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Kenya 2023 Budget Highlights

Navigating Headwinds for Inclusive Growth

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Summary Indicators

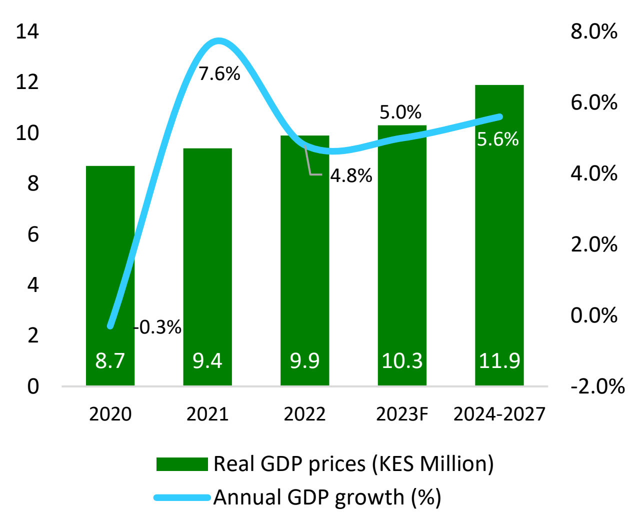
Indicators (% growth)	2021 Actual	2022 Actual	2023 Projected
GDP	7.6%	4.8%	5.0%
Agriculture	-0.4%	-1.6%	3.6%
Industry	7.5%	3.9%	4.3%
Service	9.7%	7.0%	5.9%
Average Inflation	5.6%	7.7%	6.9%
Exchange rate KES/USD	109.6	117.9	135.7

Source: Economist Intelligence Unit (EIU)

GDP Growth

- Kenya's GDP growth declined from 7.6% in 2021 to 4.8% in 2022, mainly driven by weaker global growth attributed to the Russia-Ukraine war and rising political tensions in anticipation of the general elections in August 2022.
- Growth in 2023 is expected to remain muted at 5.0% attributable to further tightening of monetary policies and higher borrowing costs, which are expected to reduce domestic spending and public investment.

GDP Growth Forecast (2022-2027)

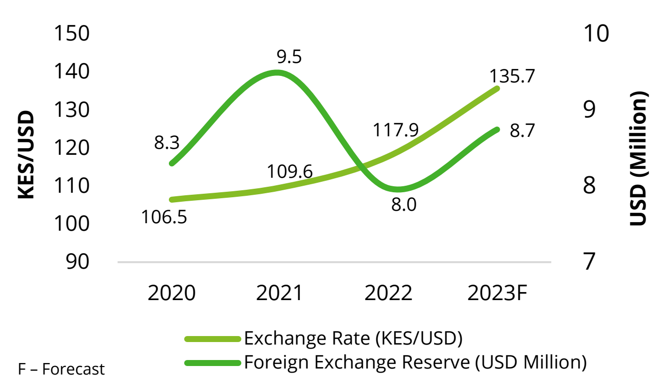


Source: Central Bank of Kenya, EIU

Exchange Rate

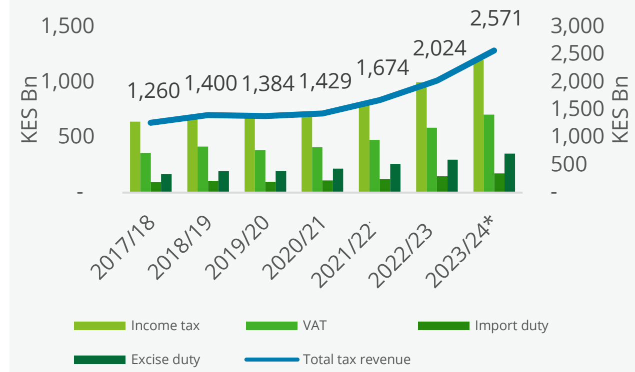
- The Kenya Shilling (KES) has weakened against the US Dollar from KES 109.6/USD in 2021 to KES 117.9/ USD in 2022 and is expected to further depreciate by 14.7% to KES 135.7 in 2023 mainly due to the tightening of the US monetary policy by the Federal Reserve Bank.

Exchange Rate Development



F – Forecast
Source: Central Bank of Kenya, EIU

Revenue



- Generally, there has been a steady increase revenue collections over the last seven years from KES 1.3tn in FY 2017/18 to projected revenue of KES 2.4tn in FY 2023/24.
- This represents growth of 104% in revenue projections over six years, with 20% growth expected from revenue projections for FY 2022/23.
- The projected growth in tax revenues is however largely offset by the increase in expenditure in FY 2023/24.
- With maturing debt obligations in 2024 (such as the Eurobond), there is an urgent need to exercise fiscal discipline and boost domestic revenues to avoid falling into a 'debt trap'.
- Income tax is expected to continue generating the highest revenues, with projected revenues of KES 1,199 Billion in FY 2023/24, i.e., approximately 49% of the total projected tax revenue.
- Income tax and VAT are projected to achieve the highest growth in revenues at 20.2%, followed by import duty at 19.5%, with excise duty close behind at 18.8%.

Budget Deficit

- Fiscal deficit, inclusive of grants, is projected to decline to KES 720.1bn (4.4% of GDP) in FY2023/2024 from KES 833.9bn (5.7% of GDP) in FY2022/2023, mainly attributable to:
  - the growth in tax revenues to 17.8% of GDP in 2023/2024 from 17.4% of GDP in 2022/2023; and
  - a decline in total expenditures to 22.5% as a share of GDP in 2023/2024 from 23.4% as a share of GDP 2022/2023.
- The decline in the fiscal deficit is expected to improve the country's debt sustainability position.

