



Challenges for Fiscal Year 2020/21 & Way Forward

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Outline



1. Mandate of OCOB
2. Global perspectives – FY 2020/21
3. National outlook –FY 2020/21
4. Challenges in FY 2020/21
5. Way forward

Roles of OCOB



1. Oversight role (Article 228 (4))
2. Controlling role (Article 228 (5))
3. Reporting role (Article 228 (6))
4. Advisory role (Article 225 (7))
5. Investigation role (Article 252 (1) (a))
6. Arbitration/mediation role (Article 252 (1) (b))
7. Public Sensitization role (Article 35 & PFMA, S 39 (8))
8. Enforce budget ceilings (Section 5 of COB Act 2016)



Global Perspectives

FY 2020/21

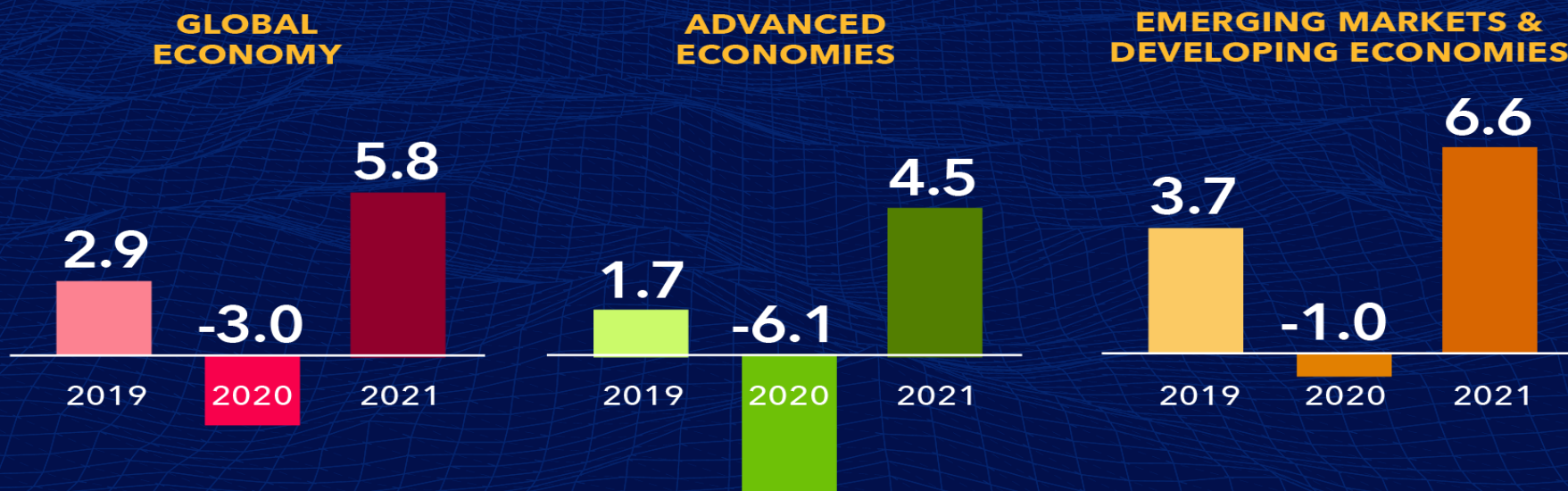
The Global Stage



WORLD ECONOMIC OUTLOOK APRIL 2020

GROWTH PROJECTIONS

The COVID-19 health crisis will have a severe impact on economic activity in 2020



