Ubiquity Consulting Ltd

NEWS LETTER

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OVERALL COST OF ELECTRICITY FOR BUSINESSES RISE BY 18%

Hours after the new billing structure, manufactures raised concerns that the 18% increase in the cost of electricity is hurting the competiveness of Kenyan products. The new calculation factors other charges such as Forex charge, inflation, fuel cost and VAT.

Industrialists raise concern that the higher power bills will raise manufacturing costs in the country which is about 12% above the global benchmark. ERC has raised the base cost of energy for businesses by 36%.

CONSUMERS OF ELECTRICITY FEEL THE PAIN OF INFLATED BILLS

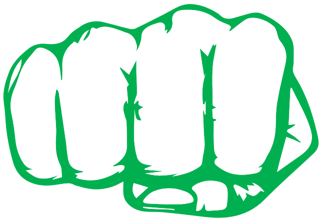
Complaints from consumers about the newly announced tariffs despite the removal of fixed monthly charges of KShs.150 took to twitter. Kenya power lighting & co. started using new tariffs for its August billings affecting consumers buying between 11 to 200 units, mainly the middle class users. In July, pre-paid customers buying electricity for KShs.3,000 were receiving 151.4 units and are now receiving 135.2 units for the same amount.

COSTS OF COOKING GAS INCREASES TO 25 MONTHS HIGH

The price of cooking gas shot to 25-month high, returning to levels seen before the government removed value added tax (VAT) on the clean fuel. Official data shows that the cost of refilling a 13-kg gas cylinder rose to an average of KShs.2,176 last month, up from KShs.2, 073 in July 2017. According to Kenya National Bureau of Statistics (KNBS), the price rise occurred as a result of increase of petroleum costs in an environment of rising inflation, which rose to 4.35% last month from 4.28% in June.

VAT ON FUEL DELAYED BY 2 YEARS

The Parliament unanimously voted to delay the 16% VAT tax imposed on petroleum products for further 2 years. This came as a blow to the Treasury who had proposed to start the tax process from 1st September 2018. Although Parliament vote offers huge relief to consumers, it leaves the government with a shortage of KShs.71 billion in its revenue estimates, which could further force Treasury to either trim its spending estimates or take up more debt.



WHAT THE 16% VAT INTRODUCTION COULD MEAN?

PETROL PRICE COULD HIT KSHS.130

Fuel prices for Diesel, petrol and kerosene would increase if the 16% VAT charge on petroleum product was introduced effective September 1. Motorist's country wide would be expected to pay KShs.17.9 more, to the new price ofKShs.130.15 per litre of petrol.

Diesel which is used on a regular basis to power commercial vehicles such as buses and tractors would cost KShs.16.5 more to stand at KShs.119.77 a litre after adding the VAT. Kerosene, which is mostly used by low-income households for lighting and powering cooking stoves, would cost KShs.99.44 per litre from the current price of KShs.85 per litre. The introduction of VAT is expected to earn extra revenue for the government, reduce budget deficits and ultimately slow down the debt pile-up that has become a source of national concern.

MATATU FARE COULD RISE BY KSHS.30 DUE TO PETROL VAT

Matatu owners had announced that they would increase bus fare by up to KShs.30 starting from 1st September, 2018 to cover up the additional costs brought about by the government on imposition of VAT tax on all petroleum products.

Nairobi motorists wouldhave paid KShs.130.15 per litre of petrol beginning from 1st September, 2018. PSV's heading to and from the city centre would have increased its fare by KShs.10 to KShs.30 depending on the distance covered while for estate services, fares would increase byKShs.10 to KShs.20.

TREASURY TO TAKE KSHS.57.57 FOR EVERY LITRE OF PETROL SOLD

The Treasury proposed to take KShs.57.57 of every litre of super petrol sold in Nairobi beginning Saturday 01st September 2018, as the new value added tax came into effect and this would raise the cost of fuel to KShs131.93. The new tax, a condition imposed by the International Monetary Fund (IMF), increases to 44% the proportion that the government takes in the cost of one litre of fuel. The Kenya Private Sector Alliance, Motorists Association of Kenya and Central Organization of Trade Unions had warned the public to prepare for steep increase in prices of goods and services once the new tax came into effect.

