

## BUDGET: FY2020/21

The National Treasury Secretary Hon. Ambassador Ukur Yatani proposed a budget KES 2.79 trillion (24.7% of GDP) for the 2020/2021 financial year.

Total revenues is expected to come in at KES 1.9 trillion (16.8% of GDP). The fiscal deficit will stand at KES 0.84 trillion (7.5% of GDP) and will be financed by net external borrowing of KES 347.0bn (3.1% of GDP) and net domestic borrowing of KES 493.2bn (4.4% of GDP).

	Supplementary Budget FY19/20	Budget FY20/21	
	KES BN.	KES BN.	%Change
<b>Government Revenue</b>			
Ordinary Revenue	1,843.8	1,630.0	-11.60%
Ministerial Appropriation in Aid	240.4	260.0	8.15%
Total Revenue	2,084.2	1,890.0	-9.32%
<b>Government Expenditure</b>			
Recurrent Expenditure	1,760.0	1,820.0	3.41%
Development Expenditure	730.8	633.1	-13.37%
Total Expenditure	2,490.8	2,790.0	12.01%
<b>Deficit Financing</b>			
Net foreign financing	353.5	347.0	-1.84%
Other Domestic Financing	3.2	0.6	-80.41%
Net Domestic Financing	486.0	493.4	1.52%
Total Deficit	842.7	840.6	-0.25%

June 12, 2020

Sovereign Credit Rating:

Moody's: B1 (stable)

Fitch: B+ (stable)

S&P: B+ (stable)

CPI:  
(2019=100):  
108.60

May Inflation:  
5.47%

Interbank rate (5th June  
2020):  
2.99%

C.B.R (27th May 20):  
7.00%

91- Day T-Bill (Latest ):  
7.33%

182- Day T-Bill (Latest ):  
8.20 %

364- Day T-Bill (Latest ):  
9.17%

Analyst  
Sarah Wanga  
+254711047105  
wanga@aiccapital.com

## ***Revenue: Revenue collection likely to fall below target***

To meet the revenue target of KES 1.9 trillion, the government seeks to increase taxes. The key proposed increases include the following:

- New 1.5% tax on online transactions: This is a new source of tax for the government which is likely increase revenue. However, ensuring that there is compliance is likely to be an issue.
- Loss making companies to pay 1% of their gross turnover: This is likely to greatly affect struggling businesses.
- Income of Home Ownership Savings Plans to be taxed: We view this as negative
- Tax on bonus, overtime and retirement benefits
- Landlords making less than 15million to pay 10% tax: This has been raised from the pervious ceiling of KES 10 million as the government seeks to increase compliance.

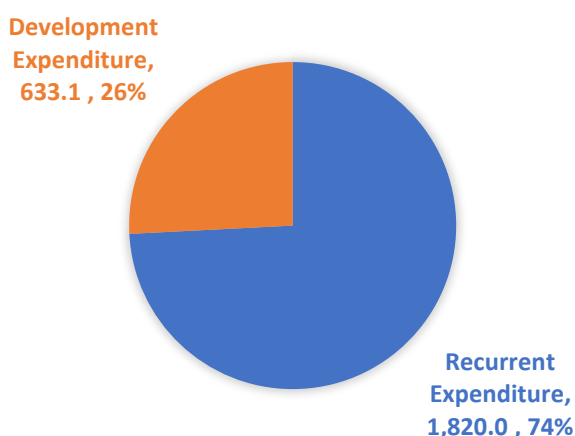
We believe that the revenue target is ambitious and might not be achieved because of the following:

- The current slowdown in economic activity which is likely to lead to lower revenue collections
- KRA's record of failing to meet tax targets. As of March 2020 KRA had collected KES 1.33 trillion against a target of KES 1.54 trillion, this was before the economy felt the full economic impact of COVID-19.
- The measures taken to cushion the economy from the economic effects of COVID19 (e.g. lower corporate and PAYEE tax) are likely to reduce revenue collections

## ***Expenditure***

Government Expenditure is projected to grow to KES 2.79 trillion(24.7% of GDP) from an estimated KES 2.77 trillion(27.2% of GDP) in FY 2019/20.