The Global Stage Cont'd

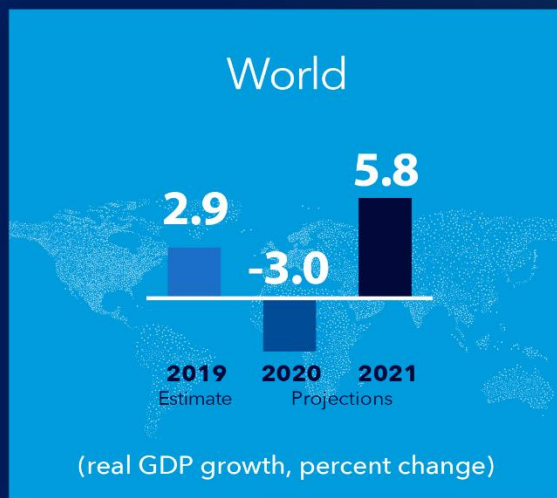


The global economy is projected to contract by **-3 %** in 2020, much worse than during the 2008–09 financial crisis (**-1%**). The U.S. economy is projected to shrink by **5.9%**, the euro area by **7.5%**, Sub-Saharan Africa by **3.2%**, while China will grow at a measly **1.2%**.

Regional Outlook



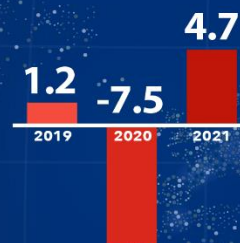
Latest World Economic Outlook growth projections (percent change)



UNITED STATES



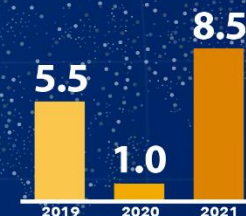
EURO AREA



MIDDLE EAST AND CENTRAL ASIA



EMERGING AND DEVELOPING ASIA



LATIN AMERICA AND THE CARIBBEAN



SUB-SAHARAN AFRICA



Source: IMF, *World Economic Outlook*, April 2020.

Note: Order of bars for each group indicates (left to right): 2019, 2020 projections, and 2021 projections.

Impact of the Global Economic slowdown



- 1) Lower investments.
- 2) Erosion of human capital through lost work (**unemployment**).
- 3) Fragmentation of **global trade** and supply linkages.
- 4) Contraction of **per capita income**.
- 5) Increase in **poverty and unemployment** that will plug millions of people back into extreme poverty.

The Global Stage Cont'd



IMF expects world economy to grow by 5.8% in 2021 as economic activity normalizes.