Breakdown of fuel costs.

	Super KSHs/Ltr	Diesel KSHs/Ltr	Kerosene KSHs/Ltr
Production cost	59.05	57.89	56.66
Taxes	57.5668	46.2184	25.372
Importers and distributors margin	10.89	10.89	10.89
Distribution and storage cost	4.42	4.18	3.62
Total cost	**131.9268**	**119.1784**	**98.542**

The VAT would push fuel prices through the roof and would impact all sectors of the economy.

AIRTEL'S NEW TARIFF SET TO CAUSE PRICE WAR

Airtel Kenya launched a new tariff that has cut down the cost of making a call to KShs.2 per minute across all networks. The new tariff which is set to be a default tariff for new customers is expected to trigger price war in the Telecommunication industry.

Safaricom customers currently call at KShs.4 per minute across all networks while those on Uwezo tariff are charged KShs.2 per minute between 9.00pm and 8.00am. Telkom Kenya on the other hand charges KShs.2 a minute for on-net calls and KShs.3 per minute for off-net calls.

Data from the Communication Authority of Kenya (CAK) shows an increase in the volume of outgoing off-net voice traffic by 27.95% in the quarter ended March 2018 compared to the same period last year.

MOBILE CASH PAYMENTS INCREASE TO KSHS. 108 BILLION

CBK data on 8th August indicated during the first 6 months of the year, mobile based transactions rose by KShs.108.86billion reflecting the growing dominance of mobile payments. In a similar period last year mobile payments hit KShs. 1.81 trillion between January and June and have now increased to KShs. 1.92 trillion, putting average daily transactions at KShs. 10.61 billion.

SUGAR PRICES RISE TO 8-MONTHS HIGH

The price of sugar surged to an 8-month high in a period that imports dropped by 58% following the crackdown on contraband sugar. Statistics obtained from Kenya National Bureau of statistics shows a kilogram of sugar in July on average retailed at KShs.137.70, the highest level since December 2017.

The rise in price is linked to decreased imports of foreign sugar as importers shied away from shipping in the commodity due to market glut and crackdown by the government on contraband foreign sugar. A market report by the Sugar directorate indicated that the stock of sugar dropped by 18% in the last 6-months to June from 439,000 tonnes last year to 358,000 tonnes.

CEMENT UPTAKE HITS 4-YEAR LOW

Cement uptake in the last 6 months to June 2018 has fallen by 7.9%. Data from the Kenya National Bureau of Statistics shows cement consumption in the past 6 months stood below 2.75million tones down from 2.98million in 2017.

Cement consumption hit a 4-year low after hitting the highest point of 3.1 million tonnes in 2016 during the construction of the first phase of the standard gauge railway which is the largest post-independence infrastructure project in the country.

Cement firms have also reduced cement production during the period to 2.84million tonnes from 3.18million tonnes a year ago an indication that the property sector is still staggering from last year's hold back when investors suspended projects as a result of the prolonged electioneering period.

JULY INFLATION INCREASED TO 4.35%DUE TO HIGH SUGAR AND FUEL PRICES

Data released on 1st August 2018 by KNBS showed that, cost of living has gone up for the 3rd consecutive month for July it elevated by 0.07% points as compared to June which was recorded at 4.8%. There was pressure on households due to increased prices for petroleum, electricity, sugar and health.

1kg of sugar retailed at KShs. 137.11, which is an increase of 6.66% equivalent of KShs.8.56. The cost of accessing health services rose to 6.17% as compared to a similar period last year translating a 1.97% increase in July. Increase in the inflation rate continues to elevate although CBK anticipates it to remain within the government range.

MANUFACTURERS RAISE ALARM OVER KRA TOOL

Excisable Goods Management System (EGMS) issupposed to be installed by manufacturers on industrial production lines to monitor the flow of goods due for excise duty.

