NEWS LETTER

EDITION 7 - DECEMBER 2018

KRA NEW TAX DEMAND PUTS PRESSURE ON SMEs

KRA has asked millions of SMEs to immediately pay a newly introduced tax that is set to start from January 2019 or risk not getting their business permits renewed. **Presumptive tax** was introduced during the 2018/19 National budget speech on 14th June 2018 by the Cabinet Secretary **to replace** the **Turnover tax** that was introduced on 1st January 2008. ***Persons acquiring or renewing business permit or license at the county shall pay the tax at the rate of 15% of the business permit fee or license payable.***

The taxpayer shall be required to generate a payment registration number on iTax after which they can pay through M-pesa pay bill number 572572 or any other partner bank. Treasury Secretary changed the law mid this year to have informal traders recording revenue of below KShs.5 million to pay the presumptive tax at the rate of 15% of the single business permit fee issued by county government when renewing their permits.

GOVERNMENT PROPOSES TREASURY TO CUT CORPORATE TAX FOR SMALL ENTERPRISES

The government is proposing a tax plan that would slash the corporate rate to 25% from the current 30% for small-sized enterprises in a bid to encourage growth. East African Community (EAC) and Regional Development secretary Mr. Adan said his ministry will initiate talks with the Treasury on the proposal to boost the fortunes of SMEs regionally and enhance compliance.

According to Adan, most economies globally and in the region have small business tax rate of between 20% to 25% but in Kenya our 30% corporation tax is for everybody which affects compliance for small and medium enterprises. About 2.2 million small enterprises have closed shop in the past five years according to a 2016 government report underlining the challenges local business climate poses to small traders.

COURT SUSPENDS NEW HOUSING LEVY

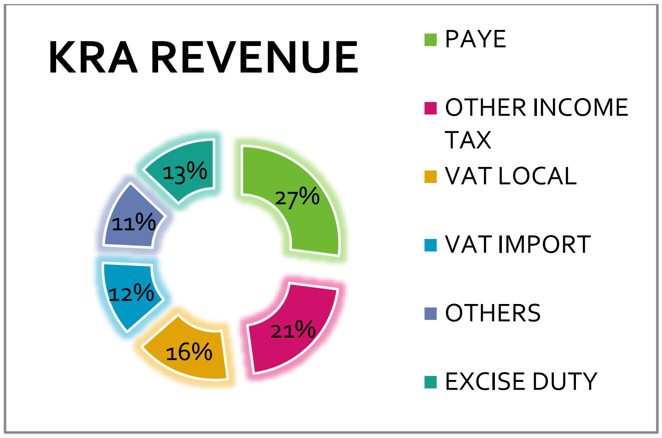
Low-cost housing plan on December 19, suffered a major setback after the Employment and Labour relations court suspended the 1.5% levy that was to be charged on workers' monthly pay to create a housing fund. The housing plan levy was to take effect on January 1 was suspended following an application by the Central Organization of Trade Union (COTU) which opposed the levy on the ground that the public did not participate in its creation and there is no guarantee of transparency during its implementation. Parliament passed the law establishing the levy as part of the Finance Act 2018 despite opposition from unions and employees.

NEW TAXES	
Item	Levy
Housing	1.5% of salary
Kerosene	Kshs18/Litre
Fuel	8% VAT
Cash transfer	20% excise
Airtime and data	15% excise
Employment and labour relations court has suspended the 1.5% housing levy	

TAXMAN IN A FIX AS COURT NULLIFIES VAT ON BUILDINGS

KRA is facing refund claims of millions of shillings after the high court declared that it had illegally charged VAT on the sale of commercial buildings. The high court judge ruled that VAT is not payable on transactions of land whether or not the buildings thereon are residential or commercial. The rule came out as a big blow to the taxman who has been riding on the charge as it races to meet revenue targets. KRA collected KShs.52.8 billion local VAT in the three (3) months between July to September.

KRA REVENUE Q1 2018-19 (KSHS.332.2 BILLION)



COST OF SECOND-HAND CARS SET TO RISE

Buyers of Second-hand cars in Kenya will soon have to pay much more with the looming cut in the maximum age of imported units to 5 years. Motor vehicle industry players are set to hold a meeting on December 17, with the Kenya Bureau of standards (KEBS) to deliberate on the policy that has been on the cards in the past couple of years and to build consensus ahead of the proposal of lowering the maximum age limit for imported used vehicles in Kenya from 8 years plus review the emission levels.

The lowering of the age limit to 5 years will mean that only more expensive vehicles will be imported and prices will rise even higher with the cumulative application of a raft of taxes based on custom evaluation. Imported Vehicles normally attract import duty of 25%, excise duty of 30% and VAT of 16% payable cumulatively and in that order.