- **Assumption:** *pandemic fades in second half of 2020*



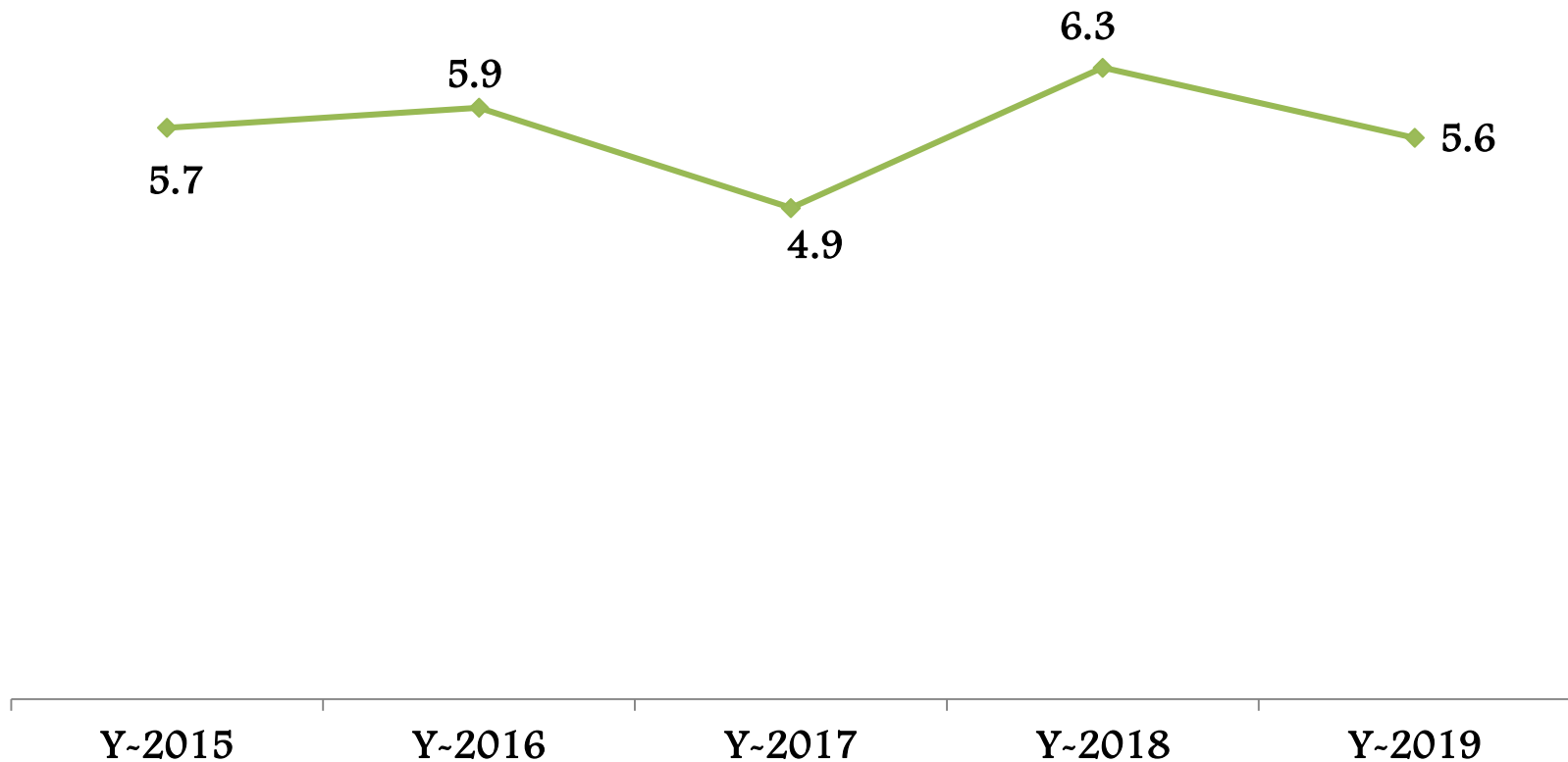
Kenya's Outlook

FY 2020/21

Kenya's GDP trend



GDP growth rate



Kenya's Economic Outlook



- ✓ Kenya's economy has grown at an average of 5 – 6 per cent over the last decade.
- ✓ Fiscal framework for 2020/21 has largely been informed by COVID -19.
- ✓ Inflation rate reduced from 7.2 % in Feb, 2020 to 5.1% in May~ and is likely to remain within target range of 2.5% to 7.5%;
 - ✓ *Low global fuel prices due to reduced oil demand*
- ✓ Central Bank Rate (CBR)~at 7.25 % in 2020 Q1 compared to 9.0 % in 2019Q1
- ✓ Current account deficit expanded by 10.2 % to KShs 110.9 billion from KShs. 100.6 billion in the corresponding quarter of 2019.
- ✓ NSE 20 Share index dropped to 1,966 points in March 2020 from 2,846 points in March 2019