The new system is designed to capture the details of each excise stamp appended on a product at the point of manufacturing and tracked along the supply chain up to the consumer. The system however, is opposed by manufacturers fearing that their trade secrets can be exposed by the system leaving them at the mercy of the tax man.

The Kenya Association of Manufacturers (KAM) appeared before the parliament and told them that, the EGMS operationally is costly plus coupling it up with the already existing machines is too expensive and consequently wouldmake competitiveness of local manufacturers difficult.

PRIVATE EQUITY INVESTMENTS HIT KSHS.7 BILLION

Private equity investments hit KShs.7 billion in the first 7 months of 2018, according to Chartered Financial Analysts (CFA) Society East Africa. They went on to say the rise is as a result of improvement in the ease of doing business , high return potential across all sectors, well diversified economy and consolidation in sectors such as financial services.

According to CFA, Foreign investorschanneled funds towards agri-business, healthcare and technology companies with the opportunity to scale up and disrupt traditional business models in order to improve the investment climate of the country.

PRIVATE EQUITY FIRM BUYS MATRESS MAKER SUPERFOAM

Nairobi-based, private equity firm catalyst principal partners have acquired Kenyan top rank mattress manufacturer Superfoam after acquiring Ugandan mattress maker Euroflex limited and Malawian mattress manufacturer Vitafoam for an undisclosed amount.The company is set to establish catalyst mattress Africa from merging the three firms through a medium called Mammoth Foam, although the acquisition of Superfoam is still undergoing regulatory scrutiny from The Comesa Competition Commission.

KENYA SEEKS NEW POLICY THAT PROTECTS SUBCONTRACTORS

The government is developing a new policy framework that will ensure fair transactions between large companies and micro, small and medium enterprises (MSMEs) in the manufacturing sector to shield small players from exploitation. The policy will govern contractual arrangements between large companies that source goods and the local companies that supply them.

The move to create an official blueprint of the policy is in response from the Kenya Association of Manufacturers (KAM) which has been pushing for protection against delayed payments in the sector by setting a time limit within which the main subcontractor must provide payment. According to KAM, the policy will be able to createaconducive environment for subcontractors and this will enable them to meet rising local demand for goods, create jobs and increase purchasing power of local consumers.

KRA UNDERTAKES FRESH VETTING OF CARGO HANDLERS

The Kenya Revenue Authority (KRA) is undertaking fresh vetting of import cargo handlers and clearing agents in a move aimed at clearing out cargo consolidating agents who have been engaging in tax evasion practices, such as under-declaring goods or giving false description of the contents of goods being imported.

The vetting all follows increased complaints from importers claiming that some clearing agents conspire with shipping firms to create fictitious delays in delivery of their goods so as to charge them high demurrage costs.

WITHHOLDING TAX ON DEMURRAGE CHARGES TO HURT MOMBASA PORT

The Finance Bill defines demurrage as penalties paid for exceeding the given time for taking delivery of goods or returning equipment used in the transportation of goods.

Mombasa port is the largest in east Africa with capacity to handle up to 500,000 TEUs, and contributes more than 40% of Kenya's annual revenues. This implies inevitable delay especially during busy periods. This can be attributed to customs clearance processes, land-side connections not able to evacuate containers quickly enough.

In a move aimed to boost government revenue, The Finance Bill 2018/19 seeks to introduce withholding tax on demurrage paid to non-resident shipping lines at a rate of 20% on the gross demurrage amount which are to be paid by the importers. Given the potential costs, if delays at the port of Mombasa and inland containers deports occur frequently, shippers may opt to use alternative ports such as Dar-es-Salaam (which charges almost the same rates), so as to save on demurrage related costs.

Demurrage charges start from US$10 (Kshs.1,000) per 20-foot container per day after expiry of the free period and rise daily. On the other hand, the 40-foot container attracts demurrage of US$20 (KShs.2,000) per day. These charges can can rise to more than US$100 (Kshs.10,000) per container per day, depending on the number of days the importer stays with the container.

