



Kenya 2022/23 Budget Analysis

**“Accelerating Economic Recovery
for Improved Livelihoods”**

April 2022

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01

Opening Remarks



02

Macroeconomic Overview



Global and Regional Outlook

Global Outlook

The global economy is expected to grow by 4.4% in 2022, a slowdown from 5.9% in 2021.

The slowdown is due to the following:

- Supply chains have not fully recovered – shortage of containers, shortage of semi-conductors, supply constraints, danger of new Covid-19 disruptions
- Lingering macroeconomic instability – exchange rates, inflation, debt sustainability;
- Volatile commodity prices – Mainly due to high demand following the rebound – examples : high demand for foodstuffs, petroleum, construction input
- Climate change: Delayed rains (food security and energy supplies)
- Geopolitical considerations

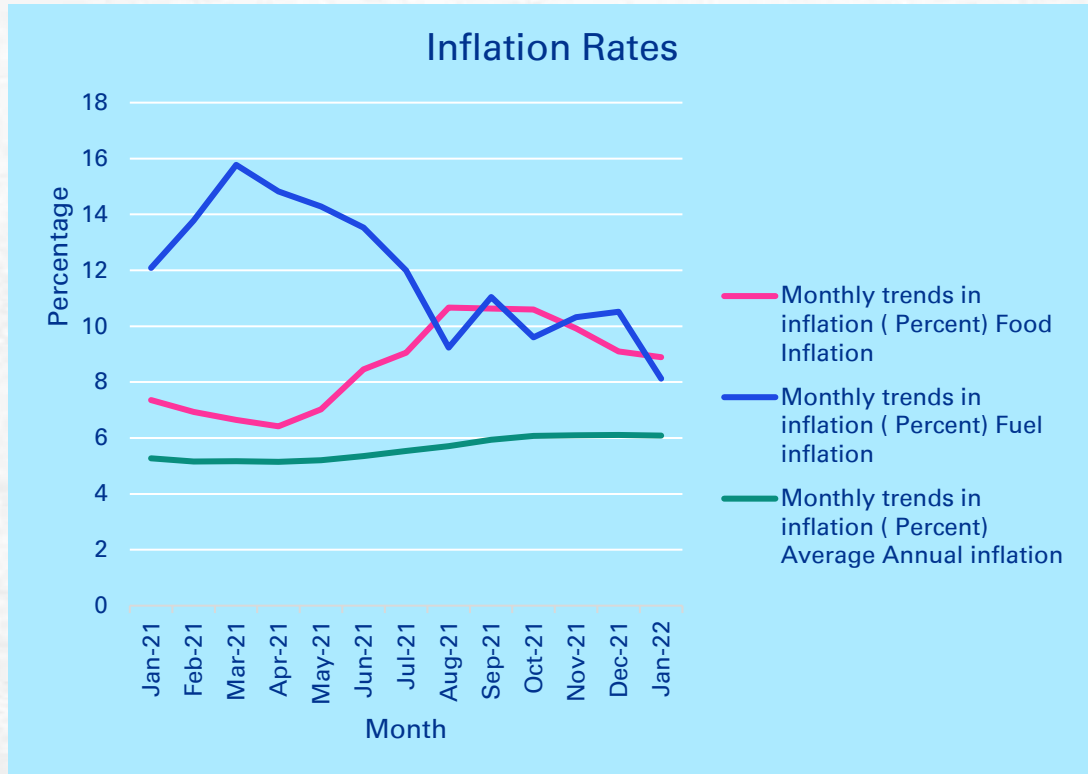
Kenya Outlook

The Kenya Economy is estimated to have grown by 7.1% in 2021 but is expected to slowdown to 6.0% in 2022.

