



Annual Budget review 2021-2022

Macro – economic Outlook FY 2021-2022

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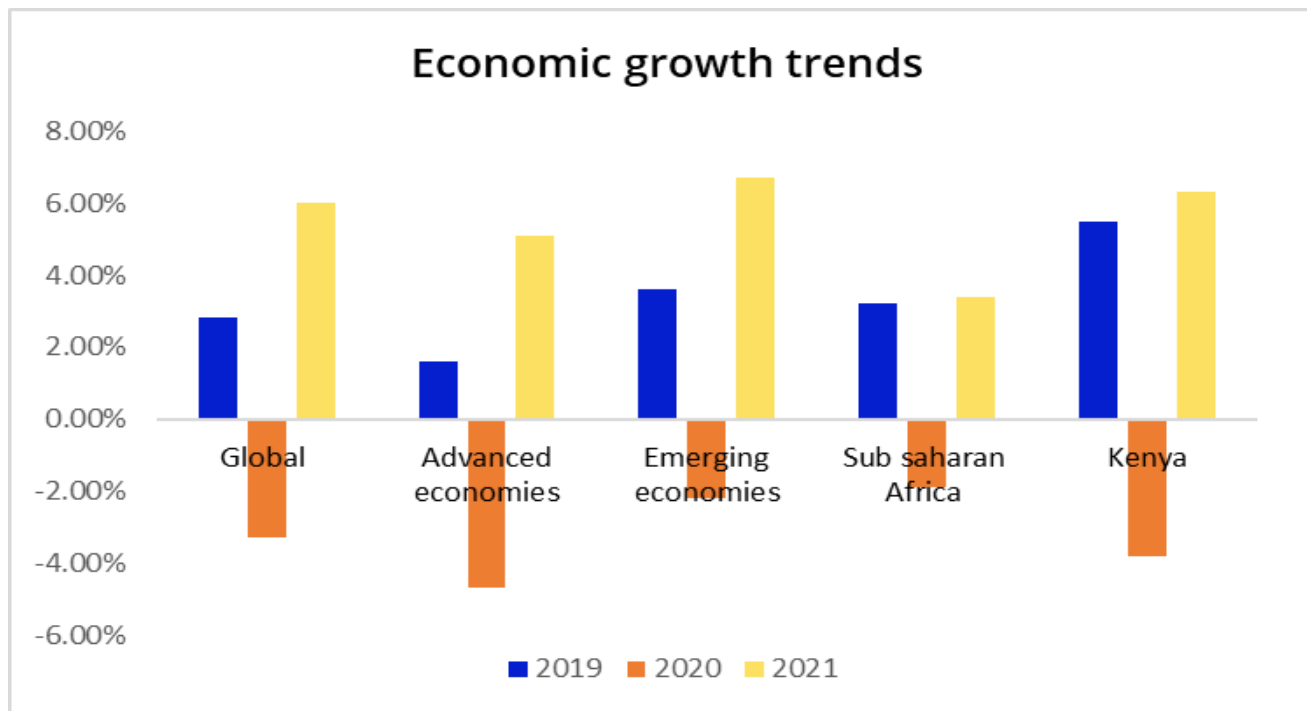
Agenda



- Current economic trends
 - Global
 - Kenya
- Covid -19 trends
- Inflation trends
- Exchange rate and remittances
- Interest rates trends
- Q&A

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Current economic trends



Source: CBK

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Current economic trends



Global Trends

- ❖ Global economy is expected to grow at about 6% in 2021 compared to a contraction of 3.3% in 2020.
- ❖ Advanced economies are expected to rebound to 5.1% from a contraction of about 4.7% in 2020.
- ❖ Sub Saharan region is expected to grow by 3.4% in 2021 from a contraction of 1.9% in 2020.
- ❖ Growth in Sub Saharan Africa is slower due to limitation in access to vaccines as well as constrained fiscal space.