For demurrage costs, individual shippers will be required to compute, deduct and remit the WHT. For transshipment and the demurrage costs are to be borne by a non-resident shipper, who would be expected to account for the tax.

KRA CRACKS DOWN BULK IMPORTS

Kenya Revenue Authority has cracked down bulk import made by small traders who import different goods under one container saying they will soon be required to pay individual taxes once they provide their data.

KRA commissioner for customs and border control told the parliament, traders who have been importing goods in groups using one container under one person's name will be required to file the certificate of conformity separately and individual records in order to claim their goods even if they declare the cargo under one name.

FARMERS SET TO PAY MORE FOR PESTICIDES

Kenyan farmers are set to pay more for pesticides following the removal of tax exemption on agricultural pest control products. Manufacturers in a statement said the shift of agricultural pest control products from zero-rated to exempt status in the recent changes to the VAT Act will translate to higher prices for customers, with the due date being July 1st.

Manufacturers in the statement went on to say that they have no choice but to implement the new tax backdated to July 1, 2018. The new tax will force farmers to reduce the use of chemicals in pest control which will consequently cause drastic drop in food production.

UNIVERSAL HEALTH CARE TO BENEFIT FROM BETTING TAX

Universal health care is set to benefit from the bulk billions of shillings raised from the high betting taxes. The Public Management Act of 2018 stipulates that 40% of betting taxes be directed to social development including universal healthcare.

The government increased the tax rates on gross profit for sport betting firms, lotteries and casinos to 35% in January from 7.5% to generate funds for sports, culture and arts. Last year lotteries were taxed at 5%, betting firms at 7.5% and casinos at 12%. Under the new regulation, 35% of the funds will go to promotion and development of sports, 20% to arts while the remaining 5% will be directed to strategic interventions.

UNIFORM NHIF CHARGES FOR ALL HOSPITALS

Members of parliament are planning a proposal amendment to the NHIF act that could see the public health insurer compelled to charge uniform fees for all medical procedures and drugs administered across different hospitals. The standard cost if set will ensure that the NHIF scheme is not used for the payment of unnecessary expensive medical procedures whose costs can be standardized.

WORKERS SPARED HOUSING LEVY

Workers have been spared a pay cut of up to KShs.5,000 after MPs shot down a Treasury proposal to create fund to finance new low-cost housing. Treasury had set deduction at 0.5% of the gross pay per month as long as contribution doesn't exceed KShs.5,000 and employers were to match employee's contribution amount.

The implementation meant an employee earning KShs. 100,000 would contribute KShs.500 and those earning Kshs.1 million would contribute up to KShs.5,000 every month to the fund. The fund was then meant to help the government realize the goal of delivering half a million affordable housing units in five years.

MILLIONS OF KENYANS LOCKED OUT ON MORTGAGE

Millions of Kenyans are locked out of mortgage loans due to rise in house prices which consequently has led to rise in home loan (mortgage) advanced by Kenyan banks by nearly KShs.2 million. According to a report released by Central Bank of Kenya shows that the average value of a mortgage taken in the year to June 2017 stood at KShs.9.1 million indicating a 19.8%increase in the period putting the average monthly repayment at about KShs.150,000.00 under the current 13% interest rate.

According to chairman of Consumer Federation of Kenya, the mortgages are certainly not affordable for many who are in the middle and low-middle classes because they cannot afford and therefore leaving the industry to the upper-middle and upper classes and that ought to change.

CENTRAL BANK OF KENYA SET OUT LOAN RULES FOR FINANCIAL INSTITUTIONS

The central bank has spelled out new rules to commercial banks, requiring them to publish information of all tariffs and charges on services, personal loans and mortgages on a common web platform to make it easier for customers to choose lenders. They will also be required to channel at least 20% of their lending to medium and small-sized enterprises (MSME's) under the proposed CBK guidelines ahead of the planned amendments to the rate cap law. The banks however, will be allowed to put risk premiums on customer loans for a self-assessed probability of default backed by CRB data. The CBK and Kenya Bankers Association in May last year set up a website (www.costofcredit.co.ke) where all the banks publish their annual percentage rate, loan repayment schedule and any additional cost of credit on their loans for the public to access.