Kenya's Outlook



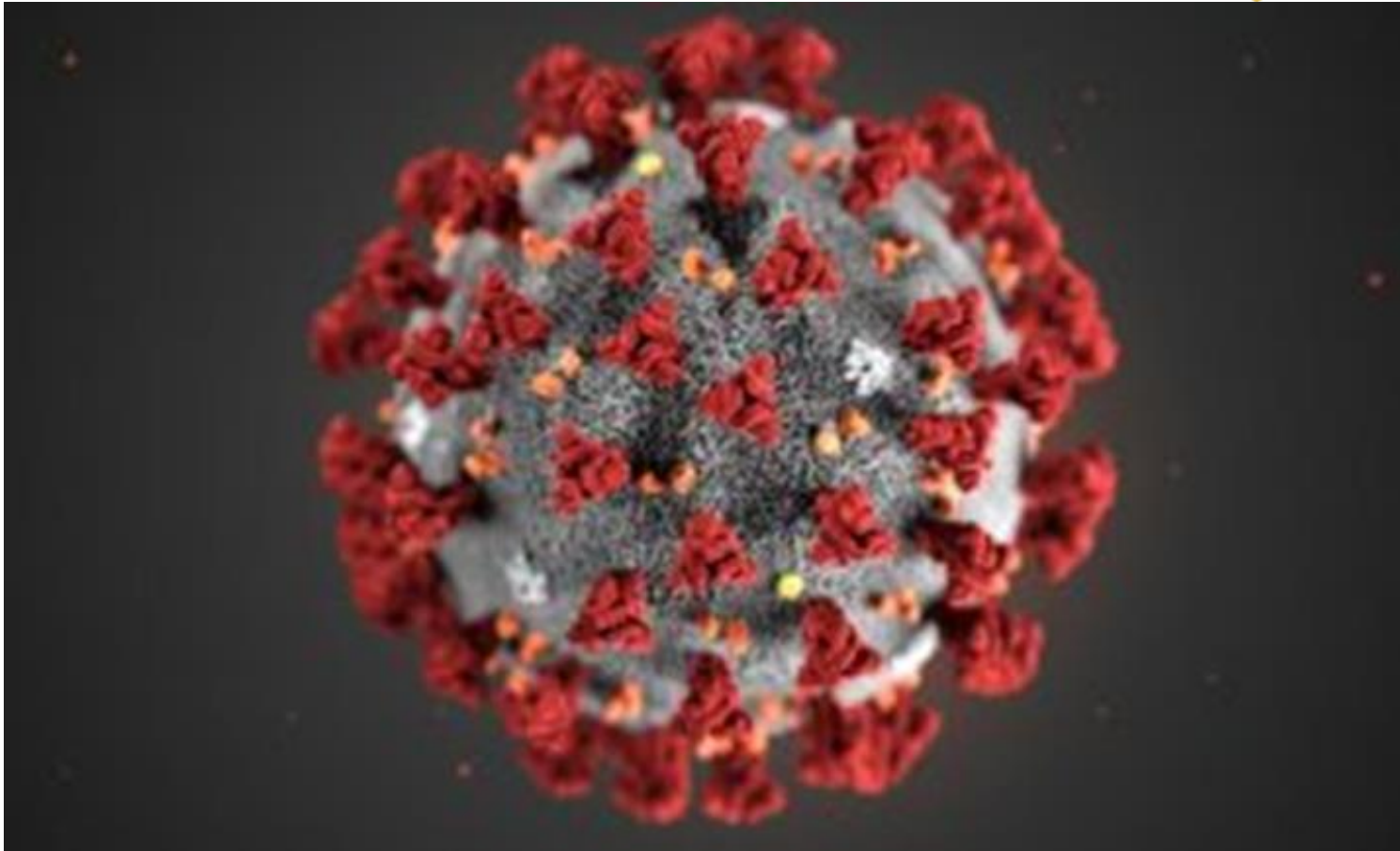
IMF forecasts expect Sub-Saharan Africa economic growth to bounce back to **4.1% in 2021.** (Kenya at 6.1 %)

Assumptions:

- *subject to the depth of the slowdown in 2020*
- *the speed of the recovery will depend on several factors, including how the pandemic interacts with health systems, the effectiveness of national containment efforts and level of support from the international community.*

