

AFRICA RISK CONSULTING

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Kenya Summary 13 July 2023

Parliament on 22 June approves tax proposals outlined in the Finance Bill 2023 despite attempts by opposition parties to challenge the controversial measures. The High Court rules to suspend the implementation of the tax plan on 23 June, but the government moves ahead with changes including increasing fuel prices. This decision, and the parliamentary approval, prompts fresh protests by the opposition. The Central Bank of Kenya (CBN) convenes an unscheduled Monetary Policy Committee (MPC) meeting on 26 June, opting to raise the benchmark rate by 100 basis points to 10.5%. The Kenya National Bureau of Statistics (KNBS) reveals on 30 June that annual inflation eased slightly to 7.9% in June from 8% in May. KNBS also reveals on 4 July that the economy grew faster than expected in the first quarter of the year, driven by a recovery in the agricultural sector. The European Union (EU) signs a long-negotiated trade agreement with Kenya on 19 June.

Lawmakers pass contentious tax plan as protests paralyse Kenya...

Parliament on 22 June approved a series of tax proposals under the **Finance Bill 2023**, despite attempts by opposition parties to challenge several controversial measures that taxpayers say will be difficult.¹ To fund the government's KSh 3.68 trillion (\$26.2 billion) budget, the **Treasury** introduced major changes to increase revenues by 17% in 2023/2024.² These include doubling the value-added tax on gasoline to 16%, a mandatory 1.5% housing levy for employees, and a 5% hike in personal income tax for the highest-income band.³ The government also says the tax hikes, estimated to raise an additional KSh 200 billion (\$1.42bn) a year, are required to help deal with growing debt repayments and fund job-creating initiatives.⁴

On 23 June, the high court ruled to suspend the implementation of the tax plan, but the government went ahead and raised petrol prices on 1 July, as initially planned.⁵ The **Energy and Petroleum Regulatory Authority (EPRA)** said in a statement on 30 June that the price of gasoline increased 7.4% to KSh 195.53 (\$1.39) per litre in Nairobi, while the cost of diesel also increased 7.4% to KSh 179.67 (\$1.27) per litre.⁶ Kerosene, which is used for cooking and lighting in millions of homes in Kenya, also jumped 7.4% to KSh 173.44 (1.23) in Nairobi.⁷ The rates, which are the highest citizens have paid since 2010, will remain in place until 14 July when EPRA will hold a scheduled monthly meeting to review the prices.⁸ Higher petrol prices may also push the CBN to act after it raised interest rates by 100 basis points at an unscheduled meeting on 26 June.

Many Kenyans have complained about the wider reforms, expressing that they are too expensive and ill-timed with economic pressures and the cost of living skyrocketing.⁹ Local manufacturers have also raised opposition to a range of taxes they argue will make their goods uncompetitive against other producers in **East Africa**, including a 10% levy on imported raw materials and intermediate goods

¹ NTV Kenya, 23 Jun 2023

² Times Live, 23 Jun 2023

³ NTV Kenya, 23 Jun 2023; Times Live, 23 Jun 2023

⁴ Al Jazeera, 7 Jul 2023

⁵ Al Jazeera, 7 Jul 2023

⁶ Energy and Petroleum Regulatory Authority, 30 Jun 2023

⁷ Energy and Petroleum Regulatory Authority, 30 Jun 2023

⁸ Bloomberg, 30 Jun 2023

⁹ KTN News 7 Jul 2023; Al Jazeera, 7 Jul 2023

such as packaging paper and clinkers for cement making.¹⁰ National assembly speaker, **Moses Wetangula**, also admitted that since he joined the house in 1993, he has “*never witnessed a more contested Finance Bill than this one*”.¹¹

The move also gave fresh motivation for the opposition to launch protests against the administration. President **William Ruto** (2022-present) vowed to reduce borrowing, ensure more prudent government spending, and pursue companies and individuals that have evaded taxation.¹² However, many have accused him of breaking his campaign promises where he declared himself the champion of the poor. Opposition leader **Raila Odinga** had adopted the same view, and in recent months has been leading paralysing anti-government protests.¹³ During a rally in **Nairobi** on 7 July, Odinga said that the “*time for talk is over*” and that the government had “*betrayed the people*” by approving the tax proposal which undermined the need to lower living costs.¹⁴ According to the interior ministry, six people died during anti-government clashes with police on the same day.¹⁵

