KENYA BUDGET HIGHLIGHTS

2020 – 2021

THE POWER OF BEING UNDERSTOOD
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CONTENTS

ECONOMIC PERFORMANCE IN 2019 AND BEYOND

GLOBAL ECONOMIC HIGHLIGHTS

- Global economic growth declined to 2.9% in 2019, down from 3.6% in 2018. Trade policy uncertainty, geopolitical tensions and idiosyncratic stress in key emerging market economies continued to weigh on global economic activity – especially manufacturing and trade.
- The COVID-19 pandemic is inflicting damage across global economies as lockdowns and widespread closures stifle economic activity. As a result of the pandemic the global economy is projected to contract by 3% in 2020, which is significantly higher than the 0.1% contraction experienced during the 2008-09 financial crisis. This estimate is a downgrade of 6.3% from January 2020.
- In the base case scenario, which assumes the pandemic fades in the second half of 2020 and containment efforts are gradually unwound, the International Monetary Fund (IMF) expects global economic growth to rebound to 5.8% in 2021.

- Advanced economies – where several countries are experiencing widespread outbreaks – are expected to contract 6.1% in 2020. In parts of Europe and the USA, the outbreak has been as severe as in China Hubei province and lockdowns and restrictions on mobility are extracting a toll on economic activity.
- Emerging and developing markets face a health crisis from the pandemic in addition to severe demand shock, tightening in global financial conditions and a plunge in commodity prices. Emerging market and developing economies (excluding China) are expected to contract by 2.2% in 2020. This growth rate has been marked down by 5.8% relative to IMF's January 2020 projections.
- Growth in the Euro Area declined from 1.9% in 2018 to 1.2% in 2019. IMF estimates show that growth is expected to decline to 7.5% in 2020 before recovering 4.7% in 2021.
- Economic growth in the USA declined to 2.3% in 2019 from 2.9% in 2018. The world's largest economy is expected to contract 5.9% in 2020 before recovering 4.7% in 2021.
- China's economy grew 6.1% in 2019, the slowest rate of economic growth since 1990. The economy is expected to grow by a paltry 1.2% in 2020 before rebounding 9.2% in 2021.
- Global growth is expected to rebound to 5.8% in 2021, well above the long-term trend, reflecting the normalization of economic activity from the low levels expected in 2020. The advanced economy group is forecast to grow at 4.5% in 2021 while growth for the emerging market and developing economy is forecast at 6.6%.
- The projected rebound in 2021 depends critically on the pandemic fading in the second half of 2020, allowing containment efforts to be gradually scaled back and restoring consumer and investor confidence. Nonetheless, IMF estimates show that the level of estimated GDP at the end of 2021 in both advanced and emerging markets is expected to remain below the pre-virus baseline, highlighting the long-term effects of the pandemic.

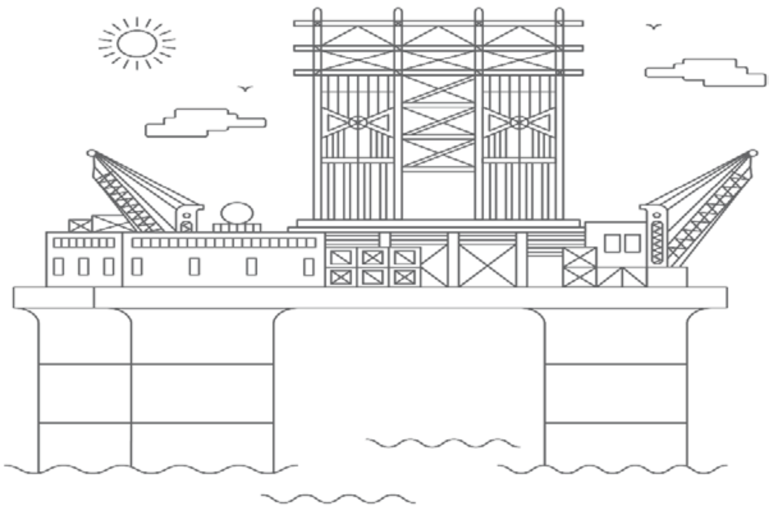
Real GDP growth in %

	2016	2017	2018	2019	2020*	2021*
World	3.4	3.9	3.6	2.9	-3.0	5.8
Japan	0.5	2.2	0.3	0.7	-5.2	3.0
UK	1.9	1.9	1.3	1.4	-6.5	4.0
USA	1.6	2.4	2.9	2.3	-5.9	4.7
Euro Area	1.9	2.5	1.9	1.2	-7.5	4.7
China	6.8	6.9	6.7	6.1	1.2	9.2
India	8.3	7.0	6.1	4.2	1.9	7.4

*FORECAST
SOURCE: WORLD ECONOMIC OUTLOOK, IMF, APRIL 2019, NATIONAL TREASURY (KENYA)