NAIROBI TRADERS WITHOUT PERMITS TO PAY HEFTY FEE

Traders in Nairobi operating without business license will be forced to pay double the fees being demanded within 24 hours following changes to city hall's revenue collection law. Those who fail will fail to pay the double permit fee within a day will be charged in court besides facing the fines for the breach. This move is aimed at increasing compliance in payment of annual permits whose income has trailed targets and remained static.

Single business permit are one of the most common licenses and charges range from KShs.10, 000 to KShs.100, 000 depending on the size, type and location of the business in the capital. Small shops pay between KShs.9, 500 and Kshs.13 for the SBP licence, eateries with a sitting capacity of about five customers are charged KShs.31, 000 while bars pay KShs.100, 000 for the permits. Business will pay between KShs.1000 and KShs.100, 000 for fire certificates, between KShs.1000 and Kshs.20, 000 for health certificate depending on the type of business and up to KShs.10, 000 for garbage collection per month.

NAIROBI TRADERS FACE GARBAGE FEES AS UBER HIT WITH KSHS.300, 000 LEVY

On 5th December the Nairobi county Assembly approved city hall Finance Bill, hitting businesses with a monthly garbage collection fee. Business will now pay between KShs.100 and KShs.20, 000 monthly as waste collection fees depending on size, nature and location. Taxi-hailing operators on Uber and Taxify will pay between KShs.50, 000 and KShs.300, 000 annually as city hall seeks to tap into the business.

Mall owners will pay KShs.500, 000 annually while those seeking the yellow fever jab for foreign travel will pay KShs.2, 000 up from the current KShs.1500. Small businesses will pay less for the food handling certificates with bars and restaurants paying KShs.1000 down from KShs.7000 per staff while for chips outlet and posho mills is down to KShs.1000 from a range of KSh.2000 and KShs.3000.

NSSF RAISES INTEREST ON PENSION SAVINGS TO 7%

National Social Security Fund (NSSF) has increased interest payable on retirement savings to 7% for the year ended June 2017 on the back of a sharp rise in net investment income. The return is a rise from the 6% posted in 2016 and 3% it paid on savings in the year to June 2015 marking a rise for the three (3) years in a row. The increase in the interest is as a result of the rise in net investment income to KShs.20.4 billion in the year to June 2017 from KShs.1 billion a year earlier aided by dividends from firms where the fund has stakes trading of shares and bonds at the NSE.

NSSF changes in net assets (KShs. Bn)		
Dealing with members	**2016**	**2017**
Contributions	12.87	13.55
Investment Return	1.03	20.41
Net Assets	172.09	196.57
Savers Returns	6%	7%

CITY HALL TO SEIZE RENT OF LAND RATE DEFAULTERS IN NEW LAW

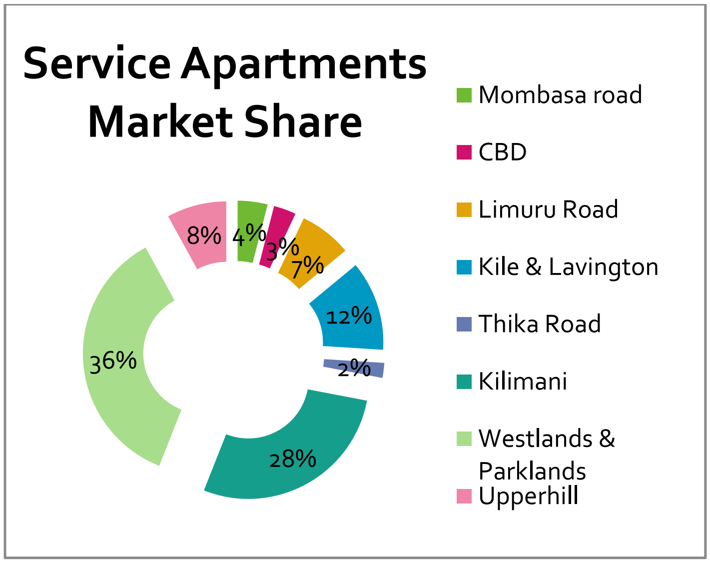
City hall will now seize and collect rent from homes and office blocks following a change in the county law that empowers Nairobi to temporarily repossess defaulting property. Nairobi county assembly amended the Revenue Act of 2015 to empower city hall to recover land rates from rental income in the push to recover over KShs.15 billion owed in property fees arrears.

The previous law allowed City Hall to restrict access to defaulting property and had no clause demanding that tenants forward rent to them. The stiff penalty comes after a geospatial analysis conducted by the national government showed that 90% of land and property owners in Nairobi are rate defaulters. The report further showed that only 150, 000 plots and property owners of the more than 1.5 million investors promptly pay land rate.