PARLIAMENT GETS NOTICE FOR BANKS TO INCREASE CORE CAPITAL

Banks in Kenya will have to increase their core capital from KShs.1billion to KShs.5billion over the next four years if the parliament adopts the new amendment to the Banking Act. This move is set to create stronger banks and force mergers and acquisitions as smaller lenders seek to survive.

According to the data from the Central Bank of Kenya, 23 banks out of 43 local banks had their core capital at less than KShs.5billion as at December 2017. Kiambu town MP Jude Njomo, the architect of interest rate capping law says he wants the banks to have minimum capital of KShs.2 billion by December 31,2019, KShs.3.5 billion (2020) and KShs.5 billion (2021).Mr. Njomo reckons the changes are necessary in creating financial stabilityfor the local banks and mortgage finance companies in Kenya.

Central Bank of Kenya had earlier rejected the Treasury's move to increase banker's capital, citing the small lenders who provide niche services and products would be locked out of the banking system.

I&M BANK CUSTOMERS FACE BACKDATED `ROBIN HOOD'TAX

I&M Bank has notified its customers through an email that it will deduct from their account the `Robin Hood' tax on money transfer transactions made between 1st July to 18th July 2018, if they lose the ongoing court battle on `Robin Hood' tax.

According to Mr. SuprioSen Gupta (I&M marketing and product development general manager), the bank had reversed to customers all the taxes they had collected after the implementation of the duty was suspended, but if the court decides that they ought to have collected they shall debit the accounts from the date the law became applicable.

CAP ON BANK DEPOSIT REMOVED BY PARLIAMENT

Members of Parliament voted to retain the cap on the lending rate and removed legal control of the savings rate. Members of Parliament agreed to remove the legal requirement that lenders pay at least 70% of the CBK base rate on deposits putting the minimum saving rate at 6.3%. The removal of saving rate control is set to hurt high-net worth investors who have been enjoying the attractive interest returns since the introduction of the rate cap in September 2016.

The rate cap initially was meant to help small trader's access capital at affordable rates, but banks said they cannot price risk to small and medium enterprises. According to data from CBK, lending to the private sector has fallen from 9.3% in 2016 to 2.4% last year well below the ideal growth rate of 12-15%.

FEAR OVER ROBIN HOOD TAX WEAKENS CAPITAL MARKETS

The Robin Hood tax proposed by the National Treasury has caused a decrease in capital market trading as Investors fear they will lose money from multiple ticket transactions. Capital marketing Authority chief executive said investors have postponed decisions to get a clarification on the law that will tax any transaction above KShs.500,000 at 0.05%.

FOREIGNERS TAKE ADVANTAGE OF THE CAPS REMOVAL

Foreign investors have taken advantage of the elimination of caps on shareholding for overseas investors to increase the foreign stake beyond the pre-2016 legal maximum of 75%. Official data from Capital Markets Authority (CMA) shows an increase in the stake held by foreigners beyond the 75% in the following firms; BOC Kenya, Stanbic Holdings, Scan groupand Standard Chartered Bank.

The amendment to remove the cap was made in late 2015 after a proposal in the 2015/16 budget allowing foreigners to take up to 100% of a listed company to encourage more robust trading on the exchange and also attract foreign investments.

INVESTORS EVASIVE ON BONDS AS THEY AWAIT RATE CAP DECISION

Desire for this month's 10-year Treasury bond which was supposed to raise KShs.40 billion for budgetary support remainedmutedas investors waited for the Finance Bill to pass through the Parliament to give clarity on the interest rate direction. The bill proposes repeal of the interest rate cap, whose removal could trigger a rise in interest rates on government securities if the banks start to shift towards private sector lending.