SUB-SAHARAN & MIDDLE EAST ECONOMIC HIGHLIGHTS

- Real GDP growth in the East African Community (EAC) declined to 5.9% in 2019 from 6.6% in 2018, with a deceleration recorded across all countries in the bloc.
- Rwanda recorded the highest real GDP growth rate of 10.1% in 2019, supported by strong growth in the private sector and increase in infrastructure expenditure.
- In Uganda, real GDP growth declined to 4.9% in 2019 from 6.1% in 2018, while Tanzania registered real GDP growth of 6.3% in 2019, down from 7.0% in 2018.
- The COVID-19 pandemic has set-off the first recession in Sub-Saharan Africa in 25 years with the region's economy expected to contract by 1.6% in 2020, the worst reading on record. The World Bank estimates that the pandemic will cost the region between $37 and $79 billion in estimated output losses in 2020, through a reduction in agriculture productivity, weakening supply chains, increasing trade tensions and exacerbating political and regulatory uncertainty.
- IMF forecasts expect regional economic growth to bounce back to 4.1% in 2021. However, this is subject to the depth of the slowdown in 2020 and the speed of the recovery will depend on several factors, including how the pandemic interacts with weak health systems, the effectiveness of national containment efforts and level of support from the international community.
- The coronavirus is expected to hit the region's two largest economies – Nigeria (-3.4%) and South Africa (-5.8%) – in a context of persistently weak growth and investment. South Africa has the largest number of confirmed cases in the region, and strict measures to contain and mitigate the spread of the virus are weighing on the economy.



Real GDP growth in %

	2016	2017	2018	2019	2020*	2021*
Sub-Saharan Africa	**1.4**	**3.0**	**3.3**	**3.1**	**-1.6**	**4.1**
Nigeria	-1.6	0.8	1.9	2.2	-3.4	2.4
South Africa	0.4	1.4	0.8	0.2	-5.8	4.0
Kenya	**5.9**	**4.9**	**6.3**	**5.6**	**1.0**	**6.1**
Tanzania	6.9	6.8	7.0	6.3	2.0	4.6
Ethiopia	8.0	10.2	7.7	9.0	3.2	4.3
Uganda	2.3	5.0	6.3	4.9	3.5	4.3

*FORECAST
SOURCE: WORLD ECONOMIC OUTLOOK, IMF, APRIL 2020

KENYA ECONOMIC HIGHLIGHTS

- Even before the COVID-19 pandemic, Kenya's economy had begun to decelerate. Real GDP growth in 2019 was down to 5.6% from 6.3% in 2018, driven by a slowdown in the agriculture, forestry and fishing sectors.
- The country faced moderate inflationary pressure on account of increased food prices, which pushed annual inflation from 4.7% in 2018 to 5.2% in 2019.
- Kenya's current account balance worsened from a deficit of KShs. 734.9 billion in 2018 to KShs. 789.9 billion in 2019, for the fiscal year ending June 30.
- The Nairobi Securities Exchange (NSE) 20 share index dropped 6.3% in 2019 even as the repeal of the law that provided for capping of interest rates in November 2019 contributed to a 7.1% growth in private sector credit to KShs. 2,667.9 billion in 2019.
- During the year, the Kenyan Shilling gained against currencies of key trading countries with the Trade Weighted Index (TWI) improving from 115.7 in 2018 to 113.0 in 2019. During the year, the Kenyan Shilling strengthened against the Euro (-4.6%), Pound Sterling (-3.8%), Chinese Yuan (-3.7%) and Indian Rupee (-2.4%) while weakening against the US Dollar (+0.7%) and the Japanese Yen (+2.0%).
- The COVID-19 global pandemic is expected to have a large medium-term negative impact on the Kenyan economy. IMF estimates indicate that economic growth could slow to 1.0% in 2020 before rebounding to 6.1% in 2021. To put this estimate into context, Kenya's economic growth in 2008 was 0.2% as a result of post-election violence, drought and the global financial crisis.
- The recovery of Kenya's economy from the effects of the COVID-19 pandemic is predicated on normal weather supportive of agricultural output and a swift and well targeted policy response to COVID-19.
- The COVID-19 crisis is inflicting heavy damage on otherwise healthy firms through four channels: Falling demand and revenues, reduced input supply, tightening of credit conditions, and increased uncertainty. The damage is aggravated by the presence of a large informal sector, high poverty rate and unemployed youth population (almost 70% of the total population is under 30 years of age).
- The government has already put in place several measures to support liquidity and cash-flow including tax cuts (income tax and VAT), expediting VAT refunds and the payment of pending bills.
- Additionally, there remains significant headroom for monetary stimulus to support economic activity as Kenya's core inflation remains low and the output gap is sharply negative. The CBK has lowered the Central Bank Rate (CBR) by 125 basis points to 7% while also reducing the Cash Reserve Ratio (CRR) by 100 basis points to 4.25% thereby injecting an estimated KShs. 35.2 billion into the banking system.

KENYA ECONOMIC HIGHLIGHTS					
YEAR	2015	2016	2017	2018	2019
Nominal GDP (KES billion)	6,709.70	7,658.10	8,792.60	8,892.10	9,740.40
Real GDP growth (%)	5.70	5.90	4.90	6.30	5.60
Average annual inflation (%)	8.01	6.35	4.50	4.69	5.20
91-Day T-bill Rate (%)	9.81	8.56	8.01	7.20	7.20
Lending rate (%)	18.30	13.66	13.64	12.51	12.38
Deposit rate (%)	8.02	7.33	8.22	7.60	6.56
Money supply (M3) (KES million)	2,658,166	2,723,528	3,010,943	3,337,832	3,524,000
Growth in money supply M3) (%)	14.10%	2.46%	10.55%	10.86%	5.6%
Fiscal Budget deficit (excluding grants) (KES million)*	(549.30)	(709.40)	(624.20)	(734.90)	(789.90)
NSE 20 share index (NSE 20)	4,040.75	3,186.21	3,711.94	2,833.84	2,654.40
Nairobi All Share Index (NASI)	145.70	133.34	171.20	140.43	166.41
USD / KES	102.31	102.49	103.23	101.90	101.20
GBP / KES	151.80	125.42	138.75	131.92	134.00
EUR / KES	111.78	107.06	123.28	115.42	115.42
Import cover (months)	4.50	4.60	4.70	5.25	5.50
Total public debt (KES million)	2,601.43	3,210.80	3,972.50	4,488.30	5,301.60
Domestic debt (net) (KES million)	1,178.18	1,414.60	1,677.80	1,928.10	2,279.69
External debt (KES million)	1,423.25	1,796.20	2,294.70	2,560.20	3,021.91
Total public debt as % of GDP	38.8%	41.9%	45.2%	50.5%	54.4%
CBR rate (%)	11.25	10.00	10.00	9.00	8.50

