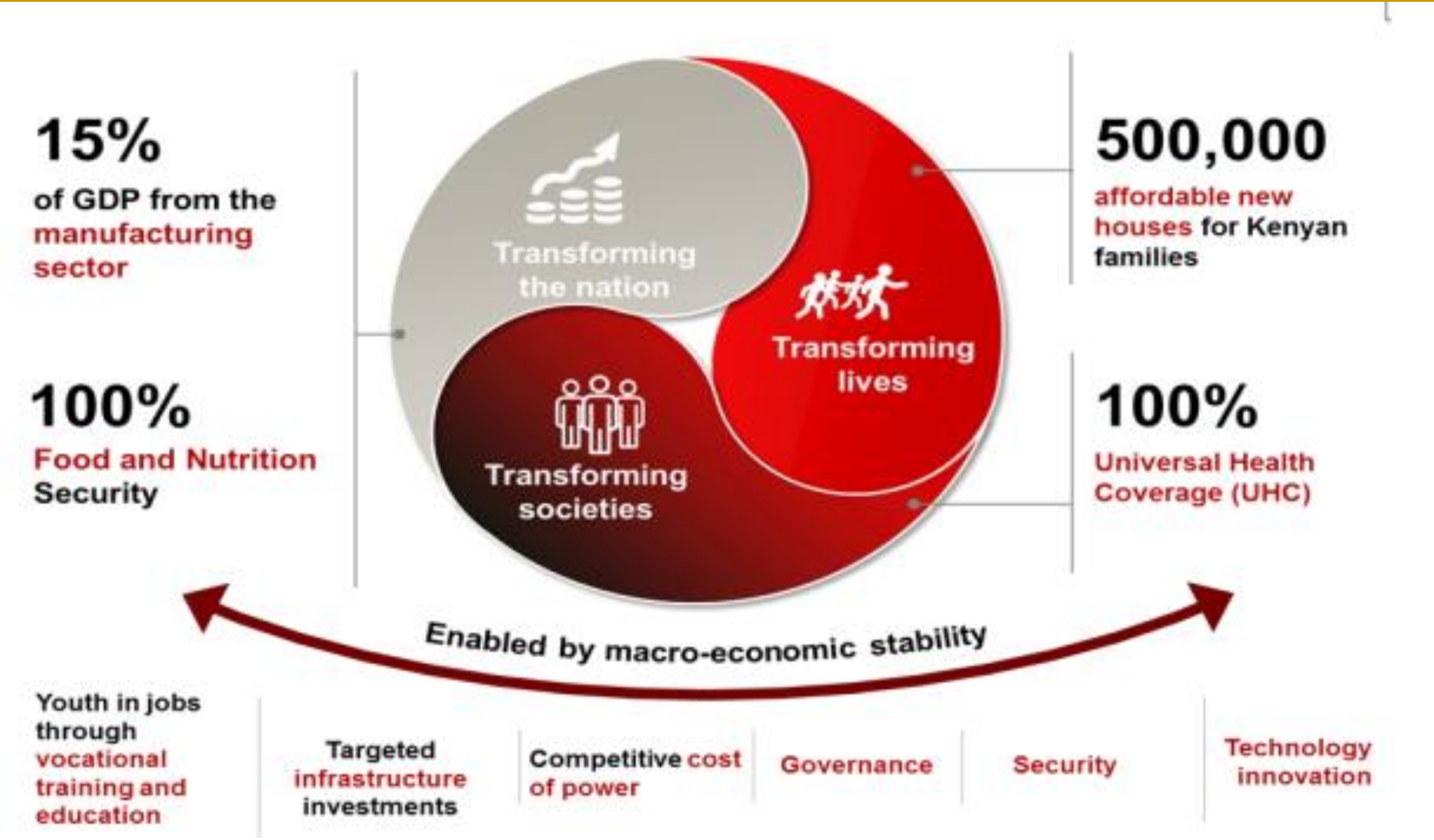
Food & Nutritional Security

Affordable Housing

Universal Health Coverage

Theme for FY 2019/2020 is Creating Jobs, Transforming lives and Harnessing the "Big Four Plan"

BIG FOUR PLAN



- The "Big Four" agenda was launched in December 2017 by President Kenyatta.
- The key purpose is to **transform standards of living and put Kenya on the path of becoming an upper middle-income nation by 2030**.
- Aims to **create employment, reduce cost of living, income inequality, poverty.**

Priority areas for the FY 2019/20

Where are some of your taxes going?

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Drivers and Enablers of the "Big Four" Plan

Ksh 96.6billion

Support Value Addition and Raise the Manufacturing sector's share to GDP to 15% by 2022.

