

June 2020

Government of Kenya

Global Investor Call

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Dr. Julius Muia
Principal Secretary
The National Treasury

Dr. Julius Muia is the Principal Secretary at The National Treasury. Prior to this, he was the Principal Secretary at the State Department for Planning - The National Treasury and Planning. Before his appointment as PS Planning, he was the Director General, Vision 2030 Delivery Secretariat which operated under the Office of the President, Republic of Kenya to facilitate the implementation of Vision 2030. This is Kenya's long-term policy framework that is premised on making Kenya a globally competitive, rapidly industrializing and upper middle income economy by 2030.

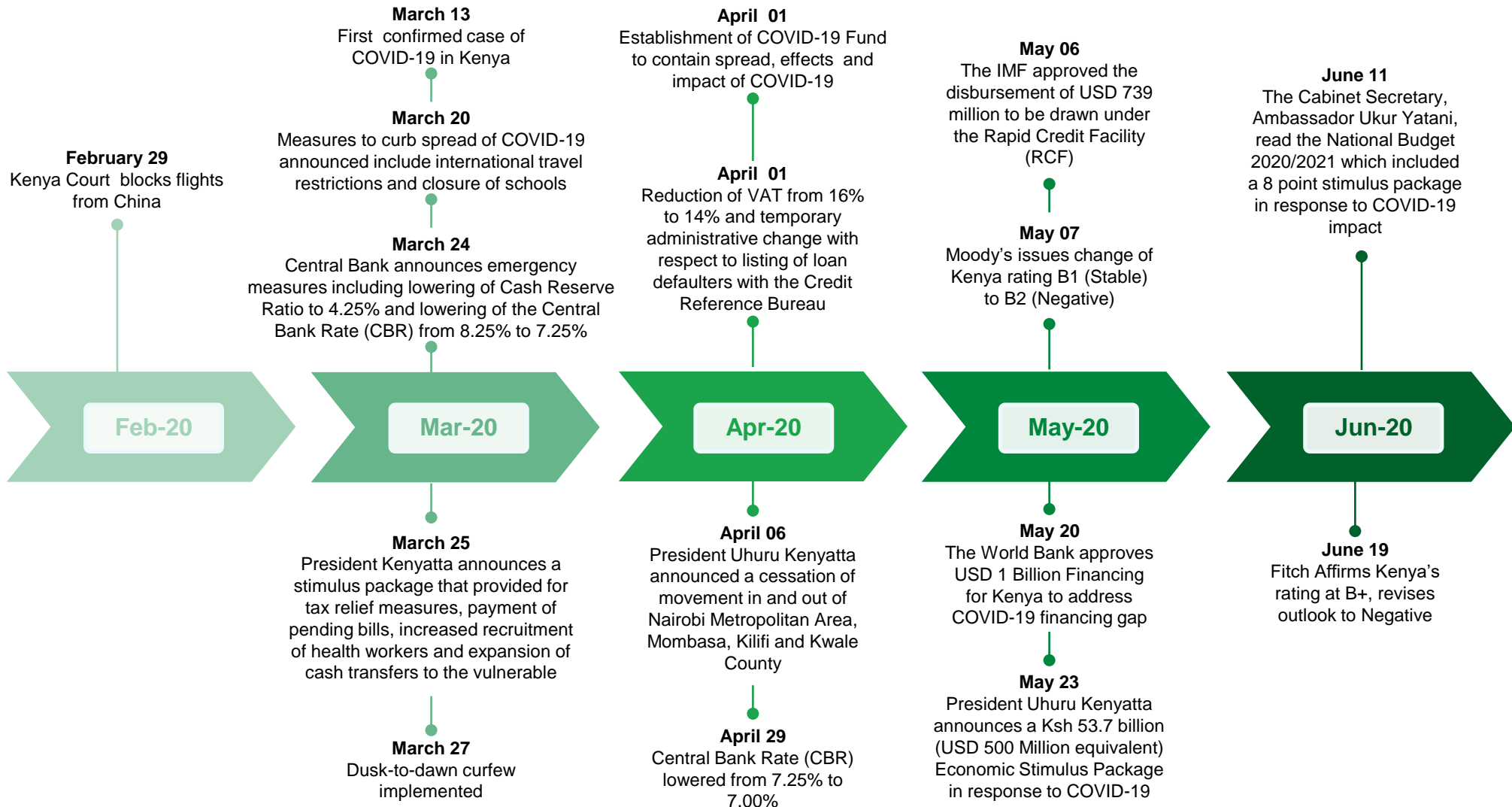
Between April 2008 and October 2016, Dr. Muia served as the Secretary, National Economic and Social Council, Office of the President. This is a top advisory government think tank whose flagship project was formulating Vision 2030.

An alumnus of the University of Nairobi's School of Business, Dr Julius Muia graduated with a First Class Honours Degree in Accounting; Masters Degree and PhD in Finance from the same university. His professional qualifications include: Certified Public Accountant (CPA-K); Certified Public Secretary (CPS-K), Associate Kenya Institute of Bankers; Associate Chartered Institute of Arbitrators; and Certified Coach



Recent Developments

The Government and its agencies have implemented substantial supportive measures to support the economy and mitigate the impact of the unprecedented challenges that the COVID-19 crisis presents.