Kenya has faced a volatile macroeconomic environment characterized by the below:

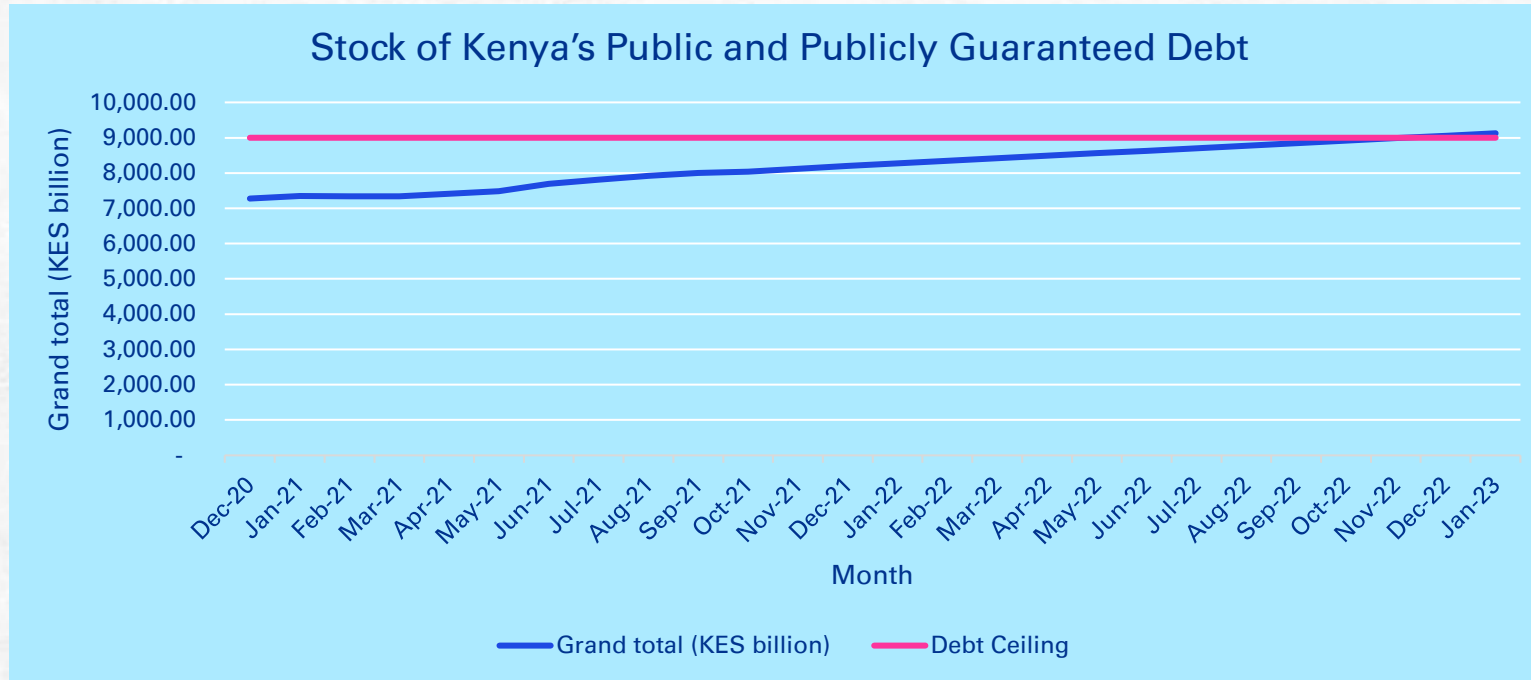
- High inflation: The Central Bank of Kenya reported a national general inflation rate of 6.08% driven by food inflation of 8.89% and oil inflation of 8.12%.
- The Kenya shilling has experienced significant pressure as the demand for the dollar has remained high due to increased demand especially by the manufacturing sector.
- Though tax revenues have remained consistently within expectation in 2021, it is unlikely that the economy will sustain the growth.
- The debt burden has increased significantly with over 60% of tax revenues going to service interest and principal repayments. This is unsustainable in the short and medium term.

