NCBA ECONOMIC FORUM

2022/23 BUDGET REVIEW

APRIL 2022

Election Year Budget-Balancing Expectations within the context of tight public finances

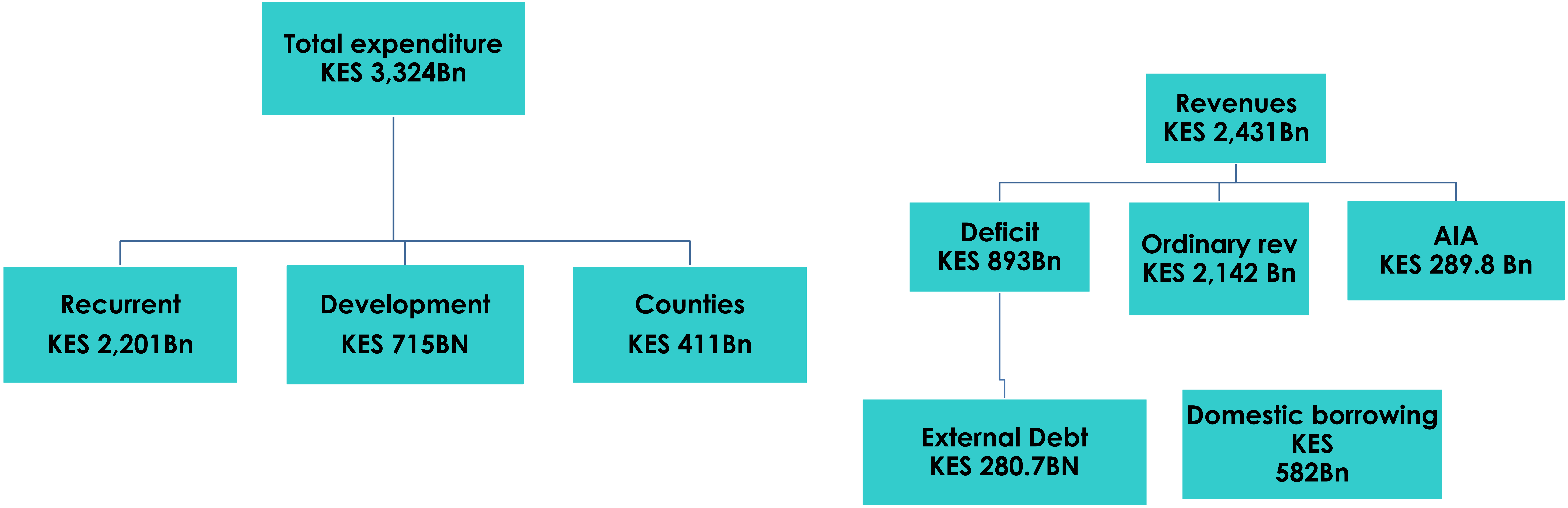
- The budget process was fast-tracked so as to avoid any disruptions to public services during the general elections and in the transition period.

- The Budget was presented two months before the timeline prescribed by the Public Finance Management Act, as well as the East African community harmonized calendar. Accordingly, any pronouncements on regional custom measures may be delayed.

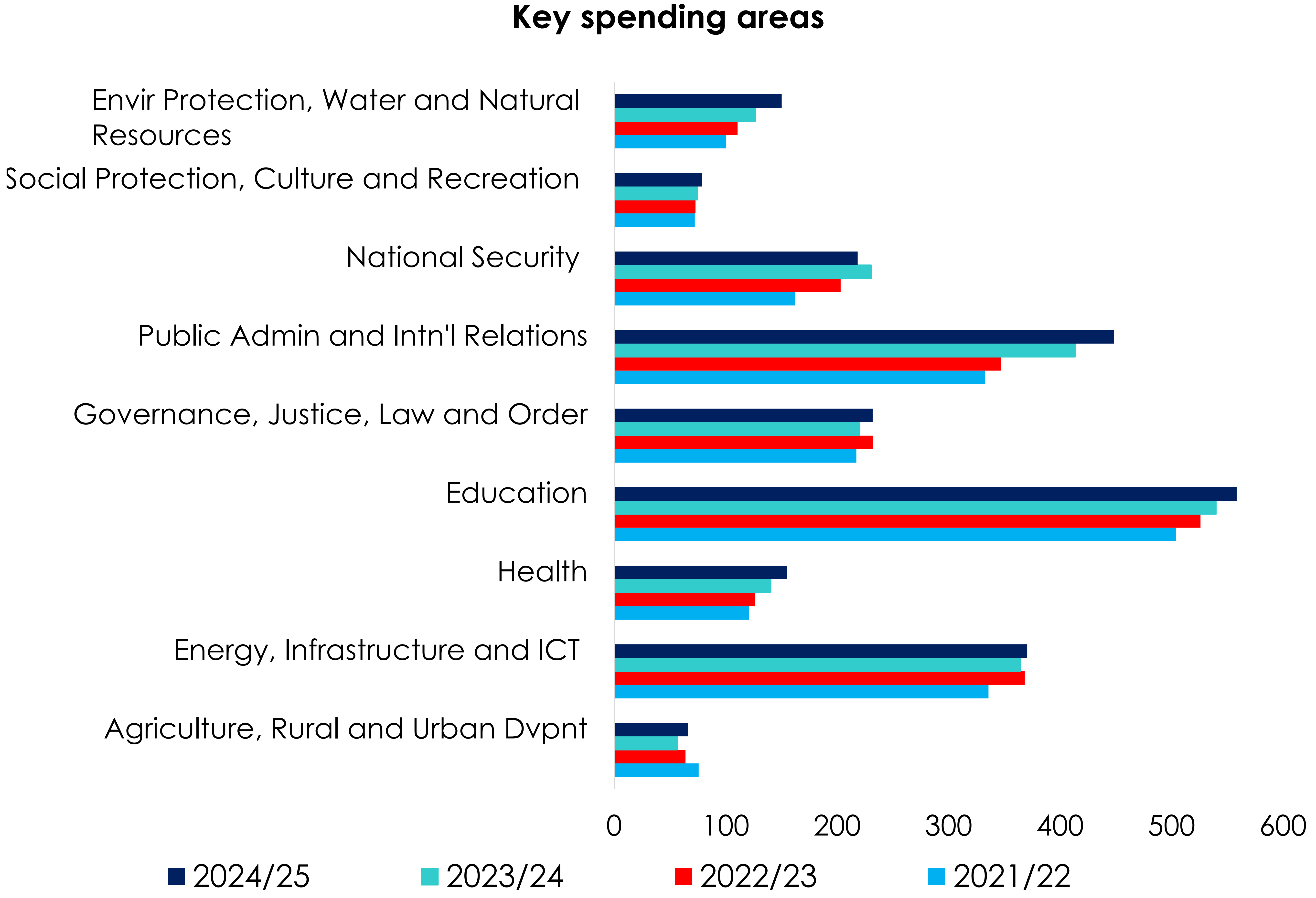
- Despite a backdrop of elevated cost of living and accelerated cost of doing business, strained public finances weighed down consumer and business expectations for any relief.