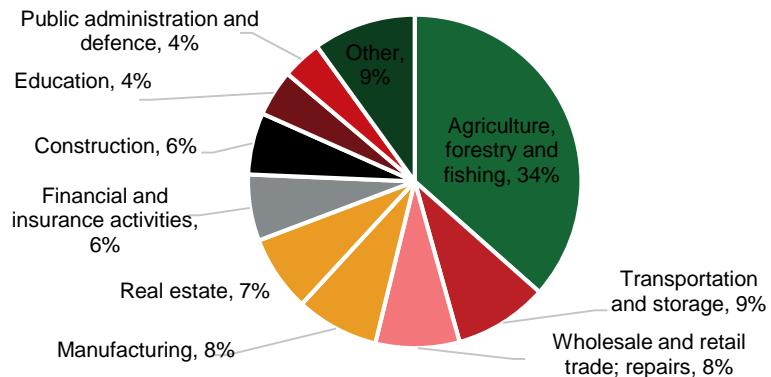
1. Macro Economic and Fiscal Position

Economic Outlook

Although Kenya's economy will slow down this year, it will maintain positive growth momentum. Growth is projected to recover to near 6% in 2021 supported by a well-diversified economy and supportive macroeconomic policy measures.

Economic Diversity underpinning Resilience

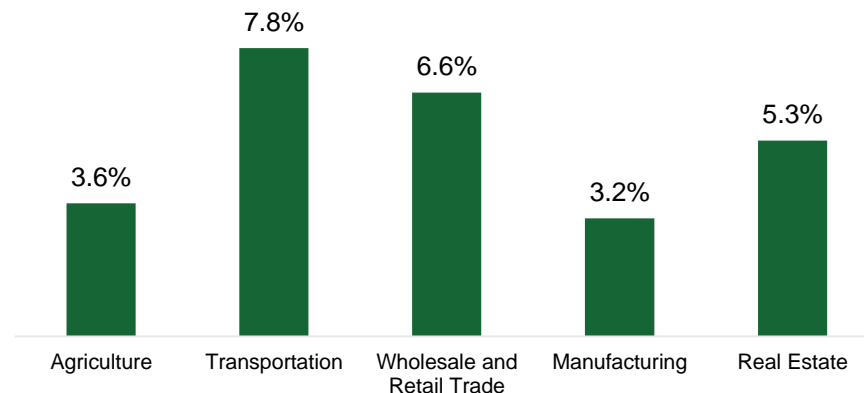
Contribution to GDP, %, 2019



Source: Kenya Economic Survey 2020

Real GDP Growth by largest sectors

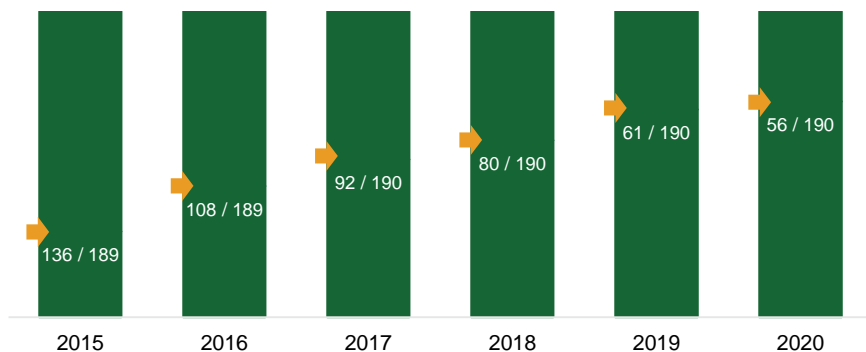
Real GDP Growth, %, 2019



Source: Kenya Economic Survey 2020

Enabling business environment attracting Investments

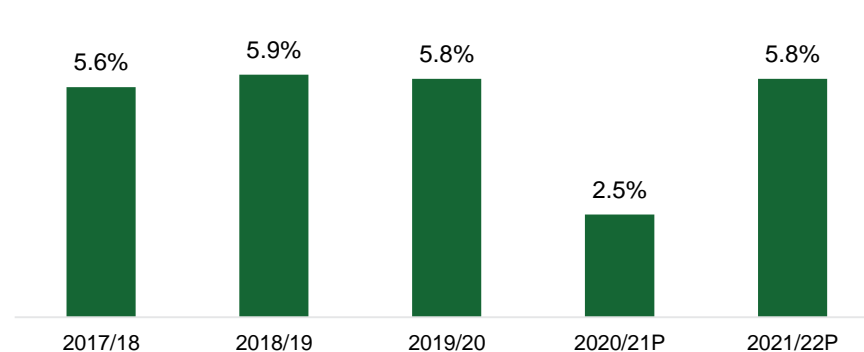
Doing Business Ranking Overall Rank



Source: World Bank Doing Business Report

Economy still on track for growth despite COVID-19

Real GDP Growth, %



Source: Medium Term Debt Management Strategy 2020, The National Treasury



Fiscal Policy Response to COVID-19

The government's economic stimulus packages are proactive and well-targeted. The eight point plan is focused on addressing the health crisis directly and providing sector specific support to business recovery.

