Ubiquity Consulting Ltd

NEWSLETTER

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TAXES INCREASE INPUT COST TO A 7-MONTH PEAK

Businesses in Kenya raised selling prices of goods in May, ending a pattern of relatively stable prices in the preceding three months as higher taxes and fuel costs pushed input costs to a 7-month high. The latest Market Stanbic Bank Kenya Purchasing Managers' Index (PMI) covering May shows that input cost inflation climbed the sharpest, prompting firms to raise output prices at the quickest pace this year.

The sharp uptick in overall input costs was despite the headline PMI reading rising from 49.3 in April to 51.3 in May to signal a modest uplift in the health of the private sector activity. This was the first increase in PMI in five months and the fastest improvement in business conditions since January.

HOMES TAX DROPS 21% ON LOW PROPERTY SALES

Stamp duty paid on home and land transfer to drop 21.5% in the year end to June, reflecting the drop in property sales on reduced supply of loans and cash flow hitches. Fresh statistics show the Treasury expects revenue from stamp duty to dip to KShs.9.51 billion from KShs.12.13 billion recorded in the previous year ended June 2018.

The tax is charged on the market value of the property at the rate of 4% in towns and 2% in rural areas and must be paid to the taxman within 30 days of contract execution. The KBA latest survey suggested house prices dropped 2.78% during the first quarter of 2019, the first decline since the last quarter of 2014.

TREASURY HALVES LEVY ON ELECTRIC VEHICLES TO 10%

The Government has proposed changes to the tariff structure reducing duty for electric vehicles carrying more than 10 persons from 20% to 10%. According to the Finance Bill 2019, fully electric-powered coaches, buses and mini-buses with a seating capacity exceeding 29 persons as well as coaches, buses and mini-buses with less than 21 persons will enjoy a 10% duty rate.

Audit and financial advisory services firm Grant Thornton said easing excise duty for electric vehicles could spur investments in the sub-sector, creating new jobs for auto-electrical engineers.

Buyers of hybrid vehicles will be charged a 25% rate up from 20% while importers of fuel-guzzlers with 2500cc engines and above will pay duty at 35% up from the earlier 30%. This has also seen raw materials for making electric accumulators and separators zero-rated for local manufacturing of solar and motor batteries.

ROTICH SCRAPS GENEROUS RELIEF IN HOUSING LEVY

The Treasury is seeking to scrap a guideline that handed immunity to high income earners in the housing levy, limiting the monthly relief to 15% of the actual contribution. Through the Finance Bill

2019, Treasury CS Henry Rotich has sought to peg the 15% monthly relief on the contribution as opposed to gross earnings as previously announced.

Under the law which has since been challenged in court, workers are supposed to contribute 1.5% of their basic salary — up to a monthly limit of KShs.2, 500 — to the National Housing Development Fund. Employers will match each worker's contribution. In the previously published guidelines that had pegged the monthly relief on gross pay, contributors would have enjoyed up to KShs.9, 000 in monthly tax relief which is nearly four times the statutory maximum of KShs.2, 500. The changes sought through the Finance Bill 2019 imply top contributors will enjoy tax relief of KShs.750.

ROTICH KEEPS BUSINESS PERMIT TAX TO NET CHEATS

Small traders will continue paying presumptive tax charged at the rate of 15% of annual business permit fee paid to the counties despite proposed re-introduction of a monthly turnover duty to arrest the 1.56 million tax cheats. The Kenya Revenue Authority (KRA) said on Tuesday the move to retain the presumptive tax is aimed at providing the taxman with additional data on small traders with annual revenue of up to KShs.5 million, the majority of whom have not been paying taxes.

The KRA forecasts to net one million small traders who have limited contact with the tax system save for indirect consumption levies. Maurice Oray, deputy commissioner for corporate policy at the KRA, said the presumptive tax will be key to collecting data on small traders largely operating informally for the purposes of enforcing the proposed 3%-monthly turnover tax.

KRA TARGETS ONLINE BUSINESSES IN TAX EVASION CURB

The Kenya Revenue Authority (KRA) has set sights on businesses using the Internet to market and sell products in a renewed bid to reduce revenue leakage through tax evasion. The taxman says some of the businesses, which have invested in online channels to provide services and drive sales, were neither paying taxes nor filing annual returns.

Firms with annual revenue of more than KShs.5milllion are under the law required to register for value-added tax (VAT) obligation. This will see them charge the standard 16% tax on supplies, among other taxes, and remit the same to the taxman. Those that generate less than KShs.5 million a year are, on the other hand, obligated to pay presumptive tax at the rate of 15% of the annual single business permit fee issued by a county government in a law enforced in January this year.