- The Budget sought to ensure sustained recovery while keeping public finances on a sustainable path, which meant moderation of expenditure and minimal tax adjustments for consumers and businesses.

The Fiscal Framework for 2022/23



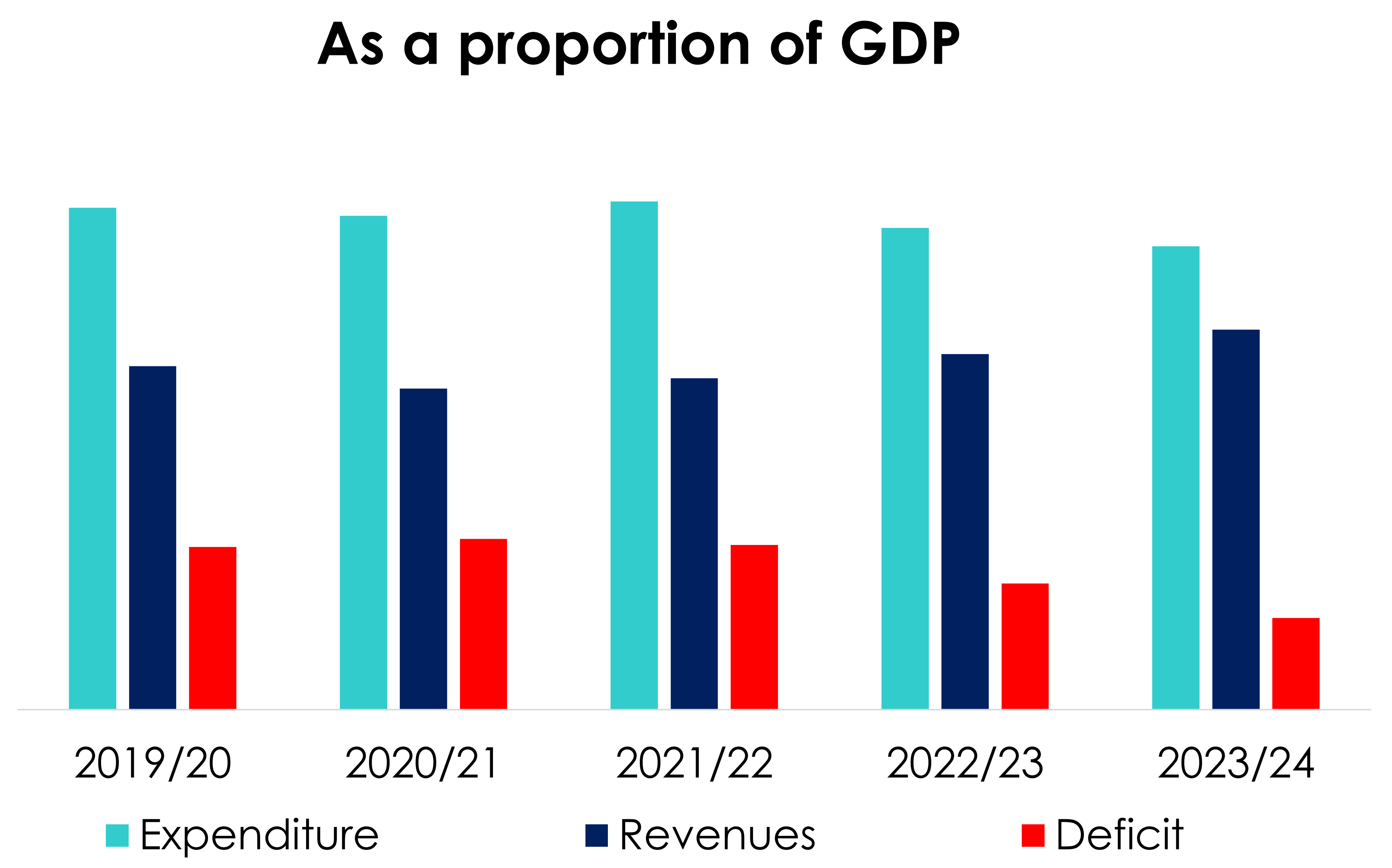
Policy priorities – Infrastructure, education, security and the Big Four

