

AFRICA RISK CONSULTING

Kenya Monthly Briefing June 2024

Kenya Summary 19 June 2024

International Monetary Fund (IMF) and Kenyan authorities reach a staff-level agreement on 10 June on Kenya's staff-monitored programmes, allowing for disbursements totalling \$1.09 billion. The World Bank on 30 May approves the first of three budget support packages for Kenya worth \$1.2 billion. Treasury cabinet secretary Njuguna Ndungu on 13 June presents the 2024/2025 financial year budget to parliament, aimed at lowering Kenya's debt and punting its economic recovery. The budget is set at KSh 3.99 trillion (\$31.19 billion). Local media have speculated extensively over the last month that there is a growing rift between President William Ruto (2022-present) and deputy president Rigathi Gachagua, raising questions over Gachagua's role as Ruto's running mate in the 2027 elections.

IMF and World Bank approve funds for Kenya

International Monetary Fund (IMF) and **Kenyan** authorities reached a staff-level agreement on 10 June on the seventh review of Kenya's **Extended Fund Facility (EFF)** and **Extended Credit Facility (ECF)** and second review of its **Resilience and Sustainability Facility (RSF)**. Pending executive board approval, Kenya will have access to \$976m under its EFF and ECF and an additional \$120m under the RSF.¹

Prior to the IMF agreement, the **World Bank** on 30 May approved the first of three budget support packages for Kenya worth \$1.2 billion. The bank said the funding is intended to help address short-term fiscal pressures and the country's green policies.² The bank also acknowledged that Kenya's macroeconomic environment had improved thanks to the government's efforts to address liquidity pressures despite lower investor confidence and limited capital inflows that have led to a depreciated shilling. **Central Bank of Kenya (CBK)** governor **Kamau Thugge** confirmed on 6 June that the country will use part of this budgetary support package to make a \$500m payment on the **Eurobond** maturing this month.

Notably, the IMF and Kenyan authorities agreed to reduce the size of Kenya's programme from \$3.88 billion to \$3.6 billion.³ The IMF noted that this was done to "align more closely with Kenya's current needs".⁴ Treasury principal secretary **Chris Kiptoo** noted in an interview following the IMF decision that Kenya can now easily access the international market when it needs to, so there is no need to maintain the larger programme.⁵ Kenya's near-term balance of payments needs changed after it issued a \$1.5 billion Eurobond in February that it used to buy back more than \$1.4 billion of its \$2 billion international bond maturing in June, reducing the refinancing risks associated with this Eurobond.⁶

However, the IMF warned that the government needs to adjust its 2024/2025 budget to include more revenue raising measures, as it expects domestic borrowing to remain high due to a shortfall in tax collection and a deterioration in the primary fiscal balance. Despite ambitious goals, in the nine months to March 2024, the KRA has collected KSh1.587 trillion (\$11.94 billion) in taxes and non-tax revenue against a prorated target of KSh1.932 trillion (\$14.54 billion).⁷

¹ Reuters, 11 Jun 2024

² Reuters, 30 May 2024

³ Bloomberg, 11 Jun 2024

⁴ Bloomberg, 11 Jun 2024; Reuters, 16 Feb 2024

⁵ The Africa Report, 13 June 2024

⁶ Bloomberg, 11 Jun 2024; Reuters, 16 Feb 2024

⁷ NTV, 12 May 2024

The IMF acknowledged that the government has taken steps toward increasing revenue in the draft 2024/2025 budget (see below) and the **Finance Bill 2024**. Specifically, the act introduces several significant changes aimed at boosting tax revenue to a targeted KSh2.94 trillion (\$22.12 billion) in the next fiscal year and enhancing **Kenya Revenue Authority's (KRA)** capabilities. Key changes outlined in the act include introducing a motor vehicle tax, removing VAT exemptions for certain financial services and sectors, and increasing excise duty rates on data and money transfer services (*see ARC Briefing Kenya May 2024*).

Parliament was set to debate the new bill on 18 June against a background of protests across **Nairobi** dubbed 'Occupy Parliament'. Police arrested at least 335 people.⁸ The debate was postponed after the presidency announced that several changes were made to the bill, including the scrapping of taxes on bread purchases and the proposed motor vehicle tax. The presidency confirmed that there will be no increase in mobile money transfer fees and the excise duty on vegetable oil has also been removed.⁹ The bill is set to be debated on 19 June.

