

AFRICA RISK CONSULTING

Kenya Monthly Briefing April 2022

Kenya Summary 13 April 2022

Treasury secretary Ukur Yatani presents a \$28 billion budget to parliament for the 2022/23 fiscal year. The budget shows ongoing support for President Uhuru Kenyatta's (2013-present) Big Four initiatives and signals that the government will continue to provide financial support to buffer citizens from rising petroleum prices. The monetary policy committee of the Central Bank of Kenya decides to maintain interest rates at 7% for the 13th consecutive time at its 29 March meeting. The Supreme Court dismisses President Kenyatta's proposal to amend the constitution through the Building Bridges Initiative (BBI).

2022/23 budget unveiled ...

Treasury secretary **Ukur Yatani** unveiled a \$28 billion budget on 7 April for the 2022/2023 fiscal year, just four months before the country goes to the polls.¹ The budget, which still requires parliamentary approval, is focused on economic recovery and growth following the **Covid-19** pandemic. In presenting the budget to parliament, Yatani stressed that it aimed *"to put the economy back on a more sustainable growth path"*. However, the government has to balance the need to buffer against energy hikes, fund the August election and ensure that government support remains strong in the lead up to the polls amid growing discontent among many Kenyans over the level of debt the country is taking on.

The budget aims to reduce the deficit from 7.5% of GDP in the last budget year to 6.2% in the coming year. It allocates approximately KSh 146 billion (\$1.255 billion) to outgoing President **Uhuru Kenyatta's** (2013-present) **Big Four** initiatives, namely housing, food security, industrial development and health.² Spending around the election is also a priority. The **National Assembly's Budget and Appropriations Committee** approved a motion to allocate KSh 8.8 billion (\$76m) to the **Independent Electoral and Boundaries Commission (IEBC)** for the August elections.³

There were no changes to employment taxes in the budget. However, concerning for business, the budget proposes an amendment to the **Tax Appeals Tribunal Act, 2013** that would require companies to make a 50% payment of a tax bill to the **Central Bank of Kenya (CBK)** in order to appeal a tax ruling to the **High Court**. With tax disputes that end up in the high court sometimes dragging on for years, business is likely to monitor this measure closely.

Noting that the country will need to continue to navigate the ongoing conflict in **Ukraine**, and particularly the likelihood of continued rising oil prices, the budget makes provision for tax cuts on petroleum products. However, taxes on advertising relating to alcohol and betting will increase to help raise revenue for the government.

The government's willingness to continue to take on additional debt continues to raise concern, particularly given the revelation by the **United States** government on 5 April that emergency loans from the **International Monetary Fund** cushioned Kenya's economy from near collapse during the

¹ AFP, 7 Apr 2022

² AFP, 8 Apr 2022

³ Business Daily, 25 Mar 2022

pandemic.⁴ The **World Bank** on 17 March approved a KSh85.77 billion (\$750m) loan to help accelerate Kenya's inclusive and resilient recovery from the Covid-19 crisis.⁵

Any increases in the cost of living in the coming months will reflect badly on the government and for opposition **Orange Democratic Movement (ODM)** leader **Raila Odinga**, who is running with the support of the incumbent president.

CBK holds interest rates at 7% in the lead up to the election ...

The **Monetary Policy Committee (MPC)** of the **Central Bank of Kenya (CBK)** decided at its 29 March meeting to maintain interest rates at 7% for the 13th consecutive time.⁶ CBK governor **Patrick Njoroge** said the meeting took place against a backdrop of a changed global outlook with heightened geopolitical tensions, volatile commodity prices, the Covid-19 (coronavirus) pandemic, and measures taken by authorities around the world in response to these developments.⁷

The MPC noted that inflation stood at 5.1%, down from 5.4% in January and 5.8% in November. Fuel inflation declined to 6.5% in February, from 8.2% in January; however, this was as a result of government interventions, including lowering of electricity tariffs. It is expected that the government will maintain these measures in the lead up to the August election as the cost of living becomes an increasingly issue for voters. The MPC anticipates that inflation will stay relatively stable, in part due to the government's ongoing intervention.⁸

Despite uncertainty around the conflict in Ukraine and reports of a further outbreak of Covid-19 in **China**, the Kenyan economy fared well in the first quarter of 2022. The MPC noted that this was supported by activity in key sectors such as construction, transport and storage and manufacturing. Exports of goods grew by 12.1% in the 12 months leading up to February, when compared to the previous year, and imports grew significantly, by 27.8% during that same period. Foreign exchange reserves were also viewed as stable; however, they dropped below five months of imports, currently standing at 4.8.⁹ Non-performing loans increased slightly, currently standing at 14%, an increase from 13.1% in December 2021.