Ensuring macroeconomic stability to support long-term investments, economic growth and development. This is to be achieved through the effective co-ordination of fiscal, monetary and financial policies. Towards this effect, measures include:

Tax Measures:

- Tax relief to Kenyans earning below Ksh. 24,000 per month
- Reduction of Value Added Tax (VAT) rate from 16% to 14%
- Reduction Personal and Corporate Income Tax rates from 30% to 25% to enhance personal earnings and purchasing power

8-point Economic stimulus package amounting to KSh 53.7 billion that will catalyse economic activity, support livelihoods and enable businesses to recover. The package will focus on the following elements:

- **Infrastructure** -rehabilitation
- **Education** – improve school infrastructure and hiring teachers
- **Small and Medium Enterprises** – The government will expand SME opportunities through operationalization of the Credit Guarantee Scheme, fast-tracking payments of VAT refunds and other pending payments
- **Health** – Enhancement of the COVID-19 response capability and implementation of the Universal Health Coverage (UHC) programme
- **Agriculture** – Interventions such as supply of farm inputs through e-voucher to small scale farmers
- **Tourism** – Provision of soft loans to hotels and related establishments through the Tourism Finance Corporation (TFC)
- **Environment** – Provision of water facilities and mitigation of the impact of deforestation and climate change
- **Manufacturing**- the enforcement of the policy on “Buy Kenya Build Kenya” Initiative



Fiscal Overview

The Government has revised its plans for fiscal consolidation as it responds with measures to mitigate the impacts of the COVID-19 crisis, but well-targeted spending can support prospects for economic recovery

Due to the adverse effects of COVID-19, the government has revised its consolidation plan for the coming years in order to support and stimulate the economy.

Budget Fiscal Targets (% of GDP)	2019/20	2020/21	2021/22
Fiscal Balance Targets (revised)	(8.3%)	(7.5%)	(6.1%)
Fiscal Balance Targets (under previous consolidation strategy)	(6.3%)	(4.9%)	(3.9%)

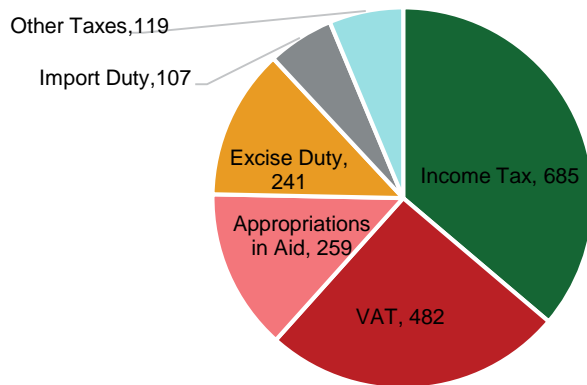
Source: Budget Statement FY 2020/21

FY 2019/20 Budget (Ksh Billion)	Printed Estimates	Revised Estimates (Post COVID-19)
Revenues	2,154.7	1,949.8
Expenditure	2,796.0	2,790.4
Fiscal Balance	(641.3)	(840.6)

Source: Republic of Kenya Financial Statement for FY 2020/21

Budget Revenues

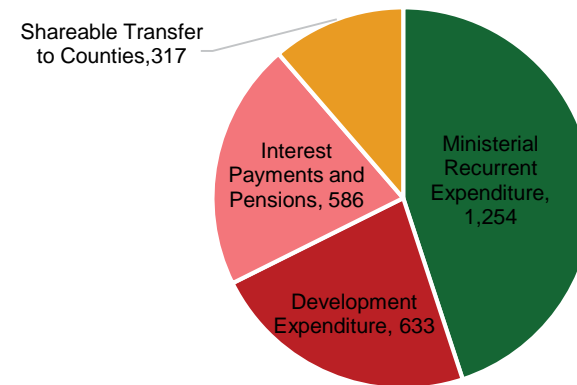
Ksh Billion, FY2020-21 Budget



Source: Republic of Kenya Financial Statement for FY 2020/21

Budget Expenditure

Ksh Billion, FY2020-21 Budget



Source: Republic of Kenya Financial Statement for FY 2020/21



Funding The Fiscal Deficit

Kenya has access to adequate concessional financing and reserves buffer to finance both the USD 7.9bn Fiscal and c. USD 351.9mn Balance of Payments gaps in FY20/21, while a robust domestic securities market provides further flexibility

Funding Fiscal Gap

In USD Billions	FY20 / 21 Budget	FY21 / 22 Projection	FY22 / 23 Projection
Sources of Funding	11.4	9.5	9.1
Semi concessional Loans	1.2	1.2	1.0
Project Loans	2.4	-	-
Commercial Financing	0.1	-	-
Program Support	1.4	1.4	1.3
Foreign Payments	1.7	2.6	2.8
Net Domestic Financing	4.6	4.3	4.0

External Financing Sources

In USD Billions	Amount	Status
Sources	1.9	
African Development Bank	0.2	Approved
International Monetary Fund	0.7	Approved
World Bank	1.0	Approved

Key Comments

- ✓ Government is committed to implement the 2020 Medium Term Debt Strategy which recommends a shift towards concessional external borrowing and lengthening of maturity structure of the domestic debt. Use of concessional debt to fund fiscal deficits as use of commercial debt is scaled down
- ✓ The Debt and Borrowing Policy approved in early 2020 will guide management of public debt
- ✓ Kenyan Government will continue to contain growth in non-core recurrent spending and enhance efforts in revenue mobilisation to reduce the deficit
- ✓ The debt burden is projected to decline over the medium term in line with the fiscal consolidation plan under implementation.