Challenges

COVID-19 Disease



COVID-19 disease status as of 15.7.2020



Global Coronavirus Cases:
13,338,364

Deaths:
579,317

Recovered:
8,171,266

Source: WHO

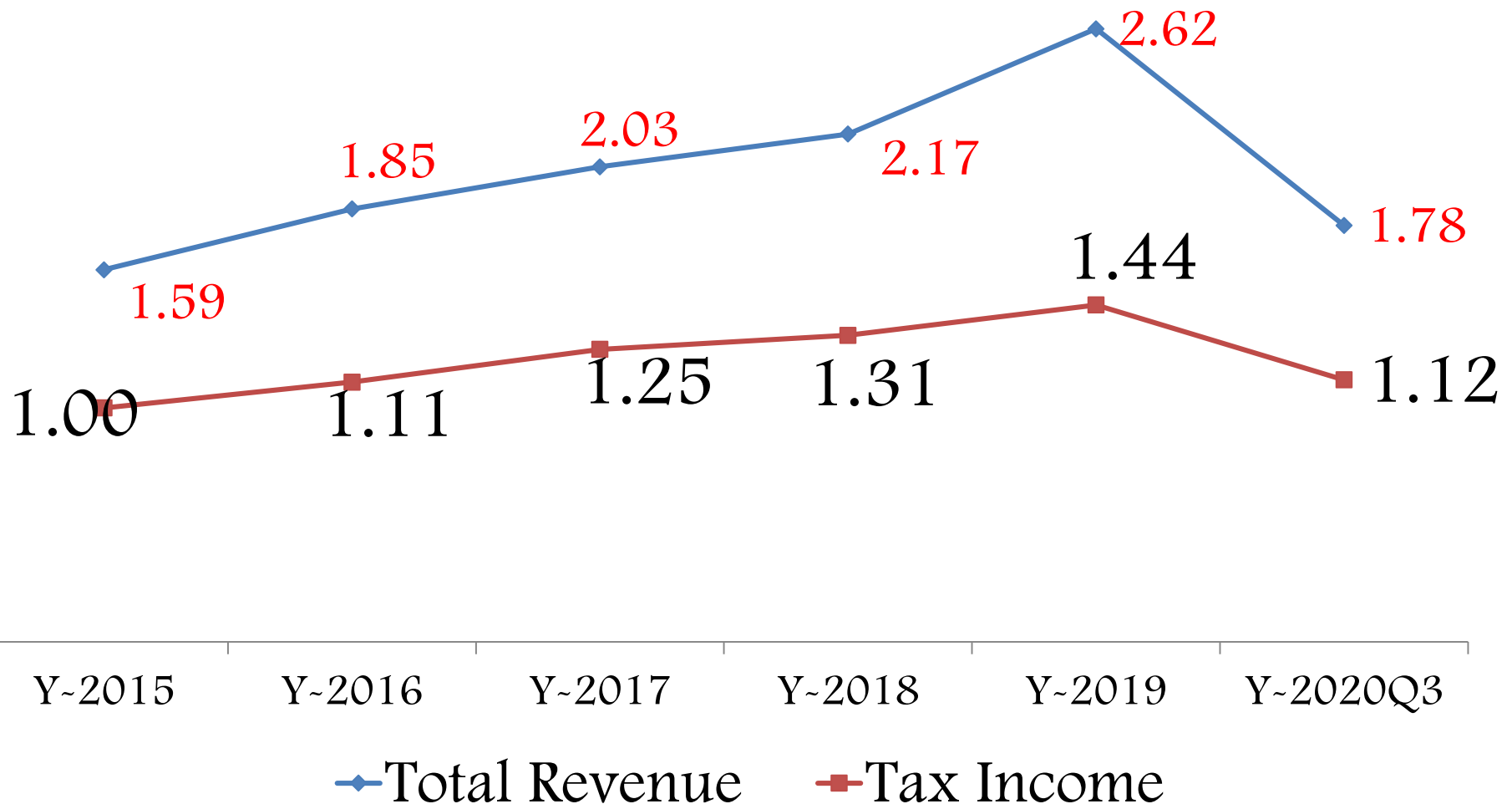
COVID-19 related challenges



The COVID-19 pandemic has delivered painful impacts;

- ✓ *loss of lives*
- ✓ *job losses and economic consequences for households*
- ✓ *educational concerns for students*
- ✓ *shocks on revenue for government*

Pressure on Revenue (Ksh. Trln)



