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Kenya 2024 Budget Highlights

Balancing Priorities for Sustainable Economic Growth

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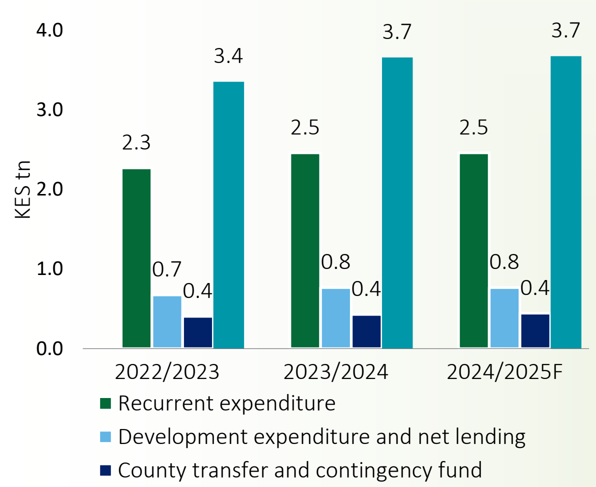
Economic Insights

Indicators	2022 Actual	2023 Estimate	2024 Projected
GDP growth	4.9%	5.6%	5.0%
Agriculture growth	(1.6%)	6.5%	5.3%
Industry growth	3.9%	1.9%	3.3%
Service growth	7.0%	7.0%	5.2%
Average Inflation	7.7%	7.7%	5.9%
Exchange rate KES/USD	117.9	139.9	145.3
Interest rates	7.7%	10.3%	13.0%

Macroeconomic Indicators

- GDP is expected to **grow by 5.0% in 2024**, driven by robust agricultural performance, increased private consumption, resilience of the services sector, and a steady increase in foreign direct investments.
- Inflation is expected to **decline to 5.9% in 2024** primarily due to reduced food prices and decelerated consumption growth, further driven by **reduced purchasing power** due to the proposed amendments in the Finance Bill of 2024.
- The Kenya Shilling (KES) hit a record low of KES 159.7/USD in January 2024 but strengthened to an average of KES 131.6/USD in April following increased foreign currency supply. The KES is projected to average KES 145.3/USD, moderately depreciating through the remainder of 2024, on account of **sustained trade deficit** in the country.
- In 2024, the policy rate is expected to average 13.0% reflecting the **Central Bank of Kenya's commitment to lower inflation**, stabilise exchange rates, and anchor inflationary expectations.

Budget overview



Budget Overview

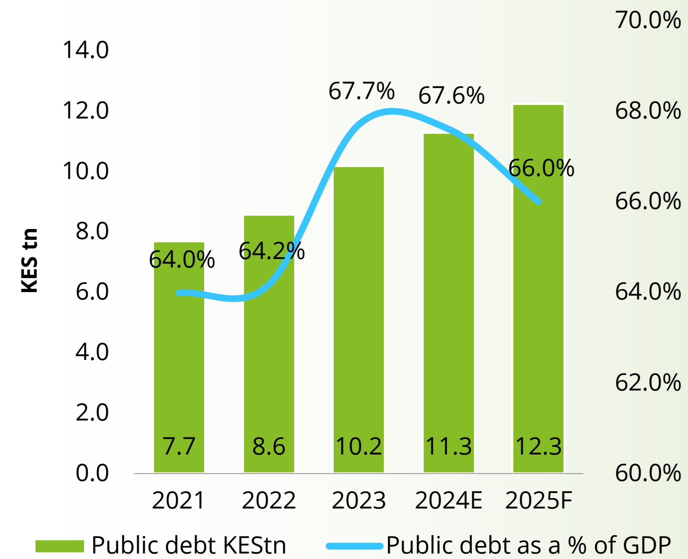
- Government expenditure as a percentage of GDP is projected to decline to 22.1% in FY24/25 from 24.2% in FY23/24, attributable to **government's efforts to eliminate non-priority expenditures**, rationalise tax expenditures, and increase the use of public-private partnerships (PPPs) to reduce the burden on development spending.
- Development expenditure as a percentage of GDP is projected to decline to 3.9% in FY24/25 from 4.7% in FY23/24, reflecting the government's shift of focus to implementing capital projects through PPPs.
- The fiscal deficit, inclusive of grants, is projected to decline to **KES 597.0bn (3.3% of GDP)** in FY24/25 from 785.0bn (4.9% of GDP) . This is primarily due to **increased revenue collection and reduced spending** as a % of GDP.