FOREIGNERS PUSH UPTAKE OF APARTMENTS TO RECORD 80%

A new report by real estate investment firm Cytonn shows expatriates and investors who stay for more than 15 days a visit have ventured into new investment in serviced apartments ranging from five hotel based residence to high end serviced apartments. Serviced apartments have performed better in this year compared to 2017 with the rental yields coming in at 7.4% compared to 5.3%. Occupancy has increased by 8% to 80% solely attributed to a better political climate in 2018.

According to Cytonn, Nairobi, which had 3,414 serviced apartments as at 2015 will soon accommodate new 1,189 units set for completion by 2020. Among them are Skynest with 250 serviced apartments, Britam (163), Montave (147), Radisson Blu (123) and 9 Oak's 120 units. The report also showed serviced apartments offering accommodation and food services were the most popular growing by 13.3% in 2016, 14.7% in 2017, 13.5% and 15.7% growth in first and second quarter respectively in 2018.



CBK FORECASTS FUEL INFLATION TO DECLINE FURTHER

Central bank of Kenya expects local petroleum prices to drop in line with the recent sustained fall in global oil prices taking pressure off fuel inflation despite the recently imposed VAT. CBK data showed fuel inflation had dropped for the first time since July 2017 and expects this trend to be sustained as the price of Murban crude oil supplied by Abu Dhabi National Corporation (Adnoc) comes down. The price of Murban crude oil dropped significantly from $88.27 per barrel on October 4, to $59.95 a barrel towards the end of last month. The fall in price is hugely attributed on fear of oversupply coinciding with reduced demand for the commodity. Fuel inflation came down to 16.5% in October and the current 13-month low global price seen to ease pump prices.

KSHS.326 BILLION BAD LOANS PILE TAKES SHINE OUT OF BANKS

Stock of bad loans held by commercial banks grew KShs.66 billion in the nine (9) months to end of September 2018 indicating the persistence of challenging business environment that has seen many small business and households default. Latest banking sector data of the nine (9) months shows that non-performing loans rose to KShs.326 billion from KShs.260 billion in similar periods last year driven by heavy defaults from small businesses and taxi sector.

BULK BANK TRANSFERS FALL ON TAX TIFF

Bulk payment through commercial banks fell by nearly 7% equivalent to KShs.154.6 billion in the month of August compared to the previous months. Data from CBK shows the reduction in transactions came at a time of an increase in mobile money transactions but also uncertainty over a new Robin Hood tax supposed to have taken effect on July 1. The Robin Hood tax is currently in limbo after bankers went to court to oppose it.

KENYA TOPS IN AFRICAN BANKS BAD LOAN STUDY

Kenyan banks' non-performing loan (NPL)ratios are among major economies in Africa and are likely to be exacerbated by continued delays in payment by government to contractors and suppliers who owe lenders billions of shilling. Global rating agency Moody in a new report on African banks that weak risk-management practices in the past have also contributed to the fairly high dud assets ratios among African banks, with many of those assessed lying above 10%.

Latest data from CBK shows the ratio of bad loans to total loan book among Kenyan banks stood at 12.3% at the end of October having come down from 12.7% in August largely due to improved recovery efforts on the trade, personal and household sectors. According to Moody's report, 3 out of 11 African countries profiled (Angola, Ghana and DRC) have higher ratio than Kenya at about 25, 22 and 18% respectively.

HOUSEHOLD LOANS TOP LIST OF Q3 LENDING

An analysis of industry statistics shows home loans to have increased by the highest margin, outpacing other segments of the economy in the three (3) months ended September. Gross household loans according to latest data from CBK increased by KShs.25.48 billion equivalent to 4.01% to KShs.660.69 billion. Gross personal loans have also increased from KShs.615 billion in December 2017 to KShs.623.2 billion in March, KShs.635.21 billion in June and KShs.660.69 billion in September. Banks slowed lending to traders in the period with loans rising 0.63% to KShs.479.41 billion which is slower than 3.32% recorded in the previous quarter ended June.

BANKS FOREX DEPOSITS REBOUND TO KSHS.570 BILLION

The value of foreign currency deposits held by Kenyans in commercial banks rose by KShs.15 billion in September to KShs.570 billion recovering after the extension of the deadline of the tax amnesty for those remitting foreign assets back home. According to data from Kenya National Bureau of Statistics which was sourced from CBK shows the deposits are now back close to the all-time high of KShs.574.7 billion recorded in June when there was a rush to bring foreign cash back to the currently as the original deadline for amnesty loomed at the end of the month. In 12 months to October, remittance rose 42% to KShs.229.2 billion compared t similar period in 2017. Tea export also rose by 8% in the same period to hit KShs.147 billion while tourism receipts rose by 10% to KShs.105 billion.