OSR Performance by County Governments



Fiscal Year	FY 15~16	FY 16~17	FY 17~18	FY 18~19	FY 19~2020 Q3
Target (Kshs. Mn)	50,539.45	57,664.86	49,219.01	53,863.58	57,824.66
Actual (Kshs. Mn)	35,021.57	32,522.88	32,491.69	40,304.83	28,035.33
Performance (%)	69.3%	56.4%	66.0%	74.8%	48.5%

Public Debt Pressure



Kenya's Debt Trend



Year	2014	2015	2016	2017	2018	2019
Debt (Kshs. Bn)	2,217.3	2,601.4	3,203.3	3,971.4	4,537.6	6,048.9
GDP (Kshs. Bn)	5,402.6	6,284.2	7,023.0	8,165.8	8,892.1	9,740.4
Debt/GDP (%)	41.0	41.4	45.6	48.6	51.0	62.1

More challenges

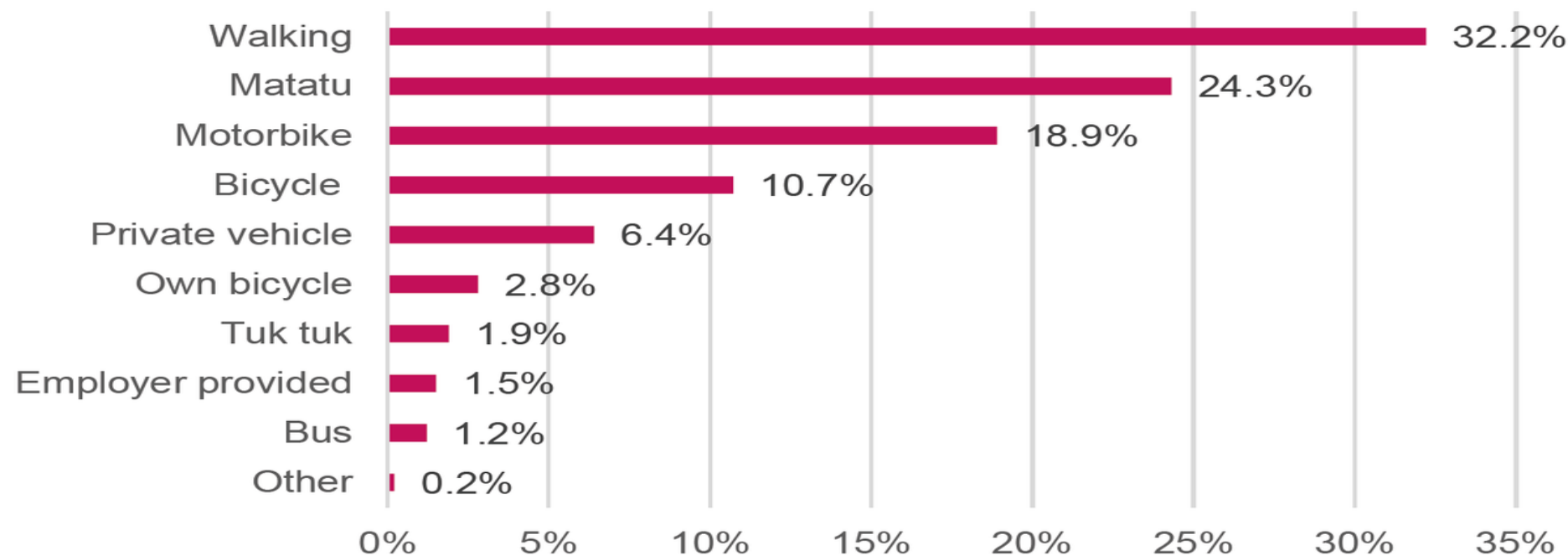


- ✓ Efforts to contain COVID-19 with limited health care capacity could precipitate deeper and longer recessions
- ✓ Loss of household income due to Covid-19
- ✓ KNBS Survey on socio-economic impact of Covid-19 show that;
 - ✓ *21.5 per cent of the households in Kenya unable to pay rent on time*
 - ✓ *51.7 per cent increase in the cost of transport.*
- ✓ Low OSR collection by counties at Kshs.28 Bn or 49% of target in FY2019/20 Q3
 - ✓ *May hamper Covid-19 intervention measures in devolved units*
- ✓ **Relationships between County Executives & County Assemblies**