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Current economic trends



Kenyan trends

- ❖ Kenya attained lower middle-income status in 2014 - What has changed since then?
- ❖ In 2021 the economy is expected to grow by 6.3% in 2021. This is linked to the sharp fall of 3.8% in the economy experienced in 2020.
- ❖ Positive projections are attributed to the roll out of the various COVID-19 vaccines administered in 2021, resumption of tourism activities.
- ❖ The Consumer Price Index (CPI) increased from 112.58 points in January 2021 to 113.36 points in February 2021

Impact of COVID-19



- ❖ First cases of COVID -19 were reported in Africa in early 2020.
- ❖ Increased demand in financing by government to respond to the crisis – stimulus packages
- ❖ Stimulus package direct impact on - budgetary balances, borrowing needs, and debt levels.
- ❖ Increase in levels of poverty- loss of employment, depletion of saving, minimised levels of investment

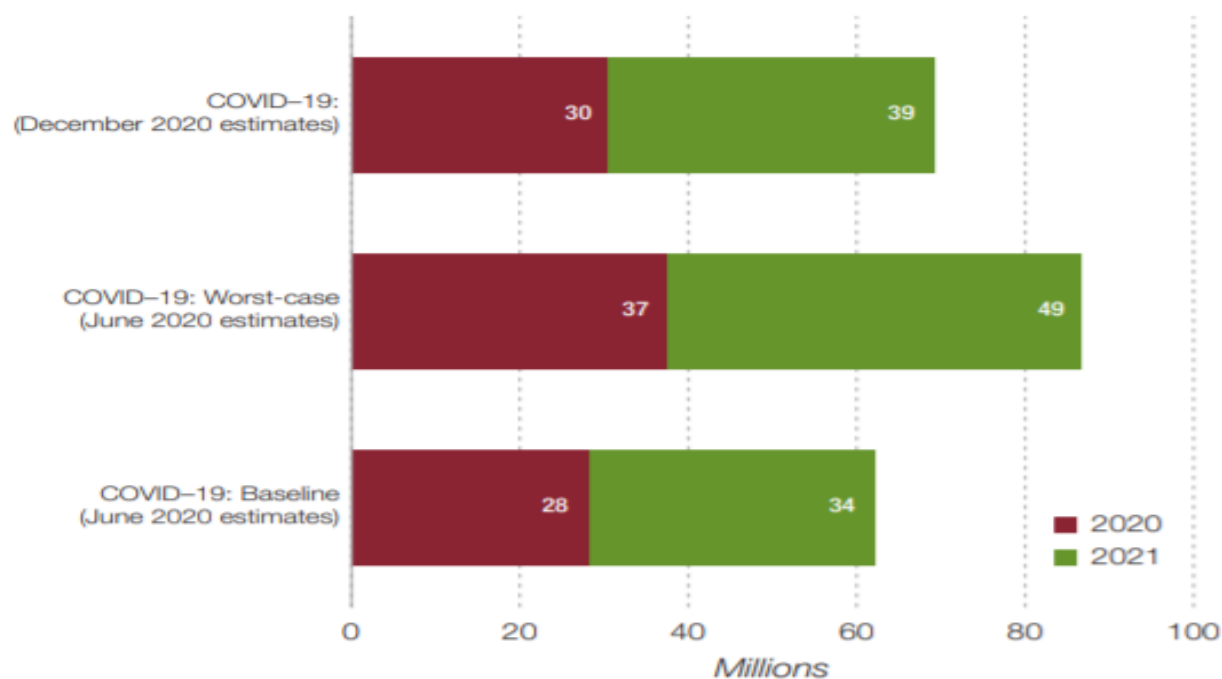
Source: Africa Economic Outlook 2021

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Impact of COVID-19



- ❖ Poverty levels as a result of Covid -19, Kenya has not been spared.



