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The Budget Statement Financial Year 2023/2024

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Introduction

On 15th June, 2023 the Cabinet Secretary, in charge of National Treasury, Professor Njuguna Ndung'u presented the budget statement to the Speaker of the National Assembly themed "Bottom-Up Economic Transformation and Climate Change Mitigation /Adaptation for Improved Livelihoods of Kenyans". This comes at a time when Kenya is experiencing a challenging external and domestic environment occasioned by the worst drought spell as well as the adverse Covid-19 post pandemic effects.

The total revenue projected inclusive of Appropriation-in-aid and grants for FY 2023/24 budget to be Kshs 2.96 trillion which is an equivalent of 18.2% of GDP.

Description	Amount in Kes
Taxes	2.57 trillion
Ministerial Appropriation-in-aid	348.7 billion
Grants	42.2 billion
Total Revenue Projection	2.96 trillion

Revenue raised from taxes is projected to be at Kshs 2.57 trillion equivalent, while the ministerial appropriation-in-aid is projected at Kshs 348.7 billion and grants projected at Kshs 42.2 billion. The increase in projected revenue from the Financial Year 2022/23 will be 23.3%

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The total expenditure for the Financial Year 2023/2024 is expected to be Kshs 3.67 trillion;

Description	Amount in Kes
Recurrent Expenditure	2.53 trillion
Development expenditure Including;Allocations to domestic & foreign financed projects) Contigency fund Equalization fund Capital transfers to county governments	743.5 billion
Equitable share to county governments	385.4 billion
Total Expenditure	**3.67 trillion**

Budget Deficit	718 billion
Net External Financing	131.5 billion
Net Domestic Financing	586.5 billion

The 2023/24 budget deficit of Kshs 718 billion, which is a drop from Kshs 840.9 billion in the financial year 2022/23, is largely financed by domestic borrowing as opposed to the preceding year's budget which largely relied on external sources of finance.

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TAX MEASURES

Income Tax Changes

Proposed Changes - Restriction of CGT exemption of family owned property

Tax Implication

The Cabinet Secretary proposes to amend the CGT base on the transfer of family owned property to third parties within 5 years, to the price paid by the first owner(Family) upon purchase of the property.

Our Comments

The proposal intends to seal loopholes exploited by family members upon transfer of property amongst family members to third parties.

While the intentions of the CS are clear, more specifications will be required to discern those completed as a result of abusing the CGT exemption provision from the genuine transactions involving successful transfer of property. Otherwise, if the genuine transactions are not rign fenced, the effect of this provisions willnot be limited only to the tax evaders.

Proposed Changes - Withholding Tax exemption to manufacturing of human vaccine

Tax Implication

The Cabinet Secretary proposes to exempt local manufacturers of human vaccines from withholding on payments made in respect of royalties and interest paid to non-residents

Our Comments

Following the effects of the Covd-19 outbreak, this proposal intends to promote local investments in the manufacture of human vaccines.

Proposed Changes - Turnover Tax (TOT)

Tax Implication

The Cabinet Secretary proposes to increase the rate of turnover tax to 3%. Currently, turnover tax is charged at the rate of 1%.

In addition, the CS proposes to reduce the upper threshold from Kes 50 Million to Kes 25 Million. Currently, the turnover threshold is over Kes 1million and does not exceed Kes 50 Million.

Our Comments

Increasing the Turnover Tax from 1% to 3% indicates the urge of the government to increase its collections and achieve the revenue targets. However, this will be detrimental to MSMEs which are the backbone source of income and employment to many low income earners.

Coming at a time that the country is grappling with slow post Covid-19 pandemic recovery of the economy, this is a retrogressive proposal which will have many macro businesses being brought to a taxing net. Similarly, the SMEs with over Kes 25 Million in turnover will be required to switch to the regime of a 30% standard corporate tax rate.

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Proposed Changes - Digital Asset Tax

Tax Implication

The Cabinet Secretary proposes to introduce a 3% tax on the value of a digital asset transferred or exchanged.

Our Comments

Through this proposal, the government will be leaving no stone unturned by tapping into the digital assets industry that has experienced tremendous growth over time.

The proposal will widen the tax base by bringing to tax net the digital asset.

Proposed Changes - Post - retirement medical fund relief

Tax Implication

The Cabinet Secretary proposes that a resident individual who contributed to a post-retirement medical fund in any year of income is entitled to a post-retirement medical fund relief of up-to 15% or Kes 60,000 pa, whichever is lower.

Further, the CS proposes to exempt from tax investment income earned by a Post Retirement Medical Fund.

Our Comments

This relief will be a welcome move to the individuals that are making contributions to a registered post retirement scheme as they will have a higher take home.