Source: Central Bank of Kenya, NSE, KNBS, World Bank, IMF, Third Parties

* For fiscal year ends June 30

BUDGET OVERVIEW

The theme of this year's budget is "Stimulating the economy to safeguard livelihoods, jobs, businesses and industrial recovery".

GOVERNMENT REVENUE & EXPENDITURE

The fiscal framework of the 2020/21 budget and the medium term has been revised to take into account the adverse impact of the COVID-19 pandemic on revenue performance. The 2020/21 budget targets revenue collection (including Appropriations-in-Aid) of KShs. 1.89 trillion, equivalent to 16.8% of GDP. Of this, ordinary revenues are projected at KShs. 1.63 trillion (14.5% of GDP).

Total projected revenue for 2020/21 is unchanged from the estimated revenues of KShs. 1.89 trillion (equivalent to 18.6% of GDP) in the financial year 2019/20.

Total expenditure in the financial year 2020/21 is projected at KShs. 2.79 trillion, translating to 24.7% of GDP from an estimated KShs. 2.77 trillion (27.2% of GDP) in 2019/20.

The fiscal deficit (including grants) is projected to decline to KShs. 840.6 billion (7.5% of GDP) in 2020/21 from KShs. 842.7 billion (8.3% of GDP) in the financial year 2019/20. The fiscal deficit for the year 2020/21 will be financed through net external financing of KShs. 347.0 billion (3.1% of GDP), net domestic financing of KShs. 493.4 billion (4.4% of GDP) and other net domestic repayments of KShs. 627 million.

FOCUS OF THE 2020/21 BUDGET

1) Roll out an economic stimulus programme that will catalyse economic activity, provide livelihood to Kenyans and enable businesses to recover from the adverse effects of the COVID-19 pandemic.
2) Maintain macroeconomic stability to support long-term investment, economic growth and development.
3) Support the recovery and growth of Micro, Small and Medium Enterprises through various interventions including operationalisation of the Credit Guarantee Scheme. Additionally, the Ministry shall gazette and enforce the list of items for local procurement to promote the "Buy Kenya, Build Kenya" initiative.
4) Continue supporting implementation of the "Big Four" Agenda. Total allocation to enable the "Big Four" Agenda is KShs. 128.3 billion.
5) Enhance allocations to support development of critical infrastructure in the country such as roads, rail, energy and water so as to reduce the cost of doing business as well as promote competitiveness.
6) Increase resources to support the youth, women and persons with disability to enable them actively contribute to the economic recovery.
7) Scale up resource allocation to improve access to education, strengthen healthcare systems and enhance cash transfers to support the vulnerable members of our society.
8) Continue to facilitate the County Governments in strengthening their systems to enhance service delivery.
9) Implement various structural reforms to enhance efficiency of public service delivery while at the same time ensuring accountability for better macroeconomic and fiscal stability, sustained credit ratings, improved fiscal discipline and minimized corruption.

KEY ANNOUNCEMENTS

- Set aside KShs. 10.0 billion under the "Kazi Mtaani" Programme which will target unemployed youth in the major cities and urban settlements of Nairobi Mombasa, Kisumu, Eldoret, Nakuru and other major towns across the country. The youth will be engaged in activities such as fumigation, storm water drainage works, cleaning of markets and informal settlements, rehabilitation among others. The program targets to employ at least 200,000 youth.
- Waiver of landing and parking fees at airports to facilitate movement of cargo in and out of Kenya.
- The government will procure and roll-out an end-to-end e-procurement system by December 2020, after which all procurement processes will be undertaken on an online platform.
- The government will review the contracting framework for infrastructure projects in the country with a view to ensuring greater participation of local contractors.
- The National Treasury is in the process of fully operationalising the Nairobi International Financial Centre.
- The National Treasury together with other stakeholders will conduct Kenya's first National Risk Assessment on Money Laundering and Terrorism Financing.
- The Government has established the Kenya Mortgage Refinance Company (KMRC), which has raised capital of KShs. 2.0 billion while mobilizing an additional KShs. 35 billion from development partners to support the Company's operations.
- Proposal to amend the Capital Markets Act to provide for the regulation of private equity and venture capital companies by the Authority.
- Amend the Capital Markets Act to remove the function of payment of beneficiaries from collected unclaimed dividends since this is a function currently domiciled under the Unclaimed Financial Authority.
- Amend the Retirement Benefit Authority Act to impose a penalty to pension schemes who fail to submit actuarial valuation reports to the authority within the specified timeline.
- The National Treasury proposes to tap into the Green Climate Financing by issuing the first "Sovereign Green Bond" to finance major infrastructure projects in FY 2020/21.