Source: Africa Economic Outlook 2021

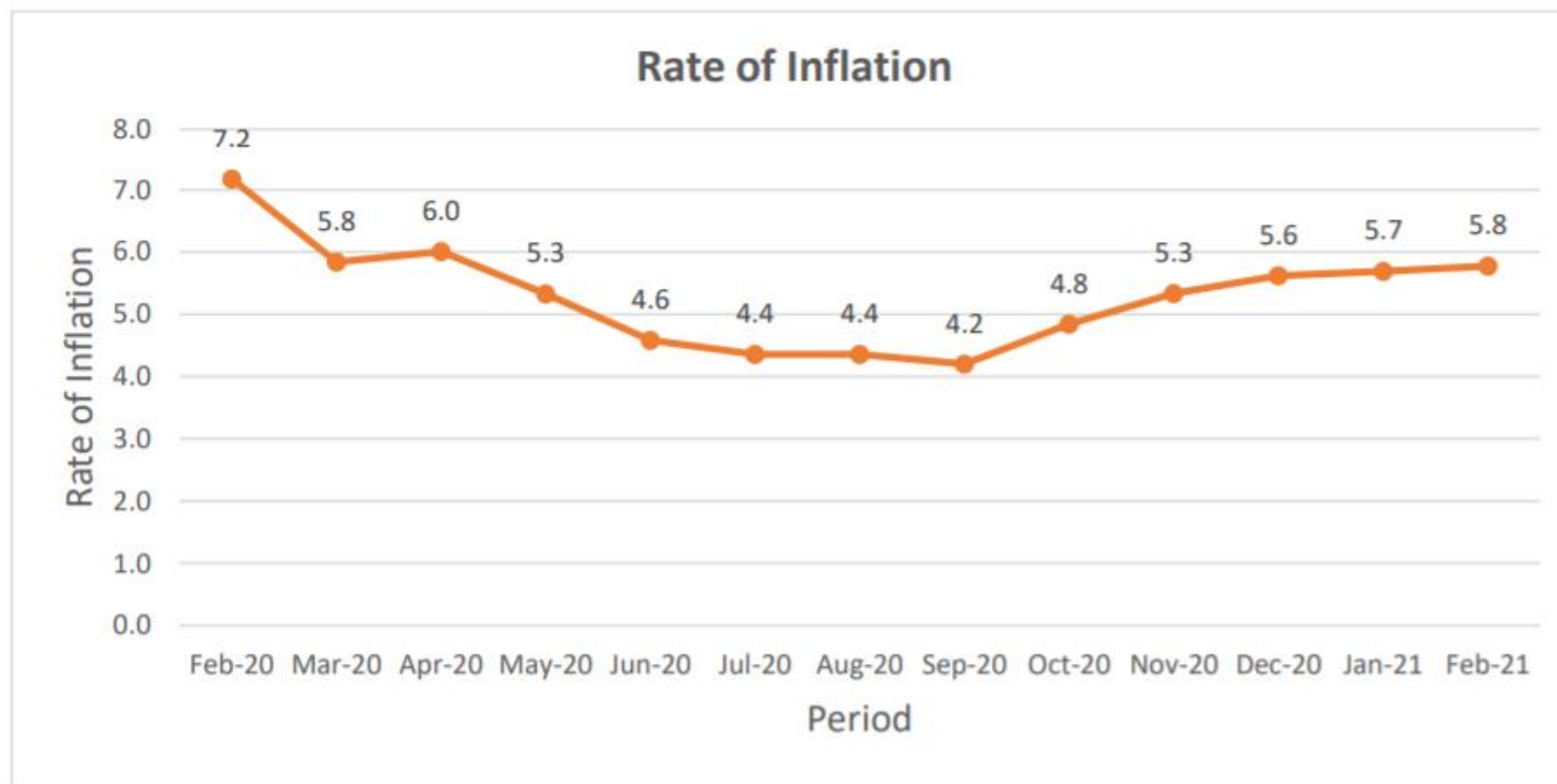
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Inflation trends



- ❖ Overall inflation stood at 5.8% in February 2021 compared to 7.2 % reported in February 2020.
- ❖ Within the acceptable range of 2.5% - 7.2%
- ❖ Why increase in inflation
 - ❖ Increase in food prices
 - ❖ Increase in fuel prices (Increase by 1.8% from 0.8%)
 - ❖ Increase in electricity prices
 - ❖ Disruption in the supply chain for essential commodities and services