KRA TO PURSUE TAX CHEATS

The Kenya Revenue Authority (KRA) will still go after tax cheats as it begins clearance of 26 containers that have overstayed at Inland

Container Depot (ICD). The taxman has issued a notice inviting all importers to start collecting their goods from the facility over the next three weeks. KRA has called on the owners of the cargo to show up, warning that criminal charges will be pressed against importers who had concealed identity of the goods to evade tax.

T-BILLS DROP KSHS.40 BILLION ON DEBT MATURITIES

On the back of heavy maturities in domestic debt the outstanding stock of Treasury bills dropped by KShs.40 billion in May. Central Bank of Kenya (CBK) data shows that there was KShs.963.7 billion worth of outstanding Treasury bills by May 24, representing 34.7% of total domestic debt, down from the record high of KShs.1.003 trillion on May 3 that represented 36.7% of total domestic debt.

Total domestic debt maturities in May stood at KShs.170 billion, the bulk coming from Treasury bills. June maturities are expected to hit KShs.132.8 billion. At the same time, the stock of outstanding Treasury bonds has gone up by KShs.53.3 billion to KShs.1.746 trillion. During the Treasury bond auction of KShs.50 billion in May, investors bid KShs.70.8 billion, out of which CBK took up KShs.58.5 billion.

DEBT COST SET TO FALL TO KSHS.174 BILLION

A brief relief to taxpayers as the cost of repaying debts will for the first time in many years fall in July by KShs.174.1 billion due to the Treasury's drive for longer maturing loans. Debt repayments in the year starting July will drop to KShs.696.5 billion, down from the KShs.870.6 billion that will be consumed by loan payments in the current year, a 20% drop. This will ease pressure on taxpayers and offer the Treasury cash for building roads, affordable housing and revamping of the ailing health sector.

The Treasury has in recent years been rolling over foreign debt accumulated under the Jubilee administration by refinancing maturing loans using longer-dated loans that ease the short-term risk of default and prevent a hard hit on the country's dollar reserves. Interest payment on the loans will increase to KShs.441.4 billion in the year starting July from the current KShs.399.9 billion.

BIDDERS SNUB SHORT T-BILLS ON RATE CAP JITTERS

Investors continued to shun short-term treasuries despite improved liquidity, with analysts attributing this to uncertainty on interest rate regime ahead of the Budget Statement. Central bank of Kenya (CBK) data, however, showed scramble for one-year papers persisted as cash-rich investors, largely commercial banks, looked to lock in higher returns.

The 91-day Treasury bills were undersubscribed attracting KShs.905.39 million in bids, or 22.63%, of the KShs.4 billion on offer compared with 58.36% uptake the week before. Uptake of the 182-day debt issue fell to a fresh low of KShs.810.08 million or 8.1% of the amount on offer. Appetite for the one-year papers on the other hand continued to rise, with subscription coming in at 261.13% of the KShs.10 billion offered by the CBK. The weekly sale of 364-day T-bills has been oversubscribed since May 9.

NSE BONDS TRADE FALLS 18%

Nairobi Securities Exchange (NSE) bond turnover NSE fell by 18% last month to KShs.54.6 billion, cutting brokers' income. Rising debt maturities are, however, expected to feed into the market this month and raise trading activity. Analysts at Sterling Capital say tight liquidity in the market affected traded volumes in most of May but expect some easing of the cash flow situation this month. The number of trades during the month also went down, to 1,578 from 1,590 in April when turnover had been up by 6.9% month-on-month to KShs.66.7 billion.

FOREIGNERS RETAIN DIVIDEND POWER AT TOP 20 NSE FIRMS

Despite a sharp drop in the proportion of the foreigners' shareholding of Kenyan companies, the share of dividends earned by foreign investors holding stakes in the 20-biggest NSE firms increased by 22.1% last year. Dividend payout to foreign investors holding stakes in the blue chip firms rose by KShs.6.1 billion to KShs.33.8 billion last year, up from KShs.27.7 billion earned in 2017.

The payout was hugely supported by the jump in dividends paid by telecommunications company Safaricom. The increase in dividend earnings came despite a stock sell-off by the foreigners that saw their stake at the Nairobi Securities Exchange (NSE) hit a seven-year low. Foreign investors pocketed 25.1% of the KShs.135.1 billion dividends paid by the blue chip stocks compared with the 29.2% of KShs.94.9 billion payout in 2017.