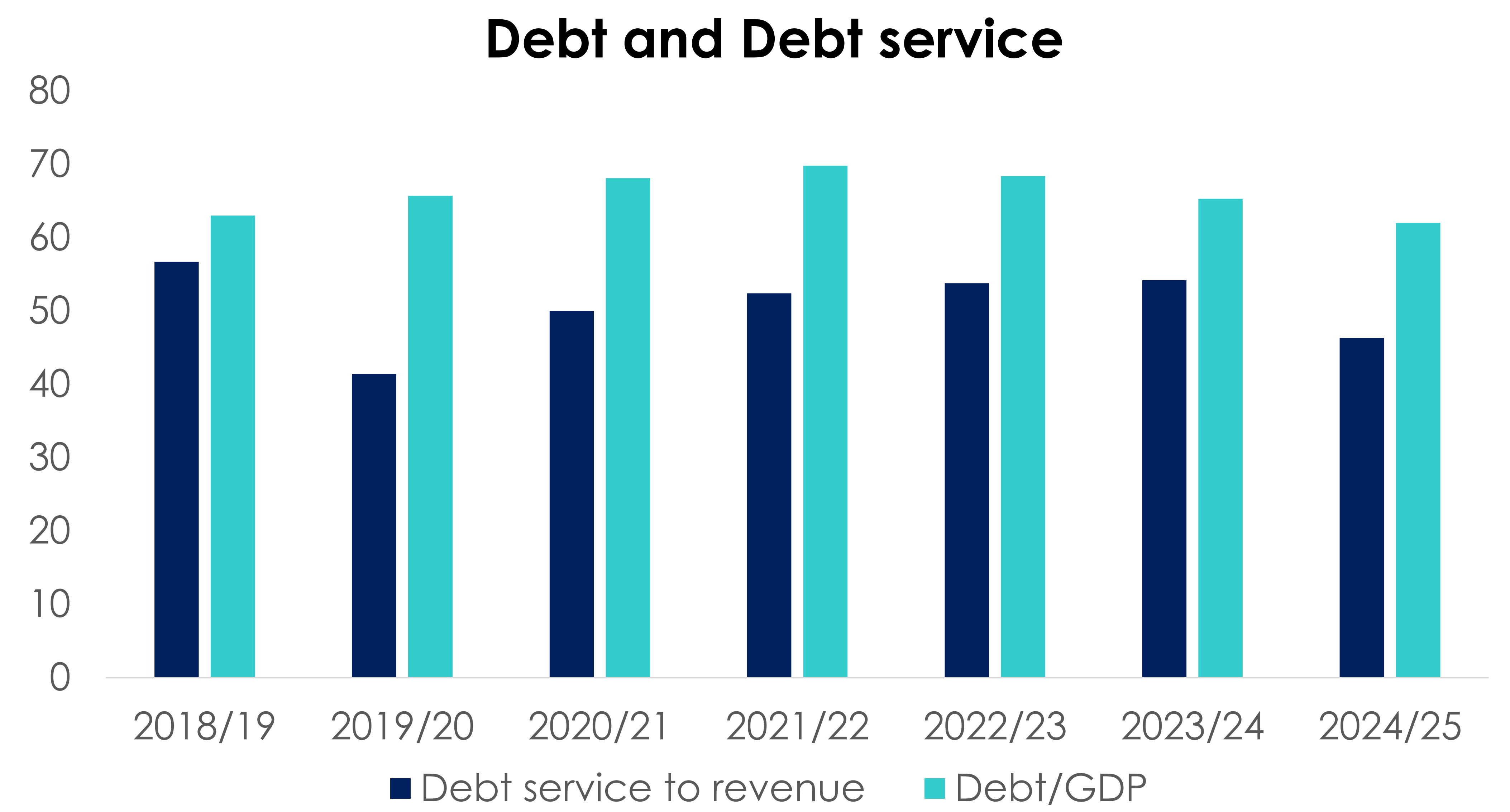


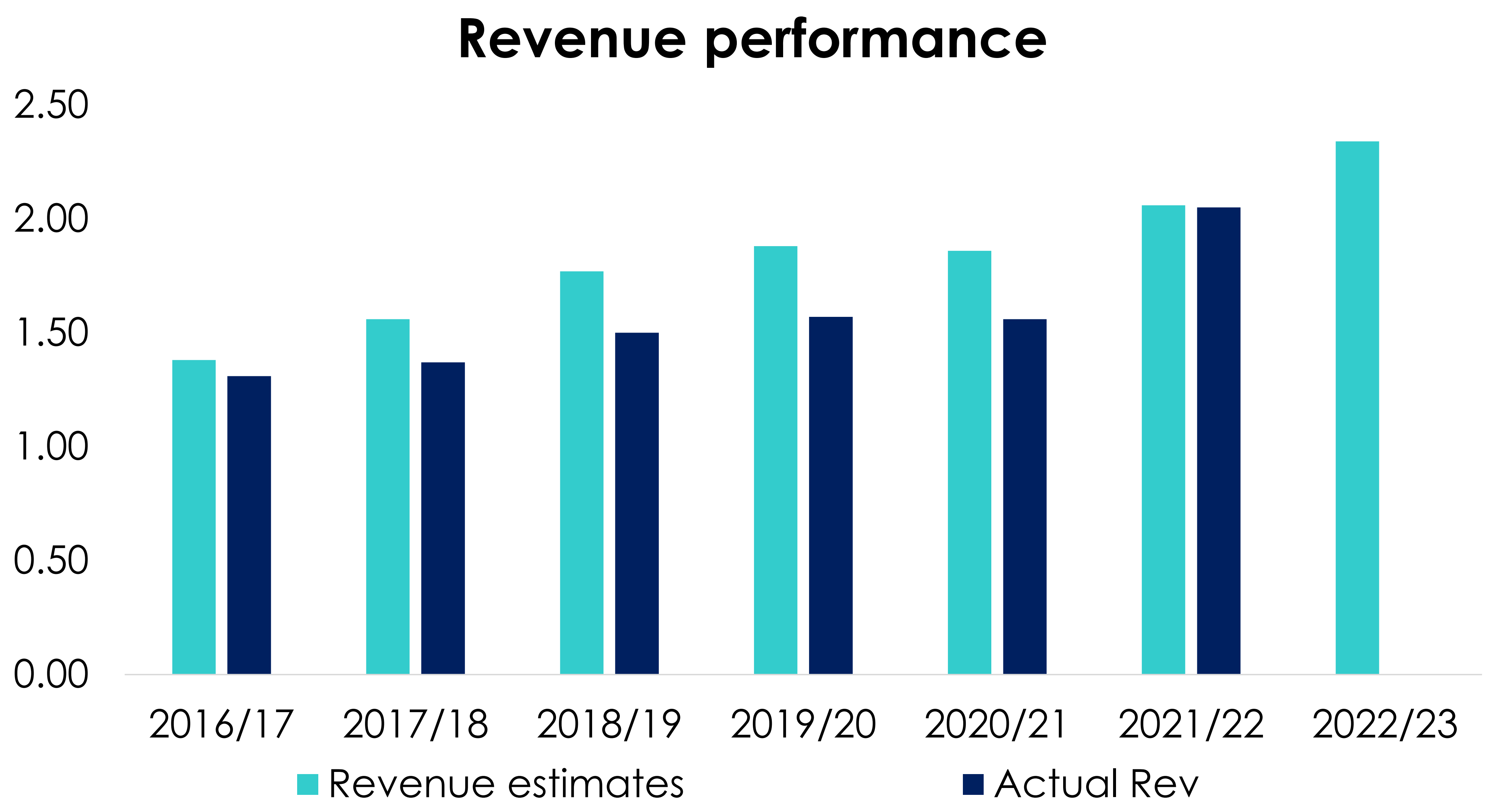
Other key priorities

- Big Four – KES 146Bn, with UHC receiving the bulk of the funds
- Economic recovery Strategy/ Stimulus – Short term support for the economy
- Settlement of pending bills estimated to be over KES 400Bn
- Social protection for the youth, women, elderly and the severely disabled
- Devolution support – KES 411Bn in allocation
- Public sector reforms for efficient delivery of services

Funding the budget – Spending, Revenue and debt sustainability concerns







- Moderation in expenditure a welcome step towards stabilizing deficit and debt – fiscal consolidation