MAJOR BUDGET ALLOCATIONS FY 2019/2020

Universal Health Coverage

- KShs. 50.3 billion for activities and programmes for the attainment of Universal Health Coverage.
- KShs. 19.2 billion to address and lower cases of HIV, malaria and tuberculosis in the country.
- KShs. 6.2 billion for the managed equipment services.
- KShs. 5.3 billion to transform the health care systems for Universal Health Coverage.
- KShs. 4.1 billion to cater for free maternity health care.
- KShs. 1.8 billion to provide medical cover for the elderly and severely disabled in our society.
- KShs. 15.0 billion for Kenyatta National Hospital.
- KShs. 10.0 billion for Moi Teaching and Referral Hospital.
- KShs. 7.2 billion for Kenya Medical Training Centres.
- KShs. 2.5 billion for Kenya Medical Research Institute.
- KShs. 4.3 billion as a conditional grant to Level 5 hospitals in the Counties.

Affordable Housing and Infrastructure

- KShs. 15.5 billion to the housing, urban development and public works sector (out of which KShs. 6.9 billion will cater for the Affordable Housing Programme).
- KShs. 7.5 billion for the Kenya Urban Programme.
- KShs. 1.1 billion for the ongoing construction of Gikomba, Githurai, Kamukunji and Dagoretti Markets.
- KShs. 18.1 billion for SGR Phase 2 (Nairobi – Naivasha).
- KShs. 6.0 billion for the LAPSSET Project.
- KShs. 5.0 billion for the Mombasa Port Development Project.
- KShs. 328 million for insurance of ferries for the Likoni Channel.

Education

- KShs. 2.4 billion for the recruitment of 10,000 intern teachers to support the 100% transition in schools.
- KShs. 2.1 billion for the construction of additional classrooms in secondary schools.
- KShs. 1.9 billion for the provision of at least 250,000 locally fabricated desks for secondary and primary schools.
- KShs. 700 million for capitation and improvement of infrastructure in low-cost boarding schools in arid and semi-arid lands.
- KShs. 300 million for recruitment of 1,000 ICT interns to support digital learning in public schools.
- KShs. 59.4 billion for Free Day Secondary Education Programme (including NHIF for students).
- KShs. 12.4 billion for Free Primary Education Programme.
- KShs. 2.0 billion for the recruitment of 5,000 teachers.
- KShs. 1.8 billion for the school feeding programme.
- KShs. 6.3 billion for the construction and equipping of technical institutions and vocational training centres.
- KShs. 4.0 billion for examinations fee waiver for all class eight and form four candidates.
- KShs. 800 million for the digital literacy programme and competency based curriculum.
- KShs. 323 million for the National Research Fund.
- KShs. 94.9 billion to support university education.
- KShs. 16.8 billion to the Higher Education Loans Board.

Enhancing Liquidity to Businesses

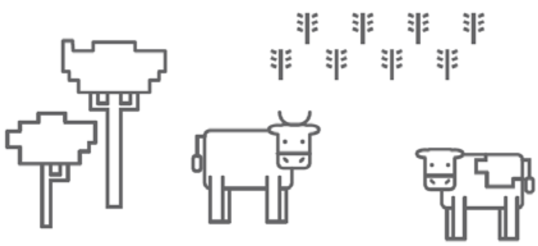
- KShs. 3.0 billion seed capital to operationalize the Credit Guarantee Scheme.
- KShs. 10.0 billion to fast track payment of outstanding verified VAT refund claims and pending bills owed to businesses (this is in addition to the KShs. 23.1 billion approved by the House in April 2020).

Improving Health Outcomes

- KShs. 1.2 billion for the recruitment of an additional cohort of 5,000 healthcare workers to support local health staff for a period of one (1) year.
- KShs. 500 million to supply 20,000 locally made beds and beddings to public hospitals.
- KShs. 25 million to support establishment of 50 modern walkthrough sanitizers at border points and main hospitals across the country.

Agriculture and Food Security

- KShs. 3.0 billion to subsidize the supply of farm inputs through the voucher system to reach 200,000 small-scale farmers.
- KShs. 3.4 billion for expanded community household irrigation.
- KShs. 1.5 billion to assist flower and horticultural farmers to access international markets during this period of low cargo traffic into and out of the country.
- KShs. 10.6 billion for Kenya Climate Smart Agriculture Project.
- KShs. 5.5 billion for the National Agriculture and Rural Inclusivity Project.
- KShs. 4.1 billion for the Kenya Cereal Enhancement Programme.
- KShs. 730 million for the Food Security and Crop Diversification Project.
- KShs. 10.0 billion for irrigation and land reclamation.
- KShs. 1.8 billion to enhance aquaculture business development project.
- KShs. 1.4 billion to support small-scale irrigation and value addition.
- KShs. 1.3 billion to enhance resilience of pastoral communities.
- KShs. 1.1 billion to enhance drought resilience and sustainable livelihood.
- KShs. 1.6 billion to support processing and registration of title deeds.
- KShs. 500 million to advance agricultural loans through the Agricultural Finance Corporation.



Tourism Promotion

- KShs. 3.0 billion to support renovation of facilities and restructuring of business operations by actors in the industry.
- KShs. 2.0 billion to provide grants to 160 Community Conservancies and support to Kenya Wildlife Services (KWS) to engage 5,500 community scouts for a period of one year.

