MACRO-ECONOMIC OUTLOOK FOR FISCAL BUDGET FY 2019/2020

HIGHLIGHT ON THE 2019 BUDGET

PRESENTATION OUTLINE

- ❑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

GLOBAL & CONTINENTAL OUTLOOK

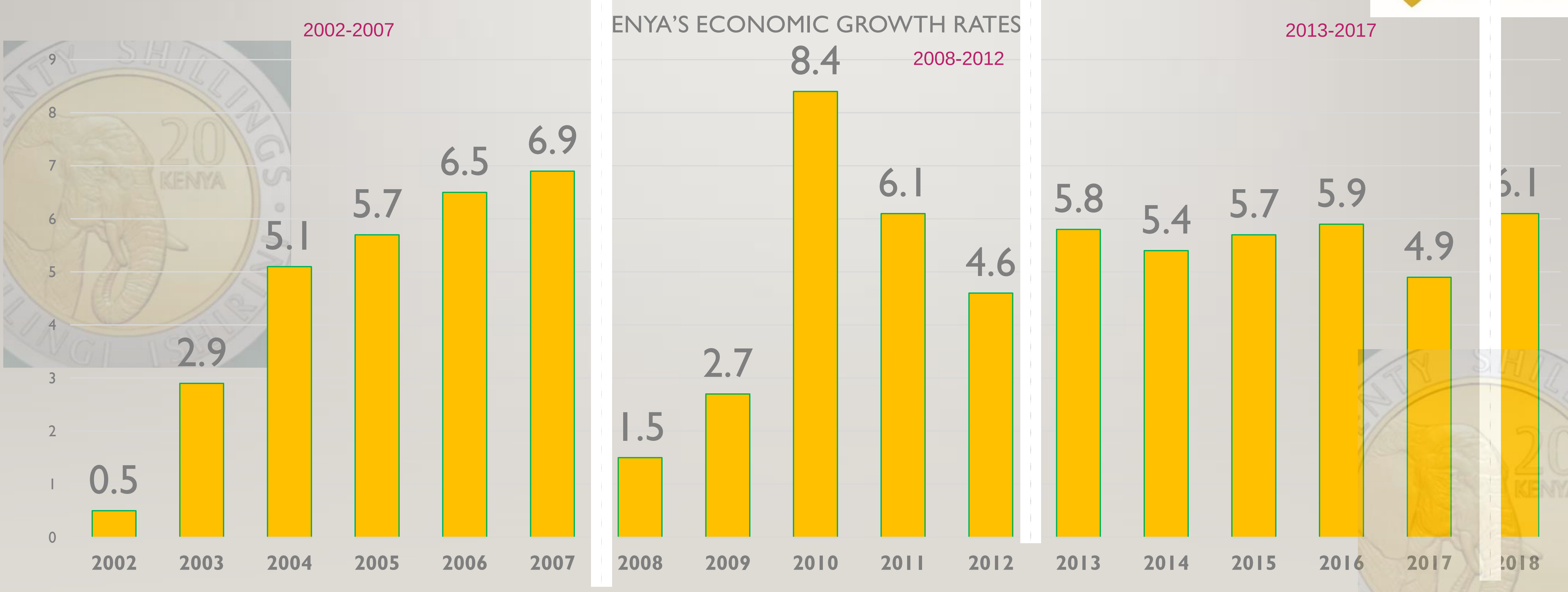
REGION/COUNTRY	Actual 2017	Estimated 2018	Projected 2019
World	3.7	3.7	3.7
Advanced Economies	2.3	2.4	2.1
Of which: USA	2.2	2.9	2.5
Emerging and Developing Economies	4.7	4.7	4.7
Of which: China	6.9	6.6	6.2
India	6.7	7.3	7.4
Sub-Saharan Africa	*2.7*	*3.1*	*3.8*
Of which: South Africa	1.3	0.8	1.4
Nigeria	0.8	1.9	2.3
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: October 2018 WEO; *Projections by the National Treasury

- Recently 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

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

THE ECONOMIC ENVIRONMENT & FORECAST



4.6

4.7

5.6

Broad based economic growth average

OTHER MACRO-ECONOMIC VARIABLES

INFLATION

5 ± 2.5

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?

SECTORAL REAL GDP GROWTH RATES

	2013	2014	2015	2016	2017	2018Q1	2018Q2	2018Q3
Primary sector	**5.0**	**4.8**	**5.6**	**4.9**	**1.8**	**5.3**	**5.3**	**5.4**
Of which: Agriculture	5.4	4.4	5.3	4.7	1.6	5.3	5.4	5.2
Mining	-4.2	14.9	12.3	9.5	6.1	4.5	3.5	8.5
Industry	**5.9**	**5.6**	**7.0**	**5.5**	**3.4**	**4.1**	**4.8**	**5.1**
Of which: Manufacturing	5.6	2.5	3.6	2.7	0.2	2.3	3.1	3.2
Electricity and Water supply	6.6	6.1	8.5	8.3	5.6	5.1	8.6	8.5
Construction	6.1	13.1	13.8	9.8	8.6	7.2	6.1	6.8
Services	**5.4**	**6.3**	**6.4**	**6.5**	**6.2**	**6.4**	**6.7**	**5.9**
Of which: Wholesale and Retail trade	8.4	6.9	5.9	3.4	5.8	6.2	7.7	6.8
Accomodation and Restaurant	-4.6	-16.7	-1.3	13.3	14.7	13.5	15.7	16.0
Transport and Storage	1.3	5.5	8.0	7.8	7.4	7.1	7.8	5.4
Information and Communication	12.5	14.5	7.4	9.7	11.0	12.0	12.6	9.1
Financial and Insurance	8.2	8.3	9.4	6.7	3.1	2.6	2.3	2.6
Real estate	4.1	5.6	7.2	8.8	6.1	6.8	6.6	5.8
GDP Growth	**5.9**	**5.4**	**5.7**	**5.9**	**4.9**	**5.8**	**6.2**	**6.0**
Of which: Non agricultural GDP	5.4	6.1	6.4	6.4	5.9	6.0	6.3	5.8