Odinga has called for further protests to take place on 12 July despite warnings by interior cabinet secretary **Kithure Kindiki** that there will be pushback.¹⁶ National police head **Japeth Koome** also said on 11 July that he had banned demonstrations called by the Odinga on grounds that his **Azimio la Umoja One Kenya** party had not informed authorities.¹⁷ Odinga on 12 July announced that he was cancelling his rally citing intelligence reports that armed pro-government thugs would shoot indiscriminately at demonstrators at the **Kamukunji** grounds.¹⁸ However, that did not deter protestors who carried out demonstrations in several counties, leading to clashes with police forces and at least five deaths.¹⁹ In a warning that the situation could get worse, Odinga said that his Azimio party intends to hold weekly protests until Ruto “*comes out openly and agrees to repeal the finance bill*” and takes other measures to alleviate the cost of living.²⁰

The Ruto administration has accused Odinga of using the prevailing economic situation to advance his agenda to overturn last year’s presidential elections.²¹ Despite the overwhelming negative sentiments, the **World Bank** in its latest economic update of Kenya published in May, projects that the Ruto administration’s tax policy and reforms will boost revenues by 0.4% of GDP in 2024-2025.²² A local source told **Africa Risk Consulting Briefing (ARC Briefing)** that while Odinga may be using the tax hikes to “*his advantage*”:

*“He has tapped into real frustrations faced by millions of us Kenyans”.*²³

Kenya is bordering on the precipice of chaos, and it lies with both the government and opposition to bring the situation under control. Unless they do so, the cost will be more lives lost, as well as disruption of economic activities and livelihoods.

Central bank raises key rate to keep inflation easing and economy growing

The **Central Bank of Kenya (CBN)** convened an unscheduled meeting of the **Monetary Policy Committee (MPC)** on 26 June where it raised the benchmark rate by 100 basis points to 10.5%, its highest increase since July 2015.²⁴ This marked the first key policy action under the newly appointed

¹⁰ Times Live, 23 Jun 2023

¹¹ Bloomberg, 22 Jun 2023

¹² Times Live, 23 Jun 2023

¹³ Al Jazeera, 7 Jul 2023

¹⁴ Al Jazeera, 7 Jul 2023; NTV Kenya, 7 Jul 2023

¹⁵ Daily Nation, 7 Jul 2023

¹⁶ Bloomberg, 11 Jul 2023

¹⁷ AFP, 12 Jul 2023

¹⁸ KTV news, 12 Jul 2023

¹⁹ Nation Africa, 12 Jul 2023

²⁰ Nation Africa, 12 Jul 2023

²¹ Al Jazeera, 7 Jul 2023

²² World Bank, 23 May 2023

²³ ARC source, local resident

²⁴ Central Bank of Kenya, 26 Jun 2026

central bank governor **Kamau Thugge**. The CBN is hopeful that raising interest rates may quicken the cooling of annual inflation, which is already showing signs of improving. **Kenya National Bureau of Statistics (KNBS)** revealed on 30 June that inflation eased to 7.9% in June from 8% in May, driven by lower energy and transport prices. The transport index decreased to 9.4% in June from 10.1% in May, while housing, water, electricity, gas and other fuel inflation slowed to 9.4% from 9.7%.²⁵ Food prices, which comprise nearly a third of the consumer price index, remain elevated at 10.3% in part due to a 58.1% increase in the cost of sugar from a year earlier.²⁶

Inflation in Kenya has now breached the CBN's target band of 2.5% to 7.5% for 13 months, and Thugge forecasts that it will remain elevated and only revert within the range by September.²⁷ Hikes in electricity prices, a new batch of taxes which were supposed to start on 1 July, removal of fuel subsidies and related second-round effects are likely to keep inflation elevated.