Impact on transport



Means of transport in April 2020

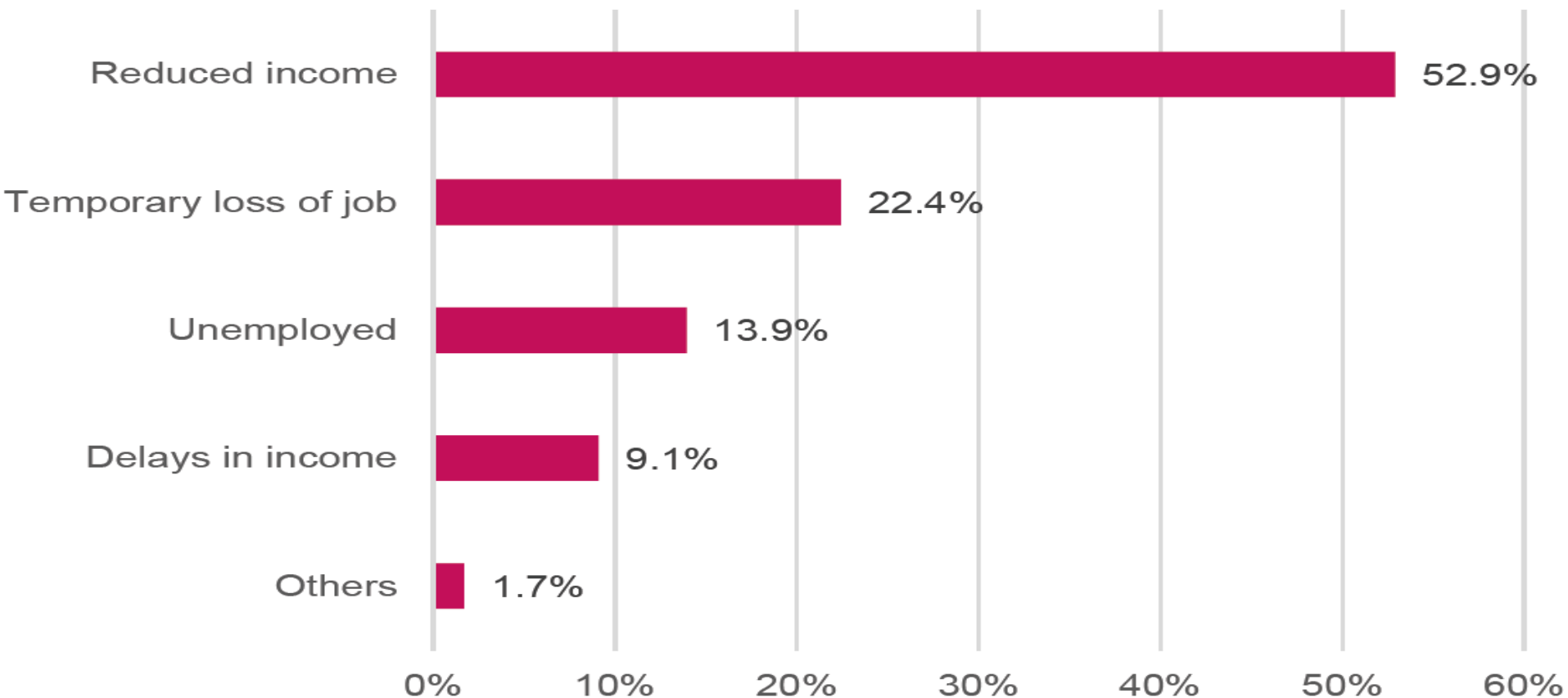


Source: Development Initiatives based on data from KNBS.