Optimism was evident in the market perceptions survey report from March conducted prior to the MPC meeting. The survey asked respondents to reflect on economic activity in January and February 2022 and to predict how their sectors will fare in the upcoming two months, upcoming year, two-year and five-year periods.¹⁰ Despite global instability caused by the war in Ukraine, respondents believed that they would increase employment in 2022 vis-à-vis 2021 and that economic growth would be strong in 2022 with key sectors of the economy continuing to recover from the pandemic. Respondents in the banking sector anticipate an increase in private sector credit during the year. Interestingly, 82% of respondents expect government measures such as electricity tariffs to be maintained to ensure that inflation is managed. An overwhelming 83% of respondents expressed optimism around the reduction of Covid-19 cases, increasing vaccination rates and re-opening of businesses, and 82% of respondents expected that a full resumption of business as usual would support economic growth throughout 2022. Despite a generally optimistic trend, 78% of respondents anticipate that the August election will result in a slowing demand for credit and businesses choosing to defer investments until after the election is complete.¹¹

The next MPC meeting is scheduled for May, but the committee remains ready to re-convene earlier if necessary.¹²

⁴ Business Daily, 5 Apr 2022

⁵ Daily Nation, 17 Mar 2022

⁶ Central Bank of Kenya, 29 Mar 2022

⁷ Central Bank of Kenya, 29 Mar 2022

⁸ Central Bank of Kenya, 29 Mar 2022

⁹ Central Bank of Kenya, 29 Mar 2022

¹⁰ Market Perception Survey, Mar 2022

¹¹ Market Perception Survey, Mar 2022

¹² Central Bank of Kenya, 29 Mar 2022

Kenyatta faces embarrassment over Supreme Court ruling on BBI ...

The **Supreme Court** has dismissed President Kenyatta's proposal to amend the constitution through the **Building Bridges Initiative (BBI)**.¹³ The 31 March announcement confirms the **High Court's** June 2021 ruling that determined that the **Constitution of Kenya (Amendment) Bill, 2020** was not constitutional. In handing down its ruling on 31 March, the Supreme Court declared:

"The president cannot initiate constitutional amendments or changes through popular initiative under article 257 of the constitution... Civil proceedings cannot be instituted in any court against the president or the person performing the functions of the office of the president during their tenure of office in respect of anything done or not done under the constitution."¹⁴

The court noted that parliament could institute similar reforms in the future. However, the president could not spearhead the initiative, reinforcing the notion that Kenyatta had overreached his powers in pushing this political initiative.

BBI is a key policy of Kenyatta's second, and constitutionally final, term in office. BBI stems from a 2018 handshake between President Kenyatta and opposition ODM party leader and current presidential candidate, Raila Odinga. The BBI aims to reduce election-related tensions, in large part by further devolving power via the creation of 70 additional parliamentary constituencies.¹⁵ The amendments also provided for the creation of the role of the prime minister, with speculation that Kenyatta could vie for that role after ending his term as president.

The ruling is seen as a setback for President Kenyatta during his final months in office but also for Raila Odinga, who is running with the support of the incumbent. Current deputy president, and upcoming presidential candidate, **William Ruto** will no doubt capitalise on the decision.

¹³ The Nation, 31 Mar 2022

¹⁴ Aljazeera, 31 Mar 2022

¹⁵ BBC, 14 May 2021

Planner

May 2022 **Nairobi (Kenya) Central Bank of Kenya** Monetary Policy Committee meets

9 Aug 2022 **(Kenya)** General elections

Chronology

12 Apr 2022 **Nairobi (Kenya) The Star**. Twelve opposition political parties under **Kenya Kwanza Alliance** sign a coalition agreement prior to depositing the document with the Registrar of Political Parties;

12 Apr 2022 **Nairobi (Kenya) CapitalFM**. Twenty-six **Kenyan** companies commit trade investments worth \$1.6 billion in the **Democratic Republic of the Congo**, as part of the Kenya delegation that participated in last year's **Kenya-DRC Trade Mission**;

12 Apr 2022 **Nairobi (Kenya) The East Africa**. Fuel shortages return to haunt motorists as uncertainties over the state-backed subsidy ahead of the monthly review of pump prices persist;

8 Apr 2022 **Nairobi (Kenya) Nation**. Political leaders gather in **Nairobi** to witness the **Democratic Republic of the Congo (DRC)** become a member of the of the **East African Community (EAC)**;

7 Apr 2022 **Nairobi (Kenya) Nation**. **Kenya** abstains from a vote of the **United Nations General Assembly** to suspend **Russia** from the UN human rights council;