Public Debt

2024 Public Debt as % of GDP
67.6%

2024 Debt service costs as % of GDP
3.5%

Public debt



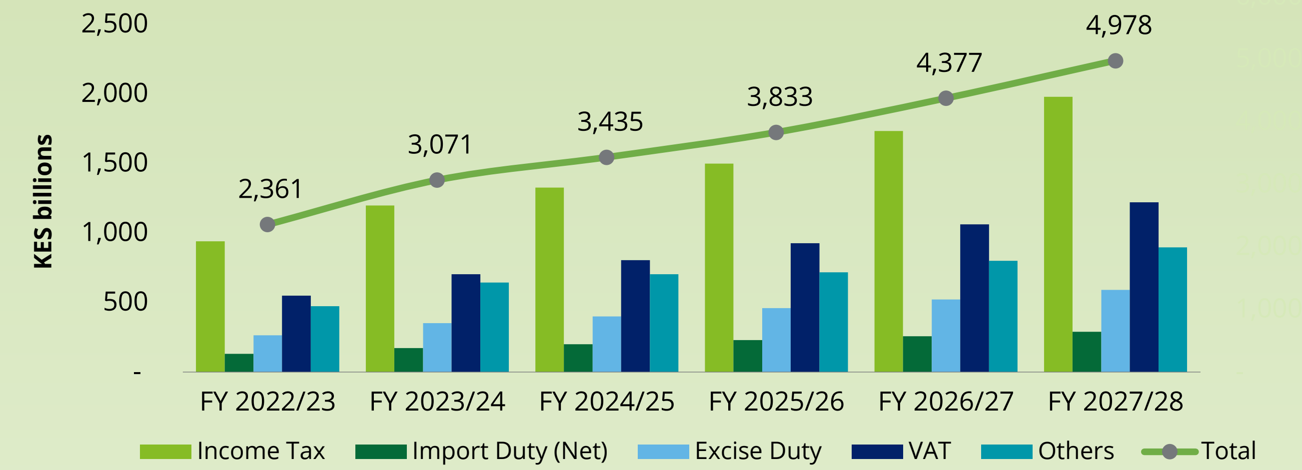
Source: Central Bank of Kenya, EIU

Public debt

- Debt is projected to increase, **reaching KES 11.3tn** by June 2024. This is necessitated by the need to borrow additional funds to finance an anticipated **budget deficit of KES 597.0tn** for FY2024/25 attributable to Kenya's shortfall in revenue collection.
- The projected fiscal deficit in FY 2024/25, will be financed by net external financing of KES 333.8 billion and net domestic borrowing of KES 263.2 billion.
- The total public debt as a % of GDP is expected to stand at 67.6% in 2024, while debt servicing costs as a % of GDP are expected to average 3.5% in 2024, mainly owing to the country's **expanded debt stock** and a **gradually depreciating local currency**.
- However, the Government is cognisant of the need to control the country's debt accumulation to mitigate the adverse effects of a heavy debt burden.
- To this end, the Government plans to prioritise borrowing from multilateral and bilateral development partners, with a greater **emphasis on concessional loans.**
- In addition, the Government will continue to explore Public-Private Partnerships (PPPs) as a funding alternative due to diversification, risk mitigation, and off-balance sheet benefits.