Inflation trends



Source: KNBS LEI February 2021

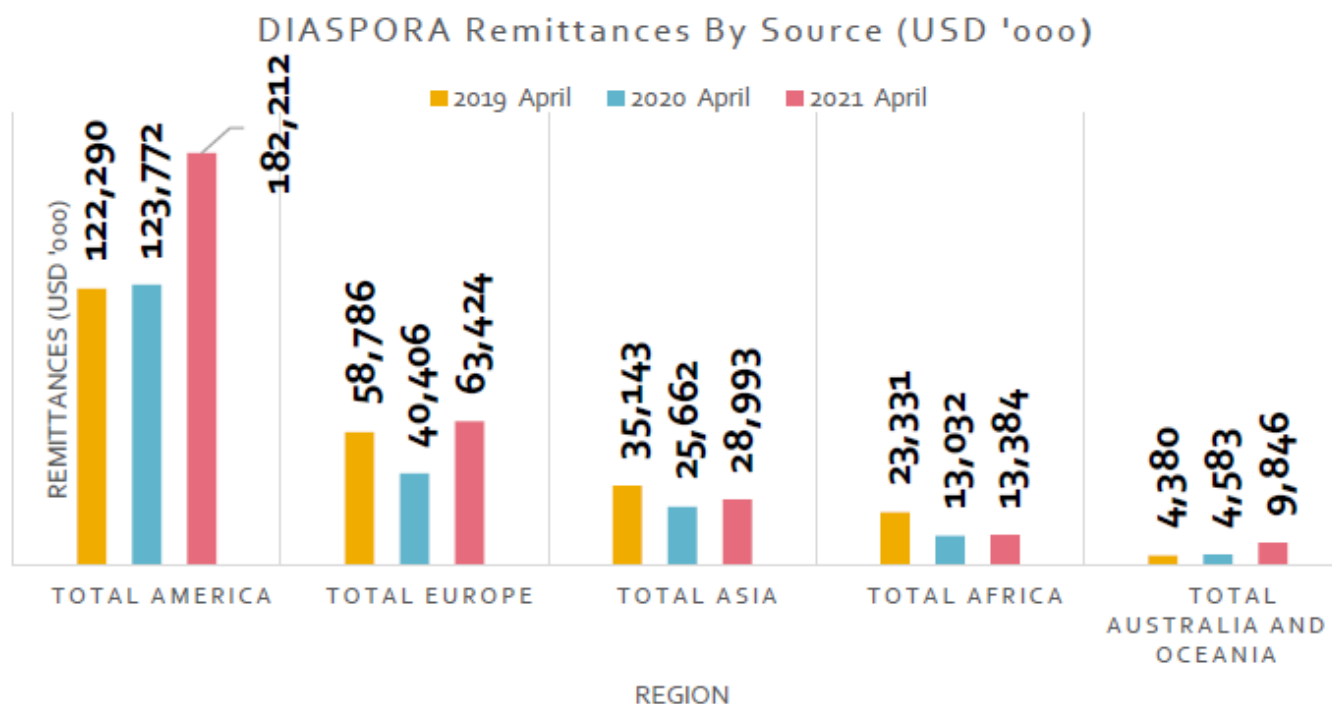
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Exchange rate trends



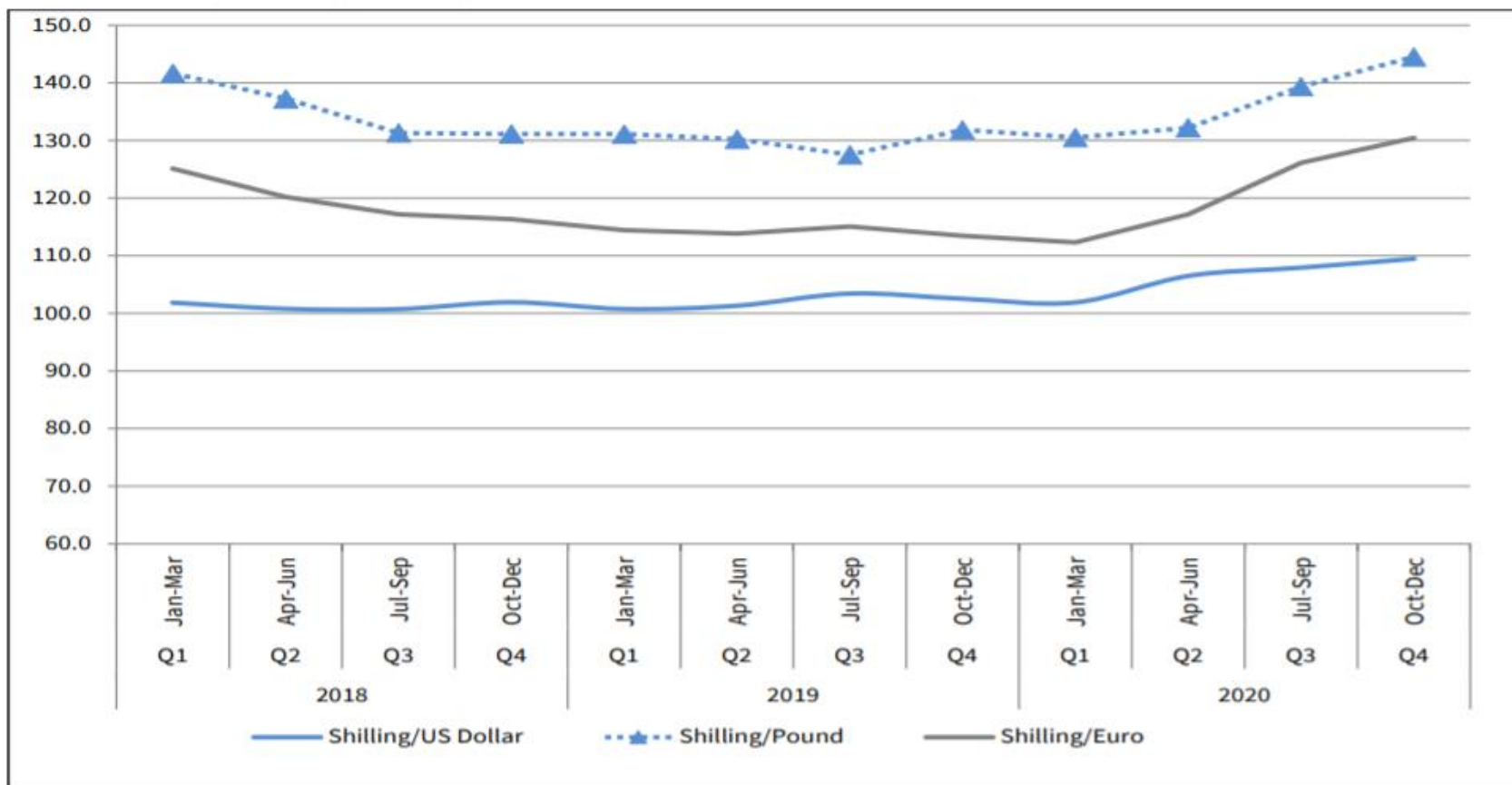
- ❖ US Dollar strengthened significantly in the global markets.
- ❖ The Covid 19 Pandemic affected the foreign exchange market significantly.
- ❖ The Kenya shilling weakened against the US Dollar with 1 Dollar trading for Kes 109.8 in January 2021 compared to Kes 101.1 in January 2021.
- ❖ Weak shilling makes imports expensive as well as the foreign debt
- ❖ There was significant increase in foreign remittances - this neutralised the weakening shilling.