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In addition, this will encourage more personnel to make contributions towards post-retirement medical funds.
In the long run, this will enhance accessibility of dignified healthcare by retirees.

Proposed Changes - Withholding Tax on Sales promotion, Marketing and Advertising Services

Tax Implication

The Cabinet Secretary proposes to introduce withholding tax on payments made with regards to sales promotions, marketing and advertising services at the rate of 5% on gross amounts exceeding Kes 24,000.

Our Comments

This proposal intends to bring into the taxing net the sales promotions, marketing and advertising services, by residents which are currently not subjected to withholding tax.

This proposal also brings about clarity, considering in practice, payments made against these services have been subjected to withholding tax either as professional or management fees.

Proposed Changes - Withholding Tax on Digital Content Monetization

Tax Implication

The Cabinet Secretary proposes to introduce withholding tax payments made with regards to digital content monetization in Kenya at the rate of 5%

Our Comments

This proposal showcases the government's intentions to tap into the digital market, which has not been exploited previously.

This is a move that will increase the revenues to be collected by the Kenya Revenue Authority. Given the digitization of business across many sectors, this is expected to increase the cost of doing business on digital content that is monetized with an added obligation of complying with the withholding tax provisions.

Proposed Changes - Rental Income Tax

Tax Implication

The Cabinet Secretary proposes to reduce the residential rental income tax from 10% to 7.5% on the gross rental receipts.

Our Comments

Through this proposal, it is a noble act by the CS to enhance compliance among the property owners.

Through this, it is expected that more revenues will be collected from monthly rental income tax. In addition, the property owners will in the long run have a higher home intake from the reduced tax rate.

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Proposed Changes - Interest Deduction Restriction

Tax Implication

The Cabinet secretary proposes for an amendment to exclude interest on loans borrowed from local financial institutions from interest deduction restriction.

Our Comments

This proposal is a positive move that will ring fence the interest paid on local loans from being disallowed when computing for the coprorate income tax.
This is because there is no profit shifting on local borrowings since all the amounts is taxed locally unlike in the case of foreign borrowings.

Proposed Changes - 100% Investment Deduction on implements and utensils

Tax Implication

The CSproposes to introduce a 100% investment allowance in the 1st year of use on implements, utensils or similar articles used in the production process for over a period of three years, in determination of taxable profits.

Our Comments

This is a welcome move as it allows investors to claim the capital cost incurred in acquiring these utensils and their equivalents.
This will encourage more investment within the country.

Proposed Changes - New PAYE Tax Band

Tax Implication

The Bill proposes the following new tax band on PAYE for individuals;

Monthly Tax Band
On 24,000 …………………..10%
Next 8,333 …………..………..25%
Next 32,333………………..…30%
500,000 to 800,000…………32.5%
Above 800,000………………35%

Our Comments

If this proposal is enacted, individuals with a higher income and wealth will be subjected to PAYE at a higher rate of 32.5% and 35%. While the low income earners shall retain their home take.

Adoption of these rates implies that the high income earners will be giving back a little more to the society through the PAYE deduction.

In the long-run, this is expected to boost the tax revenues collected by the Kenya Revenue Authority in meeting the tax targets.

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Proposed Changes - Non-resident Companies (Branch entities)

Tax Implication

The Cabinet Secretaryl proposes to reduce the corporate tax rate for branches in Kenya to 30%.
The CS also intends to introduce a 15% tax on repatriated profits.

Our Comments

Currently, non-resident companies are subjected to corporate income tax at 37.5%.

This proposals are similar to the propositions made under the Income Tax Bill, 2018 on applying a similar corporate income tax rate for both resident and non-resident entities, except for the repatriated profit, it provided for a 10% tax rate.

This is a move that will spur more foreign investment and establishment in Kenya.

With the proposition to introduce a charge on repatriated profits, this will comply with the fairness canon for entities that are giving back to their parent entities either through profits or dividends.

The introduction of tax on repatriated profits intends to streamline the Kenyan Tax framework with the global tax practices. Currently, in East Africa, Tanzania and Uganda charge a 10% and 15% tax on repatriated profits.

TAX PROCEDURES ACT

Proposed Changes - Electronic Tax invoice Management system (eTIMs)

Tax Implication

The CS proposed an amendment to require the taxpayer issue electronically generated tax invoice which can be traced and tracked through the Electronic Tax invoices Management system (eTIMs)

Our Comments

This Amendment will ensure improved tax compliance and align the practice with the VAT Act provisions on the electronic tax invoices. This will enhance transparency and VAT administration. In the long run, this will impact the revenue collection by the government to bridge the budget deficits.