Kenya Budget Environment



Indicator	2018/19	2019/20	2020/21
GDP current prices (USD M)	76,642	89,045	116,640
Real GDP growth (%)	4.9	6.3	6
Population (Million)	46.6	47.8	50.92
GDP per capita (USD)	1,645	1,863	2290.652
Overall inflation rate (%)	8	4.7	6.08%
TB rate (%)	8.01	7.3	7.12
Total public debt (USD'M)	50,390	56,784	71,177

The Debt Question



Domestic debt maturity (Years)	% Total
<1	25%
2 to 3	0.9%
4 to 5	9.8%
6 to 10	19.6%
>15	44.7%
	100%

01

Proportion of external debt to domestic debt has increased over the last 5 years to stand at approximately a 50:50 ratio

02

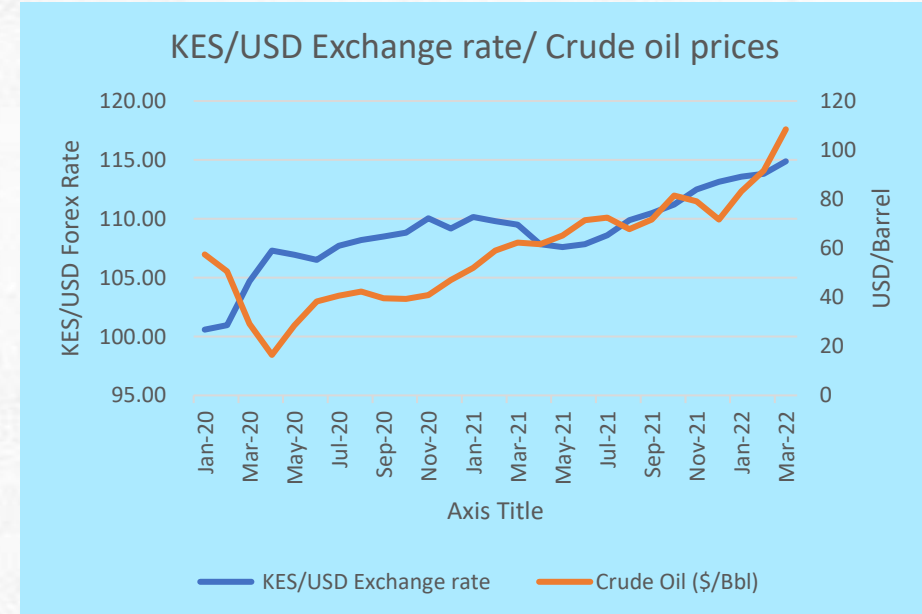
Increased exposure to foreign currency fluctuations

03

Debt stress over the next one year due to maturity of 25% of domestic debt

Concerns and risks

- Local and external risks impacting on the budget
 - a) Uncertainties around the elections and the need to accommodate the manifestos of the next government
 - b) Balancing between the immediate and future needs – the high cost of living and unemployment
 - c) Potential re-emergence of new Covid-19 variants and their impact on supply chains;
 - d) Impact of external shocks – especially the conflict in Eastern Europe and the possibility of a global recession.



03

FY 2022/23
Fiscal Highlights



FY 2022/23 Budget Projections

Proposed expenditure









Particulars	2021/2022	2022/2023	Change
Ministerial Recurrent	1,294.50	1,416.10	9%
Interest and Pension	697.50	841.20	21%
Development Expenditure	623.50	674.40	8%
Contingencies Fund	5.00	4.00	-20%
Country Allocation	409.90	407.00	-1%
Total Expenditure	3,030.40	3,342.70	10%
Deficit	- 929.80	- 862.80	-7%
Tax Revenues	1,775.60	2,141.60	21%
Appropriations in Aid	263.00	305.00	16%
Grants	62.00	33.30	-46%
Total Revenues	2,100.60	2,479.00	18%

Financed by








Particulars			
Project & Program loans	409.10	416.60	2%
External financing	475.30	105.60	-78%
Domestic financing	658.50	581.70	-12%
Foreign Repayments	- 613.10	- 241.10	-61%
Total	929.80	862.80	-7%