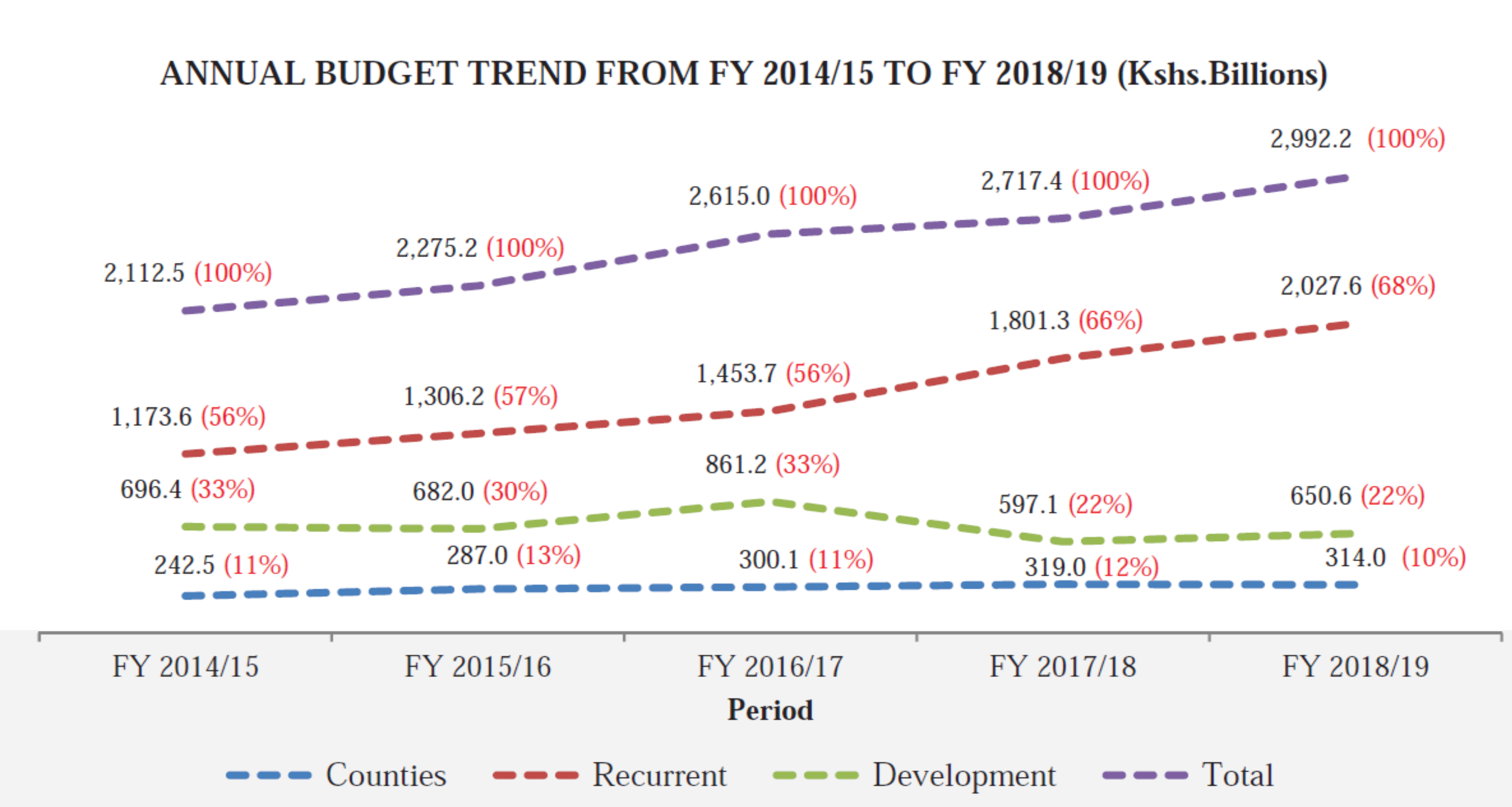
Source of Data: Kenya National Bureau of Statistics

- ✓ Improved weather conditions which led to increased agricultural production and agro-processing

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 TREND



Overall expenditure and net lending for FY 2019/20 are projected at **Ksh 2,704.7** billion (23.8 percent of GDP) from the estimated Ksh 2,514.4 billion (25.1 percent of GDP) in the FY 2018/19 revised budget.

BUDGET TREND - CONTD

Public expenditure tracking

	Allocation (Billions)	% Allocation	Allocation (Billions)	% Allocation	Allocation (Billions)	% Allocation
Entity	2017/2018		2018/2019		2019/2020	
National Government	1,621.70	59.60	1,764.10	55.93	1,841.30	59.76
Recurrent	1,048.00		1,074.20		1,157.30	
Development	573.70		689.90		684.00	
Judiciary	14.93	0.55	16.09	0.51	18.68	0.61
Recurrent	12.99		13.39		17.34	
Development	1.94		2.70		1.34	
Parliament	30.44	1.12	35.10	1.11	43.63	1.42
Recurrent	28.90		32.80		40.56	
Development	1.54		2.30		3.07	
County Allocation (including conditional grants)	327.30	12.03	376.50	11.94	371.60	12.06
Consolidated Fund Services	726.80	26.71	962.60	30.52	805.80	26.15
Overall Budget	2,721.17	100.00	3,154.39	100.00	3,081.01	100.00

- Allocation to Counties against total budget stood at 12%
- Watch for Allocation to CFS at 26% …

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.

FISCAL PERFORMANCE

	FY 2017/18		FY 2018/19				FY 2019/20
	Revised Budget II Final	Preliminary	Budget	Revised Budget	BPS 2019	Deviation	
TOTAL REVENUE	1,659,611	1,522,455	1,949,181	1,852,572	1,831,460	(117,721)	2,080,922
Ordinary revenue	1,489,633	1,365,063	1,769,229	1,672,629	1,651,517	(117,712)	1,877,176
Ministerial Appropriation in Aid	169,977	157,392	179,952	179,944	179,944	(9)	203,746
						-	
TOTAL EXPENDITURE AND NET LENDING	2,329,961	2,146,687	2,557,246	2,509,083	2,514,421	(42,825)	2,704,706
Recurrent Expenditure	1,441,931	1,349,896	1,550,042	1,540,978	1,513,279	(36,763)	1,657,299
Development	556,349	469,517	625,722	595,663	631,183	5,461	670,854
County Transfer	331,681	327,274	376,481	367,441	364,958	(11,523)	371,553
Contingency Fund	-	-	5,000	5,000	5,000	-	5,000
						-	
BALANCE EXCLUSIVE OF GRANTS	(670,350)	(624,232)	(608,065)	(656,510)	(682,961)	(74,896)	(623,784)
Grants	42,953	27,600	48,487	48,487	47,483	(1,004)	51,616
BALANCE INCLUSIVE OF GRANTS	(627,397)	(596,632)	(559,578)	(608,023)	(635,477)	(75,900)	(572,168)
Balance Inclusive of Grants (Cash)	(627,397)	(631,309)	(559,578)	(608,023)	(635,477)	(75,900)	(572,168)
Discrepancy	-	-	-	-	-	-	-
TOTAL FINANCING	627,397	631,309	559,578	608,023	635,477	75,900	572,168
Net Foreign Financing	374,622	354,977	286,986	286,986	321,464	34,477	306,480
Other Domestic Financing	4,038	2,623	3,925	3,925	3,925	-	(5,677)
Net Domestic Financing	248,737	273,710	268,666	317,112	310,089	41,422	271,364
Nominal GDP (Fiscal Year)	8,678,974	8,796,500	9,726,649	9,990,033	10,030,206	303,557	11,346,478

Source: National Treasury

- ❑Revenue collection for the first five months grew by 13.5% compared to the same period in the FY 2017/18.
- ❑Despite the strong growth, cumulative ordinary revenue still fell short of the November target by Ksh 27.7
- ❑Income tax from corporations recorded negative growth as at November 2018-----expected to bounce back to target levels by third & Fouth quarter due to the strong performance recorded in the first half of the economy in the first half of the financial year.