KSHS.22BILLION PAID AS INTEREST FOR EUROBOND DEBT

KShs.22.5 billion in interest payments made by Kenya on the 5-year KShs.76.4 billion ($750 million) Eurobond tranche that matured, indicating the steep cost that taxpayers have to shoulder to finance external commercial loans. The Treasury borrowed $2.75 billion in the debut Eurobond in 2014 in tranches of 5-years ($750 million/KShs.75 billion) and 10-years ($2 billion/KShs.200 billion). The 5-year paper was signed at a fixed interest rate of 5.875%, which was the cheapest rate among the different tranches on the country's three Eurobond loans. The interest payments worked out at KShs.4.5 billion per year, payable in two equal bi-annual installments of KShs.2.25 billion, the last of which was paid alongside the principal amount. The Central Bank of Kenya (CBK), which is the government's fiscal agent, said in its market bulletin for last week that official Forex reserves had dropped by KShs.94.8 billion ($930 million), indicating the principal payment had been accounted for as well as interest payments on the 2014 loans. Foreign debt payments are usually made from the CBK's foreign exchange reserves, whereby the CBK usually exchanges dollars for shillings.

TRANSPORT COSTS SET TO FALL AS KENYA & UGANDA TRADERS' CUT A DEAL

A group of cross- border small scale traders have come together to share the cost of transporting goods to various towns in the interior parts of Kenya and Uganda using hired trucks. The move has seen individual traders pay depending on the quantity of the load instead of shouldering the all cost of hiring trucks. Previously trucks would charge about KShs.30,000 to transport goods regardless of the volumes and the destinations.

After coming together, the traders who deal in small quantities of goods now pay KShs.250 per 90kg load without necessarily having to fill a truck. About 40 trucks transport the traders' goods to Kisumu, Eldoret, Nakuru, Nairobi or into Uganda, daily. The trucks carry about 120 bags of goods weighing 90 kilos each at a go, with a bag costing about KShs.250 to transport from Busia to most destinations in Kenya.

KENYANS ABROAD MUST BRING BACK KSHS.1, 000 NOTES

Central Bank of Kenya (CBK) Governor Patrick Njoroge has said anyone holding the old KShs.1, 000 bank notes outside the country will have to bring them back to exchange with the new currency before the October 1 deadline. Any form of conversion of the old notes outside Kenya's borders was ruled out by the Governor, indicating that the regulator had notified all foreign banks to stop recognizing the legacy currency.

The CBK boss said the regulator is also not providing any new generation bank notes to lenders outside the country to facilitate conversion, arguing that this would defeat the goal of combating illicit money flows that have informed the move to demonetize the old KShs. 1,000 currency.

Converting between KShs.1 million and KShs.5 million is happening at all commercial bank branches, where customers are expected to make declarations on the source of their cash. An endorsement from CBK will be required for persons exchanging more than KShs.5 million, as will those exchanging more than KShs.1 million but do not have bank accounts.

VALUE OF ONLINE STATE TENDERS UP 78% AFTER DISCLOSURE ORDER

The value of tenders published online by State corporations and agencies in line with a presidential directive has increased 78% to KShs.143.8 billion since February after the Government warned of stiff sanctions on non-compliant firms. The online portal, established last July, listed 17,828 tenders worth KShs.143.91 billion that were awarded to 8,692 registered suppliers. This represents a 78.9% increase compared with the 10,937 tenders worth KShs.80.21 billion listed in February for 5,937 suppliers.

The publication of the tenders would allow the public to scrutinize the deals, including the quality and amounts of goods and services bought as well as the cost and identity of suppliers. Information on the portal should include the basis of awarding tenders, parameters of assessment, names and details of tender committee members, bidders as well as the value of each contract.

WHEAT IMPORTS RISE AHEAD OF BUDGET READING

Wheat millers stepped up imports ahead of the Budget reading in fear of raise in duties by the Treasury. Data from the Kenya Ports Authority (KPA) shows volumes of wheat have been going up since April, making it one of the top bulky cargoes at the facility. KPA data indicates that the tonnage imported on May 22 was 42,034 before jumping to 61,320 tons this week.

Millers have always been enhancing the volumes of the produce ahead of Budget reading so as to have enough of cheap grain in case the duty is revised upwards. Kenya currently charges 10% duty on all imported wheat but it is still cheaper when compared with the locally produced commodity. Local farmers have always demanded high price for a 90-kilo bag of wheat, forcing millers to pay KShs.3,100 against the imported cost of roughly KShs.2,800.