Impact on rent payments



Inability to pay rent in Kenya, April 2020



Source: Development Initiatives based on data from KNBS

Challenges Cont'd



- ✓ Elevated credit risks in the banking sector due increase in the non-performing loan portfolio.
- ✓ Reduced spending on capital programmes as resources are channeled towards combating Covid-19
- ✓ Reduced income revenue on account of
 - ✓ *Tax Relief Measures~Approx. Kshs. 122 B in lost revenue~PBO*
 - ✓ *Closure of businesses as a result of Covid-19*

Challenges Cont'd



- Compliance with PFM requirements such as:
 - ✓ development expenditure threshold
 - ✓ legal threshold on personnel emoluments
 - ✓ OSR generation
 - ✓ Equitable share has flattened for Counties
 - ✓ Another build up of **pending bills?**



Way Forward

What shall we see?



1. Realign spending policies in FY 20/21 budgets to meet funding demands in health sector.
2. Cash transfers to vulnerable persons (new capitalism?).
3. Design and implementation of Post Covid-19 Economic **Stimulus Package**. The 2021 budget provides for:
 - i. Enhancing Liquidity for SMEs:
 - ✓ *Kshs 5.0 Bn to fast-track payment of outstanding VAT refunds owed to local businesses;*
 - ✓ *Ksh 5.0 Bn for payment of pending bills;*
 - ✓ *Ksh 3.0 billion seed capital for the SME Credit Guarantee Scheme.*

Stimulus package – 2020/21



ii. Improving Health Outcomes

- ✓ *Kshs. 0.5 Bn for expansion of bed capacity in public hospitals through supply of locally sourced beds and beddings.*
- ✓ *Kshs. 1.2 Bn for recruitment of 5,000 diploma and certificate level health interns for one year*

iii. Supporting Tourism Recovery:

- ✓ *Ksh 3.0 Bn Soft loans to hotel and related establishments to support tourism recovery*
- ✓ *Ksh 1.0 Bn to support community conservancies.*

iv. Agriculture and Food Security:

- ✓ *Kshs. 1.5 Bn to provide support to horticultural farmer's access the international markets;*
- ✓ *Kshs. 3.0 Bn for provision of subsidized farm inputs to small scale farmers to ensure adequate food supply*

Stimulus package cont'd



v. Improving Education Outcomes:

- v. *Ksh 2.4 Bn for recruitment of 10,000 teacher interns to support the 100 percent transition and employment creation*
- vi. *Ksh 0.3 Bn for hiring of 1,000 ICT interns to support digital learning in public schools and employment creation.*
- vii. *Ksh 2.1 Bn for rehabilitation and construction of classrooms;*

vi. Improving Environment, Water and Sanitation:

- ✓ *Ksh 3.4 Bn to enhance community/household irrigation;*
- ✓ *Ksh 0.9 Bn for rehabilitation of wells, water pans and underground tanks in Arid and Semi Arid areas;*

vii. Supporting Manufacturing:

- ✓ *Enforce the Policy of “Buy Kenya, Build Kenya” to support local manufacturing sector*

Stimulus package cont'd



viii. Road Infrastructure and Urban Renewal initiatives:

- ✓ *Kshs. 10.0 Bn “Kazi Mtaani Programme” targeting 100,000 unemployed youth in the major cities and urban settlements*
- ✓ *Kshs. 5.0 Bn for rehabilitation of access roads and foot bridges affected by the heavy rains, using local labour in all constituencies*

Other impacts to consider



4. **Technology skills** are rising – strides in FY 2020/21
 - Cashless payment systems
 - Robotics process automation (RPA)
5. Pressure on **tax policy**
 - *Will KRA discover additional revenue opportunities, particularly those associated with automation?*
6. **Remote work** is happening –
 - *Will this be the new way of doing business going forward?*
7. **Debt relief deals** –
 - *will these ease fiscal pressure?*

Conclusion

Growth prospects will also depend on how we ease fiscal pressure imposed by debt

Consolidation and restructuring of debt



Economic recovery will largely
depend on the effective
implementation of stimulus
packages