Ksh 42.6billion

Enhancing Food and Nutrition Security to all Kenyans by 2022.

Ksh 47.8billion

Providing Universal Health Coverage to guarantee quality and affordable healthcare to all Kenyans.

Ksh 11.4billion

Provision of Affordable and Decent Housing for all Kenyans.

Ksh 252.5 billion

Cross cutting enablers of the "Big Four" plan

MANUFACTURING PILLAR

OBJECTIVE

- Develop key infrastructure
- Giving incentives to investors.
- Providing training to youth and women.
- Establishing industrial parks and sheds
- Developing industrial infrastructure such as special economic zones

- Reviewing import rules for finished leather products
- Supporting value addition to agricultural produce
- Reforming legal and policy frameworks
- Supporting debt waiver for growers
- Expanding access to credit and inputs by farmers
- Facilitating exploration of coal and iron ore deposits
- Developing policy and incentive framework to attract international investors to the oil, mining and gas sector
- Implementing an elaborate marketing strategy to diversify our export market
- Strengthening enforcement measures to curb illegal fishing
- Enhancing processing before export

INCENTIVES TO SPUR MANUFACTURING

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Revival of RIVATEX - 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)

Policy on 'Buy Kenya Build Kenya' initiative- developing a catalogue of items that are locally manufactured, assembled, mined or grown in Kenya and which will be given priority in public procurement

INCENTIVES TO SPUR MANUFACTURING

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- FRAMEWORK ON THE IMPLEMENTATION OF THE 30% REBATE ON TOTAL ELECTRICITY COSTS BY MANUFACTURERS NOW DEVELOPED.
- INVESTORS OPERATING PLASTIC RECYCLING PLANTS TO ENJOY A REDUCED CORPORATE TAX RATE OF 15% FOR THE 1ST 5YEARS.
- 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
- VAT EXEMPTION ON LOCALLY MANUFACTURED MOTHERBOARDS AND ALL INPUTS USED IN THEIR MANUFACTURE
- VAT EXEMPTION TO SERVICES OFFERED TO PLASTIC RECYCLING PLANTS, MACHINERY AND EQUIPMENT FOR CONSTRUCTING PLASTIC RECYCLING PLANTS
- PROMPT PAYMENT OF BILLS - WITHIN 60 DAYS

FOOD SECURITY- Current Situation and gaps

	Maize (90 Kg)	Rice (50 Kg)	Irish potatoes (100 Kg)	Wheat (MT)	Sugar (MT)
Production	40,000,000	112,800	1,310,000	395,000	630,000
Consumption/ Demand	52,000,000	538,370	1,486,000	990,000	860,000
Deficit	**12,000,000**	**425,570**	**176, 000**	**595,000**	**230,000**

Productivity improvement
Market access
Diversification
Regulation

Product development
Cottage industries
Industrial parks
Value addition

FOOD SECURITY

Objective

Provide food security and improve nutrition to all Kenyans.

Currently stands at 47% due to drought that caused acute food shortage

Enhanced Large-Scale production	Increased small-holder productivity	Reduced cost of food

- ❖ Forming Agricultural and irrigation sector working group
- ❖ Using locally blended fertilizer
- ❖ Availing incentives for post harvest technologies
- ❖ Placing additional 700,000 acres under agriculture through PPP
- ❖ Contracting farmers for strategic food reserve
- ❖ Eliminating multiple levies across counties
- ❖ Rehabilitating and operationalize fish landing sites in lake Victoria
- ❖ Securing investments through PPP in post harvest handling
- ❖ Redesigning subsidy model to maximize impact by focusing on specific farmer needs
- ❖ Improving access to credit/input for farmers

INCENTIVES TOWARDS FOOD SECURITY IN FY 2019/20

National Value Chain Support Programme

- Ksh 2.0 billion

Ongoing irrigation projects

- Ksh 7.9 billion

Setting up the Coffee Cherry Revolving Fund - Cherry

Debt for cane deliveries to public mills -

- **Ksh 0.7 billion**

Crop diversification and to revitalize the Miraa industry

- **Ksh 1.0 billion**

Rehabilitation of Fish Landing Sites

- **Ksh 0.8 billion**

Small-holder dairy commercialization

- **Ksh 0.7 billion**

INCENTIVES TOWARDS FOOD SECURITY IN FY 2019/20

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Ksh 0.6bn allocated for small holder dairy commercialization

For food security in FY 2019/20, Government has allocated:

- Ksh 7.9bn for ongoing irrigation programmes;
- Ksh 3.0bn for cherry coffee revolving fund;
- Ksh 1.8bn for Kenya cereal enhancement;
- Ksh 1.0bn for crop diversification;
- Ksh 0.6bn for fall army worm mitigation;
- Ksh 2.0bn for National value chain support ;
- Ksh 2.0bn for issuance of title deeds
- Ksh 0.7bn for digitalization of land registries.
- Ksh 0.6bn for livestock & crop insurance scheme

Reforming agricultural policies & regulations as well as subsidies to farmers with a view to make them efficient and less prone to rent seeking.