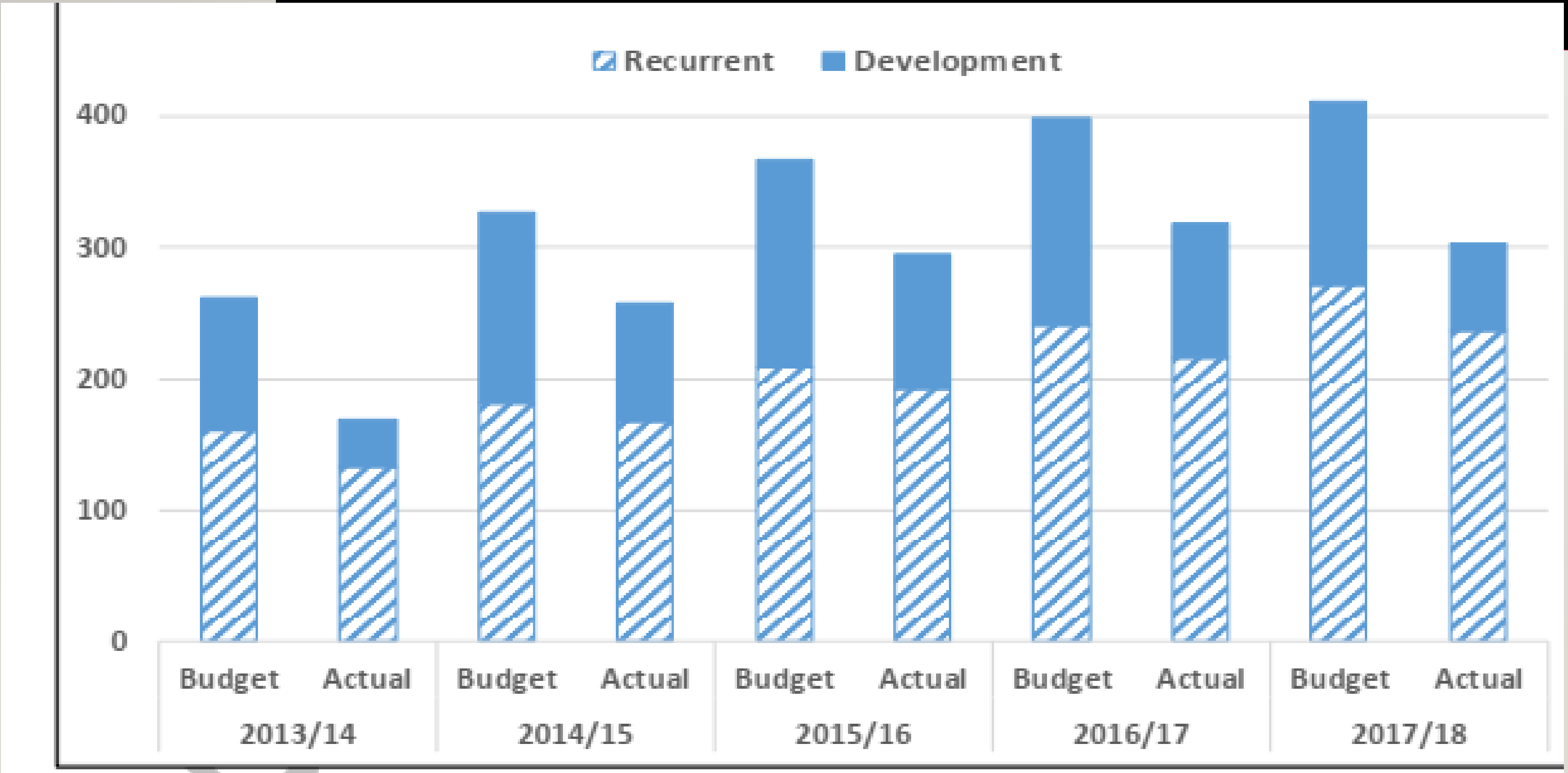
FY 2018/19 OVERALL BUDGET

- Government will continue to restrict growth in recurrent spending
- The modernized Income Tax Bill currently undergoing legal drafting, will also ease administrative bottlenecks, improve compliance and boost revenue collection,
- Establishment of Public Investment Management (PIM) Unit will enhance efficiency in identification and implementation of priority social and investment projects
- Increase efficiency in cargo clearing through procurement of additional scanners & full integration of all scanners;
- Use of Regional Electronic Cargo Tracking System (RECTS) to ensure all goods reach the desired destinations and avoid dumping;
- Use of third-party information to identify non-compliant property developers & ensure they are included in the tax base; and
- Detection of non-compliance through i-Tax data matching.

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				

COUNTY FINANCIAL MANAGEMENT FY 2017



Source of data: Controller of Budget

[redacted]tive budget increased at a decreasing rate by:

25% in FY 2014/15;
13% in FY 2015/16; and,
9% in FY 2016/17.

This trend may be indicative of more realistic budgeting by the Counties.

Actual spending continues to grow as well at a decreasing rate.

52% In FY 2014/15,
14% in FY 2015/16, and
8% in FY 2016/17.

In FY 2017/18, Counties' actual spending was Ksh 303.8b, Ksh 15.2b below FY 16/17 & 5% contraction.