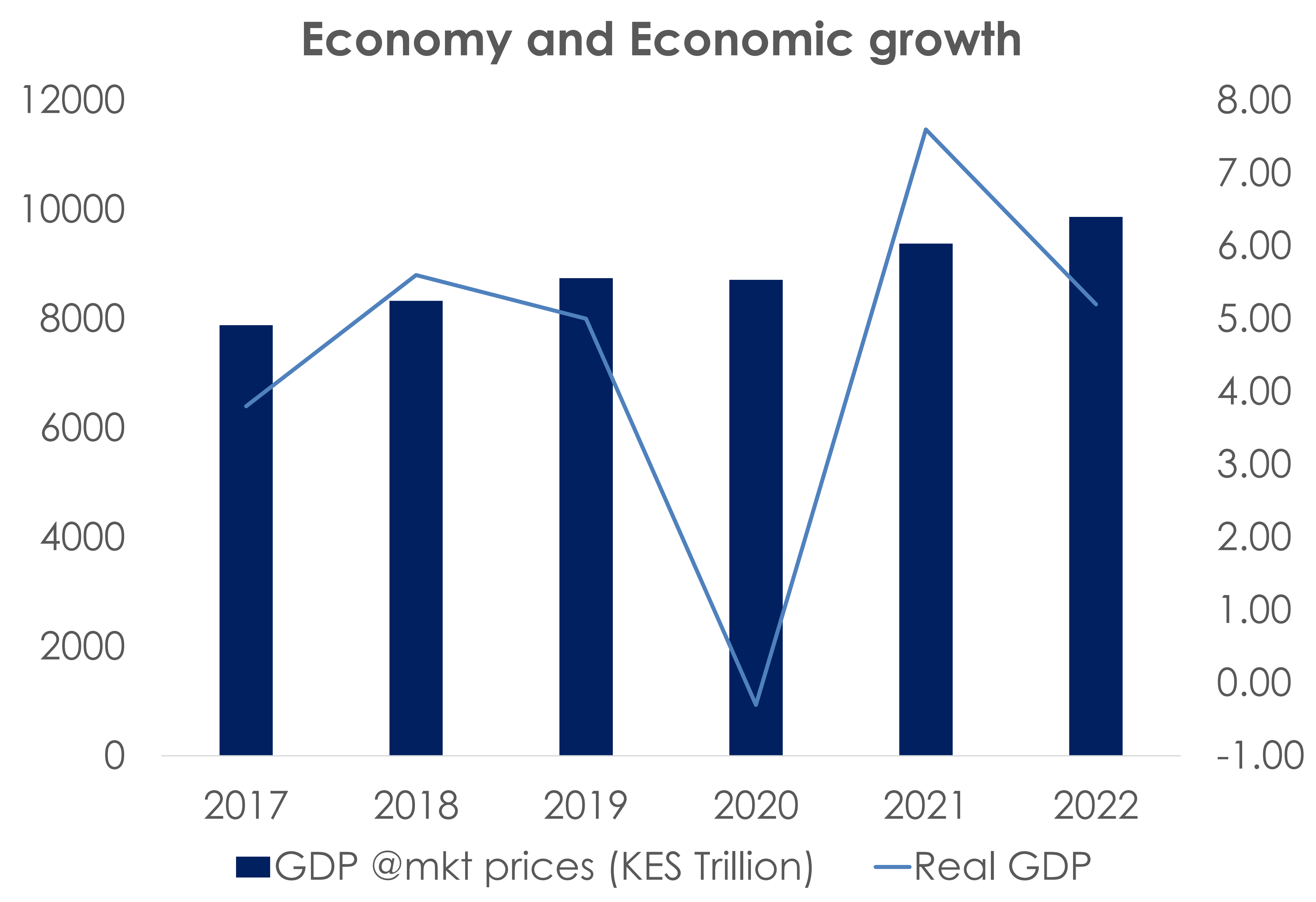
- Revenue driven consolidation possible but faces significant risks in the short term. Additional tax measures to add KES 50Bn to the exchequer.

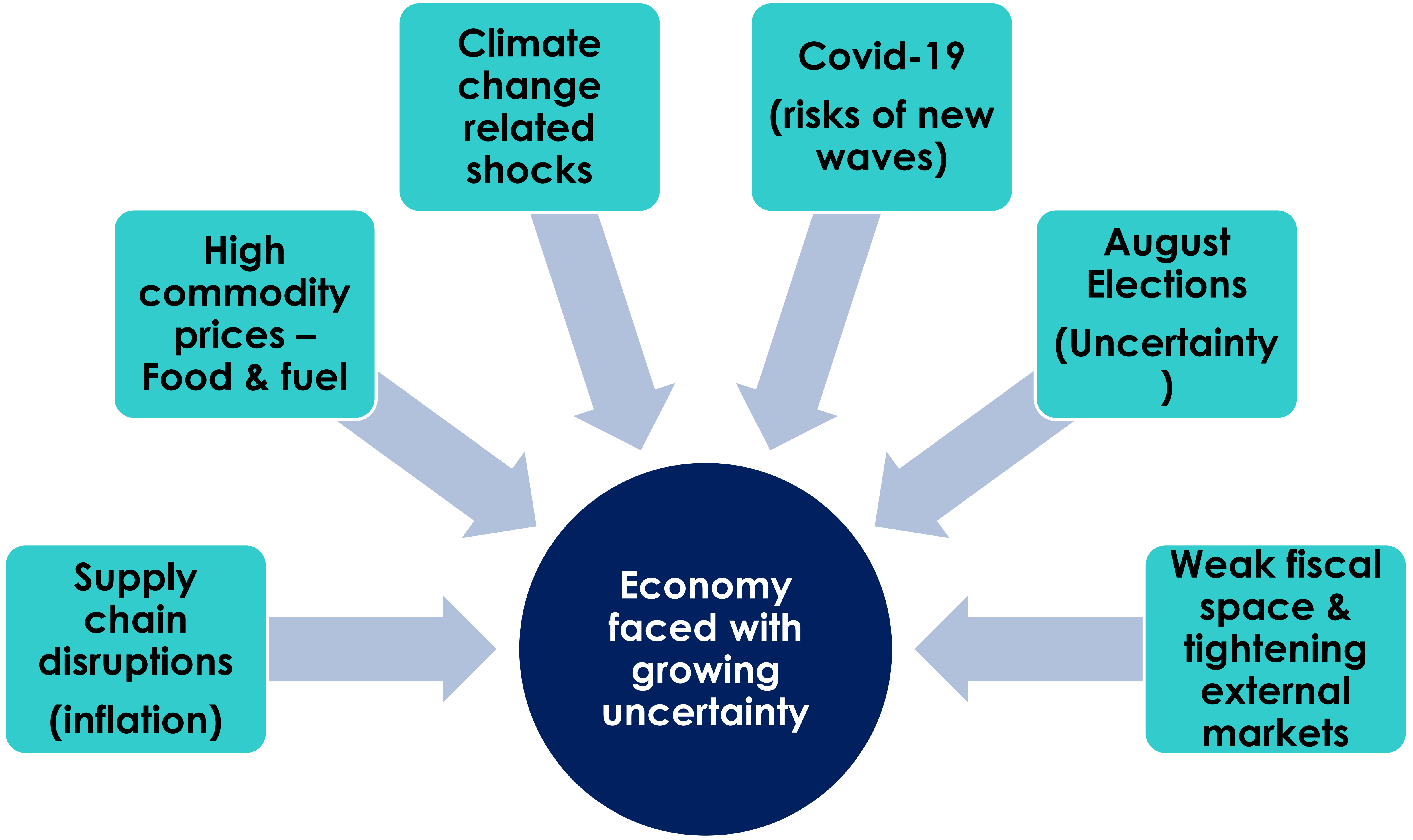
- Impressive performance in 2021/22 bolstered by strong economic recovery and efficiency gains from administrative reforms.

