ATRIA AFRICA

Kenya Budget Statement

Presented on the 14th of June 2018

CONTENTS

Executive Summary **2**

1. Revenue Generation **3**

1.1.1 New Tax Changes to Improve Revenue Collection 3

2. Government Expenditure **3**

3. Financing the Deficit **3**

4. Other Highlights **4**

4.1 Boosting Industry **4**

4.2 Protection of Local Industries **4**

4.3 Reversal of Income Tax Bracket Expansion **4**

4.4 Rate Cap for Commercial Banks **4**

5. Comments and Outlook **4**

Executive Summary

On the 14th of June 2018, Kenya's Finance Minister, Henry Rotich delivered the 2018/2019 Budget Statement in Parliament. Kenya is focusing on the "Big Four" pillars that should deliver affordable housing, food security, boost manufacturing and provide affordable healthcare. The country's manufacturing sector has experienced a decline in its competitiveness which has resulted in a decline in exports in the region. The government has sought to boost the manufacturing sector by introducing import duties on goods in steel and iron, footware and textile, timber and furniture and vegetable oils. Exemptions on raw material imports have also been introduced to manufacturers of clean cooking stoves, construction of grain storage facilities, animal feeds and the assembly of computers.

The 2018/19 Budget Statement seeks to repeal the interest rate cap to allow for increased lending. The total budget is expected to be KSh3 trillion with revenue at Ksh2.5 trillion and the deficit at KSh0.5 trillion.

Through its efforts, government is expecting GDP growth 5.8% by growing investor confidence, agriculture and improved demand for exports. The 2018/19 fiscal year commences on the 1st July 2018.

1. Revenue Generation

KSh1.74 trillion: ordinary revenue
KSh179.9 billion: appropriations in aid (AiA)
KSh47 billion: donor agencies and other development partners
KSh0.6 trillion: local and international lenders

The projected revenues are expected to rise by 17.5% (20% of GDP) to **KSh 2.5 trillion** from the estimated Sh1. 6596 trillion in the FY 2017/18.

1.1.1 New Tax Changes to Improve Revenue Collection

Introduction of a Robin Hood tax of 0.05 percent on Sh500,000 or more transferred through banks or other financial institutions.

Capital gains tax to be introduced on the transfer of property by general insurance companies.

There will be preferential tax rates to encourage investments.

Increase in exercise duty fee charged on money transfer services by cellular phone service providers from 10% to 12%.

2. Government Expenditure

The total expenditure is expected to be **KSh3 trillion** and Rotich provided details on some of the expenses as:

Ksh 1 550 bn: recurrent expenditure (15.9% of GDP)
Ksh 625.1 bn: development expenditure (6.4% of GDP) and
Ksh 376.4 blion: county governments (3.9% of GDP).

Given the expenditures, the **deficit** amounts to KSh 569 billion.

3. Financing the Deficit

The deficit will be financed by net external financing amounting to KSh297 billion (3 % of GDP) and domestic financing will amount to KSh271.9 billion equivalent to 2.8% of GDP.

Fiscal deficit is expected to narrow to 5.7% of GDP in 2018/19 from the estimated 7.2% of GDP in 2017/18.

4. Other Highlights

4.1 Boosting Industry

To promote certain industries, the import of raw materials has been made on the manufacture of clean cooking stoves, construction of grain storage facilities, animal feed and the assembly of computers.

There will be a 30% deduction on electricity bills for manufacturers from corporate profit.

4.2 Protection of Local Industries

Government will increase import duties on iron and steel, textile and footware, timber and furniture and vegetable oils to protect local companies.

4.3 Reversal of Income Tax Bracket Expansion

The proposed tax band of 35% on income above Sh750 000 per month, and capital gains tax from 5 to 20% has been halted.

4.4 Rate Cap for Commercial Banks

The proposal is to repeal the interest rate controls by the central bank. The decision to repeal is meant to support economic growth by reviving lending to the private sector which had slowed down.

5. Comments and Outlook

The removal of the interest rate cap will likely increase interest rates, resulting in a boost in lending by banks. This will increase interest income for banks which will increase bank revenues. Although interest rate will increase, the private sector is expected to have increased access to loans which will grow the economy.

Government has highlighted that exports will be one of the drivers of growth. The aggressive stance to boost the manufacturing industry may boost the country's exports given an improvement in the country's competitiveness in the region and beyond. The government has ratified the Tripartite Free Trade Agreement in the efforts that this will boost the country's exports and provide relief to the country's trade deficit. The country's utility costs have been high and the reduction of electricity is a welcome development for the manufacturing sector.

Given the country's debt-to-GDP ratio below 50%, the debt levels are sustainable and given the rise in African countries with unsustainable debt such as Ghana, Mozambique and Zambia; Kenya is better positioned to attract investors and boost the country's growth. Although the country should deal with corruption, there has been significant development in the country since 2013. The Standard Gauge Railway linking Mombasa to Kenya has been completed, significantly boosting the transportation of people and goods to the capital and the rest of the East African Community (EAC). Monthly loads of goods transported through the railway have reached 213 metric tonnes which is a boost to trade.

Although the country experienced political turmoil during the election period in 2017, there has been improved stability and ease between Kenyatta and the opposition’s main leader Raila Odinga.

Atria Africa
Suite 302, 3rd Floor, NG Tower, Cybercity, Ebene, Mauritius.
2nd Floor Unit K Block 1, Celestial Park, Borrowdale Road, Harare, Zimbabwe.

+230 467 2545
enquiries@atria-africa.com
www.atria-africa.com