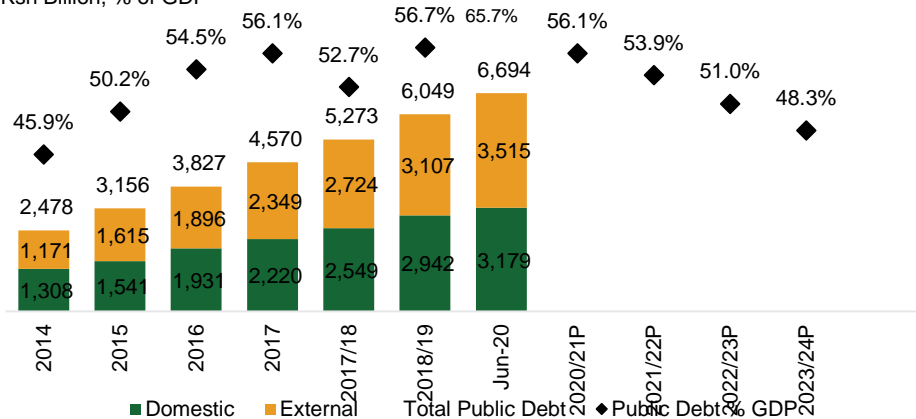


Public Debt Profile

Kenya has demonstrated robust access to international capital markets, with deep and mature domestic capital markets providing further financial flexibility. The Government continues to implement broad plans for fiscal consolidation, albeit at a more measured pace due to the crisis, to stabilize debt metrics and target a reduction in debt to GDP levels.

Public Debt

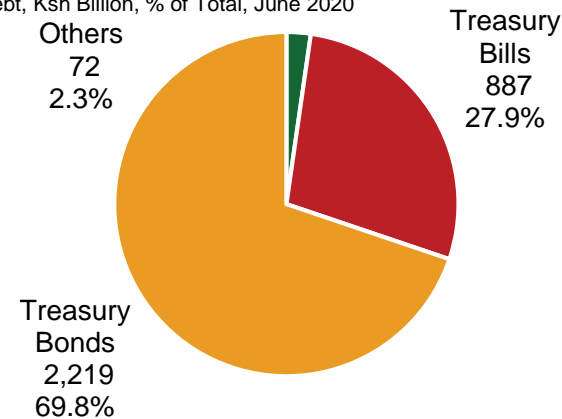
Ksh Billion, % of GDP



Source: 2020 Budget Policy, Central Bank of Kenya

Domestic Public Debt by Instrument

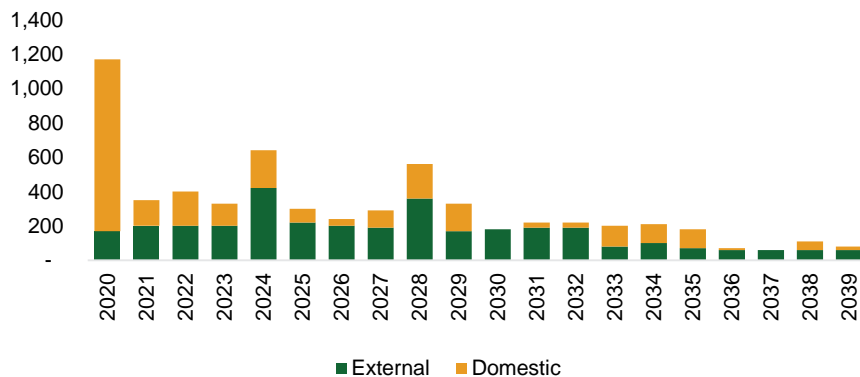
Domestic Public Debt, Ksh Billion, % of Total, June 2020



Source: Quarterly Economic and Budgetary Review, Third Quarter FY2019/20, 31 March 2020