SHORT-TERM DEBT DOMINATES AUGUST AUCTION

Short-term bonds are expected to dominate this month at the expense of long-term bond securities as the Government sets to increase its current financial year borrowing. Analyst at investment bank Genghis capital said the yield curve exhibits relative flatness on .the long end and has not offered attractive opportunities commensurate with the longer maturities.

20-year bond issued on July managed to attract only KShs.13.86billion from investors against an offer of KShs.40billion while the June 25-year tenor bond attracted bids worth KShs.10.13billion against a set offer of KShs.40billion. Analysts have attributed the poor performance of long term bonds to lack of appetite for long-term securities in the market.

TREASURY LIKELY TO LOSE BUDGET-MAKING FUNCTION TO OMB

The treasury is likely to lose the budget-making function following the reactivation of the proposal to set up an Office of management of budget (OMB) to undertake the set roles. Dr. Wagacha (senior economic adviser from the Office of the President) said the proposal to set up an OMB has been discussed within the office of the Presidency, having considered the need to ensure execution of what is budgeted and oversight. It's also to ensure that development spending is maintained within the 30% target of total spending to ensure implementation of the big four agenda.

If the budgeting burden is removed from the Treasury, it will serve as a Ministry of Finance charged with responsibility of managing debt, payments and accounting issues. As a result it will be able to perform much more effective as compared to current situation where it is inundated with responsibilities.

ANALYSTS CALL ON TREASURY TO DOWNSIZE ITS EXTERNAL DEBT

Analysts have advised the treasury to cut back its external borrowing debts to reduce the related servicing costs. The treasury must cut down total public spending which has been rising in the past few years in order to reduce its external borrowing which has been rising faster than domestic debts, thus exposing Kenya to currency related risks and adverse changes in global yields.

There is need to balance between external debt and domestic debt, because accumulation of too much domestic debt could crowd out the private sector from the credit market. As at June 2018, the total debt stood at KShs.5trillion with the public indebted to foreigner's to the tune of KShs.2.305trillion and KShs.2.13trillion to local lenders.

TREASURY CLEARS OVERDRAFT AT CBK

Treasury has cleared its entire overdraft that it had with the Central Bank of Kenya from the beginning of August 2018. This is a clear indication that the government cash flow position has improved. The payment to CBK came after the government reached the limit of its domestic borrowing program that stood at KShs.87.7billion a week ago and is on track to hit the revised limit of KShs.293.7billion with new offers from Treasury bonds and bills.

Data from CBK showed that the overdraft stood at KShs.14.13billion as at June 8, down from KShs.44.35billion at the end of last month.

MPs PLAN TO REDUCE LATE TAX PENALTY TO 5%

Members of Parliament are planning to reduce late tax penalty from 20% to 5% of money owed to the Kenya Revenue Authority for individuals and companies that fail to pay tax on time. The Finance and National Planning Committee wants to amend the Tax procedure Act, 2015 to cut penalties levied on taxpayers who file returns beyond the June 30 deadline.

DATES OF PAYING TAX

TAX TYPE	PAYMENT DATE
PAYE Remittance	9th
VAT Remittance	20th
Withholding Tax	20th
Aviation Fees	20th
Withholding VAT	Every Monday

GETTING TAX COMPLIANCE CERTIFICATE NOW CRITICAL

Tax Compliance Certificate (TCC) has turned out to be a very important part of an application either for those seeking new openings or those seeking to change employers. A TCC is also vital while applying for tenders especially with the government agencies.

Employers in Kenya are keen on recruiting staff that have no tax arrears. In the same light, no company or organization would like to transact with another that has pending issues with the revenue authority.

The requirements for the application are just your individual PIN and password. The application can be tracked through the serial number provided KRA2018..., sent through the acknowledgement receipt.Once the application for the TCC is received at your tax station, verification of tax status starts immediately, and this informs the issuance of the TCC.To verify your compliance status, the taxman checks whether you file returns dully, your ledger is also checked to ensure you have no arrears. If you are compliant, you are issued with a compliance certificate. Conversely, the taxman declines to issue a TCC in case of tax arrears or your returns are not dully filed. The TCC is then sent by email after verification.An applicant who obtained his PIN before i-Tax was launched needs to update the PIN before applying for the TCC. Applicants who apply for PINs through i-Tax are automatically put on the platform.