7 Apr 2022 **Nairobi (Kenya) AFP**. Finance minister **Ukur Yatani** unveils a \$28 billion budget for the 2022/2023 fiscal year, four months before the country goes to the polls, which pumps billions into outgoing President **Uhuru Kenyatta's** so-called legacy projects and major infrastructure, much of it funded by **China**;

7 Apr 2022 **Johannesburg (South Africa) fin24**. **Kenya Airways** CEO **Allan Kilavuka** says his airline and **South African Airways** are planning a series of investor roadshows to help find a financial backer for a combined airline group they aim to create next year;

6 Apr 2022 **Nairobi (Kenya) Bloomberg**. **Energy and Petroleum Regulatory Authority** agrees to compensate oil marketers for selling fuel they imported at rates higher than what is reflected in the retail cap, in a bid to end a supply shortage in the country;

5 Apr 2022 **Nairobi (Kenya) Business Insider Africa**. Some of **Kenya's** top banks, including **Equity Bank, Absa Kenya** and **KCB Group**, urge the **Central Bank of Kenya** to consider reinstating fees for transfers between banks and mobile money wallets;

5 Apr 2022 **Nairobi (Kenya) Business Daily**. **United States** government reveals that emergency loans from the **International Monetary Fund** cushioned **Kenya's** economy from near collapse amid protests from Kenyans over the mounting public debt;

5 Apr 2022 **Nairobi (Kenya) The East African**. Members of parliament from 10 countries in the **Great Lakes Region** meet in **Nairobi** for a conference in which they will discuss parliaments' role in conflict resolution, as they seek to improve peace and prosperity in the region;

5 Apr 2022 **Kampala (Uganda) The East African**. **Kenya**-based financial services holding company **Jubilee Holdings** posts a profit of \$73.04m in 2021, a 66% rise from 2020, with the profits in **Uganda** and **Burundi** growing the most;

4 Apr 2022 **Nairobi (Kenya) Xinhua**. **Kenya** and the **Netherlands** sign agreement to facilitate export of horticulture through the **Standard Gauge Railway**;

1 Apr 2022 **Nairobi (Kenya) The East African**. **France**-based logistics group **Bollore** agrees to sell its **African** operations to container shipping company **Mediterranean Shipping Company** for \$6.3 billion;

31 Mar 2022 **Nairobi (Kenya)** *Daily Nation*. **Supreme Court** dismisses President **Uhuru Kenyatta's** proposal to amend the constitution through the **Building Bridges Initiative**;

28 Mar 2022 **Nairobi (Kenya)** *defenceWeb*. Defence ministry awards **Sweden**-based aerospace and defence company **Saab** a contract for live training systems;

25 Mar 2022 **Nairobi (Kenya)** *Business Daily*. The **National Assembly's Budget and Appropriations Committee** approves a motion to allocate Ksh 8.8 billion (\$76m) to the **Independent Electoral and Boundaries Commission (IEBC)** for the August 2022 elections;

25 Mar 2022 **Nairobi (Kenya)** *Business Daily*. The **United States (US)** downgrades its travel advisory for **Kenya** from level one to three, reflecting an increase in vaccination and lowering rates of **Covid-19** cases;

22 Mar 2022 **Nairobi (Kenya)** *IT News Africa*. State-owned utility **Kenya Power** clears \$22.7m power purchase bill to **United States**-based geothermal energy tech firm **Ormat Technologies** to subdue fears of a default that would have seen the firm bill Kenya's **National Treasury**;

17 Mar 2022 **Nairobi (Kenya)** *Daily Nation*. **World Bank** approves KSh85.77 billion (\$750m) loan to help accelerate **Kenya's** inclusive and resilient recovery from the **Covid-19** crisis;

17 Mar 2022 **Nairobi (Kenya)** *The East African*. **Kenya** opens an embassy in **Indonesia's** capital, **Jakarta**, reinforcing the two countries' commitment to enhancing relations;

16 Mar 2022 **Nairobi (Kenya)** *The East African*. **Kenyan** brewing company **Keroche** agrees to pay \$8.3m to settle a tax bill with the **Kenya Revenue Authority**;

16 Mar 2022 **Nairobi (Kenya)** *The East African*. **China's** special envoy to the **Horn of Africa**, **Xue Bing**, visits **Kenya** for the first time since his appointment to the role in January;

15 Mar 2022 **Nairobi (Kenya)** *Reuters*. **South Africa**-based financial services group **Absa Bank's Kenya** unit says its pre-tax profit jumped 75.7% to KSh15.55 billion (\$136.22m) in 2021, compared with the same period a year ago;

15 Mar 2022 **Nairobi (Kenya)** *Business Daily*. The **Central Bank of Kenya** announces that digital lenders have six months to acquire new licences to continue to operate.

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Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

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