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

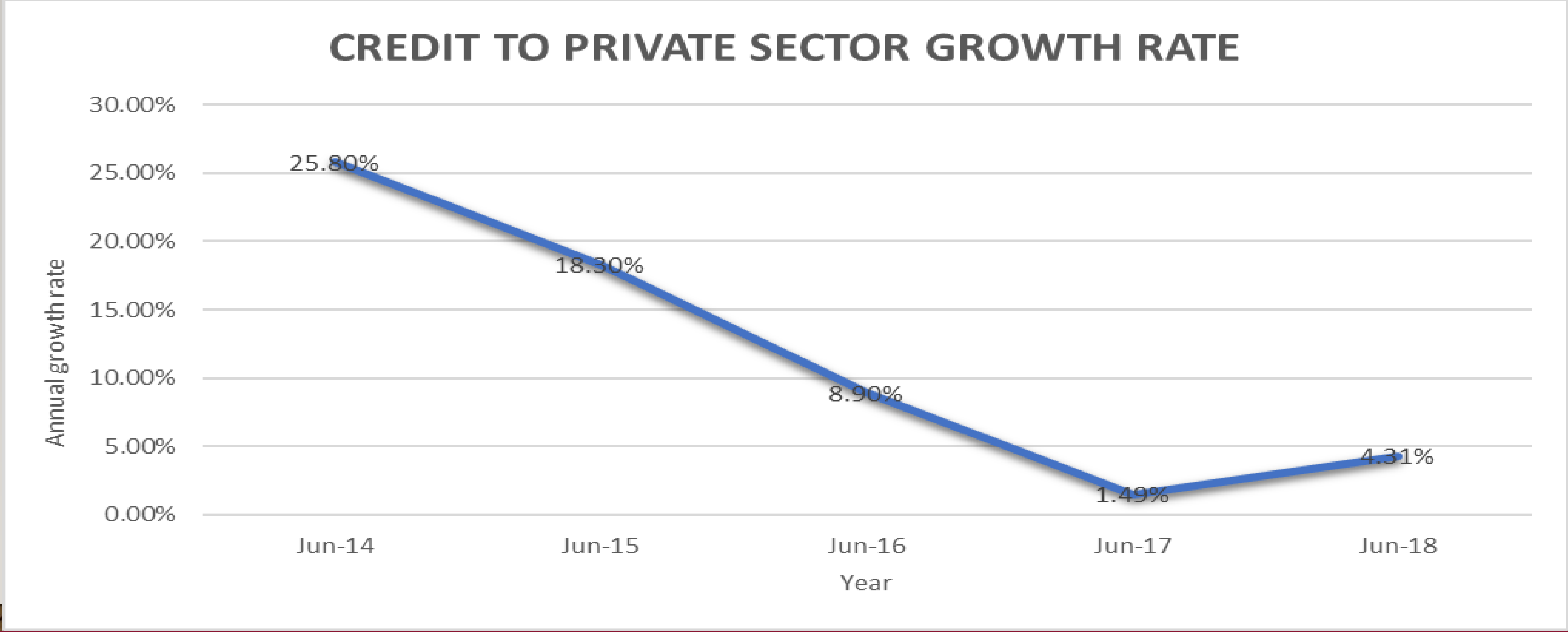
Shocks to exchange rates which could impact the size of debt servicing, the terms of trade and inflation;

Contingent liabilities from key state Corporations; and

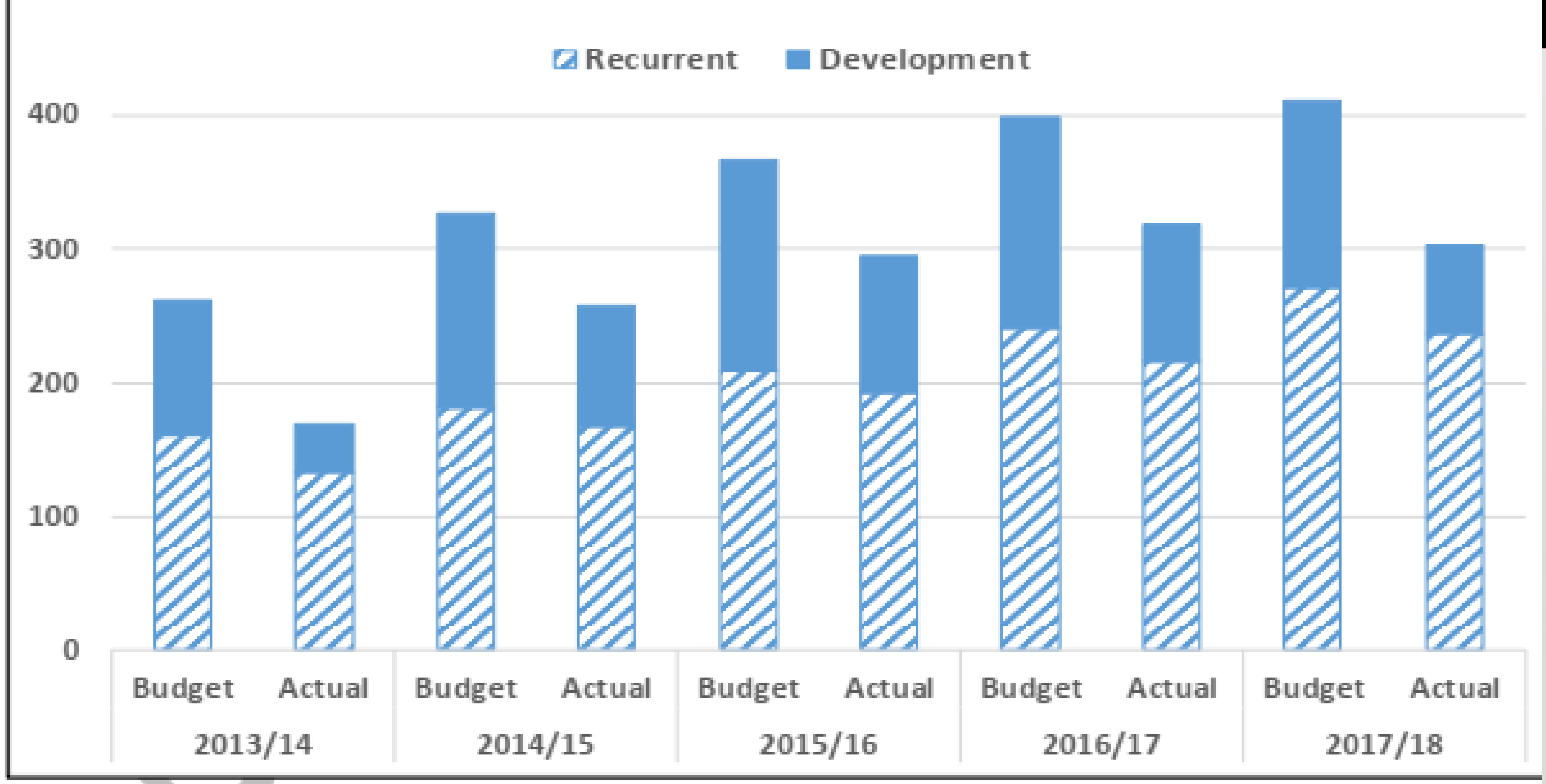
the risks associated with the **devolved system of governance**

Sustainability of the Public Debt

CREDIT TO PRIVATE SECTOR



COUNTY FINANCING



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CONCERNS ON DIVISION OF REVENUE