Tax Insights

Trends in Tax Revenue (KES Billions)



- Government expenditure is projected at **KES 3,992 billion** in FY 24/25 from a projection of **KES 3,902.9 billion** in FY23/24.
- Proposed tax measures in the Finance Bill 2024 are projected to generate an additional revenue of **KES 302 billion**, in comparison to the Finance Act, 2023 which was projected to raise additional revenue of **KES 211 billion**.

Key Tax Proposals

Income Tax

- **Motor vehicle tax** at **2.5%** of the motor vehicle value, with a minimum cap of **KES 5,000** to be introduced.
- Payments by **public entities** for supply of goods to attract WHT at **3%** and **5%**, for residents and non-residents, respectively.
- Interest income on infrastructure and social services bonds, notes and similar securities issued after 30 June 2024 to be taxable. WHT at 5% and 15% for residents and non-residents respectively to apply on the interest.
- Deductibility threshold for retirement contributions to **increase** from **KES 240,000** to **KES 360,000** per year.
- Withdrawals from registered pension, provident and individual funds or the NSSF to be **exempt** from tax upon attainment of retirement age, early retirement due to ill health or after 20 years of membership.
- A daily tax-free per diem at **5% of the monthly gross earnings** to replace the current tax-free amount of **KES 2,000**.
- Introduction of **Advance Pricing Agreements**, allowing pre-agreed arm's length criteria for future transactions for up to 5 years.
- Digital Service Tax (DST) to be replaced by **Significant Economic Presence Tax** at an effective tax rate of **6%** on the income earned through a digital marketplace.
- **Minimum top-up tax** calculated using OECD's Pillar 2 principles to be paid by qualifying multi-nationals with effective tax rates below **15%**.

Value Added Tax

- **Rationalization** of **VAT expenditure** to align with the national tax policy and the Medium-Term Revenue Strategy. Zero rating to be **restricted** to goods and taxable services meant for export.
- Various financial services, gaming and betting, which are currently exempt, to attract VAT at 16%.
- VAT registration threshold to increase from **KES 5 million** to **KES 8 million**.
- VAT refunds, currently lodged within 24 months, to be lodged within 6 months.
- Transfer of business as a going concern to be exempt from VAT.

Excise Duty

- Excise duty rates on alcoholic beverages to be based on centilitre of pure alcohol. **KES 22.5/cl** for wines/beer and **KES 16/cl** for spirits.
- Excise duty on fees charged on telephone, internet data and money transfer services to be increased from **15%** to **20%**.
- Removal of excise duty relief on raw materials for manufacture of excisable goods and on purchase of bulk data for resale removed.
- Introduction of excise duty on **coal, vegetable oils** and locally manufactured articles of **plastic**, among other items.

Miscellaneous Fees & Levies

- Import Declaration Fee increased from **2.5%** to **3%**.
- **Export and Investment Promotion Levy** to be introduced on various products such as alcoholic beverages and spirits, leather articles, footwear, furniture, milk and cream and cooking stoves that use liquid fuel, among others.
- **Eco Levy** to be introduced on specified imported and locally manufactured goods, including office machines, **smart phones**, **batteries**, rubber tires, **diapers** etc.

Tax Procedures

- Validity of an Agency Notice now **limited** to 1 year. The Agency Notice may be issued even where a person has not exhausted their right to appeal.
- Invalidly lodged objections to be **disallowed** where a taxpayer fails to provide information requested by the Commissioner.
- Objection decision period to increase from **60 days** to **90 days**.
- **Weekends** and **public holidays** to be excluded in computing the time for performing an action under a tax law.
- **Relief from recovery of tax** by the Kenya Revenue Authority in circumstances of impossibility, undue difficulty, hardship or any other reason occasioning inability to recover outstanding tax to be reintroduced.
- A monthly penalty of **KES 2 million** to apply where a taxpayer who is required to **integrate** their systems with KRA's electronic tax system fails to do so.

Other Measures

- KRA to be **exempted** from data protection regulations where disclosure of data is necessary for assessment, enforcement or collection of tax.
- Beneficiaries of affordable housing to be allowed to sell their units.