KENYAN ECONOMIC REVIEW

FOREIGN RESERVES FALL BY KSHS.15.7 BILLION

Foreign exchange reserve has fallen by KShs.15.7 billion to KShs.874.5 billion in the past one month pushing down the country's import cover. According to data from CBK weekly bulletin, the reserve has moved down from KShs.890.27 billion.

The import cover stood at 5.78 months compared to 5.88 months on July 26.According to traders, the fall in foreign reserve indicates selling activities in the open market done by the CBK to prevent exchange rate volatility although the regulator may have used the dollars to settle Kenya's foreign debt obligation.

CURRENT ACCOUNT DEFICIT UP BY KSH6.8 BILLION

Kenya's current account deficit has widened by KShs.6.8 billion to KShs.485.45 billion in the 12 months to June,recording a deficit of $4.821 billion compared to $4.753 billion in the year to June 2017. This reflects the widening of the trade account balance and the increased payments to foreign investors (due to high interest payments) despite an improvement in the secondary income account balance particularly increased workers remittances.

High trade balance was due to the acceleration in the value of imports relative to exports while the increased amount paid to foreign investors had to do with high interest payments. The widening of the account happened despite the upward growth in remittances from Kenyan's abroad.Remittances grew from $1.77 billion last year June to $2.44 billion (KShs.245.50billion) June this year.

KENYAS PUBLIC DEBT RISING TO PRECARIOUS LEVELS

Kenya's public debts has risen tremendously to perilous levels standing at approximately KShs.4.884 trillion, which is equivalent to 56.4% of country's gross domestic product. The country owes more than half the value of its economic output (GDP) and this can lead to a debt crisis,whereby the government is unable to pay the debt.

International Monetary Fund (IMF) recommends the ratio of public debt to GDPnot to exceed 40 % for developing countries. The high level of public debt can be compared to other developing countries where South Africa's ratio of public debt to GDP was 53.1% in 2017; Nigeria's ratio was 21.3%, while Brazil, India and China all have ratio of over 40% however their economies are several times larger than that of Kenya's. Kenya has a population of 51million, implying that every Kenyan owes about US$962 and produces US$1169 a year.

The National Treasury reports more than US$24.9billion of Kenya's total public debt came from outside the country. The external debt inflow if synchronized with business cycle can stabilize the economy and enhanceeconomic growth.

However, interest and principal repayment on external debt are made in foreign currency; this depletes the country's reserve and may devalue the domestic currency leading to high inflation rates in the long-term.

PUBLIC DEBT

Kenya's debt level is currently at about 58% of the GDP. The proportion has remained lower than expected because the nominal GDP was higher than was originally programmed for the end of June. The data shows that the GDP stood at KShs.8.85trillion, higher than the target of Kshs.8.68trillion.

KENYAN SHILLING FALLS SECOND DAY IN A ROW

Kenyan Shilling fell to a three-week low on 14th August. Data from Central Bank of Kenya shows that the shilling traded at 100.73 units to the dollar on Tuesday morning compared to 100.49 on Monday and 100.36 on Friday 10th August.

The shilling had been on appreciating track for the three weeks hitting a high of 100.35 on 3rd August before beginning to depreciate to 100.36-100.49 range in the short-term period. The weakening of the currency was caused by increased dollar demand.

FALL IN CENTRALBANK FOREX RESERVES

Central Bank foreign exchange reserves have dropped to a one month low towards the end of July. Official data from Central Bank of Kenya showed that the reserves stood at KShs.880.2 billion as at 2nd August 2018, compared to KShs.889.86 billion on 5th July 2018 reducing by KShs.9.65 billion.