TEA PRICES HIT FRESH LOW AS YEAR CLOSES

Tea prices have dropped to the lowest point this year with a kilogram on average selling at KShs.181 per kilo down from KShs.190 last week. The price at the Mombasa Auction, which had rebounded at the beginning of this month after a streak of poor performances, slid back to below two dollars in the last two sales of June. This comes at a time when the financial year is coming to an end this month; implying farmers will have to put up with reduced earnings in the 2017/2018 financial year.

LOAN DEFAULTERS TO GET NOTICE BEFORE CRB LISTING

In the new Central Bank of Kenya (CBK) regulations intended to protect borrowers, Loan defaulters will soon be entitled to a 30-day notice from lenders before their names are submitted to credit reference bureaus (CRBs) for listing. The CBK has published draft CRB regulations 2019 that prohibit banks, microfinance institutions as well as savings and credit co-operative societies (SACCOS) from submitting the names of defaulters for listing without their knowledge. The draft rules require financial institutions intending to report a customer to CRBs to inform him or her by writing or through electronic means and also send another communication informing them about the listing.

These regulations, if passed, will entitle every customer to an updated credit score. Transunion, Metropol and Creditinfo are three CBK-licensed CRBs in Kenya. According to CBK data, gross non-performing loans for banks alone stood at a record high of KShs.327.9 billion in February 2019, showing an increase in defaulters who risk negative credit reports. About 20.55 million CRB reports affecting 379,613 customers were generated Between August 2010 and December 2017.

KENYAN ECONOMIC OUTLOOK

HIGHER FOOD PRICES LEAD TO HIGHER INFLATION OF 5.7%

Inflation was pushed to 5.7% in June as a result of rise in prices of maize flour, beans and green grams among other foodstuffs, wiping out the temporary benefits on the cost of living brought about by the recent rainfall. This is an increase from the 5.49% recorded last month.

The Kenya National Bureau of Statistics (KNBS) said though prices of vegetables among them spinach, kales and tomatoes recorded decreases of 2.42%, 6.87% and 0.36% respectively on account of good weather. A kilogram of loose maize grain was retailing at an average price of KShs.48.70 in June, up from KShs.48.45 in May. On its part, a kilo of beans was selling at KShs.120.26, up from KShs.118.33 last month.

HIGH LIQUIDITY HOLDS SHILLING ABOVE 102 AGAINST US DOLLAR

A liquidity flush money market coupled with end-month dollar demand has helped keep the shilling above the 102 level against the greenback. The interbank rate, which offers a measure of how much banks are in need of cash, has dropped to a two-and-a-half-month low of 2.48%. The dollar demand from importers has balanced out supply, with the shilling trading at an average of 102.21 yesterday afternoon compared to Wednesday's closing average of 102.17.

CBK data shows that liquidity in the banking sector has been on an upward trend this year. The banking sector liquidity ratio stood at 51% at the end of April, which is the highest level since May 2017. Liquidity ratio measures how much high-quality assets a financial institution is holding to fund cash outflows for at least 30 days.

DIASPORA INFLOWS SLOW DOWN IN FIRST FIVE MONTHS

Cash sent home by Kenyans abroad rose a modest 3.78% to KShs.117.56 billion ($1.15 billion) in the first five months of the year compared with a year earlier. KShs.24.75 billion was remitted in May, slightly reduced from KShs.24.96 billion in April. Last month's Diaspora inflow was KShs.1.12 billion less than previous month's KShs.25.87 billion ($245 million), partly reflecting diminishing impact of the tax pardon extended to Kenyans who repatriate wealth stashed in foreign countries.

Diaspora remittances have since 2015 remained the top source of foreign exchange largely buoyed by a growth in investment products targeting the Diaspora community and cheaper remitting options via mobile phones. Diaspora remittances of KShs.270.26 billion were more than tourism receipts of KShs.157.36 billion in 2018; horticultural exports earnings KShs.153.68 billion and tea KShs.140.86 billion. Kenyans abroad also remitted more than Foreign Direct Investment (FDI), which the United Nations Conference on Trade and Development (UNCTAD) estimated at KShs.164.84 billion, 27.53% higher than in 2017.

FOREIGN DIRECT INFLOWS SET RECORD KSHS.164.8BILLION HIGH

Kenya's foreign direct investment (FDI) rose 27.53% in 2018 to hit a new high of KShs.164.84 billion driven by increased flows into manufacturing, chemicals, hospitality, and oil and gas, World Investment 2019 report suggests. The report by the United Nations Conference on Trade and Development (UNCTAD) indicates foreign investments last year were KShs.13.69 billion more than 2017 whose inflows have been revised upwards to KShs.129.26 billion from KShs.68.13 billion.