Debt Maturity Profile

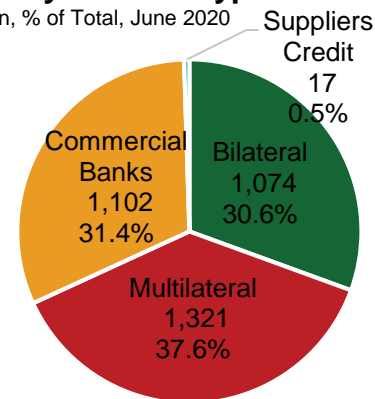
Ksh Billion, as of 31 December 2019



Source: National Treasury and Central Bank of Kenya

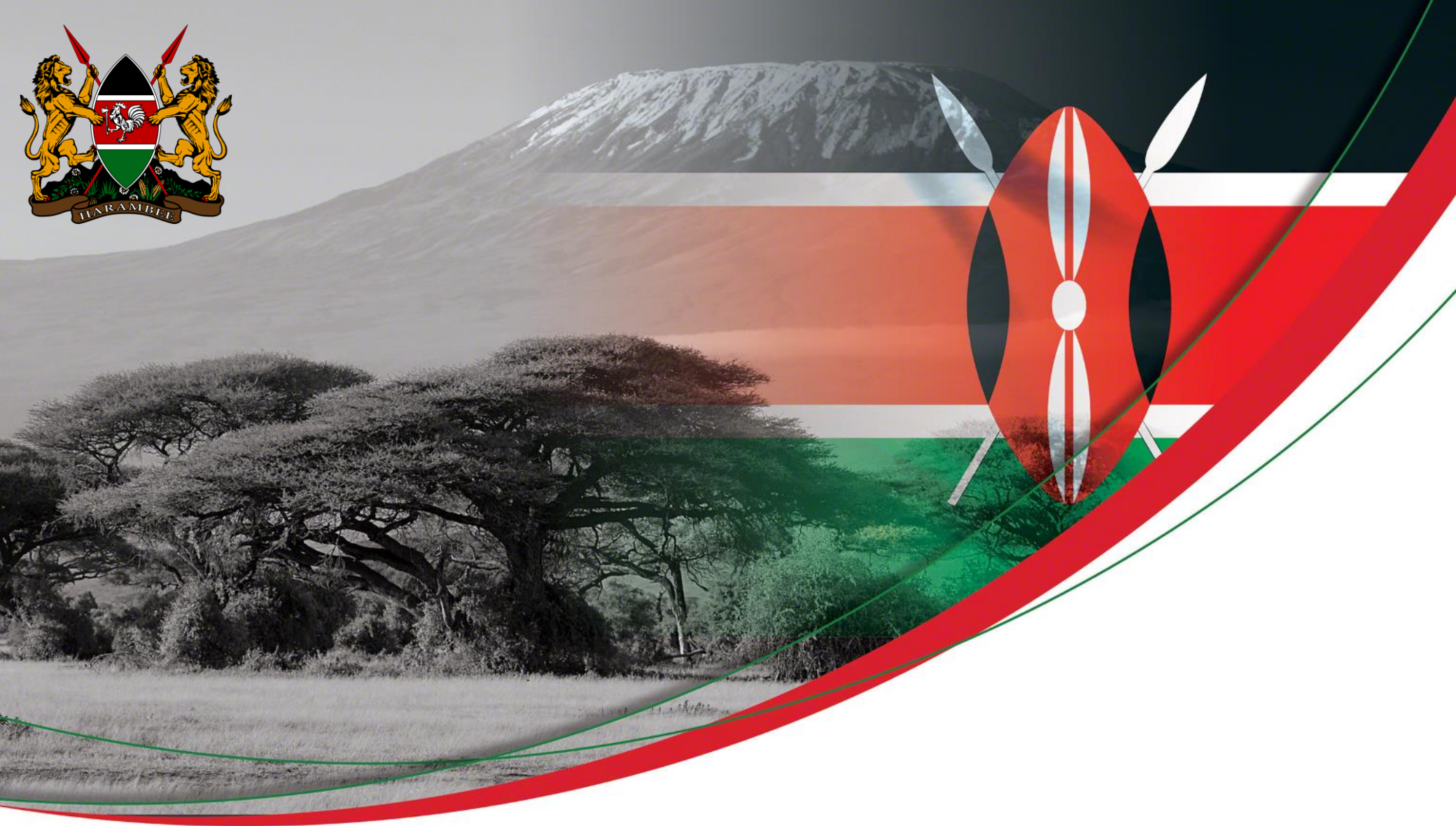
External Public Debt by Creditor type

External Public Debt, Ksh Billion, % of Total, June 2020



Source: Quarterly Economic and Budgetary Review, Third Quarter FY2019/20, 31 March 2020





2. Monetary Policy & Interventions

Monetary Policy Response

The Central Bank has taken swift and impactful policy action to support the economy, including rate reductions and loan term adjustments to increase flexibility and support credit challenges.

- On March 24, the Central Bank:
 - lowered its policy rate by 100bps to 7.25%;
 - lowered banks' cash reserve ratio by 10bps to 4.25%
 - increased the maximum tenor of repurchase agreements from 28 to 91 days; and
 - announced flexibility to banks regarding loan classification and provisioning for loans that were performing on March 2, 2020, but were restructured due to the pandemic.
- The Central Bank has also encouraged banks to extend flexibility to borrowers' loan terms based on pandemic-related circumstances and encouraged the waiving or reducing of charges on mobile money transactions to disincentivise the use of cash
- On April 15, the central bank suspended the listing of negative credit information for borrowers whose loans became non-performing after April 1 for six months. A new minimum threshold of USD 10 was set for negative credit information submitted to credit reference bureaus
- On April 29, the central bank lowered its policy rate by 25bps to 7.0%



Balance of Payments and International Reserves

Foreign exchange reserves are expected to remain robust, covering six months of imports and four-to-five months of total Current Account payments

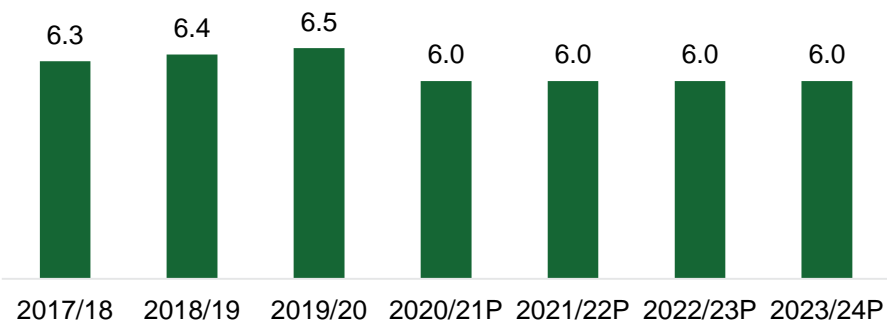
Balance of Payments

In Ksh Billion	2015	2016	2017	2018	2019
Overall Balance	26	(10)	12	(103)	(106)
Overall Balance (% of GDP)	0.4%	(0.1%)	0.1%	(1.2%)	(1.1%)
Current Account	(434)	(410)	(588)	(511)	(567)
Good exports	586	583	600	617	599
Goods Imports	1,409	1,364	1,653	1,650	1,688
Services credit	455	423	481	555	573
Services Debit	326	277	320	393	393
Net Primary & Secondary Incomes	259	226	304	360	343
Capital Account	26	21	19	27	21
Financial Account	(378)	(525)	(575)	(662)	(636)