INTERBANK RATE SHOOTS TO A 3-YEAR HIGH

Interbank lending rate hit a 3-year high on December 14, as the money market tightened due to tax payments and lenders meeting regulatory ratios. The bank-to-bank lending rate hit 11.34% underlining the tightness in the market as the year came to a close. According to CBK, the tightness in the market was triggered by the need to meet some tax payments that fall on the 10th as well as the cash reserve ratio of 5.25% while analysts pointed to market skewness against small banks and the tendency to hold onto liquidity to post impressive regulatory ratios.

TREASURY SEEK TO RAISE DOMESTIC BORROWING BY KSHS.100 BILLION

Treasury will borrow KShs.100 billion more from the domestic market in the next financial year as it cuts new foreign loans in a shift that looks set to lock out households and businesses from bank credit. Treasury Principle secretary said the government will borrow KShs.319 billion from local sources such as banks and pension schemes up from KShs.217 billion in the current year ending next June reflecting a 46% increase.

10-YEAR BOND FORECAST TO DO BETTER ON HIGH MATURITIES

Analysts expect improved demand for the December 10-year bond floated by the Treasury compared to recent issues with pension funds and banks likely to lead the buyers as they eye higher returns on the paper. According to Kingdom securities and commercial bank of Africa, investors might bid aggressively for the paper whose coupon is market determined given the high maturities this month which may push the CBK to accept more expensive bids than in recent months. The Treasury is seeking KShs.40 billion from the December bond with the proceeds meant to partly roll over KShs.24.5 billion from a maturing 2-year paper.

TREASURY FOREX RESERVES FALL TO LOWEST LEVEL SINCE MARCH

Official foreign exchange reserves fell to the lowest level since March as the central bank of Kenya (CBK) fights to maintain them above 5months of import cover. The reserves fell by KShs.7.6 billion in the week to December 6 to stand at KShs.816 billion equivalent to 5.27 months of import cover. This is the lowest since March 8 when it stood at KShs.733 billion. The CBK uses the reserve to intervene in the Forex market repay foreign currency denominated debt or pay for government-related foreign purchases.

MOODY'S PREDICTS DEFICIT WILL HIT 6.5% OF THE GDP

Credit rating agency Moody's projects the fiscal deficit will amount to 6.5% of the GDP equivalent to KShs.638 billion compared to treasury's initial projection of 5.7% which is equal to KShs.560 billion. Any new debt sourced from overseas to meet the deficit would also likely attract higher interest rate. Moody's expect only a gradual narrowing of the fiscal deficit to around 6.5% of GDP in fiscal 2019 which is higher than the government's target of 5.7% in the original budget.

TREASURY BACK IN MARKET WITH KSHS.13.8 BILLION TAP SALE

The Treasury is back in the market with a KShs13.8 billion tap sale for this month's bond issue after the initial sale was undersubscribed by 28%. Last week sale of the 40 billion 10-year paper was hit by tight liquidity in the market. The paper attracted bids worth KShs.28.9 billion with the central bank accepting bids worth KShs.26.2 billion at an average interest rate of 12.5%. the short-term Treasury bills also underperformed in their auction last week attracting bids worth less than a quarter of the targeted KShs.24 billion across the three tenors with investors bidding just KShs.5.7 billion for the T-bill which translates to an average performance rate of 23.8% with CBK accepting bids worth KShs.5.4 billion.

SHILLING AT 5-WEEK HIGH ON CHRISTMAS INFLOWS

The shilling strengthened to a 5-week high against the US dollar on December 19, sustained by reduced dollar demand ahead of the festive period and tight liquidity in the money market. According to Traders, inflows remitted by Kenyans living abroad have also gone up-as in the norm in December. Commercial banks quoted the currency at an average of 102.07 by 3pm on 19 Dec compared to 102.38 at close trading on 18th Dec and 102.5 on 17th. On the 10 months to October 2018, remittance went up 42% to $2.23 billion (KShs.228 billion) compared to the same period in 2017 when they stood at $1.57 billion (KShs.160.3 billion). Analysts at Commercial bank of Africa anticipate the Shilling to be buoyed further by inflows from tourism during this festive period.

MPC SETS MEETING FOR END OF JANUARY

The Central Bank of Kenya CBK sets to hold its next Monetary Policy Committee (MPC) meeting on Monday January 28, 2019 to signal the direction of price of loans in the New Year. CBK made the announcement on its website days after the MPC held benchmark lending rate at 9% a rate that has been in place since July 2018. The announcement means that commercial loans will continue being priced at a maximum of 13% being 4% points above central bank rate as is required in the Banking Amendment Act 2016. November inflation rose marginally to 5.58% from 5.53% in the previous month although CBK expects the number to remain within the desired range of between 2.5% and 7.5%.