Proposed Changes - Tax Amnesty

Tax Implication

The CS proposes;

i) To introduce a tax amnesty program for penalties and interest where the taxpayer had paid all the principal tax due before 31 December, 2022. As such, the Commissioner shall refrain from recovering penalties and interest on the principal tax due.

The amnesty shall be granted if the taxpayer makes an amnesty application and pays the outstanding principal taxes between 1stSeptember 2023 and 30 June 2024.

Our Comments

This Bill comes as an extension of the Voluntary Tax Disclosure Program which proved successful to persons that were not compliant. This is a welcome move, that will enhance compliance among taxpayers while giving an amnesty on the penalties and accrued interest on outstanding taxes.

Proposed Changes - Trust Records

Tax Implication

The CS has proposed an amendment that requires all trustees administering trusts in Kenya to maintain and avail records required by the Authority.

Our Comments

This amendment is aimed at helping the government to ascertain the tax payable on the income paid to the beneficiaries.

Proposed Changes - Agency Notice

Tax Implication

The Cs has proposed to have an amendment to enable the Commissioner issue agency notices on taxpayers who default on payment of installment tax and on principal taxes arising from self assessment.

Our Comments

This proposed amendment seeks to expand the scope under which the Commissioner May issue agency notices. This creates a need for the taxpayers to be careful in adhering to the timelines for payment of taxes in order to avoid the enforcement measures of agency notices.

Proposed Changes - Powers abandon Tax

Tax Implication

The CS has proposed to the national assembly an amendment to remove powers from the commissioner of abandoning tax as well as waivers on penalties and interest that currently exist in the Tax Procedures Act.

Our Comments

This proposal comes at a time when the finance bill has proposed to waive all penalties and interests accrued up to December 2022. It depicts that the government is on a mission to encourage the taxpayers to clear backlog taxes and at the same time, restrict the taxpayers from accumulating liabilities from 2023 moving onwards since the waivers on penalties will no longer be applicable.

Proposed Changes - Introduction of data management and reporting system

Tax Implication

The CS proposed to the NA for an introduction of data management and reporting system that will allow taxpayers to electronically submit standardized transactional data on a real-time basis.

Our Comments

This amendment will bring efficiency in tax administration, reduce delays and enable the commissioner to make decisions on time. Additionally, it will increase tax compliance to the taxpayers since the transactional data will be provided on a real time basis.

Proposed Changes - Impersonation of Kenya Revenue Authority officers

Tax Implication

The CS has proposed to the National Assembly to provide for offences and sanctions relating to impersonation of Kenya Revenue Authority officers.

Our Comments

This is a welcome move that will reduce cases of impersonation of KRA officers which has recently been on the rise.

Proposed Changes - Tax Refunds

Tax Implication

The CS has proposed the following amendments in regards to the tax refunds;

i) Proposal for an amendment to allow taxpayers who overpay taxes to utilize overpaid tax to offset both outstanding tax debts and future tax liabilities.

ii) Proposal for an amendment that will require Kenya Revenue Authority to pay approved refunds within 6 months.

iii) Proposal for an amendment to provide an additional 30 days for the determination of complex tax cases.

iv) Proposal for a provision that will enable automatic offset of the approvedrefunds against outstanding tax liabilities in other tax heads orfuture tax liabilities.

Our Comments

This is a welcome move that will enhance efficiency in the processing of refunds and help taxpayers access the funds as soon as the refund is approved.

If enacted, the proposals will allow taxpayers to offset overpayments against their liabilities without further reference to the KRA, where the Commissioner does not determine the offset application within the prescribed timelines.

VALUE ADDED TAX (VAT) CHANGES

Proposed Changes - Liquified Petroleum Gas

Tax Implication

The budget policy statement has proposed to zero rate the LPG.This is due to continued use of firewood and charcoal which negatively affects the country forest cover.

Our Comments

This is aimed at making LPG gas more affordable to Kenyans and help the initiative of increasing the forest cover in the country.

This is a welcome move that will allow taxpayers to claim input VAT thereof.

Proposed Changes - Exported Services

Tax Implication

The budget policy statement has proposed to exempt exported services from Value added Tax. Currently these services are subject to VAT at the standard rate of 16%.

Our Comments

Exempting exported services is a good move as it will reduce the cost of importation hence more services will be exported .However,input VAT will not be claimed which might trigger the exporters to pass input VAT to their customers.

In the future the government should consider zero-rating these services.

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Proposed Changes - Tea Purchase from Factories or Tea Auction centers.

Tax Implication

The budget policy statement has proposed to exempt VAT on tea purchased from Tea Factories or Auction centers for value addition.