		Proposed Growth		Basis for Proposed Revenue Growth				Equitable Share Approved in the DoR (2019/20 is proposed)	Growth in DOR approved Amounts
	Year	CRA	National Treasury	CRA	National Treasury	Ordinary Revenue	*Growth in National Ordinary Revenue*		-
1	2015/16	10.4%	10.4%	3-Year average growth in ordinary revenue	3-Year average growth in ordinary revenue	1,152.97	*13%*	259.77	15%
2	2016/17	15.0%	7.8%	3-Year average growth in ordinary revenue	Not provided	1,306.57	*13%*	280.30	8%
3	2017/18	15.0%	6.7%	3-Year average growth in ordinary revenue	3-Year average month on month inflation	1,365.06	*4%*	302.00	8%
4	2018/19	8.5%	4.0%	3-Year average inflation	Not Clear	1,651.52	*21%*	304.96	1%
	2018/19 Proposed Revision					-		314.00	3%
	2019/20	6.9%	2.0%	3-Year average inflation	Not Clear	1,877.18	*14%*	310.00	2%

GROWTH OF CONDITIONAL GRANTS

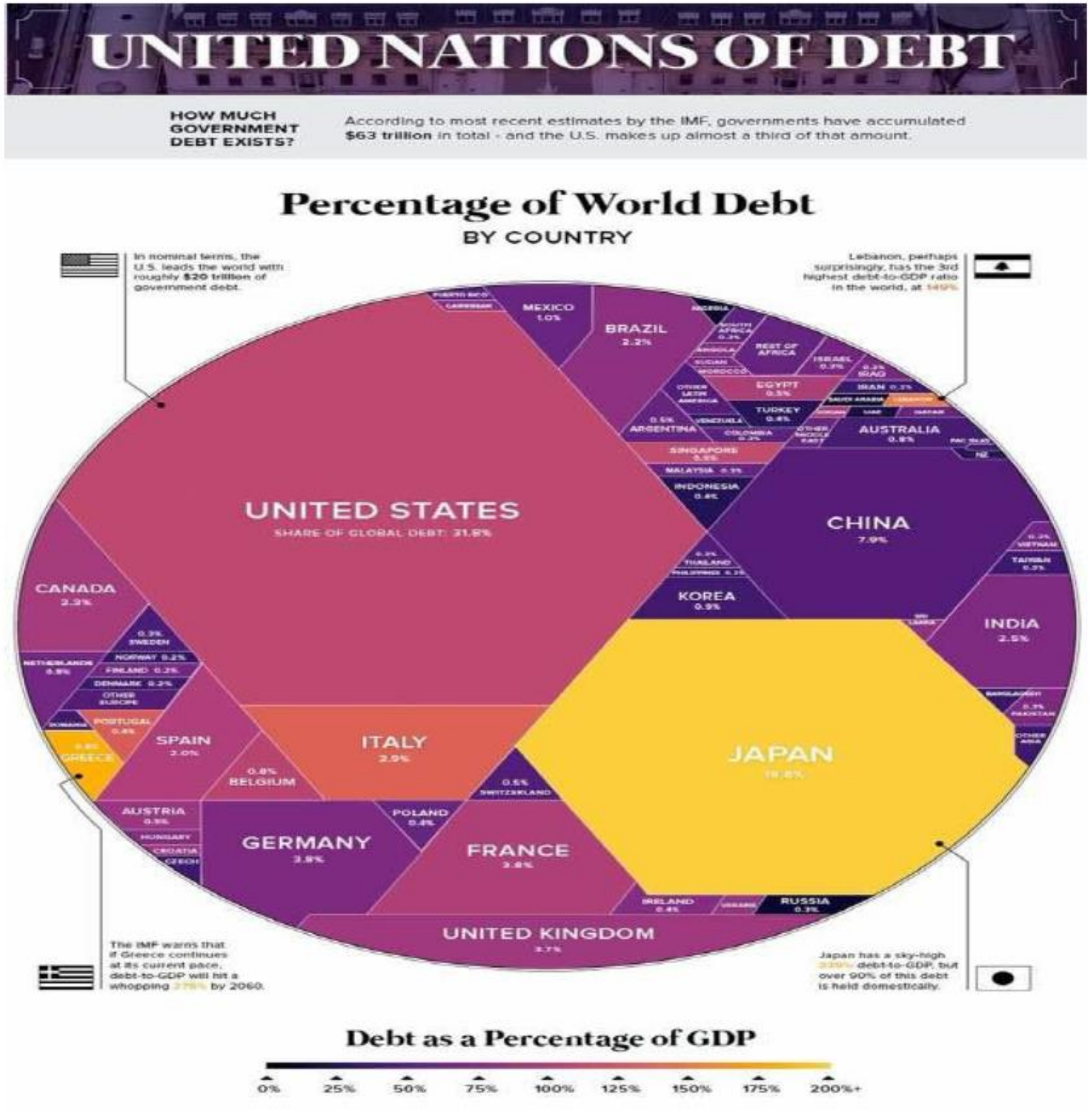
					Recommendations 2019/20		
Current Conditional Grants (Billions)	**2015/16 DORA**	**2016/17 DORA**	**2017/18 DORA**	**2018/19 DORA**	**2019/20 (National Treasury)**	**2019/20 (CRA)**	**% Increase of National Treasury Grants to DORA**
Level 5 hospitals	3.60	4.00	4.20	4.33	4.33		0%
Free maternal health care	4.30	4.12	-	-	-		-
Compensation for user fees forgone	0.90	0.90	0.90	0.90	0.90		0%
Leasing of medical equipment	4.50	4.50	4.50	9.40	6.20	9.40	-34%
Road Fuel Levy Fund	3.30	4.31	11.09	8.27	8.98	8.98	9%
Development of Youth Polytechnics			2.00	2.00	2.00		0%
Supplement for construction of county headquarters			0.61	0.61	0.48		-21%
Grant to 5 Cities						5.0	
Total	***16.60***	***17.83***	***23.3***	***25.5***	***22.9***		**-10%**

PUBLIC DEBT TRENDS

Trends in Kenya's Total Public Debt (Ksh million)

	2013	2014	2015	2016	2017	2018	May 2019
Domestic Debt	1,050,555	1,284,327	1,420,444	1,815,133	2,112,710	2,478,835	2,707,703
External Debt	843,562	1,138,505	1,423,252	1,796,198	2,294,153	2,568,398	2,692,435
Grand Total	1,894,117	2,422,832	2,843,696	3,611,331	4,406,863	5,047,234	5,400,138