RISING EUROBOND RATES TO INCREASE COST OF NEW DEBT

Kenya is likely to borrow at higher rates if it goes to the international markets after yields on its Eurobonds jumped to hit the highest level since launch in the international markets. According to data from CBK, the 30-year bond stood at a high of 10.284% on November 27 before easing to 10.014% and 9.8% on November 29. The issue first traded in the open market on February 23 at a yield of 8.021% meaning the high reached on November amounts to an increase of 2.263%. The 10-year bond has seen its yield rise to 9.071% compared to 7.07% when it was launched into the market on February 23.

NSE BOND TRADE SLUMPS 25% AMID TIGHTER LIQUIDITY

The value of bonds traded in the secondary market of the NSE fell by a quarter in November compared to the previous month with tight liquidity in the money market limiting activity in the segment. According to NSE data, investors traded bonds worth KShs38 billion last month compared to KShs.50.6 billion in October. Interbank rate rose as a result of market liquidity from 2% at the beginning of November to 6.2% by the month. According to the FTSE NSE bond index, Treasury bonds listed at the NSE gained by 1% during the month bringing the year-to-date performance to 14.6%. Infrastructure bond of KShs.50 billion, 20-year sale last month raised a total of KShs.36.3 billion a 72.6% performance rate in both the initial and tap sales.

IMPORTS FROM CHINA FALL IN 2018 ON LESS SGR MACHINERY

Imports from China fell in 2018 for the first time is as many years after the completion of the first phase of the standard gauge railway (SGR) mid last year, official data indicate. Imports from China, largely machinery and transportation equipment, fell by KShs.9.38 billion in the nine months through September, data by the Kenya National Bureau of Statistics show. Beijing shipped in goods worth KShs.292.2 billion in the January-September period compared with Sh301.60 billion the same period in 2017. The data shows shipment of machinery dropped in the period to KShs.211.11 billion compared with KShs.245.9 billion a year earlier, while transport equipment imports were nearly flat at KShs.148.96 billion compared with KShs.145.7 billion. The two commodities have largely been major drivers of China's export bill to Kenya after Beijing landed a lucrative $3.233 billion loan (KShs.327.87 billion under prevailing rates) to build a 385km modern railway between Mombasa and Nairobi.

DOLLAR RETURNS FALL BY 10% ON WEAKEND SHILLING

The dollar returns at the NSE have fallen by 10 %age points since the beginning of September reflecting the slide in share valuations combined with a weaker shilling. According to data compiled by African Alliance shows the year-to-date dollar return on the NSE FTSE 15 index stood at -12.5% at the end of last week compared to -2.6% at the beginning of September. The average weekly value traded in the last six months is KShs.2.7 billion. Since the beginning of September, the shilling has depreciated by 2% against the dollar from 100.60 units to 102.65 units to the greenback.

CEMENT, SHEETS UPTAKE FALLS ON SLOW DEMAND

The production and consumption of cement and galvanized sheets used for roofing according to new data fell this year signaling the slowdown in real estate activity. The amount of cement consumed in the first 9 months of the year fell by 113, 096 metric tonnes equivalent to 3% to stand at 4.24 million tonnes compared to 4.13 metric tonnes in the same period last year.

For galvanized sheets, data shows the country produced 662 metric tonnes or 0.4% less in the first seven months of the year compared to the same period last year. Actual production stood at 155, 506 metric tonnes against 156, 168 produced in the seven –month period to July 31 last year. Cement consumption also fell with September being its lowest standing at 456, 473 metric tonnes a decline of 4, 073 metric tonnes compared to the same month last year.

MOMBASA PORT AT RISK OF CHINA SEIZURE OVER KSHS.327 BILLION SGR LOAN

A leaked report by the Auditor-General's office shows that the Kenyan government had in 2013 waived the port's sovereign immunity in order to use it as a security for the Chinese loan. According to the auditor, KPA's assets were committed as collateral for the KShs.327 billion SGR loan that China gave Kenya in 2013. The leaked document says that China Exim Bank gained power to step in as principal shareholder of the KPA in the event of a loan default setting up an escrow account for the agency's proceeds and using the collected revenue to cover the loan repayment shortfall. KPA generated KShs.42 billion in the year to June 2017, a 7.9% growth over the previous year according to its latest financial reports.

US FUND'S BUYOUT OF KENYA'S ARTCAFFE PUT AT KSHS.3.5 BILLION

US private equity fund Emerging Capital Partners (ECP) has acquired a majority stake in Nairobi-based hospitality chain Artcaffe' group for undisclosed amount. ECP, which sold its stake last year to a Kenyan coffee chain, Java House to Dubai-based private equity firm Abraaj Group said the Artcaffe' deal was informed by huge demand for the fast-expanding coffee house culture in the region. The deal whose value was undisclosed by ECP is estimated by insiders to be worth about KShs.3.5 billion. Artcaffe' which started in 2008 says it currently operates 20 full-service bakery, coffee shop bar and casual dining restaurant outlets around Nairobi.