Commercial Bank of Africa in a market update said the resurgent dollar demand pushed the US dollar-Kenyan Shilling pair up in early session while the foreign currency inflows that previously offered support to the local unit thinned out leaving the home unit exposed.

GLOBAL ECONOMIC OUTLOOK

TURKISH LIRA TUMBLES AGAINST THE DOLLAR

Turkish lira dropped to a record low of 5.18 against the Dollar on Monday after the US- government said it was reviewing turkey's duty-free access to the United States market, a move that could affect US$1.66billion of Turkish imports. The review by the US government came after Ankara (capital of the Republic of Turkey) imposed retaliatory tariffs on US goods in response to American tariffs on steel and aluminum. Per Hammarlund (chief emerging market strategist) said the best bet by now is to expect further weakness to the lira.

CHINA FOREX RESERVES RISE TO US$3.118 TRILLION

China's foreign exchange reserve in the month of July rose from US$5.82billion to US$3.118trillion despite the rising trade tensions that have hit Chinese stocks and the Yuan currency.

China's State Administration of Foreign Exchange (SAFE) said in a statement the small increase in reserves was due to asset price changes but did not provide details.

Major state-owned banks were seen swapping Yuan for US Dollars in the forwards market and immediately selling them into the spot market to prop up the Chinese currency.

Despite the market tumult in recent weeks,China appears broadly comfortable with a weakening Yuan and would only intervene by use of foreign exchange reserves to prevent any destabilizing declines or to restore market confidence.

OIL PRICE RISES IN A SLOW DEMAND MARKET

Oil prices rose on 16th August after Beijing said it would send a delegation to Washington to try and resolve the existing trade disputes between the United States and China that has stirred up the global market.

Brent crude oil futures were at $71.03 per barrel increased by 27 cents while US West Texas intermediate crude futures were up by five cents at $65.06 a barrel held back by rising US crude production and storage levels. The oil price continues to exude for bearish signals as investors worry on weaker global demand and rising production levels.

In Japan, official data showed reduced speed in export growth as well as a decline in crude oil imports. Asia's currencies remained under pressure with the dollar holding near 13-month peaks as political mayhem in Turkey and concerns about China's economic health continued to support safe-haven assets.

GOLD HITS 17-MONTH LOW AS INVESTORS SEEK REFUGE IN DOLLAR

Gold prices sank below $1,200 per ounce for the first time in 17 months on Monday 13th August, losing out to U.S. Treasuries and a stronger dollar as investors sought refuge from a financial market rout triggered by a crashing Turkish lira.

A higher U.S. currency also makes dollar-denominated assets more expensive for holders of other currencies, which subdues demand - a relationship used by funds to generate buy and sell signals from numerical models.

GREECE SET TO EXIT BAILOUT

Greece exits the last of its three bailouts on August 20 and hopes to be able to borrow again in international markets after a nearly 9 year's debt crisis that shrank the economy by a quarter and forced it to implement painful strictly measures.

Greece public debt is the highest in the euro zone which stands at 180% of national output with its banks saddled with huge bad loan portfolios. The Greece economy shrank by 26% in the crisis years has now started to grow, tourism is now booming and unemployment is slowly coming down to 19.5% from a peak of almost 28%.

DOLLAR FALLS AFTER TRUMP CRITICISES FED MOVE ON INTEREST RATE

The dollar weakened on August 21 after the United States president Donald Trump criticized the head of Federal Reserve for raising interest rates. The president said he was not thrilled with the rate increase and added the US central bank should do more to help him boost the economy.

The dollar index against six other currencies dropped by 0.3% to 95.596 after touching 95.44 its lowest since August 9. The dollar weakened as investors ditched it as a safe haven right before China and the US talks to help ease trade disputes.

CMC Chief Market analyst in a statement said it would appear that the president would like to keep the US dollar a little on the weak side in order to remain competitive. Given the dollar has been in demand recently on account of geopolitical issues and the Fed's monetary policy tightening, it might be difficult for the President to talk the greenback lower.

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