With the unspent funds for this current financial year and proceeds from sale of maize from strategic reserve, the Strategic Food Reserve Trust Fund will have adequate funds to buy food reserves and intervene to support farmers in accessing inputs in a reformed arrangement in the coming financial year.

AFFORDABLE HOUSING

Review existing legislations to ensure sustainable housing development - National Construction Authority Act, Built Environment Bill, and related legislations

Provide incentives to invest in low-cost housing.- Reduced corporate tax rate for developers of atleast 100 units per year

Establishment of a National Social Housing Development Fund- to mobilize funds and provide social housing

Establishment of the establishment of Kenya Homes Refinance Company (KHRC) via PPP to provide low-cost mortgage

Objective

Provide at least 1 million affordable and decent houses to all Kenyans.

Current deficit is 150,000 houses p.a

INCENTIVES TO SPUR 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** - capital injection of **Ksh 1.0 b** from Govt**; Ksh 35b** credit line from the WB & AFdB; **Ksh.1.2 b** from other shareholders, and Ksh 400m expected from IFC & Shelter Afrique in form of equity injection
- **Reduction of import duty on raw timber from 10% to 0%.**
- **Proposal to retain import duty on finished timber products at 25%**

INCENTIVES TO SPUR HOUSING

Key allocations towards affordable housing and urban development in the FY 2019/20 include:

- Ksh 1.0bn for construction of affordable housing;
- Ksh 1.0bn for social housing units;
- Ksh 2.3bn for public servants house mortgage schemes;
- Ksh 5.0bn for National housing development fund;
- Ksh 1.0bn Housing for Police and Kenya Prisons;
- Ksh 11.7bn for Kenya Urban support programme.

- Govt has developed appropriate legal framework and policy foundation.
- Identified appropriate sites and availed 7,000 acres of land to roll out this program.
- The County Governments are expected to provide land while the National Government will provide infrastructure such as power, water, and roads.
- Construction companies are required to utilize locally produced building materials. Inputs such as doors, windows, hinges, sand and cement will be sourced in the domestic market.

UNIVERSAL HEALTHCARE

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Enlist at least 100,000 Community Health Volunteers to recruit new members

Digitize health information to improve efficiency for online registration

Expand the Linda Mama program to Mission and Private Hospitals

Align NHIF Act to UHC and review the Act to Drive up NHIF uptake

Scaling up the provision of specialized medical equipment while increasing the number of health facilities.

Objective

Provide 100% universal health coverage to all Kenyans under NHIF by 2022. Currently at 36%

INCENTIVES TO SPUR UHC

Scaling up universal health coverage to the rest of the Counties,

NHIF cover for the elderly and severely disabled.

Ksh 7.9 billion from the Sports, Arts and Social Development Fund to fund the universal health care initiatives.

Ksh 2.9 billion for Doctors/Clinical Officers/Nurses internship programme,

Ksh 14.4 billion for Kenyatta National Hospital, **Ksh 9.2 billion** for Moi Teaching and Referral Hospital, **Ksh 2.3 billion** for Kenya Medical Research Institute, **Ksh 7.4 billion** for Kenya Medical Training Centres (KMTC) and **Ksh 1.2 billion** for Health Workers Internship Programme

INCENTIVES TO SPUR UHC

Key allocations in the FY 2019/20 include:

- Ksh 6.0bn for scaling up of Universal Health Coverage;
- Ksh 4.9bn for transforming health systems for UHC;
- Ksh 2.5bn for medical supplies to support UHC (piloting);
- Ksh 3.2bn to cover the Elderly and severely disabled;
- Ksh 6.2bn for leasing of medical equipment;
- Ksh 4.1bn for Free maternal health care;
- Ksh 4.1bn for doctors, clinical officers and nurses internship;
- Ksh 3.3bn for Vaccines and immunization;
- Ksh 0.4bn for Regional cancer centres.

Ksh 6.2bn allocated for Managed equipment services

THANK YOU

HILLARY ONAMI

PUBLIC POLICY AND RESEARCH – ICPAK

EMAIL: Hillary.Onami@icpak.com