13 FIRMS PLAN TO LIST AT THE NSE

NSE on December 17 said 13largely family – owned firms are seeking to sell shares to the public through the NSE platform offering hope of ending a prolonged listing drought. The Small and medium sized firms will be taken through a 10-month programme which will see them access consultants and financial advisors to help them prepare for future listing.

The NSE on Monday (December 17) launched an incubation and acceleration board which targets SMEs with the potential for high growth in the near to medium term. The companies will be taken through the process of enhancing their financial, technical, operational, commercial and strategic aspects of businesses. Some of the firms which have publicly declared interest to list on the bourse include Kenya's largest retail by market share Tuskys, investment manager Cytonn and Vehicle and Equipment Leasing Ltd.

BUSINESS DEALS PUSH MOBILE MONEY ACCOUNTS TO 45 MILLION

Mobile money accounts crossed the 45 million spot for the first time in October underlining the impact of the 11-year old innovation in driving financial inclusion. According to the CBK mobile payment data released on December 13, Nearly 9.44 million mobile accounts were opened in 12 months through October taking the total accounts to over 45.43 million. The popularity of mobile money transfer service continues to rise among businesses and persons with deals worth KShs.3.90 trillion being settled via mobile phone in the current period which is KShs.289.42 billion (equivalent to 8%) more than the corresponding period a year earlier.

AIRTEL TRIPLES VOICE MARKET SHARE TO 33%

Telecom operator, Airtel Kenya has nearly tripled its share of voice market to 33.3% in the 18 months to September 2018 piling pressure on key rival Safaricom. Latest industry data covering 3 months to September show that Airtel's share of voice traffic rose by 3.1% attributed by the introduction of 'Vuka 2 Tariff' that enables prepaid customers to call for 2 bob per minute across all networks making it the fifth consecutive gain in the past five quarters. Airtel's network reported an increase of 13.8% in local mobile voice traffic to 4.7 billion minutes in the period from 4.2 billion minutes recorded in the preceding quarter commanding 12.1% of voice market at the end of March 2017 compared with Safaricom's 82%.

SUGAR PRODUCTION RISES 45%

Sugar Production increased by 45% in the year to October following improved supply of raw material in the factories. Monthly sugar directorate report shows the quantities produced between January and October increased to 411,567 from 284,036 in the corresponding period last year. The increase in production is a good indicator that the industry is recovering from the drought suffered by the country the previous year which led to decline in sugar production.

IMPORTS UP 29% ON INDUSTRIAL SUGAR BUYS

Sugar imports in the month of October grew by 29% compared to the same period last year helped by increased demand of industrial commodity by manufacturers. Latest data from the sugar directorate indicate the volume shipped in by traders increased to 23, 412 in the review period from 18, 173 tonnes in corresponding month last year. Kenya doesn't manufacture industrial sugar and it relies on imports to meet the annual demand of 150, 000 tonnes which is mainly used by manufacturers of beverages, confectionaries and sweets among other products.

COFFEE PRICES DOWN AFTER REBOUNDING

Coffee prices dropped marginally on 11th December trading reversing the gains witnessed in the previous sales. The Nairobi Coffee Exchange (NCE) said the price of a 50Kg bag on average declined by 6% to KShs.19, 300. The prices have been performing well at the auction and hit a high of KShs.20, 500 the other week supported by good quality coffee in the market. The auction plans to go on recess starting next week and will be resuming in the New Year according to NCE.

KENYA, RWANDA LIFT EAST AFRICA TO TOP SPOT IN FREE TRAVEL

East Africa toped in free movement of people in Africa according to a new survey conducted affirming the gains of an open visa scheme for the region aimed at spurring trade and tourism. The 2018 visa openness index by the African union and the African development bank indicated that eight of the top 20 most visa-open countries are found in East Africa. The visa open East African countries include; Comoros, Djibouti, Kenya, Rwanda, Seychelles, Somalia, Uganda and Tanzania.

East Africa is followed by West Africa that has 7 countries in the top 20 most visa open countries including Benin, Cape Verde, Gambia, Ghana, Guinea Bissau, Senegal and Togo. Southern Africa has only four countries in the top 20 most visa-open countries while North Africa has only one country falling within the category.

TOP10COUNTRIES		
COUNTRY	RANK	SCORE
SEYCHELLES	1	1.0000
BENIN	1	1.0000
TOGO	3	0.857
RWANDA	3	0.857
UGANDA	5	0.853
GUINEA-BISSAU	5	0.853
GHANA	7	0.849
CABO VERDE	8	0.845
KENYA	9	0.838
MOZAMBIQUE	10	0.834

KENYA ECONOMIC OUTLOOK-2018

The economy likely sustained a solid pace of growth in the final quarter: Private sector activity seems to have expanded robustly in October and November, despite losing some momentum from H1, while the arrival of the short rainy season likely boosted agricultural and hydro-powered electricity output. That said, a slowdown in remittance inflows, rising inflationary pressures—mainly owing to the adoption of the 8% VAT on fuel—and continued lackluster credit growth, which bode ill for household incomes, point to weaker private spending in the quarter. Moreover, although the introduction of the VAT has improved the fiscal account, the misalignment between overly optimistic revenue targets and the government's spending plans raises concerns about its ability to satisfy its fiscal consolidation goals. In view of making debt repayments more manageable, the country is looking to roll over a syndicated loan worth USD 760 million and extend the maturity of the debt.