2024/2025 budget presented

Treasury cabinet secretary **Njuguna Ndungu** on 13 June presented the 2024/2025 financial year budget to parliament, aimed at lowering Kenya's debt and punting its economic recovery. The budget has been set at KSh 3.99 trillion (\$31.19 billion), up from the adjusted 2023/2024 budget of KSh 3.85 trillion (\$29.96 billion) against projected revenue of KSh 3.34 trillion (\$25.99m).¹⁰ This leaves a fiscal deficit of KSh 597 billion (\$4.6 billion), significantly down from the 2023/2024 financial year's deficit of KSh 925 billion (\$7.15 billion).¹¹ Ndungu highlighted that this reduced budget deficit – 3.3% of GDP in the 2024/2025 financial year compared to 5.7% of GDP in the 2023/2024 financial year – is in line with the **Kenya Kwanza** government's fiscal consolidation strategy.¹²

The government will borrow KSh 333.8 billion (\$2.59 billion) from external sources and KSh 263.2 billion (\$2.04 billion) from the domestic market to finance the fiscal deficit. According to the World Bank, Kenya's total public debt is 68% of GDP for the 2023/2024 financial year and will drop to 64.8% in the 2024/2025 financial year.¹³

The budget forecasts GDP growth of 5.5% in 2024 and 2025, lower than the 5.6% achieved in 2023.

Key allocations of the budget include:

- Agriculture and food security: KSh 54.6 billion (\$424.9m);
- Micro, small and medium enterprises: KSh 2.96 billion (\$23.03m)
- Housing: KSh 165.6 billion (\$1.28 billion)
- Health: KSh 127 billion (\$988.33m)
- Energy: KSh 41.92 billion (\$326.22m)
- Education: KSh 656.6 billion (\$5.10 billion).¹⁴

While reducing the fiscal deficit is a key priority, this significant cut will be difficult to achieve.

Institute of Economic Affairs (IEA) Kenya CEO **Kwame Owino** warned in an interview on 14 June that the goal is too ambitious for the government, given the headwinds the economy is facing.¹⁵ Flooding, drought, salary cuts and the high cost of living will make increased revenue collection through tax difficult. Kenyans appear to agree with this and demonstrations took place across Nairobi on 18 June to protest the proposed finance bill. An online campaign – #rejectFinanceBill2024 – has

⁸ EWN, 19 Jun 2024

⁹ EWN, 19 Jun 2024

¹⁰ Reuters, 7 Jun 2024

¹¹ The Africa Report, 14 Jun 2024

¹² Business Daily, 13 Jun 2024

¹³ CNBC Africa, 13 Jun 2024

¹⁴ Business Daily, 13 Jun 2024

¹⁵ The Africa Report, 14 Jun 2024

gained support and is urging the **National Assembly** not to pass the bill unless it is adjusted for the high cost of living.¹⁶

Reported tensions between Ruto and Gachagua

Local media have speculated extensively over the last month that there is a growing rift between President **William Ruto** (2022-present) and deputy president **Rigathi Gachagua**, raising questions about Gachagua's role as Ruto's running mate in the 2027 elections. In May, Gachagua was absent from several public events including the arrival of **Uganda's** President **Yoweri Museveni** (1986-present) on 15 May and Ruto's return from a trip to **Rwanda** on 17 May.¹⁷ **State House** spokesman **Hussein Mohammed** on 19 May dismissed the media's speculation and on 26 May, Gachagua reiterated that his relationship with Ruto is strong.¹⁸

Despite the denial, Gachagua's allies have taken Ruto and his ruling **United Democratic Alliance (UDA)** to task. **Nyeri** governor **Mutahi Kahiga** has repeatedly accused the UDA of working to minimise Gachagua's role in government. In an interview on 17 June, Kahiga accused Ruto of remaining quiet when his allies are critical of Gachagua.¹⁹

The speculation comes amid reported rumours that younger politicians from the **Mount Kenya** region, where Gachagua is from, are seeking to replace him, and that Ruto's allies are encouraging this conjecture.²⁰ Ruto is from the **Rift Valley** region and having Gachagua as a running mate was key in helping him to secure support in the voter-heavy Mount Kenya region. Gachagua losing support in the region would be problematic for Ruto ahead of the 2027 elections.

To this point, during a political gathering on 22 May, Gachagua asked former president **Uhuru Kenyatta** (2013-2022) to forgive him for vilifying him during the 2022 election campaign. Kenyatta remains a key Mount Kenya politician and having his backing would make Gachagua more secure.