On a positive note, KNBS also confirmed on 4 July that the economy grew faster than expected in the first quarter of the year after the agricultural sector overcame four consecutive quarters of contraction.²⁸ Favourable weather conditions in the country meant that the agricultural sector, which comprises nearly 25% of total output and employs more than 70% of rural people, expanded by 5.8% from a year earlier.²⁹ Last year the sector contracted as the region faced its worst drought in four decades, which threatened nearly five million people in Kenya with hunger. A 7% depreciation of the shilling against the **United States (US)** dollar during the quarter also strengthened earnings of key agricultural exports such as flowers, tea, vegetables, and fruits.³⁰

Kenya's GDP in the three months through March increased by 5.3% from a year earlier, a faster pace than 3.7% in the previous period ending December 2022.³¹ The growth reverses seven consecutive back-to-back quarterly growth declines after recovering from a prolonged electioneering period and a season of jobless growth defined by elevated inflation.³² The results also indicate that this was the fastest quarterly growth in Kenya in a year, defying the high cost of living driven by a prolonged drought.³³

The economy's strong growth in the first quarter could support overall expansion this year, which the CBK estimates at 5.5%, the parliamentary budget office at 5.1% and the **World Bank** at 5%.³⁴ However, risks to Kenya's economy include high inflation, rising domestic and global interest rates, as well as the 12 May credit rating downgrade by US rating agency **Moody's Investors Service**.

European Union and Kenya sign trade pact...

The **European Union (EU)** signed a long-negotiated trade agreement with Kenya on 19 June, giving Kenya duty and quota-free access to the EU's market. The agreement is expected to boost Kenyan agricultural exports and encourage European firms to establish operations in Kenya to process raw materials.³⁵ While Kenya agreed to join the pact in 2016, four **East African Community (EAC)** members, **Uganda, Rwanda, Burundi** and **Tanzania**, did not agree to a regional deal with the EU.³⁶ All EAC members, except Kenya, are considered least developed countries and still benefit from duty-free and quota-free access to the EU market.³⁷

²⁵ Kenya National Bureau of Statistics, 30 Jun 2023

²⁶ Kenya National Bureau of Statistics, 30 Jun 2023

²⁷ Bloomberg, 30 Jun 2023

²⁸ Kenya National Bureau of Statistics, 4 Jul 2023; Daily Nation, 4 Jul 2023

²⁹ Kenya National Bureau of Statistics, 4 Jul 2023

³⁰ Bloomberg, 4 Jul 2023

³¹ Kenya National Bureau of Statistics, 4 Jul 2023

³² The East African, 5 Jul 2023

³³ Daily Nation, 4 Jul 2023

³⁴ Bloomberg, 4 Jul 2023

³⁵ The East African, 3 Jul 2023

³⁶ Bloomberg, 19 Jun 2023

³⁷ Bloomberg, 19 Jun 2023

While stressing that the agreement is “open” to other EAC members to join, the **European Commission** executive vice-president and commissioner for trade, **Valdis Dombrovskis**, said at the signing ceremony that the EU-Kenya deal is actually “a bilateral implementation of a regional agreement with Eastern African Community.”³⁸ Ruto said that Kenya will engage other EAC members and the 28 other African countries in a tripartite free-trade agreement to join the bilateral pact:

*“Hopefully we can also take this all the way to the **Africa Continental Free Trade Area** so that we can build a bigger market, build a bigger consensus and be able to do more with the populations that exist between Europe and Africa”.*³⁹

Ruto also revealed that discussions on the deal have concluded and teams from both parties will expedite finalising texts ahead of ratification and subsequent entry into force of the deal at the start of 2024.⁴⁰ While Kenya exporters will have full access to the EU’s markets from the first day, negotiators say that Kenya will reciprocate terms later and gradually.⁴¹ The EU is Kenya’s second-largest trading partner with €3.3 billion (\$3.61 billion) registered in 2022.⁴² Kenya primarily exports flowers, vegetables and fruits to the EU valued at \$1.3 billion, while importing mineral and chemical products, as well as machinery worth close to \$2.2 billion.⁴³

Despite its much-touted benefits, in the short term, the deal with the EU will not change much as Kenya already benefits from duty and quota-free trade with the EU under a temporary special arrangement in place since 2014 after EAC partners withdrew in pushing the agreement.⁴⁴ It is reported that some EAC members are wary that the EAC-EU deal could be in breach of the **EAC Customs and Common Market** requirements on liberalisation of trade, particularly at a time when African countries are propping up their free trade area to boost local producers.⁴⁵ Kenya’s trade ministry has defended the deal by stressing that it does not violate EAC terms or harm the bloc’s sectors such as agriculture. The deal is currently awaiting the **European Parliament’s** endorsement.