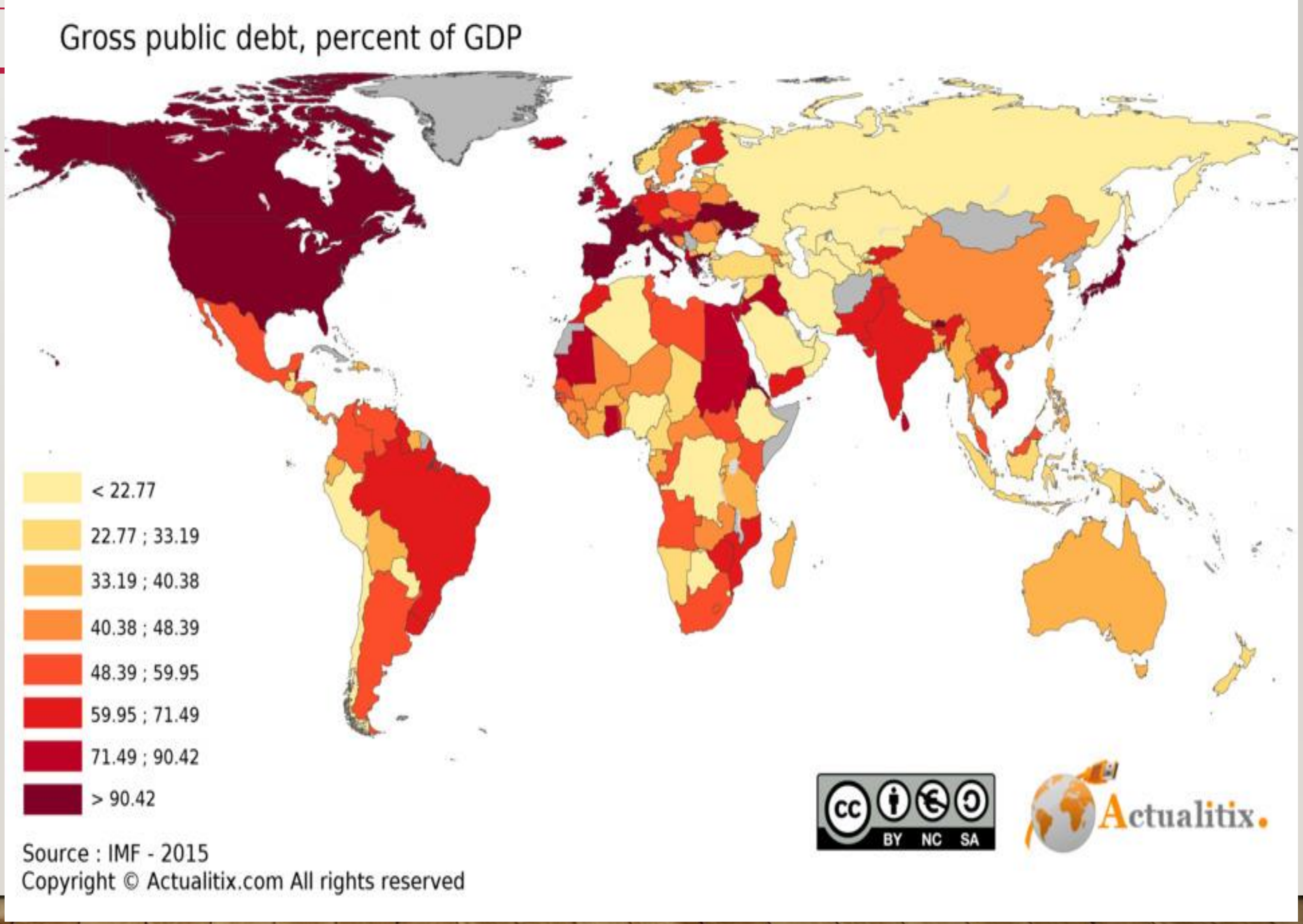
GLOBAL BENCHMARKS



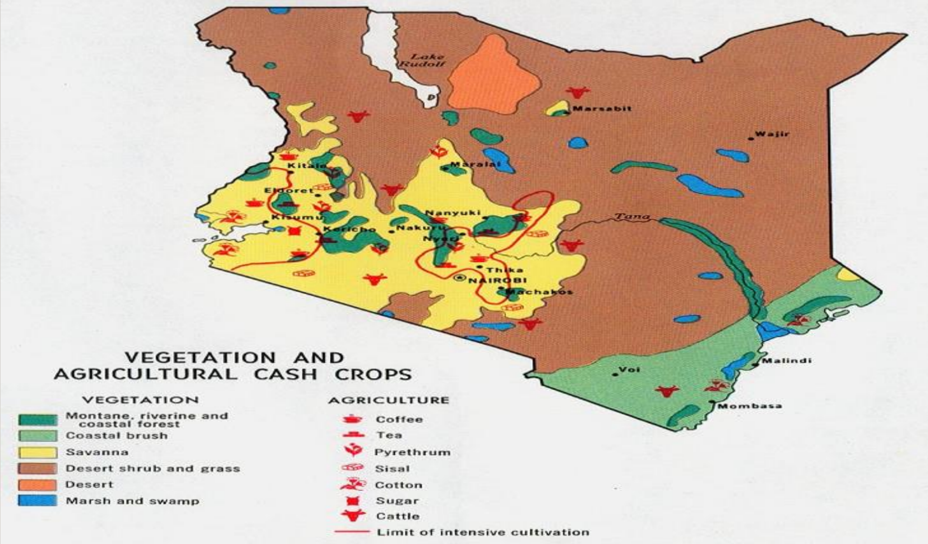
50 per cent of global debt held by US, China and Japan. What then, make these nations the world strongest economies, in spite of the astronomical levels of indebtedness – Japan at 240% debt/GDP ratio?