During an event on 15 June, Gachagua once again sought to quell the rumours of division, stating that he is loyal to the president.²¹ Gachagua said there was a scheme by politicians who opposed Ruto's election to destabilise the presidency through political divisions. He also clarified that his decision to work with Kenyatta, whose **Jubilee Party** is part of the opposition **Azimio la Umoja** coalition, seeks to strengthen national unity and to consolidate the Mount Kenya region behind Ruto ahead of the 2027 elections.²² Not delivering this would put Gachagua's role as Ruto's running mate in the next election in jeopardy. The rumours of infighting within the ruling coalition and division between Ruto and Gachagua could be indicative of the pressure Gachagua is facing to deliver.

Planner

19 Jun 2024 **Nairobi (Kenya) Finance Bill 2024** to be debated

24-28 Jun 2024 **Nairobi (Kenya) Africa Conservation Forum;**

3-4 July 2024 **Diani (Kenya) BlueInvest Africa 2024**

16-21 Jul 2024 **Nairobi (Kenya) Kenya Geothermal Congress 2024;**

28-30 Aug 2024 **Nairobi (Kenya) Transform Africa Summit;**

4-6 Sep 2024 **Nairobi (Kenya) Africa Fintech Summit;**

10-12 Sep 2024 **Nairobi (Kenya) Africa Business Summit;**

¹⁶ The Africa Report, 14 Jun 2024

¹⁷ The Africa Report, 21 May 2024

¹⁸ The Star, 26 May 2024

¹⁹ Nation, 18 Jun 2024

²⁰ The Africa Report, 4 Jun 2024

²¹ KBC, 15 Jun 2024

²² KBC, 15 Jun 2024

Apr 2025 **Nairobi (Kenya)** Eighth review of **International Monetary Fund (IMF)** programmes;
 2025 **Lamu (Kenya)** Expected commencement of **LAPSSET Corridor Programme** construction of standard gauge railway (SGR) linking Lamu port to **Ethiopia** and **South Sudan**;

Chronology

18 Jun 2024 **Nairobi (Kenya)** *SF Group*. Protests against the **Finance Bill 2024** are expected across Nairobi today;

15 Jun 2024 **Nairobi (Kenya)** *The East African*. **United States**-headquartered fund management firm **BlackRock** confirms it is selling off its equity investments in emerging and frontier markets, including Kenya and **Nigeria**, due to liquidity challenges in these markets and difficulty in repatriating funds;

12 Jun 2024 **Nairobi (Kenya)** *Moneyweb* Cabinet approves a plan to sell the government's shares in six listed companies, including **East African Portland Cement**, **Nairobi Securities Exchange**, **HF Group**, **Stanbic Holdings**, **Liberty Kenya Holdings** and **Eveready East Africa**;

11 Jun 2024 **Nairobi (Kenya)** *CNBC Africa*. **International Monetary Fund (IMF)** reaches a staff-level agreement with Kenya, allowing for the disbursement of \$976m;

10 Jun 2024 **Nairobi (Kenya)** *Kenya Wall Street*. **Norwegian** investment fund **Norfund** has pledged \$307m towards several e-mobility projects in Kenya;

7 Jun 2024 **Nairobi (Kenya)** *Business Insider Africa*. The **Organisation of American States (OAS)**, a regional bloc of 34 countries, extends an invitation to Kenya to join under the status of permanent observer;

5 Jun 2024 **Nairobi (Kenya)** *The East African*. **Central Bank of Kenya (CBK)** holds its benchmark lending rate at 13% stating that inflation, which increased slightly to 5.1% in May, is stable and within its near-term target band;

5 Jun 2024 **Nairobi (Kenya)** *The East African*. Prime cabinet secretary **Musalia Mudavadi** says Kenya will submit former prime minister **Raila Odinga's African Union Commission** candidacy by 30 June;

5 Jun 2024 **Nairobi (Kenya)** *Bloomberg*. **World Bank** says Kenya is planning another early buyback of its **Eurobonds** this year to help improve its debt-repayment profile;

1 Jun 2024 **Nairobi (Kenya)** *The East African*. The **Air France-KLM Group** has downgraded its investment in **Kenya Airways** to a "financial asset" that could be sold any time when the need arises;

31 May 2024 **Nairobi (Kenya)** *Daily Nation*. The **Kenya National Bureau of Statistics (NBS)** announces that Kenya's annual inflation unexpectedly quickened for the first time in four months to 5.1% in May from 5% in April, as floods impacted food prices;

30 May 2024 **Nairobi (Kenya)** *Africanews*. President **William Ruto** defends his use of a private aircraft to travel to the **United States (US)**, saying the cost of hiring it was approximately \$73,000, a discounted rate offered by friends, making it cheaper than the national airline;

27 May 2024 **Nairobi (Kenya)** *VOA*. **European Union (EU)** partners with Kenya to prosecute suspected maritime criminal suspects;

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