Planner

14 Jul 2023 **Nairobi (Kenya) Energy and Petroleum Regulatory Authority (EPRA)** rates review meeting;

17-19 Jul 2023 **Nairobi (Kenya) Kenya Mining Week**;

26 Jul **Nairobi (Kenya) Monetary Policy Committee (MPC)** meeting;

Jul 2023 **Nairobi (Kenya) International Monetary Fund** executive board to deliberate on \$410m facility for Kenya;

4-6 Sep **Nairobi (Kenya) African Climate Action Summit**;

Chronology

³⁸ Europa, 19 Jun 2023

³⁹ Moneyweb, 19 Jun 2023

⁴⁰ Bloomberg, 19 Jun 2023

⁴¹ Bloomberg, 19 Jun 2023

⁴² Moneyweb, 19 Jun 2023

⁴³ The East African, 3 Jul 2023

⁴⁴ The East African, 3 Jul 2023

⁴⁵ The East African, 3 Jul 2023

12 Jul 2023 **Nairobi (Kenya)** *Aljazeera*. Iranian President **Ebrahim Raisi** arrives in Nairobi after Kenya delayed the meeting by a day to finalise its memoranda of understanding (MoU) that will be discussed by President **William Ruto** and Raisi;

8 Jul 2023 **Moroni (Comoros)** *The East African*. President **William Ruto** reportedly woos **Comoros** to join the **East African Community (EAC)** in addition to inviting **Ethiopia** to join the bloc. Ruto has also publicly supported **Somalia's** verification process to join the bloc;

8 Jul 2023 **Nairobi (Kenya)** *Business Daily*. **Kenya National Bureau of Statistics (KNBS)** data reveals that Kenya's food import bill in the first quarter of the year rose 58.4% to hit Ksh80.2 billion (\$569.4m), nearly matching what was earned from exporting food;

7 Jul 2023 **Nairobi (Kenya)** *Bloomberg*. **Nairobi Securities Exchange** chairman **Geoffrey Odundo** expects easier access to dollars to boost foreign interest in the country and help the world's worst-performing stock market recover in the second half of the year;

7 Jul 2023 **Nairobi (Kenya)** *AFP*. Police fire tear gas at opposition leader **Raila Odinga's** convoy as people join anti-government protests in several cities over the cost-of-living crisis and a raft of controversial tax hikes;

6 Jul 2023 **Moroni (Comoros)** *The East African*. President **William Ruto** arrives in Comoros where he will attend the country's 48th independence anniversary celebrations;

6 Jul 2023 **Washington (United States)** *Business Daily*. **World Bank** supports **Kenya's** efforts to widen the tax authority's reach in the digital marketplace after Kenya takes measures to widen its tax base and strengthen domestic revenue mobilisation when raising financing from external sources is challenging;

5 Jul 2023 **Nairobi (Kenya)** *Daily Nation*. Interior cabinet secretary **Kithure Kindiki** says Kenya will delay the planned phased reopening of its border with **Somalia** to address the recent wave of terror attacks and cross-border crime;

4 Jul 2023 **Nairobi (Kenya)** *Capital FM*. Supreme court ruling declares president **William Ruto's** 50 chief administrative secretaries (CAS) appointments unconstitutional;

A3 Jul 2023 **Nairobi (Kenya)** *Bloomberg*. President **William Ruto** lifts a five-year tree-logging freeze that boosted forest cover to a modest 8.8%, citing it will create employment and revive the wood products industry;

30 Jun 2023 **Nairobi (Kenya)** *Daily Nation*. National carrier **Kenya Airways** starts talks with **Uganda Airlines** for interline and re-protection deals as it seeks to open access to several new destinations and offload passengers onto each other's networks;

27 Jun 2023 **Nairobi (Kenya)** *NTV News*. **Central Bank of Kenya** governor **Kamau Thugge** vows to battle sticky inflation amid growing complaints about prices and protest threats over the rising cost of living in the country;

22 Jun 2023 **Nairobi (Kenya)** *Bloomberg*. President **William Ruto** says that Kenya plans to repurchase at least half of its \$2 billion **Eurobonds** that are maturing in June 2024 before the end of this year;

20 Jun 2023 **Nairobi (Kenya)** *Bloomberg*. Kenya reportedly aims to complete a 98-kilometre electricity transmission line to **Tanzania** by the end of the year, closing a gap in a pan-African supply pool linking 19 countries.

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