Improving Environment, Water and Sanitation Facilities

- KShs. 42.6 billion towards development of water and sewerage infrastructure.
- KShs. 10.9 billion for the management of water resources.
- KShs. 8.6 billion to support water storage and flood control.
- KShs. 1.3 billion for water harvesting and storage for irrigation.
- KShs. 10.9 billion to support conservation of forests and water towers.
- KShs. 10.8 billion for wildlife conservation, management and protection.
- KShs. 2.7 billion for environmental management and protection.
- KShs. 1.6 billion for meteorological service.
- KShs. 1.0 billion to support flood control using local labour in the most affected areas.
- KShs. 850 million to cater for rehabilitation of wells, water pans and underground tanks in ASAL areas using local labour.
- KShs. 540 million to enhance tree planting programmes across the country using locally sourced seedlings.

Manufacturing

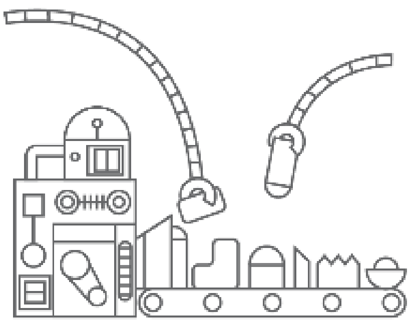
- KShs. 600 million to purchase locally assembled vehicles.
- KShs. 712 million to provide credit targeted to Micro, Small and Medium Enterprises in the manufacturing sector.
- KShs. 1.4 billion for the Kenya Industry and Entrepreneurship Project.
- KShs. 3.6 billion for development of Special Economic Zone Textile Park in Naivasha, Kenanie Leather Industrial Park and Athi River Textile Hub.
- KShs. 843 million to support the modernization of RIVATEX.
- KShs. 800 million for the development of various Micro, Small and Medium Enterprises in Kenya.
- KShs. 715 million for the Kenya Youth Empowerment and Opportunities Project.
- KShs. 500 million to support dairy processing.
- KShs. 3.0 billion for Dongo Kundu Special Economic Zone.

Energy

- KShs. 50.8 billion for the transmission and distribution of power.
- KShs. 9.3 billion for development of geothermal energy.
- KShs. 6.8 billion for electrification of public institutions.
- KShs. 900 million for provision of transformers in constituencies.

National Security

- KShs. 3.4 billion for medical insurance.
- KShs. 2.2 billion for group personal insurance.
- KShs. 1.0 billion for the National Integrated Identity Management System (NIIMS).



Equity, Poverty Reduction and Social Protection for Vulnerable Groups

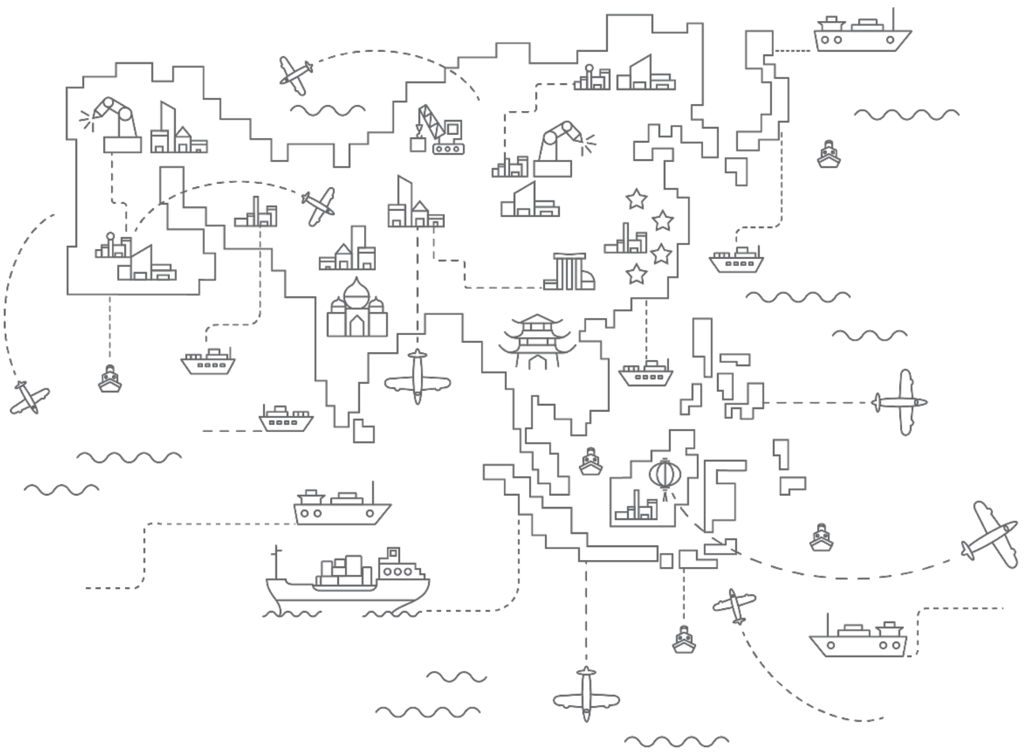
- KShs. 41.7 billion for the National Government Constituency Development Fund.
- KShs. 2.1 billion for National Government Affirmative Action Fund.
- KShs. 6.8 billion for the Equalization Fund.
- KShs. 10.2 billion to the National Youth Service (NYS).
- KShs. 2.1 billion for the Kenya Youth Empowerment Project.
- KShs. 17.6 billion for cash transfers to the elderly persons.
- KShs. 7.9 billion for orphans and vulnerable children.
- KShs. 1.1 billion for cash transfers to persons with severe disabilities.
- KShs. 4.3 billion for Kenya Hunger Safety Net Programme.
- KShs. 2.5 billion for the Kenya Social and Economic Inclusion Project.
- KShs. 3.5 billion for Kenya Development Response to the Displacement Impact Project.
- KShs. 400 million for the National Development Fund for Persons with Disabilities.