Source: Central Bank of Kenya

Foreign Exchange Reserves

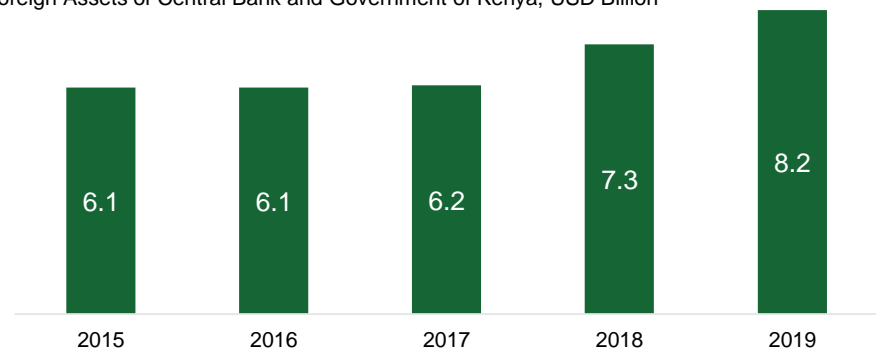
Months Import cover



Source: Central Bank of Kenya

Foreign Exchange Reserves

Net Foreign Assets of Central Bank and Government of Kenya, USD Billion



Source: Central Bank of Kenya

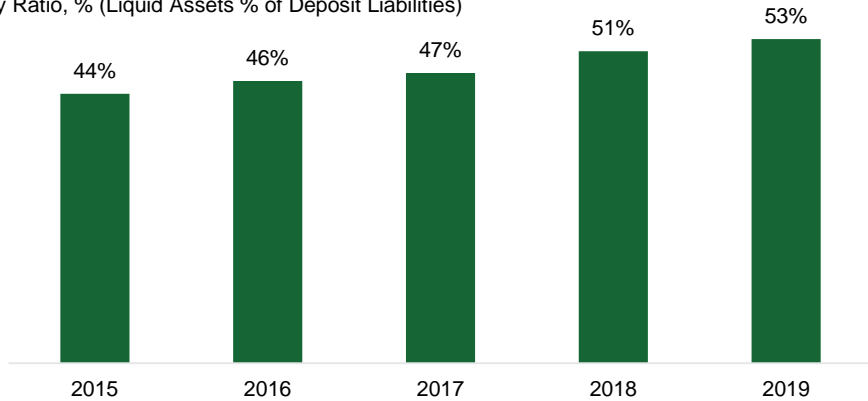


Banking Sector

The financial services sector is established and mature with a well-capitalized banking sector, a strength that will support the economy both locally as well as regionally during the economic recovery post-crisis.

Liquidity Ratio of Commercial Banks

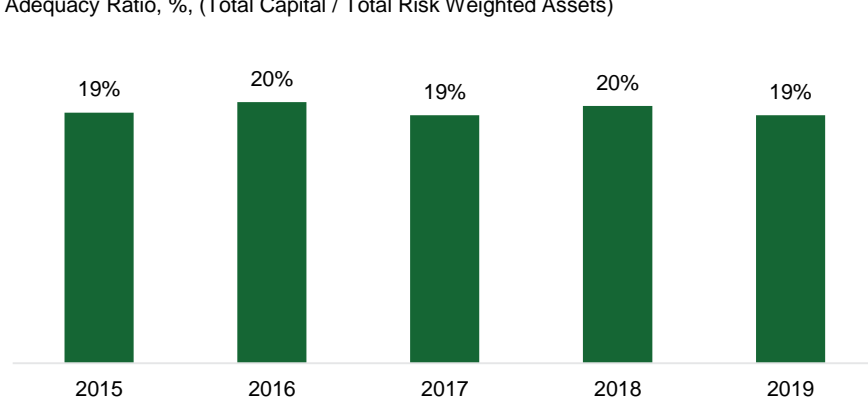
Liquidity Ratio, % (Liquid Assets % of Deposit Liabilities)



Source: Kenya Economic Survey 2020

Commercial Bank's Capital Adequacy

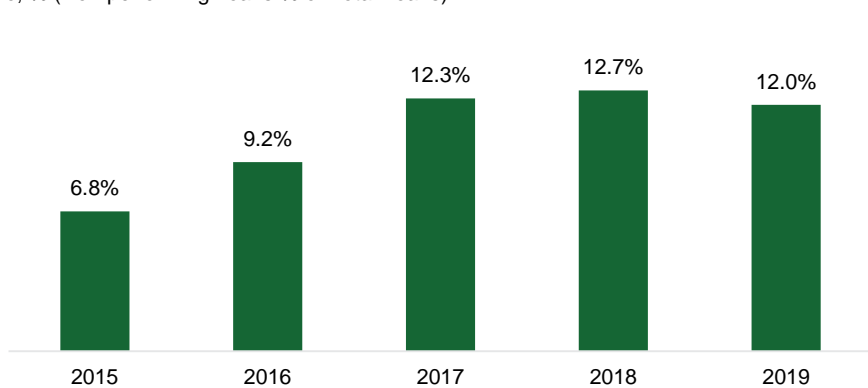
Capital Adequacy Ratio, %, (Total Capital / Total Risk Weighted Assets)