Our Comments

This is a welcoming move to encourage local value addition of tea.This will improve cash flows for tea exporters.

Proposed Changes - Helicopters, airplanes and other aircrafts of unladen weight not exceed 2000 kgs

Tax Implication

The budget policy statement has proposed to exempt aircrafts, simulators for training pilots and aircrafts spare parts from VAT.Currently they are subject to VAT at 16%

Our Comments

This proposal intends to ease the administrative burden on taxpayers to comply with VAT requirements. Further the exemption will reduce aircraft maintenance and training activities hence encourage these activities from being taken from other jurisdictions. If this proposal is enacted it will encourage investment in this sector.

Proposed Changes - Petroleum products

Tax Implication

The CS has proposed to remove preferential rate on the petroleum products so that it will be subject to to standard rate of 16%

Our Comments

This proposal is likely to impact the prices of petroleum products which is a major input used in most operations within the country. If enacted,it will negatively impact transport and increase production of goods.

Proposed Changes - Machinery used by pharmaceutical companies

Tax Implication

The budget policy statement proposes to extend exemption of machinery and equipment purchased locally for use in the manufacture of pharmaceuticals.

Our Comments

This is a welcome move yo compliment government effort to ensure all Kenyans have access to affordable healthcare

Proposed Changes - In bound International sea freight

Tax Implication

The budget policy statement proposes a zero rate in bound international sea freight offered by registered persons.

Our Comments

This is to encourage investments in maritime activities and attract international sea freight.

Proposed Changes - Taxable services supplied for construction of specialized hospitals

Tax Implication

The budget policy statement proposes to exempt taxable services supplied for construction of specialized hospitals, goods and services for construction for tourist facilities, goods more than 2Billion purchased by manufacturers and plant, machinery and equipment used in construction of plastic recycling plants.

Our Comments

This proposal is aimed at addressing the escalation of tax expenditures and fostering prudent utilization of fiscal resources.

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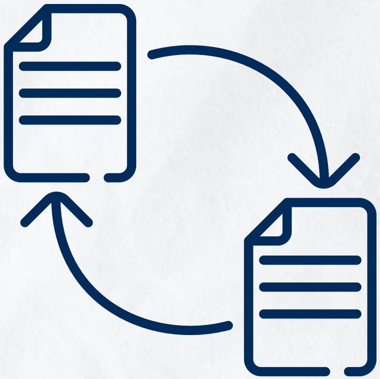
Proposed Changes - Transfer of business as a going concern.

Tax Implication

The budget policy statement proposes to exempt transfer of business as a going concern from VAT. Currently this is subject to VAT at a standard rate.

Our Comments

This proposal is expected to encourage business reorganization, i.e. mergers and acquisitions, sale of business hence boost growth of business as well as efficiency.



EXCISE DUTY PROPOSALS

Proposed Changes - Remittance of excise duty on betting and gaming activities

Tax Implication

The CS has proposed to amend the act to provide for remittance of excise duty on betting and gaming activities within 24 hours after closure of transactions by betting and gaming companies. Currently this is done by the 20th of the following month.

Our Comments

This proposal will aim at enhancing cash flow for the government. It will increase compliance obligations to betting companies.

Proposed Changes - Excise duty on betting and gaming, prize competitions and lottery

Tax Implication

The CS has proposed to increase the rate of excise duty on betting, gaming, prize competitions and lottery from the current rate of 7.5% to 12.5%.

Our Comments

Raising the rate of excise from 7.5% to 12.5% is a move intended to reduce the participation in betting, gaming and lottery due to the addictive nature and negative social economic effect to the society.

Proposed Changes - Importation of fish

Tax Implication

The CS has proposed to introduce excise duty on imported fish at Ksh.100,000 per metric tonne or 10% of the excisable value whichever is higher

Our Comments

This is a welcome move as it will promote and protect local fish industries which provide livelihood for many Kenyans.

Proposed Changes - Juices in powder form

Tax Implication

The CS has proposed to introduce excise duty on powdered juice at Ksh 25 per Kg.

Our Comments

This proposal will create fairness in taxation of juices. Currently powdered juice is not subject to excise duty.

Proposed Changes - Sugar

Tax Implication

The CS has proposed to introduce excise duty on imported sugar at the rate of Ksh 5 per kg excluding the sugar imported or purchased locally by registered pharmaceutical manufacturers for use in manufacture of pharmaceutical products .

Our Comments

This proposal will have a negative impact on the taxpayer as they will be required to dig deep in their pockets to purchase sugar for both commercial and homestead use.

Proposed Changes - Excise duty on advertisement on alcoholic beverages, betting, gaming, lottery and prize competition.

