
# BUDGET: FY2021/22

On 10th June, the National Treasury Secretary, Hon. Ambassador Ukur Yatani, proposed a budget **KES 3.03 trillion (24.5% of GDP)** for the 2021/2022 financial year.

Total revenue is expected to come in at **KES 2.04 trillion (16.4% of GDP)**. The fiscal deficit will stand at **KES 0.93 trillion (7.5% of GDP)** and will be financed by net external borrowing of **KES 271.2Bn (2.2% of GDP)** and net domestic borrowing of **KES 658.5Bn (5.3% of GDP).**

| KES Bn | Budget FY20 /21 | Budget FY21/22 | %Change |
|---|---|---|---|
| **Government Revenue** | | | |
| Ordinary Revenue | 1,630.0 | 1,775.6 | 8.93% |
| Ministerial Appropriation in Aid | 260.0 | 263.0 | 1.15% |
| Total Revenue | 1,890.0 | 2,038.6 | 7.86% |
| **Government Expenditure** | | | |
| Recurrent Expenditure | 1,820.0 | 2,019.2 | 10.95% |
| Development Expenditure | 633.1 | 669.6 | 5.77% |
| Total Expenditure | 2,790.0 | 3,030.3 | 8.61% |
| **Deficit Financing** | | | |
| Net foreign financing | 347.0 | 271.2 | -21.84% |
| Other Domestic Financing | 0.6 | | -100.00% |
| Net Domestic Financing | 493.4 | 658.5 | 33.46% |
| Total Deficit | 840.6 | 929.0 | 10.52% |

14th June 2021

Sovereign Credit Rating:

Moody's: B2 (negative)
Fitch: B+ (negative)
S&P: B (stable)

CPI: (2019=100):
114.98

May Inflation: 5.87%

Interbank rate: 4.04%

C.B.R (26th May 2021):
7.00%

91-Day T-Bill (Latest):
7.237%

182-Day T-Bill (Latest):
7.818%

364-Day T-Bill (Latest):
9.156%

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## Key positives

- **The government sets aside KES 13.1 billion to clear pending bills:** This should help several SMEs payoff their loans and increase liquidity in the money market

## Key negatives:

- **Recurrent expenditure's continued growth:** An area of concern is the continued growth of recurrent expenditure. This is mainly driven by the wage bill and government hasn't taken steps to address this.
- **Development expenditure below the 30% requirement of the PFM Act:** Development expenditure as a percentage of total expenditure has been decreasing over the past few years and now stands at 22% for FY21/22.
- **Increased budget deficit:** The government's increased deficit will mainly be financed by domestic borrowing.This is likely to crowd out the private sector.

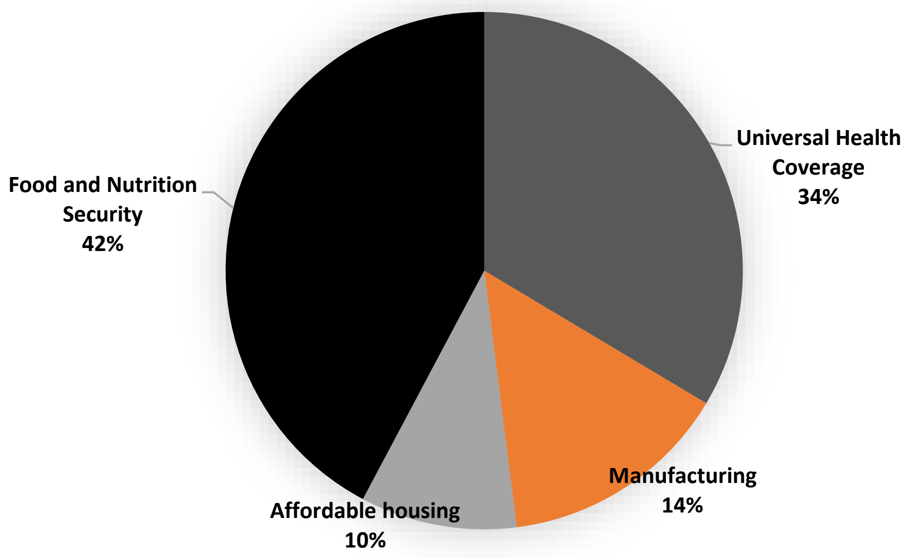
## Economic Recovery

This year's budget aims at supporting growth as the country recovers from the effects of the COVID-19 pandemic. The economy was greatly affected by the pandemic as the measures that the government put in place measures to curb the spread of the virus reduced economic activity.

The economy is expected to rebound to 6.6% in 2021, with inflation expected to remain within a target range of 5.0% with an up/downside margin of 2.5,% and balance of payment deficit projected to remain at 5.2% of GDP. The government is also targeting to reduce the level of fiscal deficit from **8.7%** of GDP to **7.5%** of GDP in FY2021/22 and further reduce it further to **3.6%** of GDP by FY2024/25.

The implementation of "Big Four" Agenda remained a high priority for the government as a total of **KES 142.1 billion** has been allocated to the sectors.

Graph 1: The Big Four agenda budget allocation




## Revenue collection

Ordinary revenue for FY21/22 is projected at KES 1.77 trillion which is an 8.9% increase from the previous year. In order to achieve this, the government plans to broaden the tax base and introduce tax reforms. It is also worth noting that the tax rates in FY20/21 were lower as the government had sought to cushion Kenyan from the adverse effects of the COBID-19 pandemic.

The measures introduced include:

- Expand the scope of digital service tax to include income derived through the internet and electronic network.
- Align the rate of withholding tax on service fees with that in management and professional services to erode manipulation through re-characterization of income.
- Proposal to amend the act to replace the reducing balance method with the straight-line method. To provide certainty in taxation, ease tax admin and enhance compliance.
- Interest paid in excess of 30% of EBITDA will be disallowed in determining taxable income.

- Reintroduction of excise duty on betting at a rate of 20% of amount wagered
- Excise duty on nicotine products and substitutes at a rate of Sh5 per gram.

## Budget Deficit

The deficit is estimated to increase by 10.5% to KES 929 billion. Majority of this, KES 658.5 billion, will be financed in the domestic market. This is a 33.5% increase from the previous year. We, therefore, expect an upward shift in the yield curve due to the increase in interest rates as the government is likely to accept aggressive bids as it seeks to meet its domestic borrowing target.

## Recovery Threat

Increased government expenditure is likely to support growth. However, several factors pose a threat to the positive outlook.

- The emergence of new COVID-19 variants which could lead to the reinstatement of containment measures disrupting businesses across the country. There has been reports of a possible 3rd wave likely to hit in June and with the slow vaccine roll-out, the new variant could pose a major threat to the recovery process.
- Adverse weather conditions could lower food production resulting in higher food prices while increased oil prices are likely to raise local pump prices.
- Increased public expenditure pressures, especially wage demands, could put a strain on the fiscal space. The government has decided to increase its domestic borrowing target. This is likely to crowd out the private sector and private sector credit growth could reduce as commercial banks increase lending to the government.

- Political tensions ahead of the general elections. Investors may adopt a wait and see attitude ahead of the general elections. This could lead to reduce economic growth.



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