FY 2022/23 Key Resource Allocations

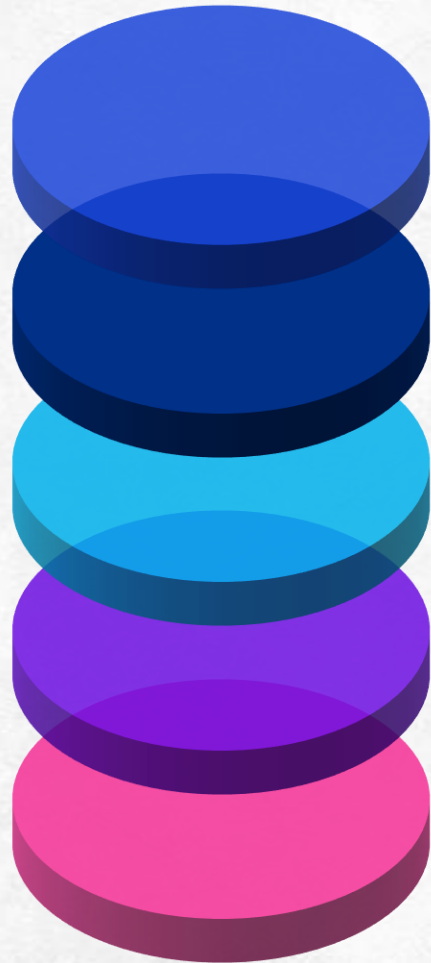
Thematic areas

	National security – KES 317.8 bn		Energy – KES 95 bn
	Housing – KES 27.4 bn		Sports – KES 20 bn
	Roads – KES 212.4 bn		Governance and justice – KES 47 bn
	Transport – KES 33.5 bn		
	ICT – KES 15.6 bn		

Thematic areas

	Agriculture – KES 39.1 bn		Social protection – KES 39.4bn
	Health – KES 101.8 bn		Education – KES 513 bn
	Manufacturing – KES 10.1bn		Environment – KES 110.8 bn
	Equity and Poverty Reduction – KES 68.9 bn		

FY 2022/23 Budget – Does it meet expectations?



01

High levels of unemployment

02

Rising public debt

03

Income inequality

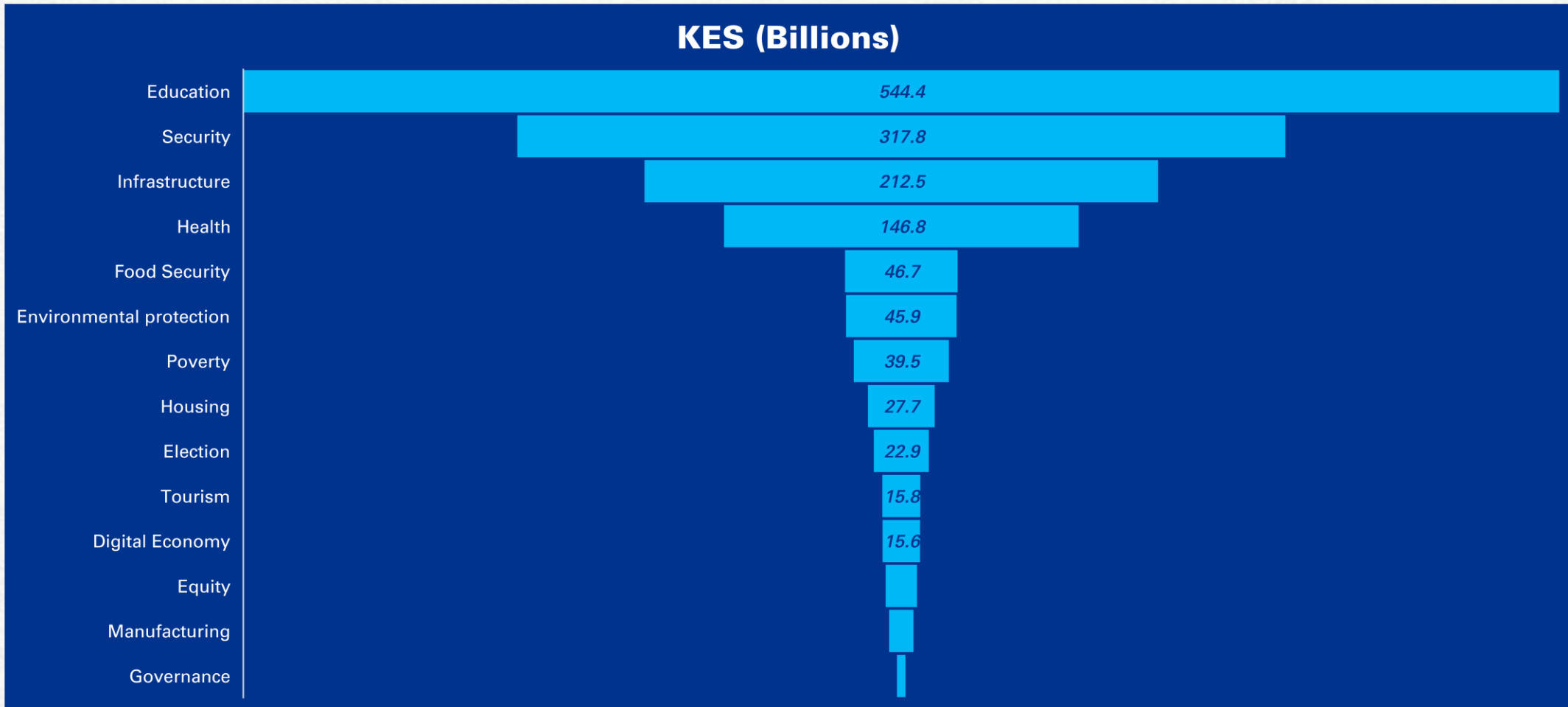
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High cost of living