Tax Implication

The CS proposes to introduce excise duty at the rate of 15% of the excisable value on fees charged on the advertisement by all television, print media, bill board, and radio stations in promotion of alcohol, betting, gaming, lottery and prize competition.

Our Comments

This proposal intends to discourage advertisement of the said product based on their negative impact since they are extremely addictive and result to harmful repercussions to the society especially to the youths and families

Proposed Changes - Excise duty on fees charged for telephone and internet data services

Tax Implication

The CS proposes to reduce excise duty from 20% to 15%.

Our Comments

This proposal aims at reducing excise duty from 20% to 15% and will encourage online banking and inter bank money transfers.

Proposed Changes - Excise duty on fees charged for money transfer services by banks, money transfer agencies and other financial service providers.

Tax Implication

The CS proposes to reduce excise duty from 20% to 15%

Our Comments

This proposal aims at reducing excise duty from 20% to 15% and will encourage online banking and inter bank money transfers.

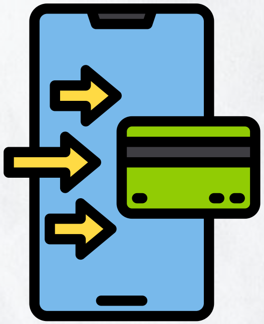
Proposed Changes - Excise duty on fees charged for money transfer services cellular phone service providers

Tax Implication

The CS proposes to reduce excise duty from 12% to 10% of excisable value on fees charged for money transfer services by cellular phone service providers or payment service providers licensed under national payment system

Our Comments

This proposal will encourage retail transactions at a more affordable rate and promote economic activities at MSMEs level.



Proposed Changes - Cement

Tax Implication

The CS proposes to introduce excise duty on imported cement at a rate of 10% of the excisable value or Ksh 1.50 per Kg whichever is higher .

Our Comments

This proposal aims at protecting locally produced cement from unfair competition and promote this industry

Proposed Changes - Furniture

Tax Implication

The Cs proposes to impose excise duty on imported furniture at the rate of 30% of the custom value excluding furniture originating from EAC countries

Our Comments

This proposal aims at protecting local carpenters and artisans since there is enough capacity to produce or to make local furniture

Proposed Changes - Paint, varnishes and lacquers

Tax Implication

The CS proposes to introduce excise duty at the rate of 15% of excisable value on lacquers, paints and varnishes.

Our Comments

This proposal aims to prevent cheap imports which reduce the competitiveness of locally produced paints, varnishes and lacquers. It also protects local manufacturers and boosts their capacity to produce more.

MISCELLANEOUS FEES AND LEVIES

Proposal - Liquified Petroleum Gas (LPG)

Description

The Cabinet Secretary proposed to remove Import Declaration Fees (IDF) and Railway Development Levy (RDL) on Liquified Petroleum Gas.

Implication

This is a welcome move that shows the government's commitment in reducing the cost of acquisition of liquified petroleum gas.

Proposal - The Kenya Defence Forces and the National Police Service

Description

The Cabinet Secretary has proposed to exempt all goods purchased or imported for official use by the Kenya Defense Forces and the National Police Service.

Implication

This Bill intends to enhance the security function by the national government by exempting all imported goods for use by the National Police Service and the Kenya Defense Forces.

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Proposal - The aviation sector

Description

The Cabinet Secretary proposes to exempt all aircraft, helicopters, aircraft engines and aircraft spare parts from Import Declaration Fees and Railway Development Levy.

Implication

This proposal aims at standardizing the exemptions to the aviation sector and reducing the maintenance cost of the arcrafts and helicopters in Kenya.

In the long run, this will enhance the transportation of passengers across the country as well as boost the tourism sector.

Proposal - Import Declaration Fees (IDF) at 2.5% and Railway Development levy (RDL) at 1.5%.

Description

The CS proposes to reduce the IDF and RDL rates on imported goods from the current 3.5% and 2% to 2.5% and 1.5% respectively.

Implication

This is a welcome move that will standardize the miscellaneous fees and levies on imported goods.

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EMPLOYMENT ACT

Proposal - 1.5% contributions to the National Housing Development Fund.

Description

The Cabinet Secretary proposes to introduce a contribution of 1.5% of the employees basic salary to the National Housing Development Fund by both the employer and the employee.

Implication

There is no cap to the amount of contribution, unlike in the initial Bill which had suggested a 3% contribution by both employer and employee with a cap of up to Kes, 5,000.

If enacted, this proposal will directly impact the employees and will have a lower home intake. Without the capping of the contribution, the high income earners will have a higher contribution into the housing development fund despite the reduced rate.