Digitization of the Economy

- KShs. 14.9 billion to fund initiatives in the Information Communication Technology sector.
- KShs. 700 million for Government Shared Services.
- KShs. 800 million for the Digital Literacy Programme.
- KShs. 1.2 billion for rehabilitation of National Fibre Backbone Phase 2 Expansion Cable.
- KShs. 6.3 billion for the Horizontal Infrastructure Phase I (EPCF) for Konza Technolopolis City.
- KShs. 400 million for the ongoing construction of Konza Technopolis Complex Phase 1B.
- KShs. 5.1 billion for Konza Date Centre and Smart City Facilities Project.

Improving Governance and Sustaining the Fight Against Corruption

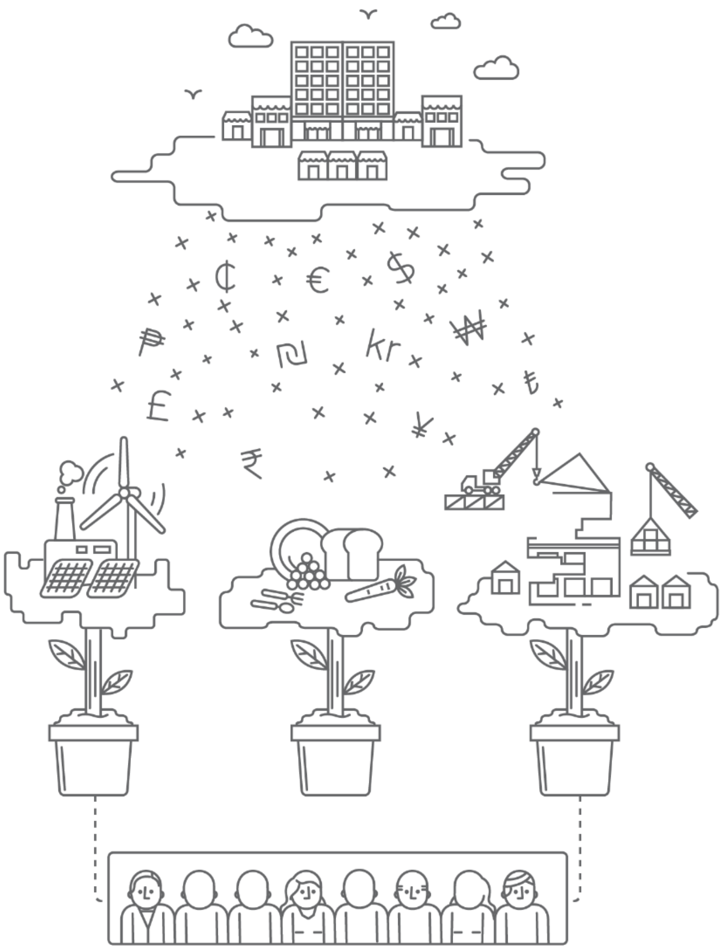
- KShs. 3.1 billion for the Ethics and Anti-Corruption Commission.
- KShs. 3.1 billion for the Office of the Director of Public Prosecutions.
- KShs. 619.1 million for the Financial Reporting Centre.
- KShs. 7.9 billion for the Criminal Investigations Service.
- KShs. 5.2 billion for the Office of the Auditor General.
- KShs. 37.3 billion to Parliament.
- KShs. 18.1 billion to the Judiciary.



ESTIMATES OF GOVERNMENT FISCAL OPERATIONS (KSHS. B) - BUDGET POLICY STATEMENT (FEBRUARY 2020)

Details	ACTUAL 2015/16	ESTIMATES 2016/17	ESTIMATES 2017/2018	ESTIMATES 2018 / 2019	ESTIMATES 2019 / 2020	ESTIMATES 2020 / 2021
Total revenue	**1,232.60**	**1,400.60**	**1,522.50**	**1,698.70**	**2,084.20**	**2,134.10**
Grants	**29.60**	**26.30**	**27.60**	**19.70**	**41.80**	**42.80**
	1,262.20	**1,426.90**	**1,550.10**	**1,718.40**	**2,126.00**	**2,176.90**
Recurrent expenditure	**996.20**	**1,173.30**	**1,349.90**	**1,531.00**	**1,760.00**	**1,780.80**
Domestic interest	172.90	212.90	239.50	272.40	290.50	308.40
Foreign Interest	42.50	58.40	84.40	103.40	150.90	147.60
Wages and salaries	**307.40**	**336.60**	**388.90**	**417.50**	**487.60**	**500.70**
Others	**473.40**	**565.40**	**637.10**	**737.70**	**831.00**	**824.10**
Development and net lending	480.70	639.90	469.60	534.90	730.00	585.80
County allocation	**276.20**	**305.00**	**327.20**	**360.70**	**378.30**	**375.00**
Equalization fund for marginal areas	6.40	6.00	-	7.00	5.80	6.50
Fiscal balance (cash basis incl. grants)	**(497.30)**	**(697.30)**	**(596.60)**	**(715.20)**	**(748.10)**	**(571.20)**
Financing	**474.60**	**697.30**	**631.30**	**721.20**	**657.30**	**571.20**
Net foreign financing	269.90	385.70	355.00	414.50	353.40	345.16
Other domestic financing	2.40	1.80	2.60	2.90	3.20	3.20
Net domestic financing	202.30	309.80	273.70	303.70	300.70	222.90
Memo items (Appendix)						
External debt	1,796.20	2,294.70	2,560.20	3,023.10	3,376.60	3,721.80
Domestic debt (gross)	1,815.10	2,112.30	2,478.80	2,785.90	3,086.60	3,309.50
Domestic debt (net)	1,414.60	1,677.80	1,928.10	2,278.50	2,579.20	2,802.10
Primary budget balance	(282.00)	(426.00)	(272.70)	(339.40)	(306.60)	(115.20)
Nominal GDP	6,709.70	7,658.10	8,524.70	9,348.30	10,383.10	11,636.90