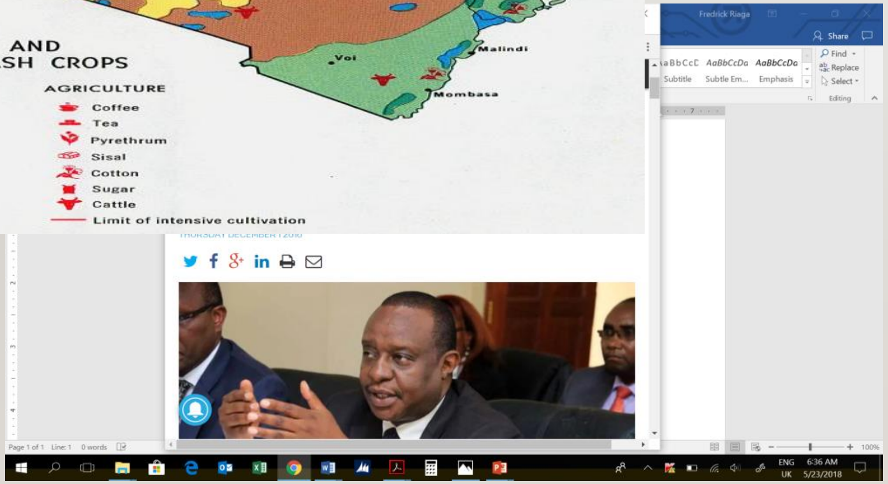
COMPARATIVE DEBT/DGP RATIOS

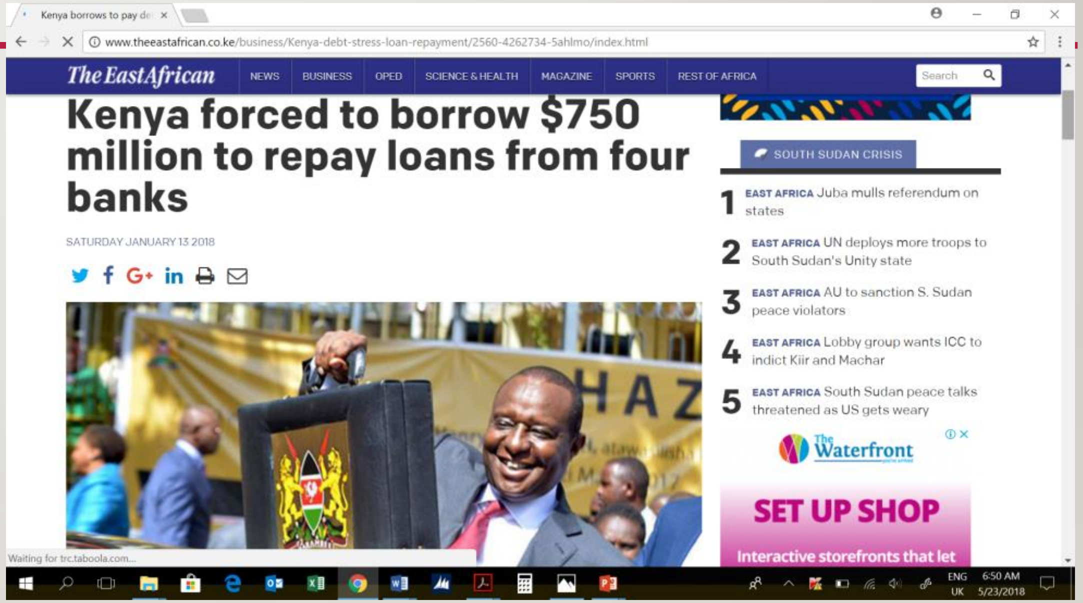
Country	Debt/GDP 2016
Japan	229.3
Greece	180.18
Lebanon	152.29
Italy	133.02
Cabo Verde	128.75
Eritrea	127.42
Portugal	125.72
Republic of Congo	117.7
Buhtan	112.83
Gambia	112.68
Singapore	110.58
United Stated of America	105
Kenya	55.2
Kazakhastan	17.37
Russia	17.35
Saudi Arabia	17.01
DRC	16.99
Botswana	15.45
Uzbekistan	14.14
Solomon Islands	10 .04
Estonia	8.71
Afghanistan	7.64



DEBT SERVICE COSTS







How sustainable is the Kenyan DEBT SITUATION?

KEY QUESTIONS

1. Are all government debt stocks appropriately costed?
2. Have proceeds from debt been applied in full compliance with the law?
3. Are we running on appropriate tenures?
4. Have we struck an appropriate mix between domestic and external debt stocks?
5. How complete and comprehensive in reporting is the national debt register?
6. In all these, the fundamental question what lessons can we borrow from Japan to better out debt management strategy?

ICPAK RECOMMENDATIONS

- Revenue ~~collection: there is need for stronger strategies to enhance revenue collection such as~~ sealing tax loss loopholes and widening the tax base;
- Re-negotiate debt repayment by stretching the debt tenure quantum.

According to Parliamentary Budget Office, debt redemptions to be incurred in FY 2018/19:

- Standard Chartered syndicated loan - Ksh. 78.7 Billion,
- Debut International Sovereign Bond – Ksh. 78.3 Billion,
- International Development Assistance – Ksh. 14.6 Billion,

- Although, the bulk of Kenya’s external public debt carries concessional terms, recent commercial borrowing entails significant repayment needs in in 2019 and 2024 (2014 sovereign bond issuance).

ICPAK RECOMMENDATIONS

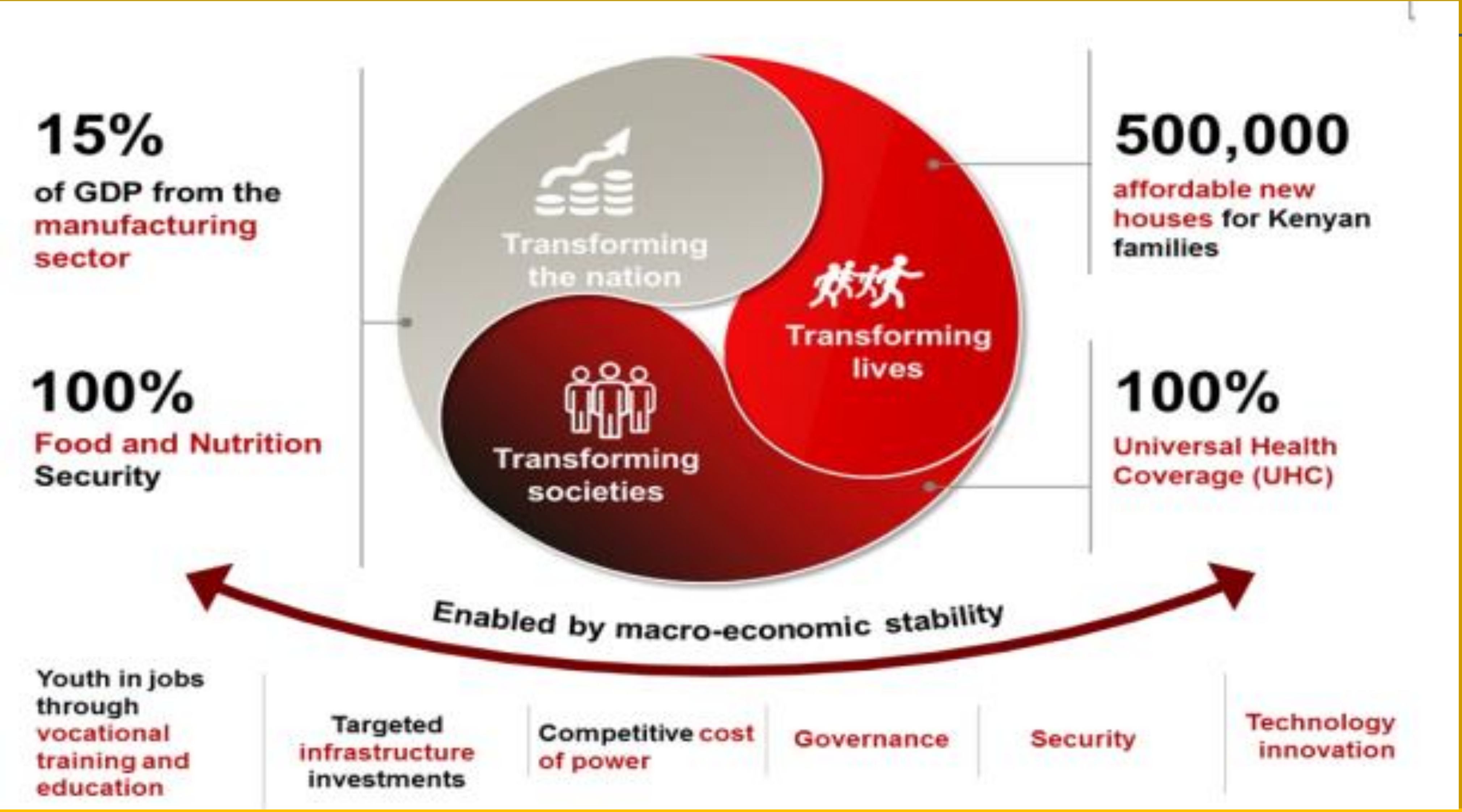
- Reduction in spending: In the past few years, public expenditure has been growing at a faster pace than revenue. The major outcome has been huge budget deficits.