If well executed, in the long run, this provision will enhance the affordable housing that will see more taxpayers becoming homeowners.

CUSTOMS DUTY

Tax Head - 1.5% contributions to the National Housing Development Fund.

Proposed Change

The cabinet secretary has proposed to introduce a four-tariff band structure compared with the earlier three-tariff band structure.

In the new structure, applicable import duty rates proposed are as follows:

Raw materials/inputs and capital goods at 0%;

Intermediate goods at 10%

Finished goods(Not available in the region) at 25%.

Finished goods (Available in the region) 35%

Implication

The proposal intends to protect products originating from the East Africa Community region

Tax Head - Importation of Rice

Proposed Change

The cabinet secretary has proposed to reduce the import duty rate upon importation of rice from 75% to 35%

Implication

The proposal intends to promote importation of rice to meet domestic demand deficit

Tax Head - Importation of Wheat

Proposed Change

The cabinet secretary has proposed that imported wheat into shall be under the EAC Duty Remission to Scheme at 10% instead of 35% upon the recommendation by the Ministry of Agriculture.

Implication

This is a welcome move as it intends to ensure that there is enough wheat to meet local demand, while at the same time protecting wheat farmers from unfair competition from imported wheat

Tax Head - Importation of Completely Knocked Down (CKDs) kits for assembly of motor cycles

Proposed Change

The cabinet secretary has proposed that importation of Completely Knocked Down (CKDs) kits for assembly of motor cycles shall be 10% under duty remission

Implication

The proposal intends to support the local automotive assembly

Tax Head - Importation of smartphones and other mobile phones

Proposed Change

The cabinet secretary has proposed importation of inputs for assembly of smartphones locally to be duty free.
However, importation of cellular phones and smartphones shall be imposed an import duty rate of 25%

Implication

This is a welcome move as it intends to protect the local assembly of smartphones and mobile phones industry

Tax Head - Importation of inputs of animal feeds

Proposed Change

The cabinet secretary has proposed that importation of import inputs for manufacture of animal feeds shall be duty-free under the EAC Duty Remission Scheme for one year

Implication

This is a welcome move as it will ensure a steady production of animal feeds which has been negatively affected by the adverse climatic conditions

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Tax Head - Importation of inputs for manufacture of baby diapers

Proposed Change

The cabinet secretary has proposed that importation of inputs for manufacture of baby diapers duty-free for a further one year.
However, imported baby diapers shall be subject to an import duty rate at 35%

Implication

This is a welcome move as it is an incentive for manufacturers thus increasing production and protecting them from importers of diapers

Tax Head - Amendment of the SEZ & EPZ Act

Proposed Change

The cabinet secretary has proposed an amendment to the Export Processing Zones Act and the Special Economic Zones Act to exempt import duty on goods produced from the Special Economic Zones and Export Processing Zones that uses inputs or raw materials originating from the Customs Territory when sold into the domestic market.

Implication

This is a welcome move as it shall encourage enterprises operating in the zones to purchase raw materials or inputs from the domestic markets.

The Betting, Gaming and Lotteries Act.

The Cabinet Secretary proposes to standardize the tax administration process by amending the Betting, Gaming and Lotteries Act to allow the Kenya Revenue Authority to apply the provisions of Tax procedures Act in enforcing tax collection.

This is a move that will expand KRA's functions in administering taxes in the gaming and betting industry.

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ECONOMIC OUTLOOK (CONTEXT)

The global economic growth is projected to slow to 2.8 percent in 2023 from 3.4% in 2022.This has been occasioned by geopolitical tensions particularly the ongoing conflict in Eastern Europe and the pace of monetary policy tightening amidst concerns about financial sector stability in the advanced economies.

Economic prospects are also expected to slow down across regions and countries. Nevertheless, commodity prices in the global markets,particularly oil and food have been easing due to improved and functioning supply chains.

Domestically, economic growth for the year 2022 slowed down to 4.8 percent from 7.6 percent in 2021.due to adverse impact of multiple shocks that affected the economy. Kenya's growth in 2022 was supported by the services sector while the agricultural sector contracted consecutively for the second year due to prolonged drought that also slowed down manufacturing as well as wholesale and retail trade sectors.

Kenya's economy is expected to rebound and expand by 5.5 percent in 2023 up from 4.8 percent in 2022 and maintain that pace over the medium term.This growth will be supported by broad-based private sector and agricultural sector.

This growth outlook will be reinforced by interventions implemented by the government under the bottom up economic agenda including subsidized fertilizer and seeds to farmers during the planting season.Further aggregate demand expansion will increase economic activity coupled with increased imports and resilient private sector consumption.