Revenues – Banking on growth and administrative efficiencies

New measures	Cash donations to charitable organizations to be deducted from taxable income
	Non resident gains on derivative transactions to be taxed
	Introduced a 15% excise duty on fees charged on advertisement of alcoholic beverages, betting and gaming activities
Administration	Tax payer to deposit 50% of the disputed tax at a special account at the central bank prior to filling an appeal after a decision by the Tax Appeal Tribunal
	KRA will be allowed to block the disposal of registrable assets that may be used as security for unpaid taxes
	Objection decision to be issued within 60 days from the date of receiving a valid objection by a tax payer
VAT exemptions/ Incentives	Plants and machinery used in manufacturing of pharmaceutical products
	Medical supplies – oxygen, urine bags, adult diapers, artificial breasts, colostomy or ileostomy bags
	Inputs and raw materials into locally manufactured passenger motor vehicles

Macroeconomic backdrop – Slower than projected growth and the revenue outlook

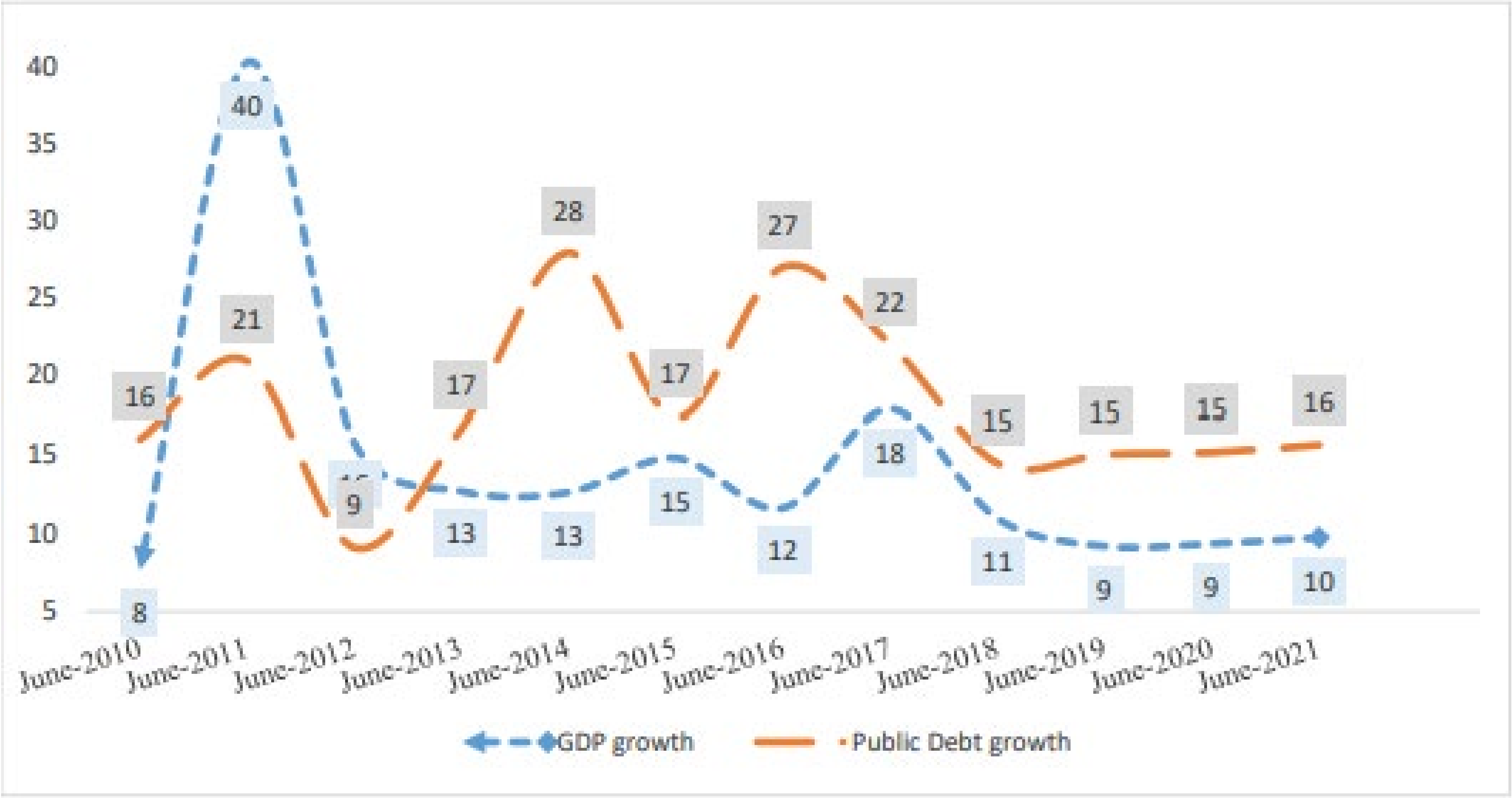


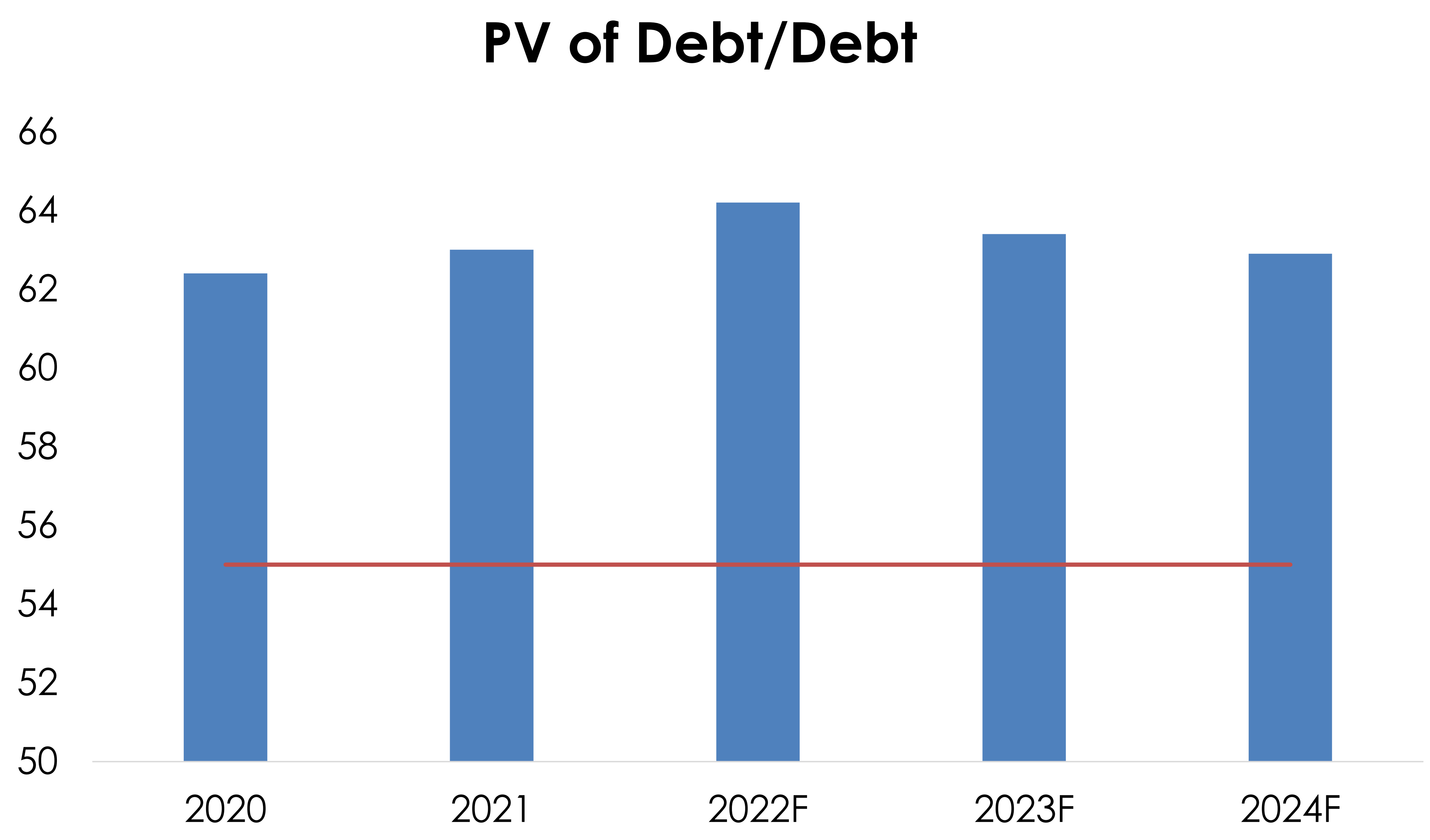


- ➢ Treasury banking on efficiency gains in tax administration and stronger economic performance to boost revenue outlook.
- ➢ We project GDP growth to slowdown to 5.2%, slower than Treasury's 6.0% forecast as consumption and investments slows amid rising costs and uncertainty.
- ✓ A prolonged drought will not only worsen the food security situation but dampen agriculture output which accounts for 22% of GDP.
- ➢ The deficit will decline but remain above the projected 6.2%.
- ➢ We expect public debt to stabilize at around 68% of GDP before beginning to ease from 2023/24. The character of debt will improve with increased concessional funding and longer tenors.