- Consider PPP framework as a better alternative

- Support key sectors of the economy, especially the major income earners such as services sector, Agriculture, Manufacturing and tourism among others

- Implementation of budget monitoring reports: Act on Auditor General and Controller of Budget recommendations in respect to public debt
- Enhance accountability in public and private sectors to free more resources to development

BIG FOUR PLAN



The "Big Four" agenda was launched in December 2017 by President Kenyatta.

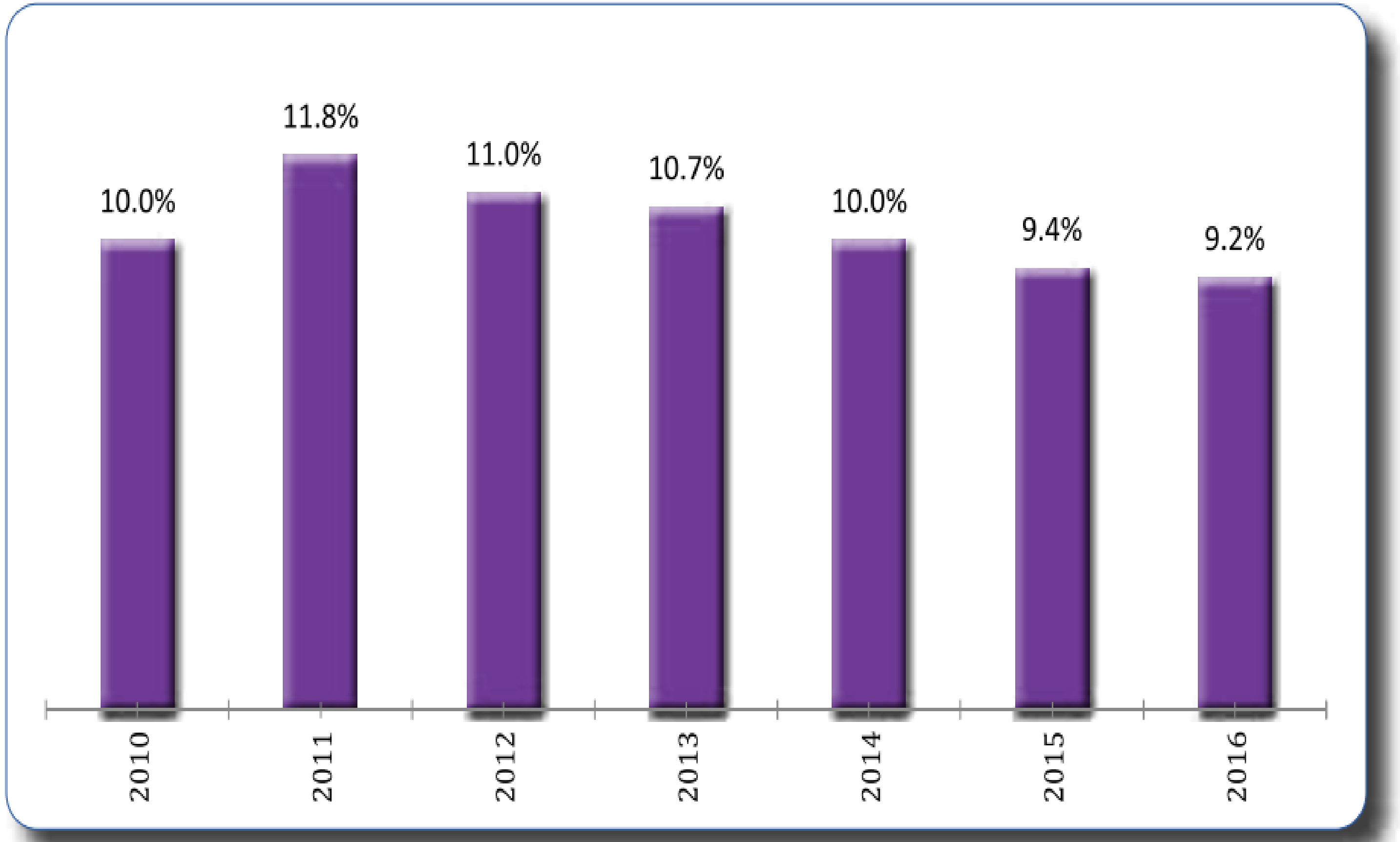
The key purpose is to **transform standards of living and put Kenya on the path of becoming an upper middle-income nation by 2030**.

Aims to **create employment, reduce cost of living, income inequality, poverty.**

PERFORMANCE ON THE BIG FOUR SECTORS

	Big Four plan	2013	2014	2015	2016	2017
Agriculture	Food security	5.4	4.3	5.5	4.0	1.6
Mining		-4.2	14.9	12.4	9.5	6.9
Manufacturing	Raising the share of manufacturing to GDP	5.6	2.5	3.6	3.5	2.4
Electricity and water supply	Raising the share of manufacturing to GDP	6.6	6.1	8.5	7.1	5.2
Construction	Housing	6.1	13.1	13.9	9.2	7.0
Health	Universal healthcare	7.7	8.1	6.1	5.8	-
Service sectors		5.4	6.3	6.3	6.8	6.3

MANUFACTURING SECTOR CONTRIBUTION TO GDP IN KENYA, 2010-2016



Data source: KNBS, 2017

Against, Big "Four" target of 15% .... We are definitely not on target given the decreasing performance of the Sector.

MANUFACTURING PILLAR

Objective

support value addition, create jobs and raise manufacturing sector's GDP to 15% by 2022. currently at 9%

- ❿Develop key infrastructure
- ❿Giving incentives to investors.
- ❿Providing training to youth and women.
- ❿Establishing industrial parks and sheds
- ❿Developing 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

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

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 500,000 affordable and decent houses to all Kenyans over the current cycle of government.

Current deficit is 150,000 houses p.a

UNIVERSAL HEALTHCARE

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%

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