American global hospitality brands such as Hilton, which opened a new outlet — Hilton Garden Inn — near Jomo Kenyatta International Airport (JKIA) and Radisson Hotel Group are some of the major foreign firms which have invested millions of shillings in Kenya in recent years. Others are Bangladesh Steel Re-Rolling Mills Ltd and UK's Tullow Oil which is trucking oil from Turkana oil fields to Mombasa for planned exportation. Nairobi accounted for 18.21% of the KShs.908.97 billion injected into 11 eastern African economies, a slightly bigger share compared with 14.71% in 2017.

GLOBAL ECONOMIC OUTLOOK

GOLD JUMPS TO NEAR SIX-YEAR HIGH

Gold jumped to a near six-year high on Friday 21st June, surpassing the key $1,400 level before shedding some gains, but bullion was headed for its best week in more than three years on dovish signals from major central banks and rising tensions in the Middle East.

Weaker dollar, falling yields and tensions in the Middle East have lifted the precious metal by nearly 4% so far this week - its biggest since the week ended April 29, 2016, and also set for a fifth consecutive weekly rise.

US CONSUMERS INCREASE SPENDING A MODEST 0.4% IN MAY

Commerce Department said that incomes rose 0.5% and inflation remained tame, increasing just 1.5% in the past year. Still, there were signs that core prices, which exclude food and energy, accelerated slightly.

Consumer confidence slipped this month but remains at historically high levels. Americans spent more on cars and restaurant meals, according to the government report, a sign that they are willing to make large purchases and spend on discretionary activities, such as eating out.

Core inflation has slowed from a pace of 1.8% in January. The Fed has mostly failed to reach its inflation target since adopting it seven years ago. That has raised pressure on the Fed to cut rates in the coming months. Most analysts expect the central bank will take that step at its next meeting in July or the following one in September.

INFLATION REMAINS WEAK IN EUROZONE

Consumer price inflation across the 19 countries that use the euro remained stuck at an annual 1.2% in June, well below their central bank's goal despite years of stimulus policies.

The figure for core inflation, which excludes volatile fuel and food prices, rose more than some expected, however, climbing to 1.1% from 0.8% in May. Core inflation is considered to give a truer picture of trends in consumer prices.

ECB President Mario Draghi said that unless inflation improves, more stimulus such as interest rate cuts or bond purchases will be needed.

CHINA AGREES TO RESTART US TRADE TALKS

The United States and China agreed on Saturday to restart trade talks and what Washington would hold off on imposing new tariffs on Chinese exports, signaling a pause in the trade hostilities between the world's two largest economies. The truce offered relief from a nearly year-long dispute in which the countries have slapped tariffs on billions of lines, rolling markets and dragging on global economic growth. Trump said while he would not lift existing import tariffs, he would refrain from slapping new levies on an additional $300 billion worth of Chinese goods which would have effectively extended tariff to everything China exports to America.

FISCAL DEFICIT TOUCHES 52% OF FULL YEAR TARGET IN FIRST 2 MONTHS

India's fiscal deficit touched 52% of the budget estimate for the full year in the first two months of 2019-20. In absolute terms, the fiscal deficit/gap between expenditure and revenue was Rs 366,157 crore, as per the data released by the Controller General of Accounts (CGA). The fiscal deficit was 55.3% of 2018-19 budget estimates in the year-ago period.

In the Interim Budget passed in February, the government had estimated the fiscal deficit at Rs.7.03 lakh crore for 2019-20. The government aims to restrict the fiscal deficit at 3.4% of the GDP during the current fiscal, same as the last financial year. The CGA data showed that revenue receipts of the government during April-May, 2019-20 was 7.3% of the budget estimate.

FOREX RESERVE HITS RECORD HIGH OF $426.42 BILLION

India's foreign exchange reserve touched a life time high of $426.42 billion after it surged by $4.215 billion in the week to June 21, RBI data showed. Forex reserves had scaled a record high of $426.028 billion in the week to April 13, 2018. In the previous reporting week, the reserves had declined by $1.358 billion to $422.2 billion. The rise in reserves was on account of increase in foreign currency asset, which is a major component of the overall foreign exchange reserves. In the reporting week, foreign currency assets increased by $4.202 billion to $398.649 billion. Expressed in dollar terms, foreign currency assets include the effect of appreciation/depreciation of non-US units like the euro, pound and yen held in the reserves.

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