FIRMS SWAY AS ECONOMY GROWS

There has been a marked contrast this year between the performance of the economy, going by headline growth numbers, and that of local companies, which have continued to report lower profits across the board. At least 23 listed firms, which are by law obliged to publish their financials periodically, have reported a fall in profits or a loss in provisional results this year. Most have cited a challenging business environment, blaming the lack of bank credit which has hurt their capacity to grow and sometimes sustain operations. The firms have cut thousands of jobs as a result, further hitting the economy by reducing consumer spending.

In contrast, the headline growth of the economy has gone up compared to last year. Latest economic data released by the Kenya National Bureau of Statistics and central bank shows that in the first half of the year, the economy grew by six percent, up from 4.7% in the same period of 2017. Experts say while the growth is driven by some sectors such as agriculture and services, which were last year adversely hit by poor weather and political uncertainty, government spending is still a key driver, largely in the big-ticket projects such as the standard gauge railway.

MOODY'S PREDICTS DEFICIT WILL HIT 6.5% OF THE GDP

Credit rating agency Moody's projects the fiscal deficit will amount to 6.5% of the GDP equivalent to KShs.638 billion compared to treasury's initial projection of 5.7% which is equal to KShs.560 billion. Any new debt sourced from overseas to meet the deficit would also likely attract higher interest rate. Moody's expect only a gradual narrowing of the fiscal deficit to around 6.5% of GDP in fiscal 2019 which is higher than the government's target of 5.7% in the original budget.

GLOBAL ECONOMIC OUTLOOK

OVER SUPPLY PUTS PRESSURE ON OIL PRICES

Oil prices were largely steady on December 18, after falling 2% in the previous season but remained under pressure amid weaker growth in major economies and concerns about oversupply. US West Texas Intermediate crude futures were at $51.27 per barrel up by seven cents equivalent to

0.14%. Persistent growth in US shale output continues to weigh on oil prices, while some analysts doubted that planned supply cuts led by the organization of the petroleum exporting countries (OPEC) would be enough to rebalance markets.

DOW DIVES 350 POINTS, CLOSES AT NEW LOW FOR THE YEAR AFTER FED HIKES RATES

U.S. stocks sank Wednesday in a wild session after the Federal Reserve raised its benchmark overnight lending rate for the fourth time this year. The Dow Jones Industrial Average fell 351.98 points and closed at its lowest level so far this year at 23,323.66, erasing a 380 point gain that came prior to the Fed decision. The broad S&P 500 index also closed at a 2018 low, falling 1.5 % to finish at 2,506.96 as technology and banks stocks rolled over. The Nasdaq Composite fell 2.1 % to 6,636.83, its own 2018 closing low with shares of Apple losing more than 3 %.

FED HIKES RATE, LOWERS 2019 PROJECTION TO 2 INCREASES

- The Fed take the target range for its benchmark funds rate to 2.25 % to 2.5 %.
- Central bank officials now forecast two (2) hikes next year, down from three rate raises previously projected.
- However, the Fed continues to include in its statement that further "gradual" rate hikes would be appropriate.
- GDP is now seen as rising 3 % for the full year of 2018, down one-tenth of a %age point from September, and 2.3 % for 2019, a 0.2 % point reduction.

CHINA KEEPS SHORT-TERM BORROWING RATES STEADY AFTER FED HIKE

China's central bank left its short-term borrowing rates unchanged on Thursday, choosing not to follow its U.S. counterpart, which raised its benchmark rate just hours earlier.

The decision follows the bank's announcement Wednesday of a new lending tool, the Targeted Medium-Term Lending Facility, aimed at spurring lending to smaller firms. The world's two largest economies have adopted diverging policy paths this year, with China leaning towards an easing monetary and credit stance to reduce financial costs for private business and support the broad economy.

ECONOMIC OUTLOOK 2019

KENYA ECONOMIC GROWTH - 2019

Growth momentum will likely be sustained in 2019, as healthy remittance inflows and a tighter labor market drive solid private consumption, while upbeat business confidence fuels a strong expansion in fixed investment. However, the prevalence of the interest rate cap will likely continue to limit the availability of credit and could hinder the government's ability to secure additional funding from the IMF. This, coupled with fiscal tightening measures, pose headwinds to the outlook. Economists project GDP growth of 5.8% in 2019, which is unchanged from last month's forecast, and 5.7% in 2020.