Exchange rate trends



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Exchange rate trends



Source: CBK

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Interest trends



- ❖ 91-day Treasury bills dropped from 6.92% in January 2021 to 6.90% in February 2021
- ❖ Inter-bank rate dropped from 5.12% to 4.49% in February 2021

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Interest trends



Month/Year	Average Yield Rates 91 – Days Treasury Bills	Central Bank Rate	Rates for Commercial Banks Loans and Advances (Weighted Average)	Overdraft Rates	Average Deposit Rate	Inter – Bank Rates	Savings (Commercial Banks Rates)
2020							
January	7.23	8.25	12.29	11.97	7.07	4.39	4.25
February	7.31	8.25	12.19	11.82	7.06	4.84	4.20
March	7.29	7.25	12.09	11.79	7.07	4.40	4.15
April	7.21	7.00	11.92	11.55	7.01	5.13	4.21
May	7.27	7.00	11.95	11.61	6.96	3.91	4.18
June	7.14	7.00	11.89	11.24	6.86	3.27	4.15
July	6.24	7.00	11.94	11.18	6.78	2.12	4.11
August	6.20	7.00	11.94	11.18	6.63	2.56	4.10
September	6.29	7.00	11.75	11.15	6.41	2.95	3.78
October	6.49	7.00	11.98	11.44	6.26	2.69	3.38
November	6.69	7.00	11.99	11.39	6.31	3.27	3.42
Dec	6.90	7.00	12.02	11.51	6.30	5.29	2.70
2021							
January	6.92	7.00	12.00	11.43	6.31	5.12	2.73
February	6.90	7.00	12.02	11.52	6.46	4.49	3.35

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Debt trends



- ❖ Surge in debt - 72% of GDP in 2020 from 61% in 2019, driven mainly by public investment in infrastructure, debt management-related challenges, and the COVID-19 crisis.
- ❖ Kenya's public debt stood at Kes 7.3 trn as at March 2021
- ❖ To finance the FY 2021/22 budget – increase in debt to finance budget deficit. What is the current debt ceiling?
- ❖ To sustain increasing debt balance there will be need to revise the debt revise the debt ceiling
- ❖ Kenya's debt sustainability analysis of 2020 classifies the country at a high risk of defaulting on its external debt repayment

Budget recommendations



- ❖ Increase funding towards access of Covid -19 vaccines
- ❖ Stimulus package – kazi kwa vijana, increased allocation to counties
- ❖ Tightening monetary policies
- ❖ Debt restructuring/ review of expenditure priorities
- ❖ Sourcing for concessional loans
- ❖ Improve tax compliance, widening the tax net by reviewing the list of tax-exempt and zero-rated items, formalizing the informal sector

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Q&A

Next steps

Should you have any questions please let us know

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