Debt management : Reversing the trend

Amendment to the Public Finance Act to anchor the debt ceiling at 55% of GDP



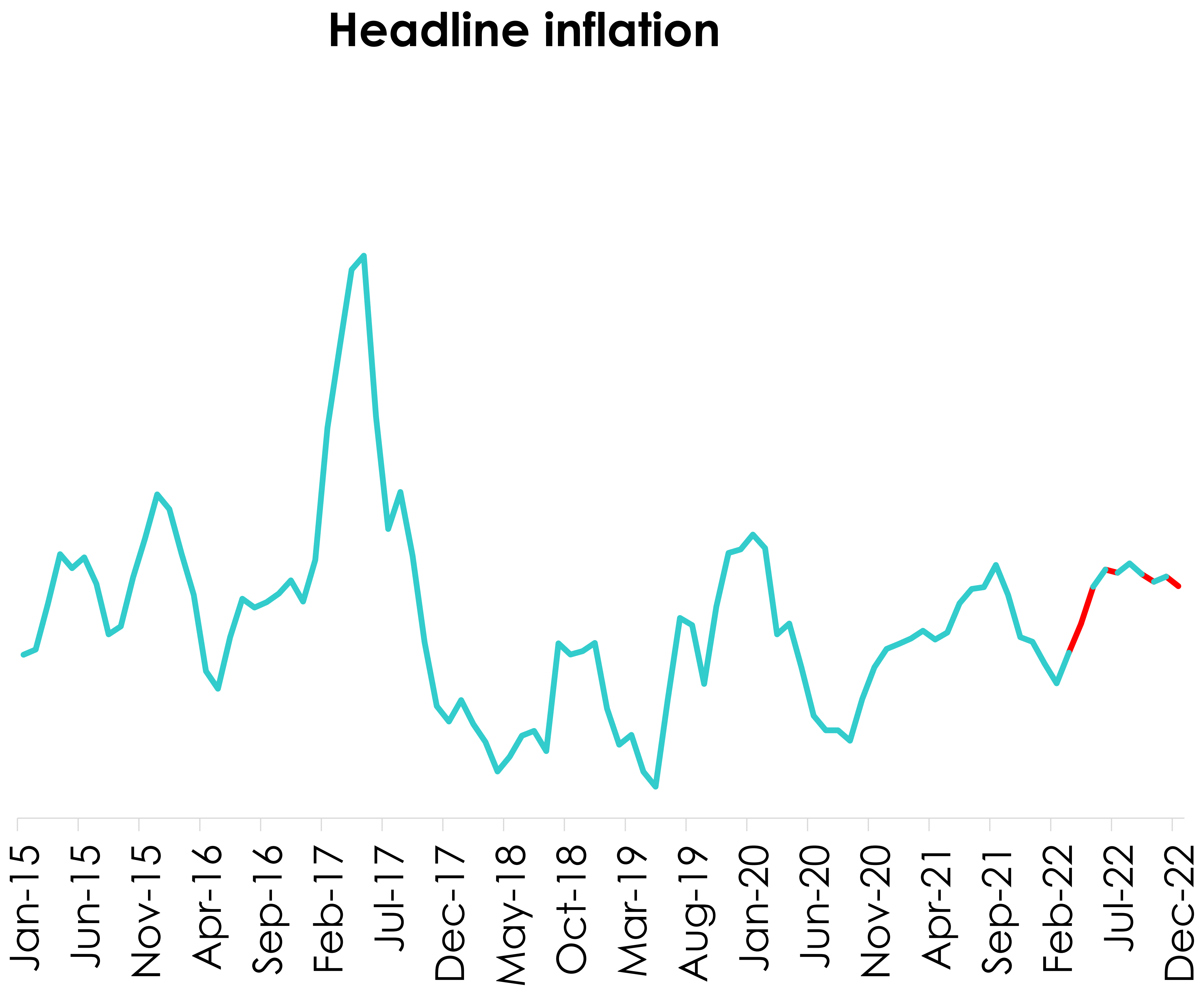


Source: IMF Kenya debt sustainability Report

- ✓ Economic growth has been lagging the growth in public debt since 2013.
- ✓ To stabilize debt, real growth will deed to de-accelerate debt and escalate growth

- ✓ According to the IMF, this already surpassed the threshold, meaning no room for debt
- ✓ Is this the new sweet spot for debt?

Inflation - Food security will remain a big challenge in 2022



- Effects of food and fuel supply shocks to remain profound for the most part of 2022.
- Weather outlook has deteriorated from the initial guidelines by the Meteorological department and the cloud on the Russia Ukraine crisis remain dense.
- Meanwhile, the government cut allocation to food security and made little intervention to enhance supply or lower prices _ awaiting Finance Bill for the Fine print
- The government cut spending to food security by about 15Bn in 2022/23
- The government need to enhance allocation for climate change risk mitigation as adaptation proves costly.

THANK YOU

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Go for it