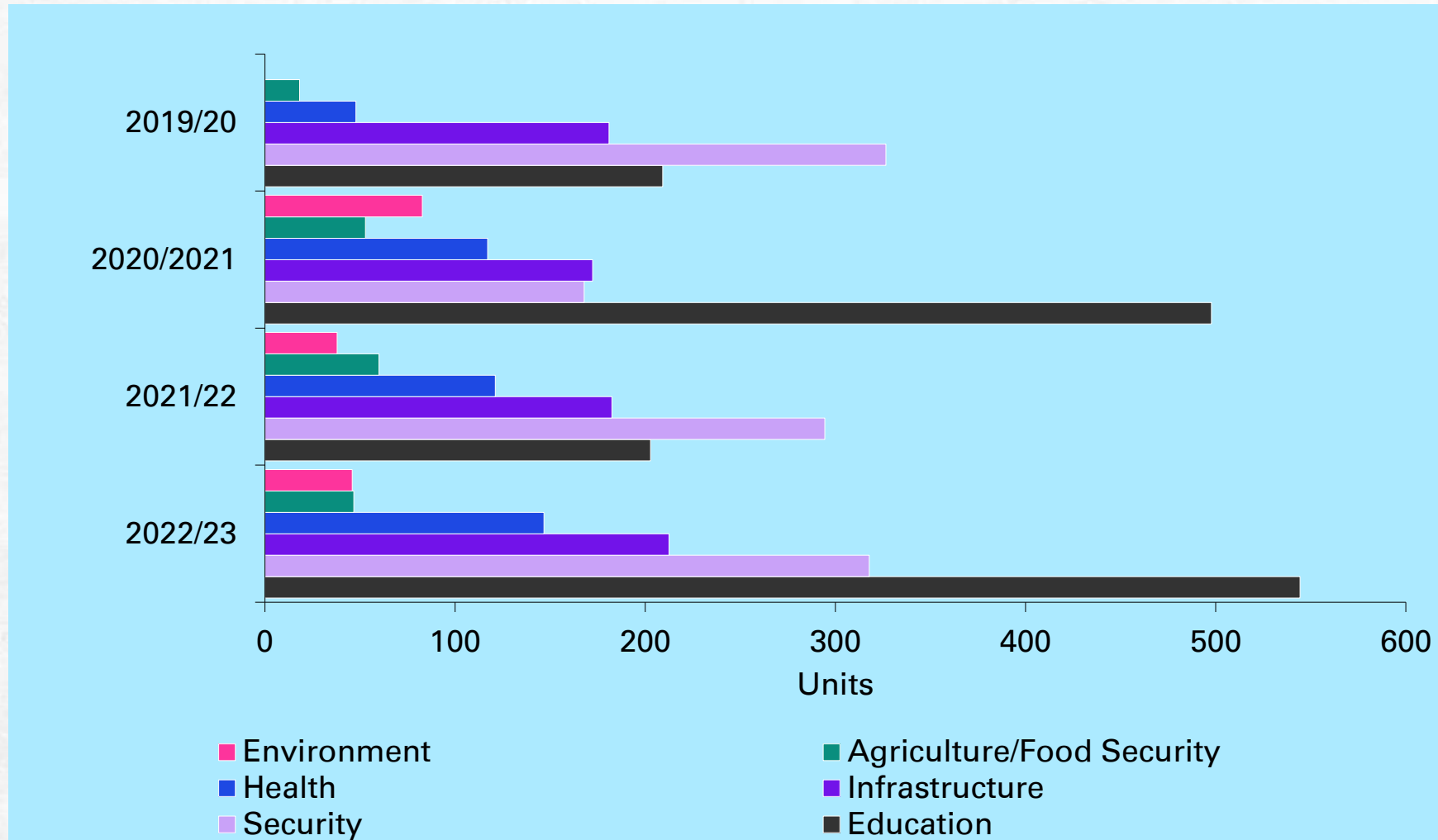
05

Agriculture

FY 2022/23 Key Resource Allocations



Expenditure Allocation for the past 4 years



A photograph of a large industrial facility, likely a power plant or refinery, featuring massive cylindrical components and yellow safety railings. The scene is brightly lit, with a high ceiling and structural beams visible. A semi-transparent blue box is overlaid on the left side of the image, containing the text '04 Income Tax'.

04

Income Tax

Income Tax - Corporation Tax

Allowable cash donations

- Charitable organizations that are tax exempt and registered under the Societies Act or the NGO Act are exempt from tax
- Bill proposes to allow all cash donations made to tax exempt body or any project approved by the CS

Gains from Derivatives

- Gains derived from financial derivatives in Kenya disposed by non-residents now subject to tax...perhaps WHT?

Thin Capitalization - Not applicable to Microfinance institutions

- Interest expense in excess of 30% of Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) is not tax deductible effective 1 January 2022
- Banks or financial institutions as well as Micro, Small and Medium Enterprises were exempted from thin capitalization rules
- **Microfinance institutions** licensed under **Microfinance Act** are now excluded from the thin capitalization rules

Income Tax - Transfer Pricing

Additional reporting requirements for Multi-National Enterprises (MNEs)