Source: Central Bank of Kenya

Non-Performing Loans

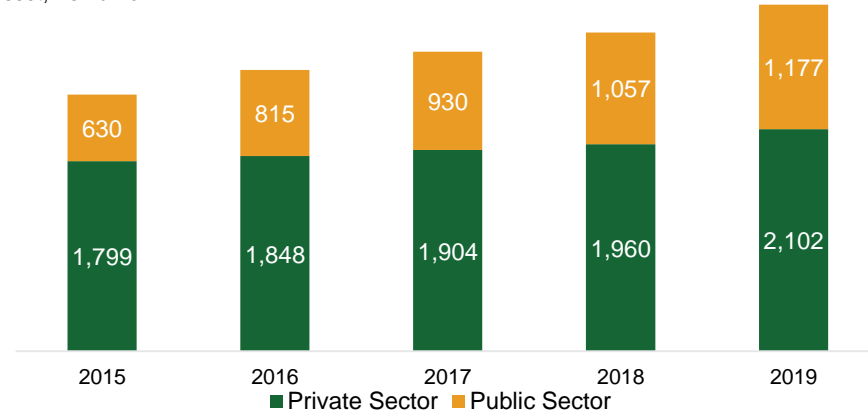
NPL ratio, % (Non-performing Loans % of Total Loans)