GLOBAL ECONOMIC OUTLOOK - 2019

Global growth is expected to edge down over the next 2 years, as global slack scatters, trade and investment moderate, and financing conditions tighten. In EMDEs (Emerging Markets and Developing Economies), growth in commodity importers is expected to remain robust, while the rebound in commodity exporters is projected to advance. Risks to the outlook are tilted to the downside, including the possibility of jumbled financial market movements, escalating trade protectionism, heightened policy uncertainty, and rising geopolitical tensions. EMDE policymakers need to rebuild monetary and fiscal policy buffers and boost potential growth by promoting competitiveness, adaptability to technological change, and trade openness.

East Asia and Pacific

Growth in the region is forecast to ease from 6.3 % in 2018 to 6.1% in 2019, reflecting a slowdown in China that is partly offset by a pickup in the rest of the region. Growth in China is anticipated to slow from 6.5% in 2018 to 6.3% in 2019 as policy support eases and as fiscal policies turn less accommodative. Excluding China, growth in the region is forecast to moderate from 5.4% in 2018 to 5.3% in 2019 as a cyclical economic recovery matures. Indonesia's economy is expected to grow 5.2% this year and 5.3% the next. Growth in Thailand is expected to restrain slightly to 3.8% in 2019. For both commodity exporting and importing economies of the region, capacity constraints and price pressures are expected to intensify over the next 2 years, leading to tighter monetary policy in an increasing number of countries.

Europe and Central Asia

Growth in the region is projected to moderate to an upwardly revised 3.2% in 2018 and edge down to 3.1% in 2019 as a modest recovery among commodity exporting economies is only partially offset by a slowdown among commodity importers. In Turkey, growth is forecast to slow to 4.0% in 2019 as delays in fiscal consolidation and the extension of the credit support program temper an anticipated slowdown following the strong recovery in later 2017/18. Growth in Russia is anticipated to accelerate to 1.8% next year as the effects of rising oil prices and monetary policy easing are offset by oil production cuts and uncertainty around economic sanctions.

Latin America and the Caribbean

Growth in the region is projected to accelerate to 2.3% in 2019, spurred by private consumption and investment. The cyclical recovery underway in Brazil is projected to continue, with growth forecast to be above 2% this year and in 2019. In

Mexico, growth is expected to strengthen moderately 2.5% in 2019 as investment picks up. Growth in Argentina is anticipated to remain subdued next year, at 1.8%. Growth in some Central American agricultural exporters is expected to pick up in 2018 and 2019, while growth among the commodity importers of that sub-region is expected to stabilize or slow.

Middle East and North Africa

Growth in the region is projected to strengthen to 3.3% in 2019, largely as oil exporters recover from the collapse of oil prices. Growth among members of the Gulf Cooperation Council (GCC) is anticipated to rise to 2.7% in 2019, supported by higher fixed investment. Saudi Arabia is forecast to expand an upwardly revised 2.1 % next year. Iran is anticipated to grow 4.1%in 2019. Oil importing economies are forecast to see stronger growth as business and consumer confidence gets a lift from business climate reforms and improving external demand.

South Asia

Growth in the region is projected to strengthen to 7.1% in 2019, mainly as factors holding back growth in India fade. Growth in India is projected to advance 7.3 % in Fiscal Year 2018/19 (April 1, 2018-March 31, 2019) and 7.5% in FY 2019/20, reflecting robust private consumption and strengthening investment. Pakistan is anticipated to expand by 5% in FY 2018/19 (July 1, 2018-June 30, 2019), reflecting tighter policies to improve macroeconomic stability. Bangladesh is expected to accelerate to 6.7% in FY 2018/19 (July 1, 2018-June 30, 2019).

Sub-Saharan Africa

Growth in the region is projected to strengthen to 3.5% in 2019, below its long-term average. Nigeria is anticipated to grow by 2.2%next year, as non-oil sector growth remains subdued due to low investment. Angola is expected to grow by 2.2% in 2019, reflecting an increased availability of foreign exchange due to higher oil prices, rising natural gas production, and improved business sentiment. South Africa is forecast to expand to 1.8% in 2019 as a pickup in business and consumer confidence supports stronger growth in investment and consumption expenditures. Rising mining output and stable metals prices are anticipated to boost activity in metals exporters. Growth in non-resource-intensive countries is expected to remain robust, supported by improving agricultural conditions and infrastructure investment.

Ubiquity Consulting Ltd

902, Westside Towers
Lower Kabete Road
39324-00623
Nairobi, Kenya
Office Line: (+254) 782.222.113/4
Mobile: (+254) 736.012.865
Email: info@ubiquity.bz
Website: www.ubiquity.bz