### **GOVERNMENT EXPENDITURE FY20/21.**



---

Development expenditure in the coming Financial Year will take a 13% cut. Development Expenditure has been allocated KES 633.1 Bn down from KES 730.8Bn. Recurrent expenditure has expanded by 3.4% to KES 1.82 Trillion up from supplementary budget figures of Kes 1.76 Trillion.

### ***Deficit: Government's appetite for debt likely to lead to continue to crowd out the private sector***

The fiscal deficit will stand at KES 0.84 trillion (7.5% of GDP) and will be financed by net external borrowing of KES 347.0bn (3.1% of GDP) and net domestic borrowing of KES 493.2bn (4.4% of GDP).

Initial fiscal deficit for FY19/20 was targeted to be 6.3% of GDP but that has since been adjusted to 8.3% of GDP, while that for FY20/21 was initially targeted at was 4.9% which has now been increased to 7.5% of GDP.

In FY19/20, domestic borrowing target stood at KES 309 billion which was revised upwards in the second half of the fiscal year. Government's appetite for debt likely to continue to crowd out the private sector.

We expect the government to table a supplementary budget in the second half of the fiscal year which is likely to increase the domestic borrowing target. We therefore expect an increase in interest rates.

### ***Other Key highlights from budget statement.***

➤ **Government unveils 8-point stimulus package:** To further cushion the economy the government unveiled a KES 56.6 Bn stimulus package targeting primarily aimed at supporting citizens and businesses. Some of the sectors set to benefit from the package include Education ,Health, Agriculture, Tourism, Water and Manufacturing.

➤ **Government aims to reduce Youth Unemployment through Kazi Mtaani initiative:** The Government in its stimulus package has prioritized rehabilitation of road infrastructure, allocating KES 5 Bn. Following floods in different parts of the country. Youth employment is set to increase to facilitate the rehabilitation of roads. The government has also set aside KES 10Bn for Youth employment in various towns.

➤ **Private Equity and venture capital funds to come under additional regulation:** The capital markets act may see an expansion to further regulate Private Equity funds and safeguard investors as pension funds are allowed to invest 10% of their assets into the aforementioned asset class.

---

## RESEARCH DISCLOSURE

Though utmost care has been taken in the preparation of this report, we do not guarantee the accuracy or completeness of the information contained herein nor will AIB Capital Ltd be held liable for the information contained herein.

The views expressed in this report are solely those of the Research Department and are subject to change without notice.

The information in this report is not an offer for the sale or purchase of any security. This document should only be considered a single factor used by investors in making their investment decisions.

This publication may not be distributed to the public media or quoted or used by the public media without prior and express written consent of AIB Capital Ltd.

## NOTICE TO US INVESTORS

This report was prepared, approved, published and distributed by AIB Capital Limited Company located outside of the United States (a non-US Group Company"). This report is distributed in the U.S. by LXM LLP USA, a U.S. registered broker-dealer, on behalf of AIB Capital Limited only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through LXM LLP USA.

Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

**Analyst Certification.** Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report. Please bear in mind that (i) AIB Capital Limited is the employer of the research analysts responsible for the content of this report and (ii) research analysts preparing this report are resident outside the United States and are not associated persons of any US regulated broker-dealer and that therefore the analysts are not subject to supervision by a US broker-dealer, and are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with US rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

**Important US Regulatory Disclosures on Subject Companies.** This material was produced by Analysis AIB Capital Limited solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by LXM LLP USA and elsewhere in the world by AIB Capital Limited or an authorized affiliate of AIB Capital Limited. This document does not constitute an offer of, or an invitation by or on behalf of AIB Capital or its affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which AIB Capital Limited or its Affiliates consider to be reliable. None of AIB Capital Limited accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information.

All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

LXM LLP USA assumes responsibility for the research reports content in regards to research distributed in the U.S. LXM LLP USA or its affiliates has not managed or co-managed a public offering of securities for the subject company in the past 12 months, has not received compensation for investment banking services from the subject company in the past 12 months, does not expect to receive and does not intend to seek compensation for investment banking services from the subject company in the next 3 months. LXM LLP USA has never owned any class of equity securities of the subject company. There are not any other actual, material conflicts of interest of LXM LLP USA at the time of the publication of this research report. As of the publication of this report LXM LLP USA, does not make a market in the subject securities.