Source: Central Bank of Kenya

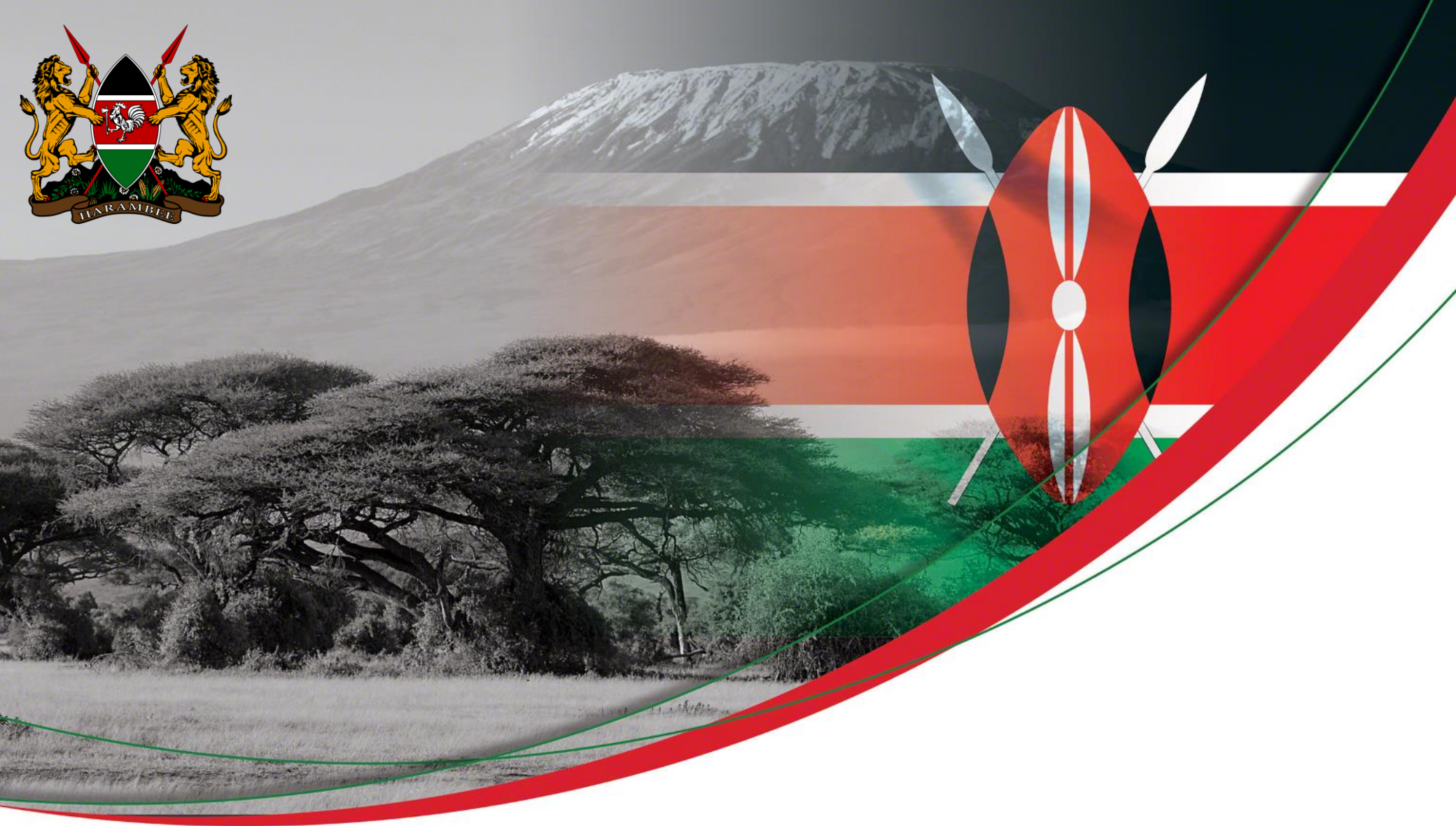
Commercial Banks Assets are growing

Total Asset, Ksh billion



Source: Kenya Economic Survey 2020

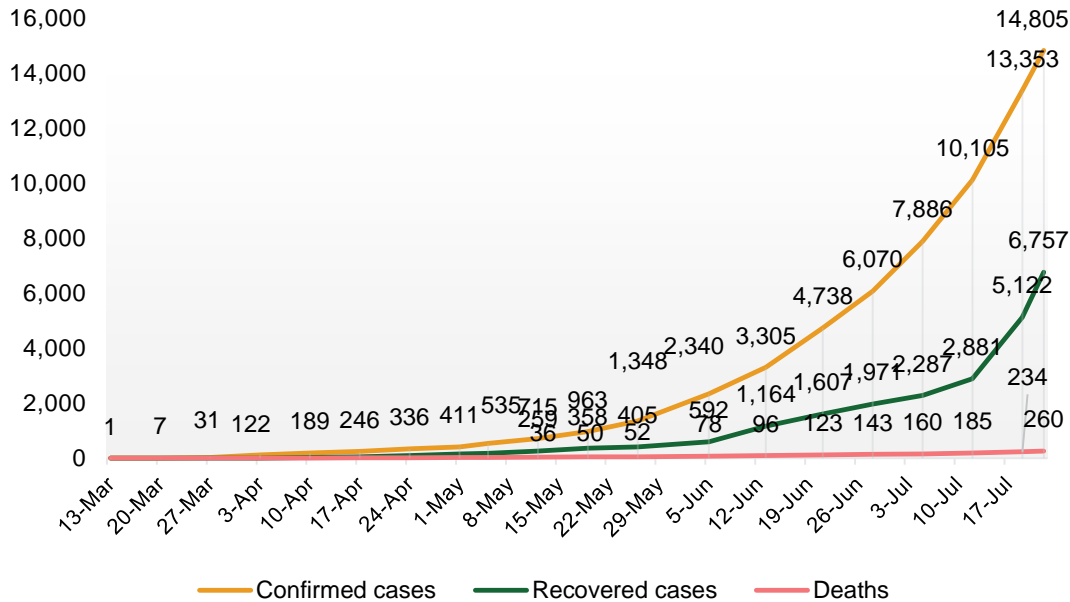




3. Post COVID-19 Recovery

Kenya's COVID-19 Status: 21st June

COVID -19 Cases, Deaths and Recoveries



Confirmed Cases
14,805

New Cases
637

Total Recoveries
6,757

New Recoveries
499

Total Deaths
260

New Deaths
10

Government Measures

Movement Restrictions	All international flights into and out of Kenya were suspended. A country-wide curfew is in place. Cessation of movement into and out of Nairobi Metropolitan Area, Mombasa, Kilifi and Kwale.
Social Distancing Measures	Ban on all public and social gatherings Closing of all schools and learning institutions
Public Health Measures	Awareness campaigns Strengthening of the public health systems



Post COVID - 19 Recovery & Growth Strategy

As part of Kenya's Vision 2030, the government aims to focus on the "Big Four" development agenda to further strengthen the economy, progress industrialization and create jobs.

The "Big Four" Investment Plan is Anchored on Four Key Pillars

Manufacturing

Growing the manufacturing sector's share of GDP to 15% from 9% by 2022, thereby furthering growth, creating jobs and reducing poverty



- ✓ Textile/ apparel/ Cotton
- ✓ Leather
- ✓ Agro-processing
- ✓ Construction materials
- ✓ Oil, Mining & Gas
- ✓ Iron & Steel
- ✓ ICT
- ✓ Fish Processing

Food Security

Focusing on food security and nutrition to all Kenyans by 2022 by expanding food supply, reducing prices and supporting value addition



- ✓ Dedicate 700,000 acres to increase maize, potato and rice production
- ✓ Expand irrigation schemes and additional water towers and protect rivers;
- ✓ Enhance crop and livestock insurance and protect farmers against climate-related risks;
- ✓ Lease government-owned idle agricultural land;
- ✓ Establish 1,000 SMEs focused on food processing to improve value addition

Affordable Healthcare

Providing universal health coverage to all Kenyans



Priority initiatives of the National Hospital Insurance Fund ("HNIF")

- ✓ Driving up HNIF uptake
- ✓ Enlist 100,000 Community Health Volunteers
- ✓ Align NHIF Act to UHC, Group Insurance, Multi-Tier Benefit Package
- ✓ Launch segregated Multi-Tiered Package
- ✓ Digitization of NHIF

Affordable Housing

Providing at least 500,000 affordable new homes by 2022



- ✓ Preliminary project designs and budget for to 55 acres Mavoko, Portlands 1, Mariguini, Kibera B&C, Kiambiu, Old estates
- ✓ Offsite and access roads
- ✓ Public transport to identify sites



Key Highlights

Prudent COVID-19 response measures implemented to support people and the economy

- Regarding the unprecedented challenge that COVID-19 represents, the government's support measures have been dynamic and multifaceted, with fiscal and monetary measures implemented to effectively support people, employment and the economy
- In addition to policy measures, the Government has taken targeted action, developing an eight-point plan focused on providing sector specific support to business recovery
- Additional government policy was implemented to address the health crisis directly through restricted movement, social distancing, and health care campaigns

Resilience and diversity supporting stability and growth in the economy

- Though the COVID-19 crisis is expected to drive a reduction in the expected real growth rate, Kenya continues to benefit from resilience through diversity in its economy, supported by prudent macroeconomic policy measures
- The Government continues to demonstrate its commitment to the "Big Four" to further strengthen the economy, through progressing industrialization and focus on job creation

Maturity and depth in the financial sector

- Kenya benefits from a well established financial services sector with a strong banking sector and relatively deep domestic capital markets (est. 25% of GDP) which mitigate the impact of the crisis and support economic recovery
- Further support and stability is demonstrated in relatively sound external reserves covering 4-5 months of current account payments

Continued progression toward fiscal consolidation

- While debt levels remain elevated as the country manages economic needs during these unprecedented times, the most recent budget incorporates continuing broad plans for fiscal consolidation, with expectations for deficit reduction in FY 2020
- Access to concessional external funding (est. two-thirds of external debt stock) contributing to manageable debt service costs as plans for fiscal consolidation continue