Source: BPS 2020 (February 2020) (figures may differ slightly from those announced today)



FINANCE BILL – HIGHLIGHTS

The Finance Bill, 2020 was published on 5th May 2020 and the proposed changes were covered in our Newsletter of The Finance Bill, 2020 (https://www.rsm.global/kenya/insights/tax-insights/rsm-newsletter-finance-bill-2020).

DIRECT TAXES

TAX AMENSTY

The Bill proposes the introduction of a Voluntary Tax Disclosure Programme for a period of 3 years effective 1st January 2021. The programme enables a taxpayer to disclose the person's tax liability for the purposes of being granted relief on penalties and interest on the tax disclosed. The period covered by the programme is 5 years prior to 1st July 2020 (i.e. 1st July 2016 to 30th June 2020). The key features of the programme are:

- Full remission of interest and penalties if the principal tax is paid in the first year.
- 50% remission of interest and penalties if the principal tax is paid in the second year.
- 25% remission of interest and penalties if the principal tax is paid in the third year.
- The application is voluntary and all material facts are disclosed.
- The application shall be deduced into an agreement setting out the terms of the payment of the tax liability and the period within which the payment shall be made.
- Where the taxpayer fails to meet the terms of the payment, full interest and penalties remitted under the agreement shall become due.
- Where before the expiry of the agreement, it is discovered that the taxpayer has failed to disclose material facts, any relief granted shall be withdrawn and the Commissioner shall institute proceedings under the provisions of the Tax Procedures Act. However, a person who is aggrieved of the decision shall have a right of appeal.
- The programme shall not be applicable to a taxpayer who is under an audit or investigation, or is a party to any ongoing litigation with the Commissioner or had been notified of a pending audit or investigation.

INCOME TAX

RESIDENTIAL RENTAL INCOME (EFFECTIVE 1ST JANUARY 2021)

- The Bill proposes to increase the rental income limit subject to 10% tax from KShs. 10 million to KShs. 15 million.

TURNOVER TAX ON TAX LOSS MAKING COMPANIES (EFFECTIVE 1ST JANUARY 2021)

- Where the installment tax liability is lower than 1% of the gross turnover of a company, a turnover tax of 1% of the gross turnover shall be paid as minimum tax. The tax is payable quarterly on 20th of the fourth, sixth, ninth and twelfth month.
- Installment tax is payable on the lower of the preceding year's tax multiplied by 110% and the current year's estimate. For individual taxpayers, installment tax is payable if the preceding years tax liability is KShs 40,000 or more.
- Persons exempt from this provision include:
    - Persons earning emoluments which are taxed at source
    - Persons paying tax under the residential rental income regime
    - Persons paying tax under the turnover tax regime
    - Persons subject to capital gains tax
    - Persons whose income is exempt from tax
    - Taxation paid by extractive industries under the Ninth Schedule of the ITA.

There are a number of challenges with this proposal:

- ***The Government is now trying to tax persons outside the ambit of Section 3 of the ITA which levies tax on gains or profits***
- ***The Government cannot on one hand give tax incentives like investment deduction and on the other hand tax the entity using a back-door method of taxation***
- ***The term "gross turnover" is not defined***
- ***It is not clear on the minimum tax regime to be applied on income taxed at source like dividends and interest where there is no installment tax payable***
- ***In case of investment holding companies, where dividend income is taxed at source, the dividend income could be subject to a further tax of 1%.***

DIGITAL SERVICE TAX (EFFECTIVE 1ST JANUARY 2021)

- The Bill proposes to introduce tax at 1.5% of the gross transaction value on the provision of services derived from or accrued in Kenya through a digital market place. The tax shall become due at the time of the transfer of payment for the service to the service provider.
- In the case of a resident person or a non-resident person with a permanent establishment in Kenya, such tax shall be treated as an advance tax to be offset against the final tax liability.
- A provision has been introduced under the Tax Procedures Act allowing the Commissioner to appoint an agent for the purposes of collection and remittance of digital services tax to the Commissioner.
- The CS Treasury has recently published draft Guidelines on levying VAT on the same under a new framework.

While the aim is to tax online transactions, there are a number of challenges with this proposal:

- ***It is not clear how the tax will be collected and remitted.***
- ***The due dates for the payment have not been defined.***
- ***There is no amendment to Sections 10, 34, 35 and the Third Schedule of the ITA in respect to tax in relation to non-residents, which this provision is targeting.***

INDIRECT TAXES

VALUE ADDED TAX ACT

DEDUCTION OF INPUT TAX

The Bill proposes to introduce a condition that input tax shall not be allowed where the registered supplier has not declared the sales invoice in a return.

This proposal negates the principal of claiming input tax as the purchaser has no way of determining if the supplier has declared output tax. Moreover, the VAT Act clearly lays the process of issuing a tax invoice and the burden to enforce tax compliance should be on KRA and not the buyer.