Useful Insights

- The proportion of the national budget earmarked toward recurrent expenditure has recorded a marginal increase from 67% in the financial year 2022/23 to 69% in the financial year 2023/24.
- Generally, there has been a steady increase in in the revenue collections over the last seven years from KES 1.3 Trillion in FY 2017/18 to projected revenue of KES 2.5 Trillion in FY 2023/24.
- This represents growth of 104% in revenue projections over six years, with 20% growth expected from revenue projections for FY 2022/23.
- The projected growth in tax revenues is however largely offset by the increase in expenditure in FY 2023/24.
- With maturing debt obligations in 2024 (such as the Eurobond), there is an urgent need to exercise fiscal discipline and boost domestic revenues to avoid falling into a 'debt trap'.

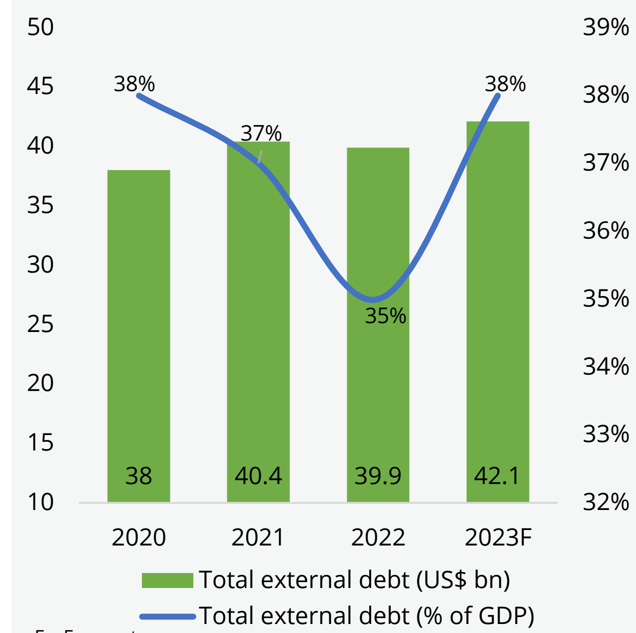
Public Debt

KES 10.0tn
Debt ceiling

KES 9.5tn
projected as at June 2023

- The external debt stock is expected to increase to 38% in 2023 from 35% in 2022 owing to a USD 1bn budget support loan approved by the World Bank in May 2023.
- The foreign debt repayment burden is expected to increase due to the unprecedented depreciation of the Kenya Shilling against major foreign currencies, considering 51.1% of Kenya's external debt stock is denominated in foreign currency.

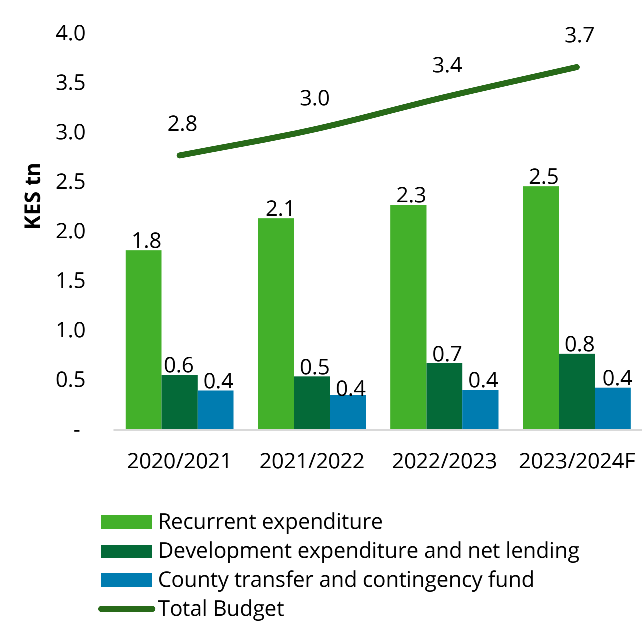
External Debt



F – Forecast
Source: EIU, Deloitte Analysis

Expenditure

Budget Overview



F – Forecast
Source: 2023 Budget Policy Statement

Key Tax Policy Proposals

- Increase in VAT rate for petroleum products from 8% to 16% and zero-rating of LPG products.
- Proposal to introduce a new tax rate of 32.5% for incomes between KES 500k and KES 800k per month and 35% for any additional income
- Employees to contribute 1.5% of their salary to the **National Housing Development Fund** with the employer matching the contribution
- Payments in respect of digital content monetization to attract withholding tax at 5%
- Payments to resident persons in respect of sales promotions, marketing and advertising services to attract withholding tax at 5%
- Turnover tax rate to increase from 1% to 3%
- Persons with business income above KES 25m per annum to be excluded from the turnover tax regime.
- All taxpayers carrying on business in Kenya will be required to issue invoices through an electronic tax invoice management system (eTIMS) managed by KRA.
- Expenditure or loss shall not be allowed for deduction where invoices of the transactions are not generated from e-TIMS.
- Commissioner's power to adjust excise duty for inflation withdrawn
- Excise duty on money transfer services reduced.
- Excise duty introduced on various products including imported sugar, imported cement, imported fish, and imported furniture
- Withholding tax and withholding VAT to be remitted to the Commissioner within **5 days**
- General tax amnesty of interest, penalties or fines for all taxpayers where principal tax relates to the period leading to 31 December 2022.
- Prohibition of deductions on expenditure or loss where invoices of the transactions are not generated from an electronic tax invoice management system ("e-TIMS").
- Exported services to be exempt from VAT
- Residential rental income tax rate to reduce from 10% to 7.5%.
- Import declaration fees reduced from 3.5% to 2.5% and railway development levy from 2% to 1.5%
- Export and investment promotion levy at 17.5% to be introduced on certain goods
- Interest limitation rules to apply only on foreign loans