- Proposal to compel MNEs which have operations in Kenya to report their activities within Kenya and in other jurisdictions to the Commissioner General, Kenya Revenue Authority
- Proposal follows the ratification and deposit of the Multilateral Convention for Mutual Administrative Assistance in Tax Matters (MAC) with the Global Forum on Transparency and Exchange of Information on Tax Matters in July 2020. The convention entered into force on 1st November 2020

Impact:

- Expected to result in greater tax transparency among MNEs through the exchange of information between the participating members countries

05

Value Added Tax



Value Added Tax

To boost health care, exemption from VAT on:

- Plant and machinery for use by manufactures of pharmaceutical products
- Medical oxygen supplied to registered hospitals
- Urine bags, adult diapers, artificial breasts and colostomy or ileostomy bags for medical use

To boost manufacturing of local passenger vehicles, exemption from VAT on:

- Inputs and raw materials used in the manufacture of passenger vehicles
- Locally manufactured passenger motor vehicles

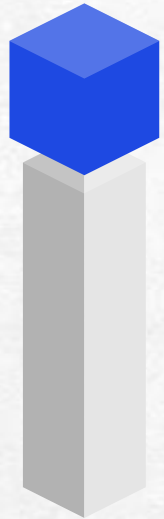
A blue-tinted photograph of a car's interior. A robotic arm is reaching into the car from the top right. The car's seats, dashboard, and steering wheel are visible. The background is a plain, light-colored wall.

06

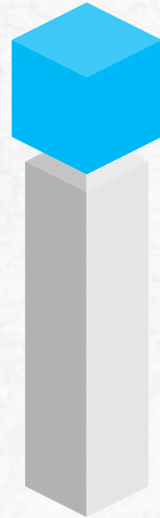
Customs and Excise

Customs

Kenya has submitted its customs proposals to the East African Community that are focused on:



Promote
manufacturing
sector, exports



Ensuring
competitiveness
of locally
produced goods



Protecting
critical sectors
e.g. agriculture

Excise Duty

Particulars	Proposed new rate	Old rate
Hatching eggs imported by licensed hatcheries	Exempt	25%
Neutral spirits imported by registered pharmaceutical manufacturers	Exempt	KES 278.70 per Litre
Locally manufactured passenger motor vehicles	Exempt	20% to 35% dependent on cc rating and fuel
Fees charged by all television stations, print media, billboards, and radio stations for advertisements of gambling, gaming and alcoholic beverages	15%	Exempt
Liquid nicotine	KES 70 per ml	KES 1,259.64 per Kg

- Exemption on annual inflation adjustment on some products by the Commissioner General dependent on economic and social environment facing the products
- 10% increase on a number of products excluding petroleum products

Miscellaneous Fees and Levies Act

Particulars	Proposed new rate	Old rate
Inputs and raw materials imported by manufacturers of pharmaceutical products	Exempt	IDF - 2% (registered manufacturers)/3.5% RDL - 2%
Export levy on the raw hides and skins	50 percent or USD 0.32 per Kilogram	80 percent or USD 0.5 per Kilogram

07

Other Acts



Other Acts

Report now to the Unclaimed Financial Assets Act

- Proposal for waiver of penalties, fines and audit fees in justifiable circumstances to encourage reporting to UFAA
- Capping of penalties and interest so as to not exceed the value of the asset
- Voluntary Disclosure Program for a period of 12 months to grant relief of penalties on unclaimed financial assets declared in that period

KRA to KRS

- Proposal to change the name of the Authority from Kenya Revenue Authority (KRA) to Kenya Revenue Service (KRS)
- Similar change was done from police force to police service

Perpetual term for tax related regulations

- Proposed amendment to the Statutory Instrument Act
- Exempt tax-related regulations from automatic expiry of 10 years

Requirement to pay 50% of disputed tax upfront on appeal

- Deposit of 50% of the tax with CBK prior to appeal to the High Court
- Refund is to be done in 30 days if the appeal is successful.

One time period of 60 days for objection decision

- The Commissioner to issue an objection decision within one cycle of 60 days from the day of receiving a valid objection by a taxpayer.

Extended caveat for tax arrears

- There is a proposal to allow KRA to register caveats on ships, aircrafts, motor vehicles and other properties as security for unpaid tax.

Harmonising county and national tax/levies

- County Governments (Revenue Raising Process) Bill
- Regulate introduction of fees and charges by Counties
- Avoid multiplicity of fees and charges
- County revenue efforts should not to prejudice national economic policies, economic activities across county boundaries or the national mobility of goods, services, capital or labour.

Other Acts

Investment advisers- Single director companies and partnerships

- Amendment of the Capital Markets Act to allow licensing of single director companies and partnerships to provide investment advisory services
- Previously only limited liability companies under the repealed Act could act as investment advisers
- The new companies Act ,2015 allows single director companies and such companies can be investment advisers

Pension funds investment in unlisted REITs

- Retirement Benefits Investment Guidelines to be amended to allow pension funds to invest in unlisted Real Estates Investment Trusts (REITs) that are incorporated in Kenya and approved by CMA

Debt Ceiling

- Amendment to the Public Finance Management Act to replace the debt ceiling with 55% of GDP instead of the current Kes 9 trillion

Insurance for motorcycles and three wheelers

- Proposed amendment to Insurance Regulations to make motorcycles and three wheelers (used by fare paying passengers) take insurance for the passengers

New rates for rateable property

- National Rating Bill 2022
- Replace the Valuation for Rating Act (Cap 266) and Rating Act
- Expect increased rates

08

Panel Discussion



Panellist



**James
Woodward**
Head of Transport &
Infrastructure for
KPMG in Africa



**Vishal Soni FCCA,
CPA(K)**
Group Financial Controller
& Tax Advisor, Mombasa
Cement Group



Dennis Mwirigi
Managing Director, Central
Services at Flamingo
Horticulture Group



Peter Kinuthia
Partner & Head of
Tax & Regulatory

A large industrial turbine component, possibly a compressor or turbine section, is shown in a factory setting. The component is made of polished metal and features a complex arrangement of blades or vanes. It is mounted on a stand and is surrounded by various industrial equipment, including a yellow overhead crane and a blue control panel. The background shows a well-lit industrial environment with concrete floors and structural elements.

Thank you