Inflation rate has remained above 7.5 percent upper bound since June 2022,this is mainly due to high food and energy prices following adverse weather conditions and high global oil prices compounded by pass-through effects from domestic currency. Inflation rate is expected to return to the target range within the second quarter of the FY 2023/24.

KEY ECONOMIC POLICIES

The government proposes to boost the economy through monetary and fiscal policies. It intends to implement prudent macroeconomic policies that focus on reducing public debt, inflation, and supporting sustainable and inclusive development. To mitigate further rise in inflation, the Central Bank of Kenya, through the Monetary Policy Committee, tightened the monetary policy over the past year by raising the Central Bank Rate to 9.5% in March 2023 from 7.5% in May 2023. As of May 2023, inflation stood at 8%, which suggests an expectation of further reduction to a target rate by the second quarter of the financial year 2023/2024.

Additionally, the budget proposes to continue implementing the reforms outlined in the White Paper on the modernization of the monetary policy framework. These reforms aim to enhance the effectiveness of monetary policy formulation and implementation to prevent monetary policy from falling behind the curve. The reforms in the White Paper include refining macroeconomic forecasting frameworks in line with the changing structure of the economy, improving the functioning of the interbank market to strengthen monetary policy transmission, and enhancing the communication of monetary decisions.

Regarding public debt, the government proposes to adopt a fiscal stance through a growth-oriented fiscal consolidation plan. This plan is designed to slow down the annual growth in public debt while implementing an effective liability management strategy without compromising public service delivery

POLICY PRIORITIES

The policy priorities of the government in fostering their economic transformation and improved livelihoods are:

1. Bottom-up economic transformation agenda
2. Climate change mitigation and adaptation

1. Bottom-up economic transformation agenda

This agenda is based on the need to address the challenges that the economy is experiencing, stimulating economic recovery and bolstering resilience.

Under this agenda, the cabinet secretary has categorized the programmes into; core pillars and enablers that focus on creating a conducive business environment for socio-economic transformation. The core pillars include:

- Agricultural Transformation
- Micro, Small and Medium enterprises (MSME) Economy
- Housing and Settlement
- Healthcare
- Digital Superhighway
- Creativity Industry.



In order to realize these core pillars, the government proposes to implement strategic interventions under the following key enablers:

- Infrastructure
- Manufacturing
- Blue Economy
- The service Economy
- Environment and Climate Change
- Education and Training
- Women Agenda
- Youth Empowerment
- Development Agenda
- Socio Protection
- Sports, Culture and Arts
- Governance.

The Government as well aspire to realize this Agenda on Bottom up economic transformation by;

1. Maintaining macroeconomic stability and enhancing security
2. Intensifying national infrastructure development and connectivity in roads, rail, port, energy, and fibre optics infrastructure.
3. Enhancing investment in key economies for broad based sustainable economic recovery by promoting; agricultural transformation, growth in manufacturing, environmental conservation and water supply, food security, climate change mitigation and adaptation, tourism recovery and sustainable land use and management use and management.
4. Expanding access to quality social services in health, education and appropriate social safety nets for the vulnerable population
5. Supporting the youth, women and persons living with disabilities through government-funded empowerment programs.

Fiscal consolidation plan targets to gradually reduce the fiscal deficit including grants from 6.2% of GDP in the financial year 2022/23 to 5.8% of GDP in the financial year 2023/24 and further 3.6% in the financial year 2025/26. On the same note, the government proposes to remove a debt ceiling of 10 trillion to a debt ceiling based on a percentage of GDP.

Additionally, the government proposes to introduce an innovative new Government-to-Government arrangement for fuel importation through legal notice No. 3 of 2023 that allow for importation of petroleum products by the private sector through the current Open Tender System (OTS) in order to ease the pressure on the domestic supply of petroleum products and as well ease pressure on the Kenya shillings arising due to the global shortage of the US dollar in the domestic market.

2. Climate change mitigation and adaptation

Climate change has become a global challenge and Kenya has recently experienced the worst drought in 40 years. The government has therefore proposed to build a more resilient economy by encouraging green energy, smart agriculture, decarbonized agriculture, e-mobility and green building, all aimed at attainment of zero carbon emissions by the year 2050. In order to achieve this, the government is committed to reducing greenhouse gas emissions, halting and reversing deforestation, biodiversity loss and land degradation.

Notwithstanding drought mitigation measures, the government has introduced the National Tree Planting Campaign championed by the president and seeks to enhance national tree cover from 12% to 30% by 2032 resulting in an estimate of 15 million trees planted over the period.