ZERO RATED SUPPLIES WHICH ARE NOW VATABLE

Supplies	New Rate	Old Rate
The supply of liquefied petroleum gas including propane	14%	0%
Inputs or raw materials for electric accumulators and separators including lead battery separator rolls, whether or not rectangular or square, supplied to manufacturers of automotive and solar batteries in Kenya	14%	0%

CUSTOMS

The decision will be published in the EAC Gazette Notice and will become effective on 1st July 2020.

DUTY REMISSION

The Council of Ministers by exercising the powers conferred upon Section 140 of the East African Community Customs Management Act 2004, has approved a remission of duty on the following:

- Baby diapers – all inputs for the manufacture of baby diapers to be duty free.
- New clothing and apparels including fashion and design – all inputs used in the textile and apparel sector will be imported duty free.
- Telecommunication sector – inputs for the assembly or manufacture of mobile phones will be imported duty free.
- Raw materials for manufacture of masks, sanitizers, ventilators and personal protective equipment including coveralls and face shields will be duty free.

EXEMPTION

A proposal to exempt:

- Supplies for diagnosis, prevention, treatment and management of epidemics, pandemics and health hazards

STAY OF APPLICATION OF CET RATES

Kenya has been granted a stay application of the EAC rate on the following items effective from 1st July 2020:

- Imported iron and steel products – Retained at the CET rate of 35% for a further period of one year.
- Paper and paper board – Retained at the CET rate of 25% for a further period of one year.
- Leather and Footwear sector:
  - Maintained at a rate of 25% or USD 5 per pair whichever is higher, for items of HS Code 6405.10.00, 6403.20.00 and 6403.40.00.
  - 25% or USD 2.5 per pair whichever is higher, for items of HS Code 6401.10.00, 6401.92.00, 6401.99.00, 6402.19.00, 6402.20.00, 6402.91.00, 6402.99.00, 6405. 20.00 and 6405.90.00
- Electrical parts and accessories – will now attract a CET rate of 35% from 25%.

COMPREHENSIVE REVIEW OF EACCMA, 2004 & THE COMMON EXTERNAL TARIFF (CET)

The comprehensive reviews of the EACCMA, 2004 & the CET are expected to be concluded by July 2020 and August 2020 respectively.

EXCISE DUTY ACT

LICENSE

The Bill seeks to expand the definition of license by including 'a license required in the carrying out of any other activity in Kenya for which the Commissioner, by notice in the Gazette, may impose a requirement for a license'.

EXCISE DUTY ON BEERS AND SPIRITS

The Bill proposes to lower the percentage of alcoholic strength from 10% to 8% for beers and spirits for the tariff category as follows:

Particulars	Rate
Beer, cider, perry, mead, opaque beer and mixtures of fermented beverages with non-alcoholic beverages and spirituous beverages of alcoholic strength not exceeding 8%	KShs 110.62 per litre
Spirits of undenatured ethyl alcohol; spirits, liqueurs and other spirituous beverages of alcoholic strength exceeding 8%	KShs 253.00 per litre

MISCELLANEOUS FEES & LEVIES ACT

IMPORT DECLARATION FEE (IDF)

Description	Current Rate	Proposed Rate
Goods imported under the East African Community Duty Remission Scheme	KShs 10,000	1.5% of the customs value
Additional import duty payable in respect of goods entered for home use from an export processing zones enterprise	N/A	2.5% of the customs value
Aircraft of unladen weight not exceeding 2,000 kg and helicopters of Heading 8802.11.00 and 8802.12.00	Exempt	3.5%
Any other goods as the Cabinet Secretary may determine are in public interest, or to promote investments which value shall not be less than KShs 200 million	Exempt	3.5%
Goods imported for implementation of projects under the special operating framework arrangement with the Government	Exempt	3.5%
Goods including materials supplies, equipment, machinery and motor vehicles for the official use by the Kenya Defence Forces and National Police	3.5%	Exempt

MISCELLANEOUS AMMENDMENTS

THE CAPITAL MARKETS ACT (CAP. 485A)

The Bill seeks to amend Section 11 (3) of the Act to bring private equity and venture capital firms that access public funds (pensions scheme funds) under the regulatory oversight of the Capital Markets Authority in line with the Cabinet Secretary's policy pronouncement. The Bill further seeks to amend Section 18 of the Act to remove the function of payment of beneficiaries from collected unclaimed dividends when they resurface.

It also seeks to expand the application of the Investor Compensation Fund (IFC) to activities such as whistle blowing, forensic audits and other related activities that are proactive in nature as far as protection is concerned.

THE KENYA REVENUE AUTHORITY ACT (NO. 2 OF 1995)

The Bill seeks to amend the Act to provide for a legal framework for the establishment of an institution to offer capacity building and training on tax, customs and revenue administration. The Bill further proposes to amend the Act to include commissions earned by the Kenya Revenue Authority on collections made on behalf of government agencies or county governments as a source of funding for the Authority capped at 2% of the revenue collected. The Bill also seeks to amend the Act by providing for specific timelines within which the Authority can be sued to enable the Authority to effectively manage its disputes.

This amendment is meant to give legal status to Kenya School of Revenue Administration (KESRA).

The limitations of actions against KRA is in line with Section 3 of the Public Authorities Limitations Act Cap 389. However, tax disputes are catered for under specific tax statutes including the Tax Procedures Act and the Tax Appeal Tribunals Act.

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