Climate Financing has been an important option of implementation for climate change and for promoting sustainable developmentand fiscal sector development. The government will continue to implement the National Green Climate Fund Strategy which provides an elaborate framework of coordinating and attracting resources from the green climate fund. The government will also implement the Financing Locally-led Climate Action (FLLoCA) program in collaboration with County Governments and development partners to manage climate risks.

Furthermore, the government has agreed with the IMF on the new 20-month Resilient and Sustainable Facility (RSF) arrangement that will run with the current program arrangements until April 2025. The Cabinet Secretary as well urged the national assembly to fast track the process of considering a legislation on matters relating to Disaster Management that was tabled in the house last year 2022. He also promised to submit to the house the Public Finance Management (Disaster Risk Management Fund) Regulations, 2023 to enable the establishment of the Disaster Risk Management Fund.

PRIORITY ECONOMIC SECTORS TARGETED UNDER BETA

For the government to scale up the implementation of the prioritized policies under the Bottom-Up Economic Transformation Agenda (BETA), it has set up a strategy that will gear its focus towards investing in five key sectors that have the largest impact on the economy as well as on household welfare. These sectors have been identified to promote sustainability in Kenya's economic growth trajectory. These sectors include; Agricultural Transformation, Micro, Small and Medium Enterprise Economy, Housing and Settlement, Healthcare and Digital Superhighway & Creative Industry.

Special attention will be directed towards interventions that; easen the cost of living, create jobs, achieve more equitable distribution of income, enhance social security, expand the tax base for more revenues and increase the foreign exchange earnings.

The government has opted to emphasize prioritization due to the sheer fact that resources are scarce. Therefore, the priority programmes will be managed through a value-chain approach. This will ascertain that the resources are allocated along the value-chain therefore eliminating duplicity of roles and ensuring efficiency in the use of budgetary resources.

The nine key value chain areas for implementation are the following; Leather, Cotton, Dairy, Edible Oils, Tea, Rice, Blue Economy, Natural Resources (inclusive of minerals and Forestry) and building materials.

Below, we highlight briefly on what each of the priority sectors entails;

Agricultural Transformation and Inclusive Growth

As a way of ensuring food security, the country will devise climate change mitigation and adaptation measures thereby reducing the cost-of-living. Fertilizers will also be subsidized, to increase availability and improve productivity in counties. The agricultural sector in Kenya has many forward and backward supply-chain linkages to other sectors of the economy, therefore this intervention will lead to more jobs being created.

Transforming the Micro, Small and Medium Enterprise Economy

Micro, Small and Medium Enterprises face the biggest challenge of lack of access to credit. To tackle this problem, the government has, gradually, rolled out a financial inclusion fund, known as 'Hustler Fund' with an initial target budget allocation of Kshs 20 billion in thecurrent financial year. This allocation was mainly aimed at giving a commercial boost to low-income households.

This fund, together with other affirmative funds like the Youth Enterprise Fund, Women Enterprise Fund and Uwezo Fund and MSMEs Credit Guarantee scheme will proliferate access to affordable credit to the targeted persons enabling expansion of the private sector.

Housing and Settlement

Many Kenyans lack access to affordable housing, which has subsequently led to the rise of informal settlements (slums). As a result, the government has committed to the delivery of 250,000 houses per annum and enabling affordable housing mortgages. The manner in which this will be achieved will be through the recruitment of over 100,000 young people graduating from TVETs every year into the construction sector and indirectly through the production of building products.

Affordable healthcare

The government plans to deliver a Universal Health Coverage System (UHC), by promoting access to quality and affordable healthcare. This will ensure that the constitutional right to health in the shortest time possible is achieved.

Digital Superhighway and Creative Economy

Digitization will enhance revenue collection via automation of the VAT systems. Productivity and competitiveness will be increased through providing quick access to the market and providing information asymmetry as well as improving risk management. Implementing these interventions will stimulate economic recovery as well as improve the quality of growth from public sector investment led growth to a dynamic private sector led growth.

Sector	Proposed allocation (In Kshs)
Agricultural Transformation	49.9 Billion
MSME Economy	20 Billion
Quality Housing and Settlement	35.2 Billion
Affordable Healthcare	141.2 Billion
Digital Superhighway and Creative Economy	15.1 Billion

National Tax Policy

The intends to implement the government tax policy under the medium-term revenue strategy for the financial year 2023/24 - 2026/27. It is intended to enhance administrative efficiency of the Kenyan Tax system by providing consistency and certainty in the law-making process of tax policies and managing the tax expenditures.

KRA on the other hand is implementing reforms towards seamless taxation by automating its systems. This will ensure taxpayers and businesses are integrated for real-time data processes. This will boost the tax administration process through tax avoidance, evasion and sealing of revenue leakages.

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Contact Us

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